Clearwater Seafoods Income Fund
Management's Statement of Responsibility for Financial Reporting

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

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

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

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

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

March 28, 2008

Colin MacDonald	*Robert Wight*
Chief Executive Officer	*Vice-President, Finance and Chief Financial Officer*

KPMG LLP

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AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheets of Clearwater Seafoods Income Fund as at December 31, 2007 and 2006 and the consolidated statements of earnings (loss) and deficit, comprehensive income (loss) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Halifax, Canada

February 22, 2008

CLEARWATER SEAFOODS INCOME FUND

Consolidated Balance Sheets
(In thousands of Canadian dollars)

December 31		2007		2006 (as restated note 2(h))
Assets				
Current Assets				
Distributions and interest receivable from Clearwater Seafoods Limited Partnership	$	3,795	$	1,486
Investment in Clearwater Seafoods Limited Partnership (note 3)		348,125		321,645
	$	351,920	$	323,131
Liabilities and Unitholders' Equity				
Current Liabilities				
Distributions and interest payable	$	3,733	$	1,470
Convertible debentures (note 4)		87,624		46,430
Future income taxes (note 5)		29,300		-
Unitholders' Equity				
Trust units (note 6)		288,913		299,282
Contributed surplus (note 6)		6,211		-
Deficit		(63,861)		(24,051)
		231,263		275,231
	$	351,920	$	323,131

Subsequent event (note 12)

See accompanying notes to consolidated financial statements

Approved by the Board of Trustees:

Thomas D.Traves **Bernard R. Wilson**

CLEARWATER SEAFOODS INCOME FUND

Consolidated Statements of Earnings (Loss) and Deficit
(In thousands of Canadian dollars)

Years ended December 31	2007	2006 (as restated note 2(h))
Equity in net earnings of Clearwater Seafoods Limited Partnership	$12,330	$2,007
Interest income	5,924	3,511
Interest expense	(6,318)	(3,605)
Future income taxes (note 5)	(29,300)	-
Net earnings (loss)	(17,364)	1,913
Deficit beginning of year as previously stated	(26,453)	(19,343)
Transitional adjustment for the application of new financial instrument sections by equity investee (note 2 (e))	(40)	-
Application of new refit policy by equity investee (note 2 (h))	2,387	2,185
Deficit beginning of year restated	(24,106)	(17,158)
Loss on reduction in investment (note 3)	(5,243)	-
Distributions declared	(17,471)	(8,823)
Adjustment for cancellation of convertible debentures	323	17
Deficit end of year	(63,861)	$(24,051)
Basic and diluted net earnings (loss) per trust unit (note 7)	$ (0.60)	$ 0.07

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS INCOME FUND

Consolidated Statement of Comprehensive Income (Loss)
(In thousands of Canadian dollars)

Years Ended December 31	2007	2006 (as restated note 2(h))
Net earnings (loss)	$(17,364)	$1,913
Other comprehensive income, net of tax unrealized gains and losses on translating financial statements of self-sustaining foreign operations	548	220
Comprehensive income (loss)	$(16,816)	$2,133

CLEARWATER SEAFOODS INCOME FUND

Consolidated Statements of Cash Flows

(In thousands of dollars)

Years ended December 31	2007	2006 (as restated note 2(h))
Cash flows (used in) from operating activities		
Net earnings (loss)	$ (17,364)	$ 1,913
Items not involving cash		
Equity in net earnings of Clearwater Seafoods Limited Partnership, net of cash distributions received of $17,529 (2006 - $ 7,353)	5,199	5,346
Future income taxes	29,300	-
Other	394	94
	17,529	7,353
Cash flows (used in) from financing activities		
Repurchase of convertible debentures	(5,388)	-
Repurchase of Class A units	(5,583)	-
Issuance of convertible debentures	48,042	-
Distributions to unitholders	(17,529)	(7,353)
	19,542	(7,353)
Cash flows (used in) from investing activities		
Redemption of Class A units	5,583	-
Redemption of Class C units	2,000	-
Redemption of Class D units	3,388	
Purchase of Clearwater Class D units	(48,042)	-
	(37,071)	-
Increase (decrease) in cash	-	-
Cash - beginning of period	-	-
Cash - end of period	$ -	$ -

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS INCOME FUND

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of dollars)

1. BASIS OF PRESENTATION

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”).

These consolidated financial statements consolidate the accounts of the Fund and its subsidiary, Clearwater Seafoods Holdings Trust (“CSHT”). CSHT owns 54.71% (December 31, 2006 – 55.71%) of the units of Clearwater. However, as the Fund does not have the right to nominate the majority of the board of directors, it does not consolidate the results of Clearwater’s operations but rather accounts for the investment using the equity method. Under this method, the cost of the investment is increased by the Fund’s proportionate share of Clearwater’s earnings and reduced by any distributions paid to the Fund by Clearwater and amortization of the purchase price discrepancy. Due to the limited amount of information that this provides on the underlying operations of Clearwater, the financial statements of Clearwater are also enclosed.

2. ACCOUNTING POLICIES

The financial information contained in the accompanying consolidated financial statements has been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”).

(a) Consolidation

These consolidated financial statements consolidate the accounts of the Fund and its subsidiary, Clearwater Seafoods Holdings Trust, from the date of acquisition on July 30, 2002.

(b) Intangible assets and goodwill

The excess of the Fund’s cost of its investment in units of Clearwater has been allocated to licenses with indefinite lives, license agreements with finite lives, customer relationships and goodwill.

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

License agreements are determined to have indefinite lives when the annual renewal fee is nominal (typically less than 1% of the estimated book value of the license), Clearwater has both the ability and intent to renew or extend the life of the licenses and there has been a history of being able to obtain renewals from the government. License agreements that are determined to have finite lives are amortized over the term of the related agreement and tested for impairment if events or changes in circumstances indicate that the asset might be impaired.

The impairment test compares the carrying amount of the licenses and indefinite lived licence agreements and an impairment loss would be recognized in the statement of earnings (loss) and deficit for any excess of the carrying value over fair value.

Customer relationships are amortized over their useful lives as estimated based on customer turnover rates and are tested for impairment if events or changes in circumstances indicated that the asset might be impaired.

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the net assets acquired, based on their fair values. Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. When the fair value of goodwill is less than its carrying amount, the implied value of the goodwill is compared to the carrying value of goodwill and an impairment loss would be recognized in the statement of earnings and deficit.

(c) Convertible Debentures

Convertible debentures are classified in accordance with their component parts: the value ascribed to the holders' option to convert to units has been classified as equity and the remaining portion of the convertible debenture has been classified as debt. Issue costs were classified as deferred financing costs and amortized over the estimated term to maturity for periods prior to January 1, 2007 using the effective interest rate method. Effective January 1, 2007, Clearwater adopted the new CICA Handbook Standards relating to financial instruments. These new standards have been adopted on a prospective basis with no restatement of prior period financial statements and as a result the issue costs are offset with the related debt. Interest on the debt is calculated by applying an effective interest rate of approximately 8.56% for the 2004 Convertible debentures and 8.81% for the 2007 Convertible debentures to the outstanding debt component. The difference between actual cash interest payments and interest expense is added to the debt component of the debentures.

(d) Income taxes

The Fund is a unit trust for income tax purposes. As such, the Fund is only taxable on any taxable income not allocated to the unitholders. As substantially all taxable income has been allocated to the unitholders, no provision for income taxes on earnings of the Fund has been made in these financial statements. Income tax liabilities relating to distributions of the Fund are the obligations of the unitholders.

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 29.5 % in 2011 and 28% going forward. In light of this new tax on income trusts, the Fund recorded a future income liability of $29.3 million on the temporary differences related to its investment in Clearwater.

(e) Financial instruments

Effective January 1, 2007, the Fund adopted the new CICA Handbook Standards relating to financial instruments. These new standards have been adopted on a prospective basis with no restatement of prior period financial statements.

Section 3855, "Financial Instruments – Recognition and Measurement" provides guidance on the recognition and measurement of financial assets, financial liabilities and non-financial derivatives. This new standard requires that all financial assets and liabilities be classified as one of the following: held-for-trading, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities. The initial and subsequent recognition depends on their initial classification.

Held-for-trading assets are carried at fair value with transaction costs expensed immediately and gains and losses recognized in net earnings in the period in which they arise. Held-to-maturity financial assets and loans and receivables are initially recognized at their fair values and subsequently measured at amortized cost using the effective interest rate method, with gains and losses recognized in net earnings in the period in which they arise. Available-for-sale assets are carried at fair value with gains and losses recognized through comprehensive income or through the income statement if the loss is considered to be other than temporary. Other financial liabilities are initially measured at cost or at amortized cost, depending upon the nature of the instrument and are subsequently measured at amortized cost using the effective interest rate method, with gains and losses recognized in net earnings in the period in which they arise.

The standard required the Fund to make certain elections, upon initial adoption of the new rules, regarding the accounting model to be used to account for each financial instrument. The following is a summary of the accounting model the Fund has elected to apply to each of its significant categories of financial instruments outstanding as of January 1, 2007:

Distribution and interest receivable	Loans and receivables
Distribution and interest payable	Other liabilities
Convertible debentures	Other liabilities

As a result of the adoption of this section, the following adjustments have been made as of January 1, 2007 (reflecting their equity interest in adjustments made by Clearwater):

- Investment in Clearwater Seafoods Limited Partnership was increased by $40,000 and
- Deficit was reduced by $40,000. This related to the amortization of the deferred financing charges associated with the convertible debentures.

The carrying value of the distributions and interest receivable from Clearwater and distributions and interest payable to unitholders approximate fair values based on the short-term maturity of these instruments.

In December 2006, the CICA issued section 3862, "Financial Instruments – Disclosures" and section 3863, "Financial Instruments – Presentation" to replace existing section 3861, "Financial Instruments – Disclosure and Presentation". Section 3862 requires enhanced disclosure on the nature and extent of financial instrument risks and how an entity manages those risks. Section 3863 carries forward the existing presentation requirements and provides additional guidance for the classification of financial instruments. These sections are effective for fiscal periods beginning on or after October 1, 2007. This new requirement is for disclosure only and will not impact the financial results of the Fund.

(f) Use of estimates

The preparation of the financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions that the Fund may undertake in the future. These estimates can include but are not limited to estimates regarding future cash flows for impairment tests.

(g) Comprehensive Income

Section 1530, "Comprehensive Income" requires separate disclosure of comprehensive income and its components in the financial statements. Other comprehensive income includes the exchange gains and losses arising from the translation of the financial statements of self-sustaining foreign operations. The effect of exchange rate variations on the translation of Clearwater's net assets of self-sustaining foreign operations has been recorded as "Other comprehensive income (loss), net of tax".

(h) Refits

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 used by Clearwater in the past.

In the absence of specific guidance in Canada on this topic, we believe it appropriate to follow FASB AUG AIR-1 and therefore have adopted this standard on January 1, 2007. As a result of adopting this standard, comparative figures for 2006 have been restated. The Fund made the following adjustment as a result:

	January 1, 2007	December 31, 2006
Increase in investment in Clearwater Seafoods Limited Partnership	$2,387	$2,387
Reduction in opening deficit	2,387	2,185

Increase (decrease) in equity in net earnings of Clearwater Seafoods Limited Partnership	-	202

The impact on earnings per unit was not significant and only changed the basic and diluted earnings per unit by $0.01 as presented on the consolidated statement of earnings and deficit.

(i) Capital Disclosures

In December 2006, the CICA issued section 1535, "Capital Disclosures" that establishes guidelines for the disclosure of information on the Partnership's capital and how it is managed. It is effective for fiscal periods beginning on or after October 1, 2007. The enhanced disclosure enables users to evaluate the Partnership's objectives, policies and processes for managing capital. This new requirement is for disclosure only and will not impact the financial results of the Fund.

3. INVESTMENT IN CLEARWATER SEAFOODS LIMITED PARTNERSHIP

The investment in Clearwater Seafoods Limited Partnership consists of the following:

	2007	2006
Investment in Class A Partnership units, at cost	$ 286,661	$ 298,454
Investment in Class C Partnership units	45,000	47,000
Investment in Class D Partnership units	44,389	-
Add: Cumulative equity in net earnings	93,597	80,242
Less: Cumulative distributions received	(121,522)	(104,051)
	$ 348,125	$ 321,645

The majority of Clearwater's underlying assets consist of licences that enable Clearwater to harvest various species of seafood. These licences have indefinite lives, are not amortized and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Fund analyzes the carrying value of its investment in Clearwater as if it had consolidated Clearwater with the Fund. This assessment of the investment in Clearwater may not reflect the current market value of the business as it includes various long-term assumptions related to Clearwater's operations.

In 2004, 4,081,633 Class C units were issued by Clearwater to the Fund concurrently with the issue by the Fund of an equivalent dollar amount of Convertible Debentures. The Class C units are convertible at any time and are 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 fund the ongoing interest payments on the Convertible Debentures.

In 2007, 8,142,712 Class D units were issued concurrently by Clearwater with the issue by the Fund of $48.0 million of Convertible Debentures and are held by the Fund through CSHT. The Class D units are redeemable and retractable at a price of $5.90 per unit.

Included in equity in net earnings for the quarter is a recovery of $1,079,000 (2006 an expense of– $40,000) for amortization and other adjustments relating to purchase price discrepancies recognized by the Fund in accounting for its investment in Clearwater using the equity method.

During 2007 Clearwater repurchased 1,162,000 Class A Units from the Fund for $5,583,000 (2006 – nil). Clearwater also repurchased $2 million Class C units from the Fund for $2,000,000 (2006 - $3,000,000). Clearwater also repurchased $3,652,000 million Class D units from the Fund for $3,388,000 (2006 – nil). The difference between the Fund's carrying value for these units and the proceeds received from Clearwater in the amount of $5,243,000 was included as an adjustment to equity.

Details of the allocation of the excess of the Fund's cost over the historical cost of the assets recorded by Clearwater are as follows:

	2007	2006
Intangible assets		
Licences – indefinite lives	181,796	189,260
Customer relationships and other	440	518
Goodwill	13,678	14,240
Long-term liabilities	370	504
Cumulative foreign currency translation account	(4,807)	(6,254)
	$ 191,477	$ 198,268

4. CONVERTIBLE DEBENTURES

In June 2004, the Fund completed an offering for $50 million of 7% convertible unsecured subordinated debentures, which are due December 31, 2010. The convertible debentures 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, commencing December 31, 2004. The debentures are not redeemable before December 31, 2007. On and after December 31, 2007, but before December 31, 2008, the debentures may be redeemed at the option of the Fund provided that the market price of the trust units is not less than 125% of the conversion price. On and after December 31, 2008, the debentures may be redeemed at the option of the Fund at a price equal to their principal amount plus accrued interest. 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. The convertible debentures are classified in accordance with their component parts: the value ascribed to the holder's option to convert to units has been classified as equity and the remaining portion of the convertible debenture has been classified as debt.

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 that was subsequently renewed for expiry in August 2008. Any repurchase at the Fund level has and will be accompanied by a similar repurchase of Class C Partnership units by Clearwater. During the year ended December 31 2007 and 2006, $2 million and $3 million respectively of the Class C units were repurchased by Clearwater and cancelled with the proceeds used to repurchase and cancel an equivalent amount of convertible debentures. The principal outstanding as at December 31, 2007 and 2006 was $45 million and $47 million respectively.

In 2007, the Fund completed an offering for $48.0 million of 7.25% convertible unsecured subordinated debentures, which are due March 31, 2014. The convertible debentures 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 $5.90 per trust unit. The debentures pay interest semi-annually in arrears on March 31 and September 30, commencing September 30, 2007. The debentures are not redeemable before March 31, 2010. On and after March 31, 2010, but before March 31, 2012, the debentures may be redeemed at the option of the Fund provided that the market price of the trust units is not less than 125% of the conversion price. On and after March 31, 2012, the debentures may be redeemed at the option of the Fund at a price equal to their principal amount plus accrued interest. 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. The convertible debentures are classified in accordance with their component parts: the value ascribed to the holders' option to convert to units has been classified as equity and the remaining portion of the convertible debenture has been classified as debt.

On June 2, 2007, $1,000 of the convertible debentures was converted into 169 Class A units at a price of $5.90 per unit resulting in a principal outstanding as at September 29, 2007 of $48,041,000. During the fourth quarter of 2007, $1 million of the Class D units were repurchased by Clearwater and cancelled with the proceeds used to repurchase and cancel an equivalent amount of convertible debentures. The principal outstanding as at December 31, 2007 was $44 million.

The estimated fair value of the Fund's convertible debentures at December 31, 2007 was $85,346,810 based on the quoted market value of the debentures Clr.db and Clr.db.a on the Toronto Stock Exchange.

5. FUTURE INCOME TAXES

In June 2007, Bill C-52 Budget Implementation Act, 2007 was substantively enacted by the Canadian federal government, which contains legislation to tax publicly traded trusts in Canada. As a result, a new tax will be applied to distributions from Canadian public income trusts. The new tax is not expected to apply to Clearwater Seafoods Income Fund until 2011 as a transition period applies to publicly traded trusts that existed prior to November 1, 2006. As a result of this substantive enactment of trust legislation, the Fund recorded a $29.3 million future income tax expense and future income tax liability in 2007. The future income tax adjustment represents the taxable temporary differences of Clearwater Seafoods Income Fund tax effected at 28%, which is the rate that will be applicable in 2012 under the current legislation and the Fund's current structure. The Fund continues to review its current structure in light of this new tax on trusts, and intends to evaluate alternatives so that the best structure is in place for unitholders. The Canadian Federal Government announced the proposed tax applied to distributions from Canadian public income trusts will be 29.5% in 2011 and 28% for 2012 and beyond.

While the Fund believes it will be subject to additional tax under the new legislation, the estimated effective tax rate on temporary difference reversals after 2011 may change in future periods. As the legislation is new, future technical interpretations of the legislation could occur and could materially affect management's estimate of the future income tax liability.

The amount and timing of reversals of temporary differences will also depend on the Fund's distribution policy, as well as the future results and acquisitions and dispositions of assets and liabilities of Clearwater. A significant change in any of the preceding assumptions could materially affect the Fund's estimate of future income tax liability.

6. TRUST UNITS AND SPECIAL TRUST UNITS

The Declaration of Trust provides that an unlimited number of units and an unlimited number of Special Trust Units may be issued. Each unit is transferable and represents an equal undivided beneficial interest in any distributions of the Fund and in the net assets of the Fund in the event of termination or winding up of the Fund. All units have equal rights and privileges. Each unit entitles the holder thereof to participate equally in the distributions and to one vote at all meetings of unitholders for each whole unit held. The issued units are not subject to future calls or assessments. Units are redeemable at any time at the option of the holder at amounts related to market price at the time, subject to a maximum of $50,000 in aggregate cash redemptions by the Fund in any particular month. This limitation may be waived at the discretion of the Trustees of the Fund. Redemption in excess of this amount, assuming no waiving of the limitation, shall be paid by way of a distribution in specie of assets of the Fund, namely notes of Clearwater Seafoods Holdings Trust.

The Special Trust Units have been issued solely to provide voting rights to Clearwater Class B units ("CSLP Exchangeable Units"). Special Trust Units were issued in conjunction with the CSLP Exchangeable Units and cannot be transferred separately from them. Special Trust Units entitle the holders thereof to the number of votes at any meeting of unitholders of the Fund equal to the number of units which may be obtained upon exchange of the CSLP Exchangeable Units to which they relate and do not otherwise entitle the holder to any rights with respect to the Fund's property or income.

	Units	Special Trust Units	Total $ (in 000's)
Balance December 31, 2006	29,407,626	23,381,217	$ 298,454
Equity component of Convertible Debentures			828
Balance December 31, 2006			299,282
Cancellation of Class A units	(1,162,100)	-	(11,794)
Issuance of Class A units	169		1
	28,245,695	23,381,217	287,489
Equity component of Convertible Debentures 7.25%			1,579
Equity component of Convertible Debentures repurchased 7%			(155)
Balance December 31, 2007			$ 288,913

As at December 31, 2007 there were in total 51,626,912 units outstanding (52,788,843 - December 31, 2006).

On January 24, 2007, the Fund received approval for a normal course issuer bid which enables 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. Any Units purchased by the Fund will be cancelled and will be accompanied by a similar repurchase of units by Clearwater.

During 2007, the Fund purchased and cancelled 1,162,100 units at a cost of $5,583,000. The difference between the purchase prices of these units and the underlying carrying value, being $6,211,000, was included in contributed surplus. .

7. EARNINGS PER UNIT

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

	2007	2006
Basic		
Net earnings (loss)	$ (17,364)	$ 1,913
Weighted average number of units outstanding	29,135	29,408
Earnings per unit	$ (0.60)	$ 0.07

The effect of potential dilutive securities, being the Convertible Debentures and Special Trust Units, were not included in the calculation of diluted earnings per unit as the result would be anti-dilutive.

8. GUARANTEES

The Fund guarantees Clearwater's term credit facility (see note 7(g) to Clearwater's financial statements). The guarantee is limited to the value of the convertible debentures and the value of the units held in Clearwater. As of December 31, 2007 and December 31, 2006 there were no balances outstanding on the term credit facility.

9. DISTRIBUTIONS

The Fund was set up to make monthly cash distributions, based upon cash receipts of the Fund in respect of such month, after satisfaction of administrative and other expenses (including reasonable reserves for such expenses), any debt service obligations (principal and interest) and any amounts payable by the Fund in connection with any cash redemptions or repurchases of Units. The Fund may make additional distributions in excess of the monthly distributions during the year at the discretion of the Trustees while considering restrictions from banking covenants. Any amounts of net income and net capital gains of the Fund for a taxation year not otherwise distributed during the year and that would otherwise result in the Fund being liable to tax will be payable on December 31 of that year.

Any income of the Fund which is applied to any cash redemptions of Units or is otherwise unavailable for cash distribution will, to the extent necessary to ensure that the Fund does not have an income tax liability under Part I of the Tax Act, be distributed to unitholders in the form of additional Units. Such additional Units will be issued pursuant to applicable exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

The Fund declared distributions in 2007 on a monthly basis with distributions set at a rate of $0.05 per month, $0.60 on an annualized basis. The amounts to be distributed are determined by the Board of Trustees subject to the criteria previously noted. The ability of the Fund to make distributions is dependent upon the amount of distributions received from Clearwater.

	2007	2006
Distributions declared	17,471	8,823
Per unsubordinated unit	0.60	0.30

In 2006, the Fund paid monthly distributions of $0.05 per unit to its unitholders from July to December.

10. ADMINISTRATION AGREEMENT

The Fund has an Administration Agreement with Clearwater. Under the terms of the agreement, Clearwater is responsible to provide administrative and support services to the Fund and is to provide these services for no additional consideration, other than payment of out-of-pocket expenses. There were no charges for out-of-pocket expenses for the years ended December 31, 2007 and 2006.

11. CAPITAL STRUCTURE

The Fund’s capital structure includes a combination of equity and convertible debentures. The Fund’s objective when managing its capital structure is to obtain the lowest cost of capital available while maintaining flexibility and reducing refinancing risk as appropriate.

The Fund lowers its cost of capital through the use of leverage, in particular lower cost debt. The Fund 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. The Fund 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 and if required, limiting distributions paid. 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.

The Fund's total capital structure is as follows:

	2007	2006
Equity – Partnership units (see note 6)	$ 288,913	$ 299,282
Convertible debentures	87,624	46,430
Contributed surplus	6,211	-
Deficit	(63,861)	(24,051)
	$ 318,887	$ 321,661

12. SUBSEQUENT EVENT

In January 2008, an additional 500,000 Class A units were purchased prior to the expiration of the normal course issuer bid at a cost of $2.3 million.

13. STRATEGIC REVIEW

The Fund announced on November 13, 2007 that the Trustees have initiated a process for identifying and considering strategic alternatives available to maximize unit holder value. The strategic review is in response to Clearwater's weak financial performance in 2007, the ongoing challenges facing the Fund in maintaining distributions and the Canadian government's legislation to tax income trusts. The Fund has engaged BMO Nesbitt Burns to act as their financial advisor for the strategic review process. While a range of alternatives may be considered, there can be no assurance that the review process will result in a decision regarding any transaction or that it will be completed in any specific time frame. In addition, this process may result in a transaction that results in a lower value than the current carrying value of the Fund's investment in Clearwater.

Clearwater Seafoods Limited Partnership
Management's Statement of Responsibility for Financial Reporting

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

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

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

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

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

March 28, 2008

Colin MacDonald	*Robert Wight*
Chief Executive Officer	*Vice-President, Finance and Chief Financial Officer*

KPMG LLP

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1959 Upper Water Street
Halifax, NS B3J 3N2
Canada

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AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheets of Clearwater Seafoods Limited Partnership as at December 31, 2007 and 2006 and the consolidated statements of earnings and deficit, comprehensive income and accumulated other comprehensive loss and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Halifax, Canada

February 22, 2008

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

Consolidated Balance Sheets
(In thousands of Canadian dollars)

December 31	2007	2006 (as restated – note 2(n))
Assets		
Current Assets		
Cash	$ 70,878	$ 10,850
Accounts receivable	48,861	59,388
Inventories	52,152	53,669
Derivative financial instruments (notes 2(i) and 5(a))	2,303	-
Prepaids and other	6,643	6,122
	180,837	130,029
Other long-term assets	8,694	9,563
Property, plant and equipment (note 3)	103,547	156,816
Licences (note 4)	106,930	102,714
Goodwill	10,378	10,378
	$ 410,386	$ 409,500
Liabilities and Unitholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 30,264	$ 32,995
Derivative financial instruments (notes 2(i) and 5(a))	14,261	27,002
Distributions payable	2,581	2,639
Income taxes payable	1,204	5,481
Current portion of long-term debt (note 7)	58,779	868
	107,089	68,985
Long-term debt (note 7)	168,785	189,392
Future income taxes (note 8(a))	5,623	8,588
Due to joint venture partner (note 13)	2,166	2,280
Minority interest	2,389	2,258
Unitholders' Equity		
Partnership units (note 9)	167,698	173,079
Deficit	(33,909)	(22,761)
Contributed surplus	1,224	-
Accumulated other comprehensive loss (note 2(h))	(10,679)	(12,321)
	124,334	137,997
	$ 410,386	$ 409,500

Commitments and contingencies (notes 5 and 12)
Subsequent event (note 17)
See accompanying notes to consolidated financial statements

Approved by the Board of CS ManPar Inc.:

John Risley
Chairman

Colin MacDonald
Chief Executive Officer

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

Consolidated Statements of Earnings and Deficit

(In thousands of Canadian dollars)

Years ended December 31	2007	2006 (as restated - note 2(n))
Sales	$ 302,681	$315,736
Cost of goods sold	236,748	228,423
Gross profit	65,933	87,313
Administration and selling	37,818	38,245
(Gain) loss on disposal of assets	(2,261)	2,143
Other income (note 10)	(1,985)	(5,853)
Insurance claims (note 6(b))	(4,087)	-
Foreign exchange and derivative income realized (note 5(b))	(936)	(13,040)
Foreign exchange and derivative (income) loss unrealized (note 5(b))	(17,697)	23,030
Bank interest and charges	840	953
Interest on long-term debt	15,905	13,110
Depreciation and amortization	11,267	14,766
Reduction in foreign currency translation account (note 2(h))	2,644	2,369
	41,508	75,723
Earnings before the undernoted	24,425	11,590
Income taxes (note 8(b))	133	4,123
Earnings before minority interest	24,292	7,467
Minority interest	4,024	5,633
Net earnings	$ 20,268	$ 1,834
Deficit at beginning of year as previously reported	(27,054)	(12,734)
Transitional adjustment for the application of new financial instruments accounting standards (note 2(i))	(71)	-
Application of new refit accounting policy (note 2(n))	4,293	3,922
Deficit at beginning of year restated	(22,832)	(8,812)
Distributions declared (note 9)	(31,499)	(15,837)
Adjustment for cancellation of Class C and Class D Units (note 9)	154	54
Deficit at end of year	$ (33,909)	$ (22,761)
Basic and diluted net earnings per unit (note 11)	$ 0.39	$ 0.03

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Loss
(In thousands of Canadian dollars)

Years ended December 31	2007	2006 (as restated note 2(n))
Comprehensive Income		
Net earnings	$20,268	$1,834
Other comprehensive income (loss), net of tax unrealized gains and losses on translating financial statements of self-sustaining foreign operation	1,002	(395)
Comprehensive income	$21,270	$1,439
Accumulated other comprehensive loss		
Balance beginning of year	$(12,321)	$(15,085)
Reduction in cumulative foreign currency translation account (note 2(h))	2,644	2,369
Unrealized gain (loss) on translation of self sustaining foreign operation (note 2(h))	(1,002)	395
Balance end of year	$(10,679)	$(12,321)

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)

Years ended December 31	2007	2006 (as restated – note 2(n))
Cash flows from (used in) operating activities		
Net earnings	$ 20,268	$ 1,834
Items not involving cash:		
Depreciation and amortization	11,267	14,766
Unrealized foreign exchange on long-term debt	(5,696)	(4,886)
Unrealized inflation and interest on long-term debt	3,154	4,983
Future income tax recovery	(2,744)	(1,850)
Reduction in foreign currency translation account	2,644	2,369
Minority interest	4,024	5,633
Unrealized (gain) loss on foreign exchange on currency option contracts	(9,709)	23,880
Unrealized (gain) loss on currency and interest swap contracts	(2,292)	4,036
Loss (gain) on disposal and other, net	(1,067)	954
	19,849	51,719
Change in non-cash operating working capital	6,698	(7,107)
	26,547	44,612
Cash flows from (used in) financing activities		
Proceeds from long-term debt	46,035	-
Reduction of long-term debt and swap contracts	(1,083)	(5,509)
Purchase of Class C units	(2,000)	(3,024)
Purchase of Class D units	(3,388)	-
Purchase of Class A units	(5,583)	-
Distributions to minority partners	(3,893)	(6,125)
Distributions to unitholders	(31,557)	(13,198)
Other	(313)	1,263
	(1,782)	(26,593)
Cash flows from (used in) investing activities		
Increase in other long-term assets	(1,042)	1,817
Purchase of property, plants, equipment, licences and other	(15,961)	(20,647)
Proceeds from vessel settlement (note 6(a))	46,000	-
Proceeds on disposal of property, plant, equipment, licences and other	5,884	1,899
	34,881	(16,931)
Foreign exchange loss on cash held in foreign currency	382	36
Increase in cash	60,028	1,124
Cash - beginning of year	10,850	9,726
Cash - end of year	$70,878	$ 10,850
Supplementary cash flow information		
Interest paid	$ 16,731	$ 14,412
Income taxes paid	$ 6,440	$ 1,950

See accompanying notes to consolidated financial statements

(Tabular amounts expressed in thousands of Canadian dollars)

1. BASIS OF PRESENTATION

Clearwater Seafoods Limited Partnership (“Clearwater”) is a limited partnership that acquired the seafood business of Clearwater Fine Foods Incorporated (“CFFI”) on July 30, 2002.

As CFFI maintains the right to nominate the majority of the board of directors both before and after the acquisition of its seafood business by Clearwater the acquisition was accounted for using the book values of the assets and liabilities as recorded by CFFI.

2. ACCOUNTING POLICIES

The financial information contained in the accompanying consolidated financial statements has been prepared in accordance Canadian Generally Accepted Accounting Principles (“GAAP”).

a) Consolidation

These consolidated financial statements include the accounts of Clearwater, its subsidiaries, variable interest entities and Clearwater’s proportionate share of the assets, liabilities, revenues and expenses of joint ventures over which it exercises joint control. Clearwater has consolidated the results of the variable interest entities due to its level of influence and economic interest as a result of the related credit agreements.

b) Inventories

Inventories, which consist primarily of finished goods, are valued at the lower of cost and net realizable value. Cost includes the cost of materials plus direct labor applied to the product and the applicable share of manufacturing overheads. Cost is determined using the weighted average method.

In June 2007, the CICA has issued Section 3031, “Inventories”, which replaces Section 3030, “Inventories” and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards. Effective for interim and annual financial statements beginning on or after January 1, 2008, this section provides more extensive guidance on the determination of cost, requires impairment testing and expands the disclosure requirements to increase transparency. The adoption of this new standard is not expected to significantly impact the overall financial results. The most significant impact is due to accounting for variable overheads and depreciation as a cost of inventory and as a result such costs will be included in cost of goods sold as opposed to below the gross profit line.

c) Property, plant and equipment

Property, plant and equipment are stated at cost less government assistance received. Depreciation is provided on a straight-line basis to depreciate the cost of these assets over their estimated useful lives. Estimated useful lives range from 10 to 40 years for buildings and wharves, 3 to 17 years for equipment and 10 to 20 years for vessels. Additions are depreciated commencing in the month they are put into use.

The capitalized interest on capital projects for which the total estimated cost is greater than $5 million and the period of construction is greater than 18 months was $1,578,000 in 2007 and $2,604,000 in 2006.

d) Impairment of long-lived assets

Clearwater reviews long-lived assets subject to amortization 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.

e) Licences

Licences and licence agreements represent intangible assets acquired directly or in a business combination that meet the specified criteria for recognition, apart from goodwill, and are recorded at their fair value at the date of acquisition.

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

Licence agreements are determined to have indefinite lives when the annual renewal fee is nominal (typically less than 1% of the estimated book value of the licence), Clearwater has both the ability and intent to renew or extend the life of the licences and there has been a history of being able to obtain renewals from the government. Licence agreements that are determined to have finite lives are amortized over the term of the related agreement and tested for impairment if events or changes in circumstances indicate that the asset might be impaired.

The impairment test compares the carrying amount of the licences and indefinite lived licence agreements with their fair value and an impairment loss would be recognized in the statement of earnings for any excess of the carrying value over fair value.

f) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the net assets acquired, based on their fair values.

Goodwill is not amortized and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. When the fair value of a reporting unit is less than its carrying amount, the implied value of the goodwill is compared to the carrying value of the goodwill and an impairment loss is recognized in the statement of earnings. For the fiscal years ended December 31, 2007 and December 31, 2006, no such impairment was recorded.

g) Class C Partnership units and Class D Partnership units

Class C Partnership units are classified in accordance with their component parts: the value ascribed to the debenture holders' option to convert to Class A Partnership units has been classified as equity and the remaining portion of the units has been classified as debt. Issue costs were classified as deferred financing costs and amortized over the estimated term to maturity for periods prior to January 1, 2007. Effective January 1, 2007, Clearwater adopted the new CICA Handbook Standards relating to financial instruments. These new standards have been adopted on a prospective basis with no restatement of prior period financial statements and as a result the issue costs are offset with the related debt. Interest on the debt is calculated by applying an effective interest rate of approximately 8.56% to the outstanding debt component. The difference between actual cash payments and interest expense is added to the debt component.

Class D Partnership units are classified in accordance with their component parts: the value ascribed to the debenture holders' option to convert to Class A Partnership units has been classified as equity and the remaining portion of the units has been classified as debt. Issue costs have been offset with the related debt. Interest on the debt is calculated by applying an effective interest rate of approximately 8.81% to the outstanding debt component. The difference between actual cash payments and interest expense is added to the debt component.

h) Translation of foreign currencies

The accounts of a subsidiary company, which is a self-sustaining operation, have been translated to Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at the rate of exchange in effect at the balance sheet date and revenue and expense items are translated at the rates in effect on the dates of such transactions. Gains or losses arising from the translation of the financial statements of the self-sustaining foreign operation are deferred in "accumulated other comprehensive income" in unitholders' equity. The cumulative foreign translation component of accumulated and other comprehensive income arose substantially from the translation of the vessels of the subsidiary located in Argentina and the devaluation of the peso in Argentina versus the Canadian dollar in 2001.

To the extent that there is a reduction in the net investment of a self-sustaining foreign operation, a portion of the cumulative translation component related to that self-sustaining foreign operation is recognized in the consolidated statement of earnings and deficit during the period of the net reduction. As a result, the dividends declared by the Partnership's subsidiary in Argentina have resulted in such a decrease in the net investment in the current year of $2,644,000 (2006 - $2,369,000). Any future dividends received which reduce the Partnership's net investment in this subsidiary will result in further reductions in the cumulative translation component of accumulated comprehensive income. The cumulative translation component of the accumulated comprehensive income at December 31, 2007 amounted to $10,679,000 (December 31, 2006 - $12,231,000)

Foreign monetary assets and liabilities of the Canadian operations and integrated foreign subsidiaries have been translated into Canadian dollars using the rate of exchange in effect at the balance sheet date and foreign non-monetary balances are translated at historical exchange rates. Exchange gains or losses arising from translation of these foreign monetary balances are reflected in the current period's earnings. Revenues and expenses are translated at rates in effect at the time of the transactions.

i) Financial Instruments

Effective January 1, 2007, Clearwater adopted the new CICA Handbook Standards relating to financial instruments. These new standards have been adopted on a prospective basis with no restatement of prior period financial statements.

Section 3855, "Financial Instruments – Recognition and Measurement" provides guidance on the recognition and measurement of financial assets, financial liabilities and non-financial derivatives. This new standard requires that all financial assets and liabilities be classified as one of the following: held-for-trading, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities. The initial and subsequent recognition depends on their initial classification.

Held-for-trading assets are carried at fair value with transaction costs expensed immediately and gains and losses recognized in net earnings in the period in which they arise. Held-to-maturity financial assets and loans and receivables are initially recognized at their fair values and subsequently measured at amortized cost using the effective interest rate method, with gains and losses recognized in net earnings in the period in which they arise. Available-for-sale assets are carried at fair value with gains and losses recognized in comprehensive income or through the income statement if the loss is considered to be other than temporary. Other financial liabilities are initially measured at cost or at amortized cost, depending upon the nature of the instrument, and are subsequently measured at amortized cost using the effective interest rate method, with gains and losses recognized in net earnings in the period in which they arise.

The standard required Clearwater to make certain elections, upon initial adoption of the new rules, regarding the accounting model to be used to account for each financial instrument. The following is a summary of the accounting model Clearwater elected to apply to each of its significant categories of financial instruments outstanding as of January 1, 2007:

Cash	Held-for-trading
Accounts receivable	Loans and receivables
Derivative financial instruments	Held-for-trading
Accounts payable and accrued liabilities	Other liabilities
Long-term debt	Other liabilities
Due to joint venture partner	Other liabilities
Commodity contracts	Held-for-trading

As a result of the adoption of this section, Clearwater reflected the following adjustments as of January 1, 2007:

- $71,000 was adjusted to opening deficit at January 1, 2007. This related to the amortization of the deferred financing charges associated with the long-term debt.
- A reclassification of amounts previously recorded in “Cumulative foreign currency translation account” to “Accumulated other comprehensive income”.

Deferred financing costs related to debt are no longer presented as other assets on the balance sheet but are now netted against the debt. This change in accounting policy resulted in a decrease of $2.8 million in the amount of long-term debt as of January 1, 2007.

In December 2006, the CICA issued section 3862, “Financial Instruments – Disclosures” and section 3863, “Financial Instruments – Presentation” to replace existing section 3861, “Financial Instruments – Disclosure and Presentation”. Section 3862 requires enhanced disclosure on the nature and extent of financial instrument risks and how an entity manages those risks. Section 3863 carries forward the existing presentation requirements and provides additional guidance for the classification of financial instruments. These sections are effective for fiscal periods beginning on or after October 1, 2007. This new requirement is for disclosure only and will not impact the financial results of the Partnership.

j) Income taxes

Income taxes are accounted for by the asset and liability method of accounting for income taxes. Under this method, future income taxes are recognized for temporary differences between the tax and accounting basis of assets and liabilities based on income tax rates and income tax laws that are enacted or substantially enacted and expected to apply to taxable income in years in which these temporary differences are expected to be recognized or settled. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

k) Revenue recognition

Clearwater sells seafood in a fresh or frozen state to customers. These sales are evidenced by purchase orders/invoices, which set out the terms of sale, including pricing and shipping terms. Revenue is recognized when evidence of an arrangement exists, the risks of ownership have passed to customers, selling price is fixed and determinable, and collectibility is reasonably assured.

l) Use of estimates

The preparation of the financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on management’s best knowledge of current events and actions that Clearwater may undertake in the future. These estimates can include but are not limited to estimates regarding inventory valuation, accounts receivable valuation allowances and estimates of future cash flows for impairment tests.

m) Comprehensive Income

Section 1530, “Comprehensive Income” requires separate disclosure of comprehensive income and its components in the financial statements. Other comprehensive income includes the exchange gains and losses arising from the translation of the financial statements of self-sustaining foreign operations. The effect of exchange rate variations on the translation of Clearwater’s net assets of self-sustaining foreign operations has been recorded as “Other comprehensive income (loss), net of tax”.

n) Refits

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 used by Clearwater in the past.

In the absence of specific guidance in Canada on this topic, we believe it appropriate to follow FASB AUG AIR-1 and therefore have adopted this standard on January 1, 2007. As a result of adopting this standard, comparative figures for 2006 have been restated. We have made the following adjustments:

	January 1, 2007	December 31, 2006
Balance Sheet		
Reduction in accounts payable and accrued liabilities	$4,867	$4,867
Reduction in other long-term assets	(295)	(295)
Increase in future income taxes liability	(279)	(279)
Reduction in deficit	$4,293	$4,293

	2006
Income statement	
Decrease in cost of goods sold	641
Increase in future tax expense	270
Increase in net earnings	371

The impact of earnings per unit was not significant and did not change the basic and diluted earnings per unit presented on the consolidated statement of earnings and deficit.

o) Capital Disclosures

In December 2006, the CICA issued section 1535, “Capital Disclosures” that establishes guidelines for the disclosure of information on the Partnership’s capital and how it is managed. It is effective for fiscal periods beginning on or after October 1, 2007. The enhanced disclosure enables users to evaluate the Partnership’s objectives, policies and processes for managing capital. This new requirement is for disclosure only and will not impact the financial results of the Partnership.

3. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated depreciation	2007 Net
Land and land improvements	$ 3,151	$ 895	$ 2,256
Buildings and wharves	63,386	46,778	16,608

Equipment	74,257	66,039	8,218
Vessels	148,435	70,252	78,183
Construction in progress	4,211	-	4,211
	293,440	183,964	109,476
Less: Deferred government assistance	(26,339)	(20,410)	(5,929)
	$ 267,101	$ 163,554	$ 103,547

	Cost	Accumulated depreciation	2006 Net
Land and land improvements	$ 3,143	$ 842	$ 2,301
Buildings and wharves	63,082	44,361	18,721
Equipment	72,440	62,213	10,227
Vessels	168,338	80,062	88,276
Construction in progress	45,696	-	45,696
	352,699	187,478	165,221
Less: Deferred government assistance	(26,715)	(18,310)	(8,405)
	$ 325,984	$ 169,168	$ 156,816

4. LICENCES

	Gross carrying amount	Accumulated amortization	Net
2007	$126,823	$ 19,893	$106,930
2006	$122,557	$ 19,843	$102,714

5. FOREIGN EXCHANGE AND DERIVATIVE CONTRACTS

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. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which payments are based. Instruments such as expandables, knock outs and option hedges are options that provide Clearwater the rights and/or obligations to purchase or sell currencies at fixed or variable rates at a future time.

Prior to the second quarter of 2006, Clearwater accounted for certain of these contracts as hedges and certain of them as non-hedges. As part of accounting for certain of these contracts as hedges, Clearwater formally documented all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process included linking all derivatives to specific forecasted transactions. Clearwater also formally assessed at inception and on an ongoing basis, whether the derivatives that were used in hedging transactions were effective in offsetting changes in fair values or cash flows of hedged items.

Beginning the second quarter of 2006, Clearwater no longer designated any 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 are marked-to-market each reporting period and any gains or losses, both realized and unrealized, are included in foreign exchange income.

Foreign currency options, which mature over a short period of time, are stated at quoted market prices. 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 outlined in the respective option agreement.

At December 31, 2007 and December 31, 2006, Clearwater had outstanding forward contracts as follows (as converted to Canadian dollars at contracted rates):

Currency		Notional Amount	Average Exchange Rate	Maturity	Fair Value Asset (Liability)
United States dollar					
December 31, 2007	Sell forwards	50,000	1.009	2008	1,262
December 31, 2006	Sell forwards	55,500	1.136	2007	(1,526)
	Buy forwards	14,000	1.120	2007	544
Euro					
December 31, 2007	Sell forwards	33,675	1.438	2008	(355)
	Buy forwards	15,000	1.432	2008	237
December 31, 2006	Sell forwards	9,550	1.442	2007	(913)
Yen					
December 31, 2007	Sell forwards	1,000,000	0.009	2008	243
December 31, 2006		-	-	-	-

At December 31, 2007 and December 31, 2006, Clearwater had written the following foreign currency option and expandable forward contracts, all of which are sell contracts unless otherwise indicated (as converted to Canadian dollars at contracted rates):

Currency		Notional Amount	Exchange Range	Maturity	Fair value asset (liability)
United States dollar					
December 31, 2007	Option	100,000	0.942 – 1.056	2008	(2,704)
	Buy option	60,000	1.013 – 1.185	2008	(7,318)
	Expandables	22,000-74,000	1.009 – 1.106	2008	(187)
	Reverse knock outs	41,000	1.183	2008	(64)
December 31, 2006	Option	160,000	1.1003 – 1.252	2007	(5,435)
	Option hedge	20,000	1.135 – 1.180	2007	90
	Expandable	500 – 72,000	1.131 – 1.202	2007	(1,931)
Japanese Yen					
December 31, 2007	Option	6,000,000	0.008 – 0.009	2008	(3,545)
December 31, 2006	Option	2,000,000	0.009 – 0.010	2007	(189)
Euro					
December 31, 2007	Option	31,000	1.448 – 1.550	2008	(227)
December 31, 2006	Option	55,000	1.390 – 1.585	2007	(6,466)
Sterling					
December 31, 2007		-	-	-	-
December 31, 2006	Option	25,700	2.013 – 2.101	2007	(5,995)

If Clearwater had settled these contracts at December 31, 2007, it would have made a net payment of $12,658,000. The contracts outstanding at December 31, 2006, if settled would have led to a net payment of $21,821,000. The liability or asset recorded is included in derivative financial instruments, and the resulting loss or gain is included in income.

a)Summary of net liability position for derivative contracts

	2007	2006
Forward, option and expandable contracts	$ 12,658	$ 21,821
Commodity contracts (note 5(e))	(12)	533
Interest rate contracts (note 5(d))	216	263
Iceland bond contracts (note 5(d))	(904)	4,342

Other	-	43
Net liability position	$ 11,958	$ 27,002

Financial statement balance sheet disclosure	2007	2006
Portion disclosed as derivative financial instrument asset (includes forward contracts (in net asset position for 2007) above, commodity contracts and Iceland bond contracts)	$ 2,303	$ -
Portion disclosed as derivative financial instrument liability (includes option and expandable contracts above and interest rate contracts)	14,261	27,002
Net liability position	$ 11,958	$ 27,002

b) Foreign exchange and derivative contract detail

	2007	2006
Realized (gain) loss foreign exchange and derivative income	$(8,159)	$ (14,834)
Other	7,223	1,794
	(936)	(13,040)
Unrealized (gain) loss foreign exchange on long-term debt	(5,696)	(4,886)
Mark-to-market on option contracts	(9,709)	23,880
Mark-to-market on interest and currency swaps	(2,292)	4,036
	(17,697)	23,030
Total (gain) loss	$ (18,633)	$9,990

c) Credit risk

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

Clearwater has significant accounts receivable from customers operating in Canada, United States, Europe and Asia. Clearwater has a policy of utilizing a combination of credit reporting agencies, credit insurance, letters of credit and secured forms of payment to mitigate customer specific credit risk and country specific credit risk.

d) Interest rate risk and fair values

As indicated in the note entitled “Long-Term Debt”, Clearwater uses cross currency and interest rate swaps to hedge its exposures to changes in foreign currencies and interest rates. The terms of the swap agreements related to the Icelandic bonds also economically hedge the changes in the Icelandic Consumer Price Index (“CPI”). These agreements do not qualify for hedge accounting. Although Clearwater has no intention of settling these contracts prior to maturity, at December 31, 2007, if it settled these contracts it would have received a net payment of $688,000 (December 31, 2006 - made a net payment of $4,605,000). The liability is included in derivative financial instruments and the resulting non-cash loss is included in income. See note 7(d) for additional information relating to the swaps.

e) Commodity contracts

On June 27, 2007, Clearwater entered into a natural gas option for 20,000 MMBTU per month, effective for the period from September 1, 2007 to February 29, 2008 with a strike price of US $8.40 per MMBTU. Although Clearwater has no intention of settling the contract prior to maturity, if it settled the contract it would have received a payment of $12,000.

6. VESSEL CLAIMS

a) On June 25, 2007, a new clam vessel that was to have been delivered in the third quarter capsized. In the third quarter, we agreed to a settlement of Canadian $46 million with the yard that had been constructing the vessel. The full amount was received as of December 31, 2007.

b) On December 5, 2006, one of Clearwater's factory freezer clam vessels, the Atlantic Pursuit, was struck by a large wave that caused extensive damage as it was riding out a winter storm on the Southeastern Grand Banks. This was an older vessel and scheduled to be retired from the fleet later in 2007 but as a result of the extensive damage incurred was retired early. An agreement was reached with Clearwater's insurers during 2007 and as a result a gain of approximately $3.8 million has been recorded.

7. LONG-TERM DEBT

	2007	2006
Notes payable (a)		
Canadian dollars	$ 62,573	$ 63,000
United States dollars	19,697	23,308
Class C Partnership Units (b)	43,201	46,430
Class D Partnership Units (c)	40,951	-
Bond payable (d)	51,392	46,795
Marine mortgage, due in 2017 (e)	4,911	5,584
Term loan, due in 2091 (f)	3,500	3,500
Other loans	1,339	1,643
	227,564	190,260
Less current portion	58,779	868
	$ 168,785	$ 189,392

a) Notes payable, senior secured notes issued in four series:

- $43,000,000 principle Canadian Series A Notes issued in 2003, bearing interest at 6.4% payable semi-annually, maturing December 8, 2008.
- $15,000,000 principle U.S. Series B Notes issued in 2003, bearing interest at 5.65% payable semi-annually, maturing December 8, 2008.
- $20,000,000 principle Canadian Series C Notes issued in 2003, bearing interest at 7.23% payable semi-annually, maturing December 8, 2013.
- $5,000,000 principle U.S. Series D Notes issued in 2005, bearing interest at 6.12% payable semi-annually, maturing December 8, 2013.

The deferred financing costs related to the senior secured notes as of December 31, 2007 is $556,000, which is restated as a reduction in long-term debt. Prior to the adoption of the financial instruments standards on January 1, 2007, the Partnership included these costs, amounting to $883,000 at December 31, 2006 in other long-term assets.

The notes are secured by mortgages and charges on all of the present and future property and assets of Clearwater and certain of its wholly owned subsidiaries, the interests of the Fund in Clearwater Seafoods Holdings Trust ("CSHT") and all the issued shares of CS ManPar Inc., the general partner of Clearwater. The security arrangement is guaranteed by an inter-creditor agreement with the banking syndicate members participating in the term credit facility disclosed in section (g) of this note.

b) In June 2004, 4,081,633 Class C units were issued concurrently with the issue by the Fund of $50 million of Convertible Debentures and are held by the Fund through CSHT. The Class C units are redeemable and retractable at a price of $12.25 per unit and are due December 31, 2010. 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 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 holders' option to convert to Class A units has been classified as equity and the remaining portion of the units has been classified as debt. Interest on the debt is calculated by applying an effective interest rate of approximately 8.56% to the outstanding debt component. The difference between actual cash payments, which will approximate 7.02%, and interest expense is added to the debt component of the units.

The Fund filed a normal course issuer bid by which it can acquire up to $5 million principal amount of the convertible debenture in the 12-month period ending August 2007 that was subsequently renewed for expiry in August 2008. Any repurchase at the Fund level has and will be accompanied by a similar repurchase of Class C Partnership units by Clearwater. During the year ended December 31, 2007 and 2006, $2 million and $3 million respectively of the Class C units were repurchased and cancelled with the proceeds used in the Fund to repurchase and cancel the equivalent amount of the convertible debenture. The principal outstanding as at December 31, 2007 and 2006 was $45 million and $47 million respectively.

c) In 2007, 8,142,712 Class D units were issued concurrently with the issue by the Fund of $48.0 million of Convertible Debentures and are held by the Fund through CSHT. The Class D units are redeemable and retractable at a price of $5.90 per unit and are due on March 31, 2014. 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 D units will be able to fund the ongoing interest payments on the Convertible Debentures. The Class D units are classified in accordance with their component parts: the value ascribed to the holders' option to convert to Class A units has been classified as equity and the remaining portion of the units has been classified as debt. Interest on the debt is calculated by applying an effective interest rate of approximately 8.81% to the outstanding debt component. The difference between actual cash payments, which will approximate 7.27%, and interest expense is added to the debt component of the units.

On June 2, 2007, $1,000 of the convertible debentures was converted into 169 Class A units at a price of $5.90 per unit.

The Fund filed a normal course issuer bid by which it can acquire up to $4.8 million principal amount of the convertible debentures in the 12-month period ending August 2008. Any repurchase at the Fund level has and will be accompanied by a similar repurchase of Class D Partnership units by Clearwater. In 2007, approximately $3.7 million of Class D Partnership units were repurchased and cancelled with the proceeds used by the Fund to repurchase and cancel an equivalent amount. The principal outstanding as at December 31, 2007 of the convertible debentures was $44.4 million.

d) Senior unsecured bond in the amount of 2,460,000,000 ISK due September 27, 2010 at a fixed rate of 6.7% accrued annually and paid at maturity. Both the bond and the interest are adjusted for changes in the Icelandic Consumer Price Index ("CPI"). Clearwater has entered into a number of swap agreements to economically fix the currency and CPI exposure associated with the debt. There are also interest rate swap agreements in place.

Clearwater has no intention to unwind the above contracts, however the agreements do not qualify for hedge accounting and therefore the gains and losses related to the fair value of these hedges are taken into income during the period.

The swap agreements have effectively resulted in the following:

- $25,000,000 Canadian dollar liability with an effective interest rate of 8.74%
- $5,000,000 U.S. dollar liability with an effective interest rate of 8.71%
- $4,707,502 U.S. dollar liability with an effective interest rate of 8.51%
- 3,000,000 Pound Sterling liability with an effective interest rate of 9.05%
- 2,500,000 Euro liability with an effective interest rate of 7.94%

Interest expense on the bond is recorded using the effective interest rate method that takes into account estimated future Icelandic inflation rates. Interest accrued is $6.1 million as of December 31, 2007 (December 2006 – $3.5 million). As previously noted interest exposure on this bond has been economically hedged and the cash payment on the related swaps was $4.0 million (December 2006 - $3.8 million).

	2007	2006
Principal	$ 38,174	$ 40,369
Accrued interest	6,101	3,470
Accrued CPI	7,117	2,956
	$ 51,392	$ 46,795

e) Marine mortgage payable in the principal amount of CDN $4,032,000 (December 31, 2006 - $4,549,000), DKK 16,480,000 (December 31, 2006 - DKK 17,871,000) and YEN 277,826,000 (December 31, 2006 - 297,671,000) bearing interest at UNIBOR plus 1% payable semi-annually, 50% of which represents Clearwater's proportionate share. Principal payments are required annually with CDN $776,000, DKK 2,087,000 and YEN 29,767,000 due in 2008-2012, CDN $152,000 due in 2013, DKK 2,087,000 and YEN 29,767,000 due in 2013-2014, DKK 1,871,000 due in 2015, YEN 29,767,000 due in 2015-2016 and YEN 9,923,000 due in 2017, 50% of which represents Clearwater's proportionate share. The loan matures in 2017 and is secured by a first mortgage over the related vessel and covenants concerning certain fishing licences.

f) Term loan, payable in 2091. In connection with this loan Clearwater makes a royalty payment of $275,000 per annum in lieu of interest.

g) Clearwater has a revolving term debt facility of $60 million from a syndicate of banks (which was not drawn upon at December 31, 2007 or December 31, 2006). The facility, which matures and is renewable in May 2009 is part of a master netting agreement that was in a cash position of $66 million as at December 31, 2007.

Clearwater's debt facilities contain various non-financial and financial covenants. They include, but are not limited to, leverage ratios and fixed charge ratios (which exclude most significant non-cash items and non-recurring items from earnings) that can limit distributions paid and the amount of allowable debt outstanding. Subsequent to the year end, Clearwater's lending agreement was amended resulting in additional conditions on the amount of distributions that can be declared in 2008. In addition, payments related to these debt facilities take priority over payments on securities held in Clearwater by the Fund.

Principal repayments required in each of the next five years are approximately as follows:

2008	58,779
2009	1,122
2010	95,473
2011	880
2012	867

8. INCOME TAXES

a) Future tax liability

A portion of Clearwater's income is earned through partnerships. Therefore, that portion of Clearwater's income is not subject to income tax at the partnership level and the taxable income is allocated directly to its partners.

On June 12, 2007, amendments to the *Income Tax Act* were substantively enacted and subsequently received Royal Assent on June 22, 2007, which modify the tax treatment of certain publicly traded trusts and partnerships that are Specificed Investment Flow-Throughs ("SIFTs"). Under the SIFT Rules, certain distributions by a SIFT entity relating to income from a business carried on in Canada by the SIFT and income, other than taxable dividends, or capital gains from non-portfolio properties (as defined in the *Income Tax Act*) will not be deductible for tax purposes and accordingly will be taxed in the SIFT entity at a rate that is generally comparable to the combined provincial/federal corporate income tax rate for ordinary business income. Allocations or distributions of income and capital gains that are subject to the SIFT Rules will be treated as a taxable dividend from a taxable Canadian corporation in the hands of the beneficiaries or partners of the SIFT. For Canadian resident beneficiaries or partners, such dividend will be taxed as an eligible dividend and will be subject to the applicable gross-up and dividend tax credit rules. Pursuant to the normal growth guidelines issued in a press release by the Department of Finance (Canada) on December 15, 2006 (the "Normal Growth Guidelines"), the SIFT Rules will not apply until the 2011 taxation year to trusts or partnerships that would have been SIFTs on October 31, 2006.

The SIFT Rules have only recently been enacted and the Canada Revenue Agency's administrative policies regarding the interpretation of the SIFT Rules and their application to the trusts and partnerships in which a publicly traded income fund holds a direct or indirect interest are still under review. As such, there may be an interpretation of the legislation under which the CSLP and its subsidiary partnerships ("Partnerships") would be viewed as SIFTs. At this time management does not interpret the legislation to consider CSLP to be a SIFT. This was the intent of the legislation and there are valid technical arguments supporting the fact that the Partnership is not a SIFT. No future income tax has been recorded in the partnership as a result of the SIFT Rules.

A provision for income taxes is recognized for Clearwater's corporate subsidiaries that are subject to tax.

Significant temporary differences in Clearwater's corporate subsidiaries that would give rise to future income taxes are noted below.

	2007	2006
Future income tax asset		
Loss carry-forwards and future deductible expenses of foreign subsidiaries, included in other long-term assets	$ 3,032	$ 2,846
Future income tax liabilities		
Licences	4,941	5,159
Property, plant and equipment	682	3,429
	$ 5,623	$ 8,588

The partnerships have temporary differences between the carrying value and income tax bases of assets and liabilities which flow through to the partners and that would result in future income tax assets and liabilities if the partnerships were subject to income tax, as outlined below.

	2007	2006
Deductible temporary differences:		
Licences	$ 14,082	$ 23,187
Financing fees	1,090	1,755

Foreign exchange contracts	4,758	12,501
Other	2,617	4,112
	$ 22,547	$ 41,555
Taxable temporary differences:		
Property, plant and equipment	$ 12,027	$ 13,470
Net deductible temporary differences	$ 10,520	$ 28,085

b) Income tax expense

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

	2007	2006
Current	$ 2,877	$ 5,973
Future (recovery)	(2,744)	(1,850)
	$ 133	$ 4,123

The provision for income taxes in the consolidated statement of earnings represents an effective tax rate different from the Canadian statutory rate of 38.1% (2005 – 38.1%). The differences are as follows:

	2007		2006	
	Amount	%	Amount	%
Income tax expense computed at statutory rates	$ 9,311	38.1	$ 4,418	38.1
Income of the partnership distributed directly to unitholders	(5,432)	(22.0)	4,103	35.4
Income of foreign subsidiary not subject to tax	(2,711)	(11.0)	(8,124)	(70.1)
Other tax differences	(1,035)	(4.6)	3,726	32.1
	$ 133	0.5	$ 4,123	35.5

9. PARTNERSHIP UNITS

Clearwater is authorized to issue an unlimited number of Class A limited partnership units, an unlimited number of Class B general partnership units, issuable in series, an unlimited number of Class C limited partnership units, an unlimited number of Class D limited partnership units and an unlimited number of Class Y general partnership units, issuable in series. Each unit (other than the Class Y units) entitles the holder thereof to one vote, except in certain situations as described pursuant to the Limited Partnership Agreement governing Clearwater. Each issued Class B unit is accompanied by a Special Trust Unit issued by the Fund entitling the holder to receive notice of, to attend and to vote at meetings of unitholders of the Fund.

In June 2004, 4,081,633 Class C units in the amount of $50 million were issued concurrently with the issue by the Fund of $50 million of Convertible Debentures and are held by the Fund through CSHT. 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 the distributions on the Class C units will be able to 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 holders' option to convert to Class A units has been classified as equity and the remaining portion of the units has been classified as debt.

In 2007, 8,142,712 Class D units were issued concurrently with the issue by the Fund of $48.0 million of Convertible Debentures and are held by the Fund through CSHT. The Class D units are non-voting redeemable and retractable at a price of $5.90 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 D units will be able to fund the ongoing interest payments on the Convertible Debentures. The Class D units are classified in accordance with their component parts: the value ascribed to the holders' option to convert to Class A units has been classified as equity and the remaining portion of the units has been classified as debt.

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. During 2007, the Fund purchased and cancelled 1,162,000 Class A units at a cost of $5.6 million.

	Class A Units	Class B Units	$ (in 000's)
Balance December 31, 2004, no change to December 31, 2006	29,407,626	23,381,217	$ 172,251
Equity component of Class C Units			828
Balance December 31, 2006			$ 173,079
Cancellation of Class A Units	(1,162,100)	-	(6,807)
Issuance of Class A Units	169	-	1
Subtotal	28,245,695	23,381,217	166,273
Equity component of Class D Units			1,579
Cancellation of $2 million Class C Units			(35)
Cancellation of $3.7 million Class D Units			(119)
Balance December 31, 2007			$ 167,698

As at December 31, 2007 there were in total 51,626,912 units outstanding (52,788,843 - December 31, 2006).

Distributions declared for the year ended December 31, 2007 were $31,499,000 (2006 – $15,837,000). All of the Partnership's distributions are at the discretion of the Trustees and are subject to certain conditions imposed by banking agreements.

As CFFI controlled Clearwater's seafood business both before and after the initial public offering, the acquisition of the seafood business by Clearwater was accounted for using the book values of the assets and liabilities as recorded by CFFI. The excess of the capital contributions of $267,728,000 over book values of the assets of $180,553,000, being $87,195,000, was debited to partnership units.

10. OTHER INCOME (EXPENSE)

	2007	2006
Investment income	$ 1,618	$ 1,243
Export rebate	(25)	1,687
Quota rental and royalties	63	2,109
Other	329	814
	$ 1,985	$ 5,853

11. EARNINGS PER UNIT

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

	2007	2006
Basic		
Net earnings	$ 20,268	$ 1,834
Average number of units outstanding	52,516	52,789
Earnings per unit	$ 0.39	$ 0.03

The effect of potential dilutive securities, being the Class C and Class D Partnership Units, was not included in the calculation of diluted earnings per unit as the result would be anti-dilutive.

12. COMMITMENTS AND CONTINGENCIES

a) Clearwater is committed directly and indirectly through its proportionate share of its joint ventures, to various licence and lease agreements, the payments on which aggregate $15,034,000 as of December 31, 2007 ($22,682,000 as of December 31, 2006). These commitments require approximate minimum annual payments in each of the next five years as follows:

2008	3,757
2009	2,755
2010	2,252
2011	2,148
2012	2,129

Included in commitments are amounts to be paid to a company controlled by a relative of an officer of Clearwater over a period of years ending in 2011 for vehicle leases, which aggregate approximately $190,000 (2005 - $225,000). These commitments require minimum annual payments in each of the next four years as follows:

2008	78
2009	64
2010	38
2011	10

b) In addition to the commitments previously noted above, Clearwater has commitments for the conversion of a vessel. The conversion of an existing shrimp vessel to a clam vessel began late 2007 and is expected to be complete by the second quarter of 2008 with a commitment of approximately $10 million at year-end.

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

13. JOINT VENTURES

The financial statements include Clearwater's proportionate share of the assets, liabilities, sales and expenses of such joint ventures, the material elements of which are as follows:

a) Proportionate share of assets and liabilities as at December 31:

	2007	2006
Current assets	$ 4,935	$ 7,246
Property, plant, equipment and other long-term assets	12,935	13,734
Current liabilities	2,413	2,961
Long-term liabilities	3,329	5,380

b) Proportionate share of sales, expense and earnings before taxes

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

December 31	2007	2006
Sales	10,396	9,450
Expenses	8,387	8,509
Earnings before taxes	2,009	941

c) Balances, transactions and guarantees with joint venture partners

Clearwater receives and provides services to the joint ventures at amounts agreed between the parties. The following is a summary of the balances included in the financial statements as at December 31:

	2007	2006
Accounts receivable from joint venture partner	$504	$151
Accounts payable to joint venture partner	32	438
Due to joint venture partner, long-term	2,166	2,280

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

December 31	2007	2006
Commissions charged to joint ventures	$1,534	$1,625
Interest charged to joint ventures (charged by)	(49)	(47)

As at December 31, 2007 Clearwater was contingently liable for the obligations of the joint venture partners in the amount of $4,911,000 (December 31, 2006- $5,586,000), however, the joint venture partners' share of the assets is available for the purpose of satisfying such obligations. The book value of these assets is $17,870,000 (December 31, 2006 - $15,655,000).

14. SEGMENTED INFORMATION

a) General information

Clearwater operates primarily within one industry that being the harvesting, procurement, processing and sale of seafood with no separately reportable business segments. The products are sold primarily to customers in the United States, Europe, Asia, and Canada.

b) Net sales to customers by product category

	2007	2006
Scallops	$ 110,589	$ 110,139
Lobster	75,894	76,236
Clams	45,881	62,268
Coldwater shrimp	45,577	40,406
Crab	16,360	7,025
Groundfish and other	8,526	12,633
Hedging program	(146)	7,029
	$302,681	$ 315,736

c) Geographic information

	2007	2006
Sales		
United States	$99,827	$ 84,935
Europe		
France	36,910	60,983

	2007	2006
Denmark	17,363	24,189
UK	22,373	14,297
Other	26,221	17,798
Asia		
Japan	27,788	29,914
Other	24,040	29,497
Canada	45,931	45,653
Other, including hedging program	2,228	8,470
	$302,681	$ 315,736

	2007	2006
Property, plant, equipment, licences and goodwill		
Canada	$ 202,637	$ 251,282
Argentina	17,407	18,024
Other	811	602
	$ 220,855	$ 269,908

15. RELATED PARTY TRANSACTIONS

Clearwater had the following transactions and balances with CFFI, the controlling shareholder of Clearwater, during 2007 and 2006.

	2007	2006
Transactions		
Charged by CFFI for rent and other services , net of rent and IT services charged to CFFI	14	218

	2007	2006
Balances		
Distribution and other payable to CFFI	1,152	1,161

In addition Clearwater was charged approximately $108,000 for vehicle leases in 2007 (2006 - $139,000) and approximately $115,000 for other services in 2007 (2006 - $81,000) by companies controlled by a relative of an officer of Clearwater.

These transactions are in the normal course of operations and have been recorded at the exchange amount agreed to between the parties.

16. 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 intended to be 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.

Clearwater's total capital structure is as follows:

	2007	2006
Equity – Partnership units (note 9)	$ 167,698	$ 173,079
Convertible debt, Class C units, due in 2010 (note 7)	43,201	46,430
Convertible debt, Class D units, due in 2014 (note 7)	40,951	-`
Non-amortizing debt (note 7)		
Term notes due in 2008	57,641	60,481
Term notes due in 2013	24,629	25,827
Bond payable, due in 2010	51,392	46,795
Term loan, due in 2091	3,500	3,500
	137,162	136,603
Amortizing debt (note 7)		
Marine mortgage	4,911	5,584
Other loans	1,339	1,643
	6,250	7,227
Deficit	(33,909)	(22,761)
Contributed surplus	1,224	-
	$ 362,577	$ 304,578

17. SUBSEQUENT EVENT

Subsequent to December 31, 2007 Clearwater received government approval to acquire groundfish quota at a cost of $10 million.

In January 2008, an additional 500,000 units were purchased prior to the expiration of the normal course issuer bid for the purchase of Class A units at a cost of $2.3 million.

Subsequent to December 31, 2007, Clearwater sold equipment to one of our minority shareholder's. The equipment was sold at a market price of $467,000.

Further information can be found in the disclosure documents filed by Clearwater Seafoods Income Fund with the securities regulatory authorities available at www.sedar.com or at its website (www.clearwater.ca).

For further information, please contact: Robert Wight, Chief Financial Officer, Clearwater, at (902) 457-2369, or Tyrone Cotie, Director of Corporate Finance and Investor Relations, Clearwater, at (902) 457-8181.