CLEARWATER SEAFOODS INCOME FUND

2007 Annual Report to Unitholders

FINANCIAL HIGHLIGHTS

($000's)	December 31, 2007	December 31, 2006
Sales	$ 302,681	$ 315,736
Gross profit	65,933	87,313
Net earnings	20,268	1,834
Basic and diluted net earnings per unit	0.39	0.03
Cash flows from operating activities	26,547	44,612
Distributable cash	13,084	42,351
Distributions declared	31,499	15,837
Distributions paid per unit per month	0.05	0.05
Realized foreign exchange income	936	13,040
Unrealized foreign exchange income (loss)	17,697	(23,030)

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TO OUR UNITHOLDERS

2007 was one of the most challenging years for Clearwater in its 31-year history. We faced unprecedented weakening of the U.S. dollar, one of our major trading currencies, as well as the loss of two of our fishing vessels. The latter hugely impacted our very valuable clam business. In spite of these unprecedented challenges, the people who form the backbone of Clearwater achieved many significant successes and stayed the course in an extremely tough environment.

COLIN MACDONALD

Chief Executive Officer
CS ManPar Inc.

Clearwater's financial performance in 2007 was disappointing. Overall, gross profits in 2007 were $21.4 million lower than they were in 2006, primarily due to the above noted negative impacts of foreign exchange, loss of two vessels in the clam fleet and a weaker scallop market. Distributable cash generated in 2007 was $13.1 million, $18.4 million less than distributions declared during the year. As a result, on January 21, 2008 the Trustees of the Fund suspended monthly distributions.

Looking forward to 2008, we believe that with the successful expansion of our clam fleet in April 2008, Clearwater will continue to grow and to generate positive cash flows and improved profit margins. We also anticipate that 2008 will experience a higher Canadian scallop total allowable catch, improved profit in the lobster business and reduced overhead costs.

As mentioned, our 2007 results reflect the impacts of a number of challenges on our business. Chief among these were the weakening U.S. dollar and its effects on our bottom line, the loss of two clam vessels, one of which was a keystone of our growth strategy, and a relatively soft scallop market.

FOREIGN EXCHANGE

More than 80% of Clearwater's sales are denominated in currencies other than the Canadian dollar, however the majority of our expenses and all of our cash distributions are in Canadian dollars. As a result, foreign exchange fluctuations can have a material impact on Clearwater's financial results and the amount of cash available for distribution to unitholders. The significant depreciation of the U.S. dollar in 2007 had an $18.1 million negative impact on our margins, when current effective rates are compared to those of 2006. While we maintain a currency management program to reduce the risk of exchange fluctuations, the degree of devaluation of the U.S. dollar made it impossible to fully mitigate the impact. In 2007, our hedging program yielded foreign exchange income of $0.9 million, versus income of $13.0 million in 2006, a change of $12.1 million. In comparing 2006 to 2007, the total negative impact of foreign exchange was $30.2 million.

LOSS OF CLAM VESSELS

In December 2006, a clam vessel that was due to be retired later in 2007 was damaged beyond repair in a winter storm off the Grand Banks of Newfoundland. Fortunately, none of our crew were injured, a true blessing. We received a $3.8 million insurance settlement for the loss of this ship and looked ahead to the delivery in mid-2007 of a new, state-of-the-art clam vessel to replace it. However, due to an unfortunate accident at the shipyard, the new vessel capsized prior to Clearwater taking possession in June of 2007. Again and most fortunately, there were no injuries, for which we are truly thankful. In the third quarter of 2007, we made the decision to convert a shrimp vessel to a clam vessel at a cost of approximately $16 million. The newly converted vessel will be delivered to Clearwater in mid-2008. We do not anticipate any material impact on our shrimp business as a result of the conversion of the shrimp vessel into a clam vessel, as we intend to harvest the vessel's shrimp quota in a newly created joint venture.

SCALLOP MARKET

In 2007, the market for scallops lost some momentum from its strong performance in 2006, however we were able to keep our sales levels consistent with the prior year, as we offset lower selling prices with an 18% increase in volume with a different product mix weighted more in smaller sizes.

OUR PEOPLE

John and I have learned from our three decades in the seafood business that the seafood industry requires inordinate courage and perseverance. Our fishing teams live their professional lives on the unforgiving and unpredictable waters of the North Atlantic. Our sales and marketing teams live theirs in the highly competitive market for top quality food products. Through all these challenges, our people, whether on our ships, in our plants, in our offices or in the field, have ensured we remain a true leader in the global fishing industry.

It is because of our people that we exceeded expectations on a number of fronts operationally despite the challenges we faced in 2007. We were able to increase the volumes of sea scallops we sold in the U.S. despite a softer scallop market, our raw frozen lobster business grew substantially, and our live lobster business and shrimp business saw continuing growth and success.

2008: A NEW BEGINNING

As we enter 2008, we are greeted by a number of encouraging factors that underpin our positive outlook for Clearwater.

- **Delivery of converted clam vessel** – Despite the unfortunate vessel disruptions we suffered in 2007, our clam business is far stronger and much better organized and coordinated from the vessel to the market. With the anticipated delivery of the newly converted clam vessel in the second quarter, and the benefits of our Ocean Bottom Mapping of Banquereau Bank, we will be better able to take advantage of the bustling Asian and North American Hokkigai markets.
- **Scallop business should grow** – Clearwater's scallop businesses in North America is anticipated to have increased quota in 2008, representing very healthy resources. The U.S. scallop fishery, our major competitor, is expected to face a significant decline in product supply.
- **Expanded global reach should lead to larger markets abroad** – Our newly organized Global Marketing and Sales team is continuing to open new markets and new relationships in Europe, North America, and Asia for our products. This will allow us to leverage the high quality product and value we offer the market.
- **Raw lobster product should continue to gain popularity** – Clearwater's raw lobster business is seeing increased take up and growth with the introduction of new formats and ever-increasing demand as the consumer tastes and enjoys the unique flavour and texture of this excellent product.

In addition we anticipate lower costs of selling and administration in 2008 as a result of improved processes and tighter controls on spending. These factors, together with our ongoing work to continually enhance our internal processes, put us in a strong position to deliver improved performance in 2008.

STRATEGIES FOR TOMORROW

While we have every confidence that Clearwater is fully equipped to deliver improved results in 2008 and beyond, the Trustees have undertaken a strategic review to examine and evaluate opportunities and alternative structures to provide more unitholder value. Long-term unitholder value remains our first focus and we believe this strategic review will help ensure that we consider all available options to deliver optimal value to our investors. The Trustees have engaged BMO Nesbitt Burns to act as their financial advisor for this strategic review process and while there is no assurance that any transaction will result from the strategic review, we are committed to working through all the options available to us with the overall objective of identifying and adopting the structure that will deliver the best value for our investors and lay the most promising groundwork for Clearwater's future.

Clearwater is blessed with a number of key advantages that continue to serve us in challenging years like 2007, and that allow us to thrive and grow:

- **Our people** – we have a pool of dedicated, empowered, committed and passionate people: they are the best in the industry from our perspective.
- **Our quotas** – our quotas are envied and sought after throughout the industry. We manage them responsibly by investing in science and technology to ensure they are responsibly harvested and sustainable. Our level of quota ownership provides us with scale to invest in new technologies and innovations in harvesting and processing as well as in market development and science to ensure we remain strong for generations to come.
- **Our global customer relationships** – we have deep customer relationships, many of which are decades old along with several new ones from 2007. Our customer relationships are built on excellent business practices and customer focus with a total Clearwater commitment to quality in product, service and supply. We are proud to be the industry leader in value and market recognition, for quality seafood products as well as innovation, technology, and responsible and sustainable fishing.

Clearwater has built its reputation over more than three decades on its ability to deliver a high quality product to its customers. We have leading-edge technology, strong quota ownership, and the industry's most committed employees and a global market reputation. We look forward to working to deliver continuing improvements in performance for 2008.

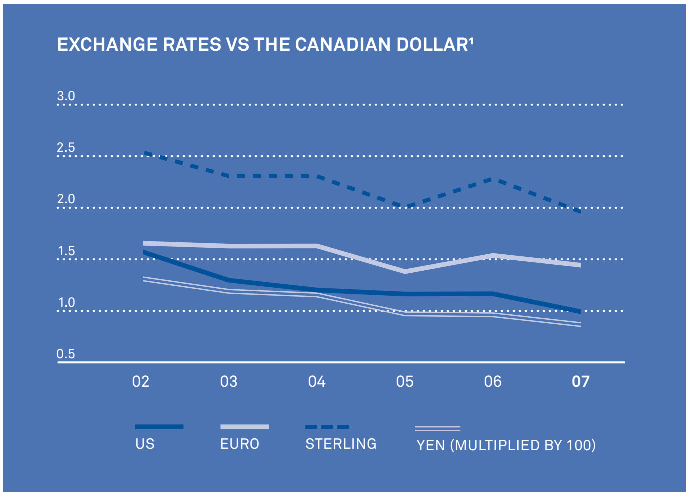
We would like to take this opportunity to thank our Board members and Trustees, our partners in business, our committed worldwide team of employees, and our investors for their continued support of Clearwater in 2007. With our strategic review underway and our business well-positioned to deliver a turnaround in 2008, we are thankful to work with all of you, and are enthusiastic and optimistic about Clearwater's prospects for the year ahead.

John C. Risley
Chairman
CS ManPar Inc.

Colin MacDonald
Chief Executive Officer
CS ManPar Inc.

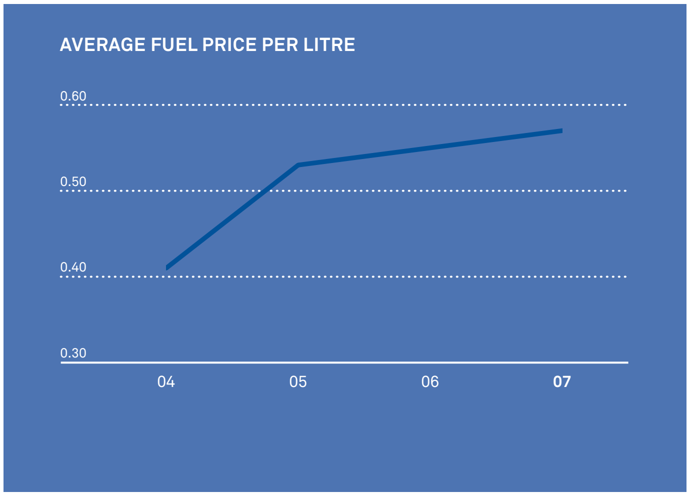
March 28, 2008

KEY PERFORMANCE MEASURES

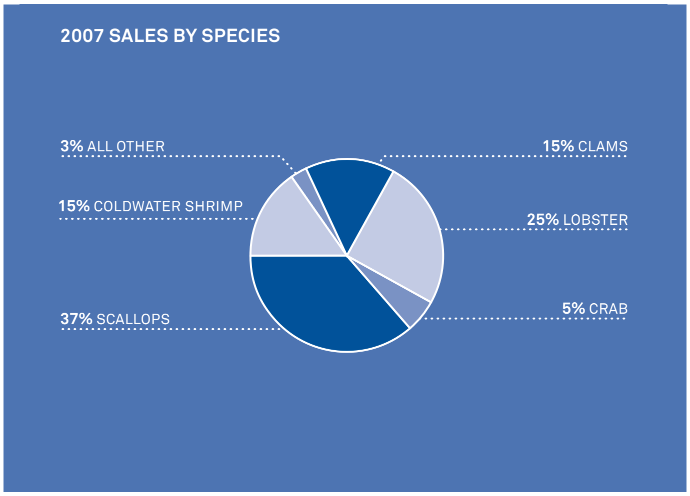


Approximately 80% of Clearwater's sales are to the United States, Europe and Asia. The continued strengthening of the Canadian dollar against the currencies of major markets has had the effect of removing approximately $18 million from our revenue stream in 2007.

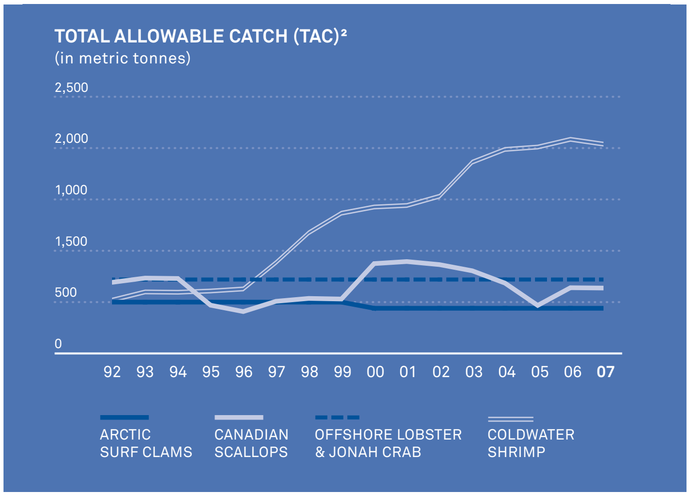
(1) For purposes of presentation, the Yen rate was multiplied by 100. The rate for the US dollar, GBP and Euro are actual rates.



Clearwater used approximately 29 million litres of marine diesel fuel in 2007. A one-cent per litre change in the price of fuel impacts harvesting costs by approximately $290,000. Over the past four years the cost per litre has increased by approximately 40%.



Clearwater has a diverse product offering.



Our commitment to resource sustainability is demonstrated by the fact that total allowable catch ("TAC") levels for most species we harvest are generally stable or growing.

(2) For purposes of presentation, the TAC for Cold Water Shrimp and Arctic Surf Clam should be multiplied by 100 and the TAC for Canadian scallops should be multiplied by 10 to calculate actual figures. The TAC for lobster and Jonah Crab are actual figures.

CHAIRMAN'S LETTER

During 2007, Clearwater faced a number of challenges that negatively impacted results including foreign exchange, specifically the significant weakening of the U.S. dollar, the loss of the new clam vessel prior to delivery and a soft scallop market compared to the prior year. These have had a significant impact on the distributable cash generated. As a result of an $18 million shortfall we decided to suspend distributions in January 2008.

The Trustees recognize the importance of ensuring the Fund offers the best return for our investors. As a result, in the third quarter of 2007 we initiated a strategic review to examine various opportunities that might exist to improve unitholder value, from strategic partnerships to alternative structures for the company.

We are working together with our financial advisor, BMO Nesbitt Burns, to determine the opportunities available to Clearwater given the Company's 2007 performance and the Canadian government income trust legislation that will impose a tax on all income trusts beginning in 2011. Regardless of the direction in which this review may take us, our primary goal will remain to maximize unitholder value.

TRUSTEES AND DIRECTORS

SOCIAL RESPONSIBILITY
Sustainability is at the heart of every decision we make at Clearwater. Since our founding in 1976, we have invested in the science, people, technology, resource ownership and resource management to preserve and grow our seafood resource. This commitment has allowed us to remain a leader in the global seafood industry. As an income trust, sustainability takes on a broader meaning, but the same spirit guides us. Clearwater's commitment to sustainability encompasses our resources, our unitholders, our customers and our employees.

For more information on our policies, visit our website: www.clearwater.ca.

THOMAS D. TRAVES

President and Vice-Chancellor,
Dalhousie University

Dr. Traves has been involved with a number of boards of directors and is currently a member of Innovacorp, the Greater Halifax Partnership and Chairman-elect of the Association of Universities and Colleges of Canada.

- Chairman and Trustee, Clearwater Seafoods Income Fund
- Director of CS ManPar Inc. since 2002

JOHN C. RISLEY

Co-founder,
Clearwater Seafoods Income Fund

Mr. Risley serves on the Boards of a number of public companies and is active with a number of charitable organizations. He was named an Officer of the Order of Canada in 1999.

- Director of CS ManPar Inc. (and its predecessor) since 1976
- Chairman, CS ManPar Inc.

COLIN MACDONALD

CEO and Co-founder,
Clearwater Seafoods Income Fund

Mr. MacDonald has 30 years of experience in the seafood industry. He has served as President of the Canadian Lobster Producers Association and is a founding member of the Lobster Science Centre. Colin is Past Chair of the IWK Children's Hospital Foundation as well as serving with a number of other family and youth focused charitable organizations.

- Director of CS ManPar Inc. (and its predecessor) since 1976

There is, of course, no certainty that any transactions or fundamental changes to Clearwater's business will result from this strategic review. However, the Trustees and Directors felt that such a detailed review was warranted given the challenges the Company faced in 2007.

As a Board, our commitments to responsible stewardship of Clearwater's resources, helping the Company to expand and grow and most importantly, ensuring you receive the best possible return on your investment remains unchanged. On behalf of the Trustees and Directors, I would like to congratulate Colin MacDonald and the entire Clearwater team on their perseverance and performance despite significant challenges faced in 2007 and to thank our investors for their continued belief in Clearwater.

Tom Traves

THOMAS TRAVES
Chairman
Clearwater Seafoods Income Fund

HUGH K. SMITH

Vice President,
Municipal Group of Companies

Mr. Smith provides counsel to Stewart McKelvey Stirling Scales, an Atlantic law firm and serves as a director for Clarke Inc., and Royal Host REIT.

- Director of CS ManPar Inc. since 2002
- Chairman, Corporate Governance and Compensation Committee

BRENDAN PADDICK

CEO,
Columbus Communications Inc.

Mr. Paddick was the CEO of Persona Inc. and Persona Communications Inc. from 1992 to 2004.

- Director of CS ManPar Inc. since 2006
- Member, Audit Committee

BERNARD R. WILSON

Chairman,
The Founders Board of the Institute of Corporate Directors in Canada

Mr. Wilson was Vice Chairman of PricewaterhouseCoopers from 2001 to June 30, 2005. He serves on the boards of Consolidated Thompson Iron Mines Limited, Crowflight Minerals Inc. and Goldengate Group.

- Chairman and Trustee, Clearwater Seafoods Income Fund
- Director of CS ManPar Inc. since 2006
- Member, Audit Committee
- Member, Corporate Governance and Compensation Committee

BRIAN CROWLEY

Founding President,
The Atlantic Institute for Market Studies

Mr. Crowley is currently the Clifford Clark Visiting Economist with the federal Department of Finance.

- Trustee, Clearwater Seafoods Income Fund
- Director of CS ManPar Inc. since 2006
- Member, Corporate Governance and Compensation Committee
- Member, Audit Committee

MANAGEMENT'S DISCUSSION & ANALYSIS

2007 FINANCIAL REPORT

This Management's Discussion and Analysis ("MD&A") was prepared effective March 28, 2008.

The Audit Committee and the Board have reviewed and approved the contents of this MD&A as well as the related 2007 fourth quarter news release.

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

Clearwater has established and maintains disclosure controls and procedures over financial reporting, as defined under the rules adopted by the Ontario Securities Commission in multilateral instrument 52-109. The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have evaluated the design and effectiveness of Clearwater's disclosure controls and procedures as of December 31, 2007 and have concluded that such procedures are adequate and effective to provide reasonable assurance that the material information relating to Clearwater and its consolidated subsidiaries would be made known to them by others within those entities to allow for accurate and complete disclosures in annual filings.

Management is also responsible for the design of internal controls over financial reporting (ICFR) within Clearwater in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Management's documentation and assessment of the design of Clearwater's ICFR was completed as of December 31, 2007 with a focus on processes and controls in areas identified as being "key risk areas". Management has evaluated the design of Clearwater's ICFR as of December 31, 2007 and believes the design to be sufficient to provide such reasonable assurance.

Management has determined there were no changes to Clearwater's ICFR during the year ended December 31, 2007 that have materially affected, or were reasonably likely to materially affect its ICFR.

COMMENTARY REGARDING FORWARD-LOOKING STATEMENTS

This Report may contain forward-looking statements. Such statements involve known and unknown risks, uncertainties, and other factors outside management's control including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs that could cause actual results to differ materially from those expressed in the forward-looking statements. The Fund does not assume responsibility for the accuracy and completeness of the forward-looking statements and does not undertake any obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

OVERVIEW OF THE FUND AND CLEARWATER

Clearwater Seafoods Limited Partnership ("Clearwater") is the largest publicly traded shellfish company in North America and is widely recognized for its consistent quality, wide diversity, and reliable delivery of premium seafood, including scallops, lobster, clams, coldwater shrimp, crab and groundfish. Our competitive advantages include our ownership of significant quotas in key species, our innovations in harvesting and processing technologies, and our vertical integration, which allows Clearwater to manage marketing, sales and distribution in-house. Since its founding in 1976, Clearwater has invested in science, people, technology, resource ownership and resource management to preserve and grow its seafood resource. This commitment has allowed Clearwater to remain a leader in the global seafood market.

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.

The Fund commenced operations in July 2002 following its initial public offering. The following table illustrates the changes in unit capital from initiation to date, as well as the related investment in Clearwater.

Date	Number of units issued	Method and related investment in Clearwater	Ownership of Clearwater by the Fund
July 2002	21,170,435	IPO (acquired equal number of units)	45.36%
August 29, 2002	2,117,043	Over-allotment option granted to the underwriters – acquired equal number of units	49.9%
December 27, 2002	1,271,186	Private placement – acquired equal number of units	51.23%
May 1, 2003	4,000,000	Warrants converted to units – acquired equal number of units	54.98%
September 17, 2003	848,962	Private placement – acquired equal number of units	55.71%
Various dates in 2007	1,162,100	Normal course issuer bid – reduced investment by $5,583,000	54.71%
January 2008	500,000	Normal course issuer bid	54.27%

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

On March 9, 2007, the Fund completed an offering for $43.5 million of 7.25% convertible unsecured subordinated debentures, which are due March 31, 2014. On April 11, 2007 the Fund's syndicate exercised the over-allotment option in the amount of $4,542,000 principal amount of convertible unsecured subordinated debentures. 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.

As part of its strategy to reduce leverage levels, the Fund filed a normal course issuer bid by which it could acquire up to $5 million principal amount of the 2004 series 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 of the 2004 series convertible debentures has and will be accompanied by a similar repurchase of Class C Partnership units by Clearwater. During 2006, $3 million of the Class C units were repurchased and cancelled with the proceeds used to repurchase and cancel an equivalent amount of convertible debentures. In 2007, an additional $2 million of Class C Partnership units were repurchased and cancelled with proceeds used by the Fund to repurchase and cancel an equivalent amount of the 2004 series convertible debentures. The principal outstanding as at December 31, 2007 of the 2004 series convertible debentures was $45 million.

The Fund also filed a normal course issuer bid by which it could acquire up to $4.8 million principal amount of the 2007 series of convertible debentures in the 12-month period ending August 2008. Any repurchase at the Fund level of the 2007 series convertible debentures has been 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 proceeds used by the Fund to repurchase and cancel an equivalent amount of the 2007 series convertible debentures. The principal outstanding as at December 31, 2007 of the 2007 series convertible debentures was $44.4 million.

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.

On January 24, 2007, the Fund received approval for a normal course issuer bid which enabled 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 were to be made during the 12-month period commencing on January 24, 2007, and in accordance with the requirements of the TSX. The Units were purchased by the Fund for cancellation and were accompanied by a similar repurchase of units by Clearwater. During 2007, 1,162,100 units were repurchased at a cost of $5.6 million.

Clearwater's Partnership Agreement provides that as long as Clearwater Fine Foods Incorporated ("CFFI") owns greater than 45% of the units of the Fund on a fully diluted basis, CFFI has the right to appoint 4 of the 7 directors of CS ManPar, the managing general partner. Since CFFI currently owns 47.8% (including its ownership of units in the Fund), it has maintained this right. Therefore, the Fund does not consolidate the results of

Clearwater's operations, but rather, accounts for the investment using the equity method. Under this method, the Fund's share of the earnings of Clearwater is reflected in the statement of earnings of the Fund as a one-line item entitled "Equity in the Earnings of Clearwater Seafoods Limited Partnership". Due to the limited amount of information that this provides on Clearwater, the financial statements of Clearwater are included whenever the Fund discloses its financial results.

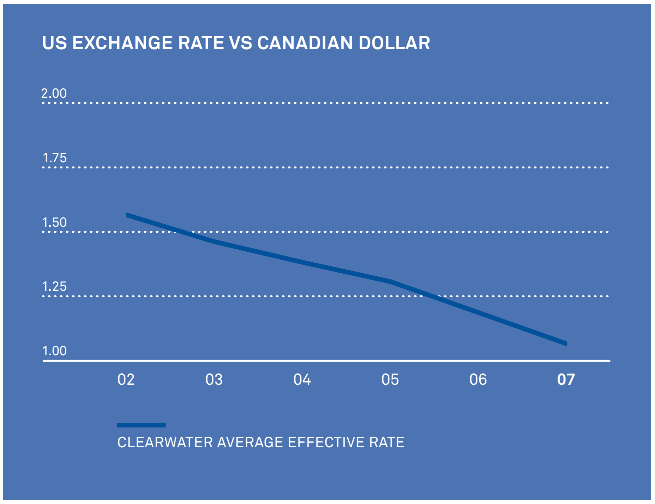
OVERALL PERFORMANCE OF CLEARWATER SEAFOODS LIMITED PARTNERSHIP

The results for the second half of 2007 demonstrated continued improvement in profit margin over the first half of the year, however distributable cash continued to be weaker than 2006 and expectations.

- First, the significant depreciation of the U.S. dollar during the year and especially in the last two quarters, negatively impacted margins by $18.1 million when current effective rates are compared to those of 2006. The fluctuating exchange rates also resulted in realized foreign exchange income of $0.9 million in 2007 on Clearwater's foreign exchange management program, a reduction of $12.1 million compared to 2006. While the Fund maintains a currency management program to mitigate the risk of exchange fluctuations, during the year foreign exchange had a $30.2 million impact on sales and distributable cash when compared to 2006.

  More than 80% of Clearwater's sales are denominated in currencies other than the Canadian dollar, whereas the majority of its expenses and all of its cash distributions are in Canadian dollars. As a result, foreign exchange fluctuations can have a material impact on Clearwater's financial results and the amount of cash available for distribution to unitholders.

- Second, Clearwater's ability to harvest clams was limited by the loss of two clam vessels, the Atlantic Pursuit in December 2006 and the Atlantic Seahunter in June of 2007. There was also the need to perform maintenance on the vessels in operation throughout the year. Clearwater is currently investing approximately $16 million to convert a vessel from its shrimp fleet into a clam vessel, with delivery expected in the second quarter of 2008. Once the vessel becomes operational in the third quarter of 2008, this investment in new harvesting capacity will result in growth in sales volumes and greater harvesting efficiencies, which will serve to boost the profitability of the clam business. The re-assignment of the vessel from the shrimp fleet is not expected to have any material impact on the shrimp business, as Clearwater anticipates that the quota will be included in a new joint venture.



The value of the U.S. dollar has a significant impact on Clearwater's financial results, with approximately 46% of 2007 sales in U.S. dollars. The average effective rate for conversion of the U.S. dollar to Canadian dollars has decreased by 10% from the prior year and 32% compared to 2002.

- And third, the scallop market in 2007 was weaker than anticipated. Clearwater was able to partially mitigate the impacts of the softer market by increasing its sales volumes by 18%, but the margins did not reflect this increased volume. The scallop market rebounded in the second half of the year as compared to the first half with increased sales volumes, however its growth was slower than had been expected and there was no increase in selling prices when converted to Canadian dollars. Nevertheless, Clearwater was able to decrease its level of inventory, as the volume of scallops sold in the fourth quarter increased significantly compared to the earlier quarters of 2007.

Given that the factors listed above led to distributable cash generated in 2007 of $13.1 million, $18.4 million short of distributions paid during the year, on January 21, 2008, the Fund suspended monthly distributions. "The Trustees will continue to monitor the distribution policy, with distributions to be determined quarterly and paid in arrears after considering the traditional criteria in determining the distribution policy," said Tom Traves, Chairman of the Trustees.

STRATEGIC REVIEW

"The Trustees recognize the importance of ensuring the Fund offers the best return for our investors. As a result, in the third quarter of 2007 we initiated a strategic review to examine various opportunities that might exist to improve unitholder value, from strategic partnerships to alternative structures for the company. We are continuing to work together with our financial advisor, BMO Nesbitt Burns, to determine the opportunities available to Clearwater given the Company's 2007 performance and the Canadian government income trust legislation that will impose a tax on all income trusts beginning in 2011. There is, of course, no certainty that any transactions or fundamental changes to Clearwater's business will result from this strategic review. However, the Trustees and Directors felt that such a detailed review was warranted given the challenges the Company faced in 2007. Regardless of the direction in which this review may take us, our primary goal will remain, as always, to maximize unitholder value," stated Tom Traves.

SUMMARY

In summary, Clearwater's 2007 gross profit was significantly impacted by a soft scallop market, considerable depreciation in the U.S. dollar, and vessel disruptions in the clam business. The stronger earnings in the lobster and shrimp businesses helped mitigate the impacts of restricted harvesting capacity in the clam business and the negative impact from foreign exchange.

"Clearwater has built its reputation over more than three decades on its ability to deliver a high quality product to its customers, regardless of what external challenges might come its way from time to time," said Colin MacDonald, Chief Executive Officer of Clearwater. "Our performance in mitigating the impacts of these factors, and continuing to supply our customers despite them, shows that we are well-equipped to return our business to the level of performance we, our customers and investors expect. We have leading-edge technology, strong quota ownership, and the industry's most committed employees and we look forward to working to deliver continuing improvements in performance for 2008."

For an analysis of Clearwater and Clearwater Seafoods Income Fund's results for the quarter and annual results, please see management's discussion and analysis and annual 2007 financial statements on Clearwater's website at www.clearwater.ca.

SELECTED ANNUAL INFORMATION

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

(In 000's except per unit amounts)	2007	2006	2005
Sales	$ 302,681	$ 315,736	$ 314,839
Net earnings	20,268	1,834	19,873
Basic net earnings per unit	0.39	0.03	0.38
Cash flow from operations before working capital investment	19,849	51,719	34,585
Distributions declared	31,499	15,837	27,635
Total assets	410,386	409,500	390,662
Long-term debt	227,564	190,260	194,445
Cash distributions on unsubordinated units	0.60	0.30	0.63

During 2007, Clearwater continued to be challenged by the impact of a strengthening Canadian dollar. Approximately 80% of Clearwater's 2007 sales were denominated in U.S. dollars, European Euro, Japanese Yen and Pound Sterling. The stronger Canadian dollar, after taking into account hedging in 2006, has effectively reduced sales dollars by an estimated $18.1 million in 2007. Clearwater maintains an active currency management program to provide a degree of certainty to future Canadian dollar cash flows with respect to sales. A significant gain of approximately $9.7 million was recorded in foreign currency and derivative income in the fourth quarter of 2007 primarily related to the unwinding of all the forward contracts in place at that time. The majority of forward contracts have been subsequently replaced by year-end.

Clearwater manages debt levels and leverage as a means of ensuring optimal cash management based on planned investment and debt maturity. Distributable cash generated in 2007 was $13.1 million ($42.4 million in 2006), $18.4 million less than what was paid out in distributions during the year; as a result, distributions were suspended in January 2008. Foreign exchange, vessel disruptions and a soft scallop market significantly impacted 2007 results and contributed to the suspension decision.

VISION, CORE BUSINESS AND STRATEGY

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

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

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

By adhering to the values and goals of each of these areas, Clearwater believes that it will realize its corporate vision and achieve strong sustainable financial results over the long-term. The 2007 results illustrate the effects of factors such as currency fluctuations and market conditions, however they also demonstrate how we employ our sound business strategies while holding to our vision to keep the focus on long-term unitholder value. It is this discipline and focus on long-term results that will enable us to ride out these challenges and return to our traditional levels of performance.

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

1. Innovation – Clearwater is a leader in developing and adopting technologies and practices that enhance both top and bottom line growth, while ensuring the sustainability of the resource base. Clearwater's efforts are directed at getting more from less.
2. Vertical Integration – By controlling the production process from harvesting to processing and from marketing to delivery, Clearwater provides quality and unsurpassed cost efficiencies to our customers.
3. Diversity of Species and Markets – Diversity has always been key to Clearwater's success. The diversity of our product offering and market positioning creates a natural hedge against downturns in any one specie or market, while enabling Clearwater to capitalize on the growing demand for premium seafood.

The key attributes of this strategy include:

- Resource ownership and management – Quota ownership is the cornerstone of Clearwater's business. From the beginning, Clearwater has invested in quota ownership to guarantee access to supply, as well as to create a defensible position in the market place. Clearwater's scale of resource ownership provides not only the security of supply, but also the scale needed to invest in leading-edge science and innovative harvesting, processing and marketing efforts. Our strategy of resource ownership depends on ensuring sustainable harvesting through responsible resource management. Clearwater has been proactive in protecting key resources through investments in science and by actively co-managing these resources in partnership with the federal Department of Fisheries and Oceans. In Argentina, our product has earned the Marine Stewardship Council certification ("MSC") and is in fact the first scallop fishery in the world to receive this rigorous independent certification. This is just one example among many of our dedication to resource management.
- Market and customer focus – Clearwater prides itself on being a global company. As demand for premium shellfish has grown, Clearwater has developed a worldwide presence. Clearwater has three representative offices in China, two sales offices in the United States, one sales office in Canada, one sales office in the United Kingdom and one representative office in Japan. In addition to Halifax, it maintains distribution facilities in London, England and Louisville, Kentucky. Clearwater's success is based on relationships with leading retailers, food processors and restaurants that understand both the need and the demand for quality in today's increasingly sophisticated market. At the same time, Clearwater mitigates risk through diversification of its customer base.
- Skilled and dedicated employees – Accomplishing Clearwater's goals depends on the skill and dedication of its employees. Clearwater's decentralized decision-making and personal accountability enhance performance, foster innovation, improve quality, increase yields and lower costs. Clearwater emphasizes customer service, quality and efficiency and invests in its 1,200 employees to further their training and create new opportunities in which they can excel.

In addition, Clearwater intends to leverage the approximately $100 million that has been invested in the past five years in modernized vessels, shore-based processing plants and licences. This contributes to increased yields, improved product quality, reduced costs, improved environmental responsiveness, and strong stewardship of the resources that Clearwater harvests.

Clearwater will also continue to develop new businesses, through the use of technology and research and development, as well as pursue acquisitions of complementary businesses and joint venture opportunities. The strategic review currently underway will also work to identify and consider strategic alternatives available to maximize unitholder value.

KEY PERFORMANCE DRIVERS

Clearwater's key performance drivers include:

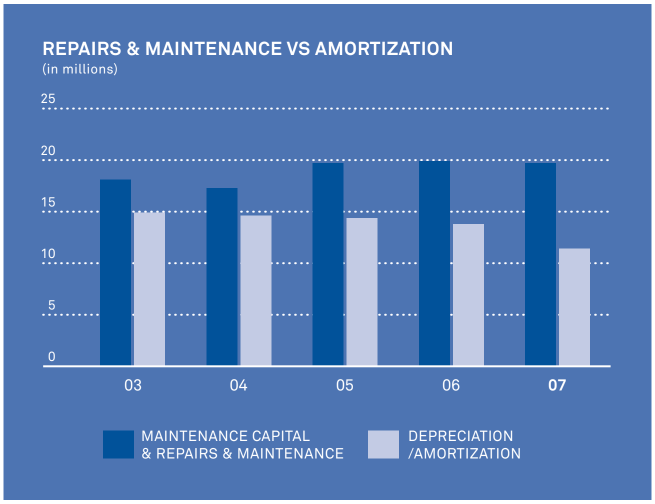
- Quota ownership and the amounts harvested and procured;
- Markets for the various species of shellfish and the related customer relationships in those markets;
- Innovation and technology, including Clearwater's ability to leverage science and technology to create new products, increase quality and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

CAPABILITY TO DELIVER RESULTS

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

The primary shellfish stocks that Clearwater relies upon are scallops (Canadian and Argentine), clams (including Arctic Surf clams, Greenland cockles and propeller clams), lobster and coldwater shrimp, which are harvested in offshore fisheries that have a limited number of participants. Clearwater harvests Canadian and Argentine scallops, clams and offshore coldwater shrimp with its own vessels. Clearwater obtains its lobster and coldwater shrimp through harvesting with its own vessels and through purchases from independent fishermen.

- The sea scallop resource and landings have been strong over the last number of years. Clearwater believes that this is a very well managed fishery.
- The Arctic Surf clam resource is stable. In addition, Clearwater has harvested and marketed the by-catch (i.e., Greenland cockles and northern propeller clams) that has been landed by the clam fleet.
- The Argentine scallop resource is strong due in part to rotational fishing efforts used to manage the resource, which ensure the scallops have adequate time to regenerate. In Argentina, our product is the first scallop fishery in the world to have earned the rigorous Marine Stewardship Council ("MSC") independent certification.
- The coldwater shrimp resource remains strong and Clearwater expects that catch rates and landings will continue at or near recent levels. The re-assignment of the vessel from the shrimp fleet is not expected to have any material impact on the shrimp business as Clearwater anticipates that the quota will be included in a new joint venture.
- The lobster resource is considered strong and landings continue to be stable. In January 2007, Clearwater purchased an additional offshore lobster licence, which should provide a return on investment in the 15–20% range.



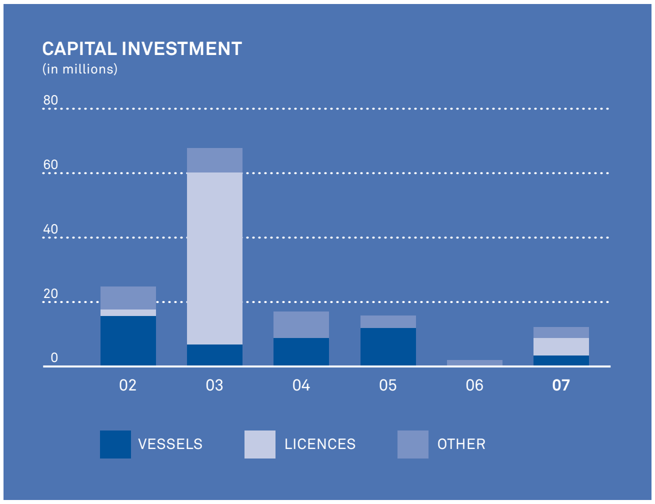
Clearwater invests substantial amounts on maintenance capital expenditures and repairs and maintenance, typically exceeding its annual depreciation expense, and is committed to ensuring its assets are kept in top condition.

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

The condition and operating capability of these vessels are paramount for Clearwater to successfully operate in its fisheries. In the past five years, Clearwater has invested approximately $31 million on its fleet and is currently investing in the conversion of a vessel for the clam business that is expected to cost $16 million and begin operating in the second quarter of 2008.

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

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



The majority of capital investment over the past five years has been in vessels and licences.

[1] The capital investment above excludes amounts that had been capitalized related to the Atlantic Seahunter that had capsized in 2007 prior to Clearwater taking delivery.

	2007	2006	2005	2004	2003	Total
Vessels[1]	$ 3,400	$ –	$ 11,800	$ 8,800	$ 6,700	$ 30,700
Plants and other	–	–	1,600	5,500	4,900	12,000
Licences	5,300	–	–	–	53,500	58,800
Maintenance capital	3,500	1,900	2,400	2,700	2,700	13,200
	$ 12,200	$ 1,900	$ 15,800	$ 17,000	$ 67,800	$114,700

[1] Please note that the amounts capitalized related to the clam vessel, the Atlantic Seahunter, that had capsized prior to Clearwater taking delivery were removed from the chart above. The amounts were:

- 2007 $3.7 million,
- 2006 $18.7 million,
- 2005 $12.8 million and,
- 2004 $10.9 million.

In addition to the amounts capitalized annually above, Clearwater historically has spent and expensed on average about $16 million a year on the maintenance of its fleet and processing plants. This reflects Clearwater's commitment to ensuring that the assets are kept in top condition, enabling it to harvest and process its allowable catch efficiently and allow for the processing of additional capacity for selective procurement when required.

The following table illustrates the amounts Clearwater has spent on an annual basis over the past five years on maintenance capital expenditures, as well as repairs and maintenance and annual depreciation and amortization expense.

	2007	2006	2005	2004	2003	Total
Maintenance capital	$ 3,500	$ 1,900	$ 2,400	$ 2,700	$ 2,700	$ 13,200
Repairs & maintenance	16,200	18,000	17,300	14,600	15,400	81,500
	$ 19,700	$ 19,900	$ 19,700	$ 17,300	$ 18,100	$ 94,700
Depreciation/Amortization	$ 11,400	$ 13,800	$ 14,400	$ 14,600	$ 14,900	$ 69,100

Vessel investments significantly impact the amount spent annually on capital expenditures. During the past 3 years, a new clam vessel had been under construction with a total investment of approximately $46 million. This vessel capsized in Taiwan prior to Clearwater taking possession in the third quarter of 2007. The result of the incident was a complete loss of the vessel for which we recovered the total cost invested through a claim filed with the shipyard. Also, during 2007, Clearwater made the decision to convert a vessel from its shrimp fleet into a clam vessel, with delivery expected in the second quarter of 2008. The expected cost is approximately $16 million. Once the vessel comes into operation in the latter part of 2008, this investment in new harvesting capacity will result in growth in sales volumes and greater harvesting efficiencies, which will serve to boost the profitability of the clam business over the next several years. The re-assignment of the vessel from the shrimp fleet is not expected to have any material impact on the shrimp business, as Clearwater anticipates that the quota will be included in the new joint venture. In 2006, capital only included maintenance capital, as this detail excludes costs associated with the Atlantic Seahunter. In 2005, Clearwater completed construction of two FAS scallop vessels that were started in 2004 and continued construction of the new clam vessel. In 2004, capital expenditures included progress payments on clam vessels; two FAS scallop vessels and the investment in a new processed lobster facility. In 2003, Clearwater acquired a significant amount of scallop and groundfish quotas and licences.

The most costly of the vessels are the factory freezers of which Clearwater has ten. These vessels are used in the harvesting of Canadian scallops, Argentine scallops, shrimp and clams. Other vessels typically do not cost as much to replace.

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

Of the ten factory vessels:

- Two were used in 2007 to harvest shrimp and were 7 years old or less. These vessels provide incremental returns compared to the technology previously used, due to greater harvesting efficiencies and lower fuel costs. At the end of 2007, one of these vessels, the Arctic Endurance, was removed from the shrimp business to be converted to a clam vessel. The re-assignment of the vessel is not expected to have any material impact on the shrimp business, as Clearwater anticipates that the quota will be included in a new joint venture.
- Four are used to harvest Canadian sea scallops with two being new in 2005 and two others being 5 years old or less. These vessels provide a return on investment well in excess of the cost of capital due to greater harvesting efficiencies compared to the technology previously used, lower costs and a new higher quality product, frozen-at-sea scallops.
- Two are used to harvest Argentine scallops with one expected to be replaced over the next few years and the second to be replaced in the next 10 years. Management estimates a new vessel would cost approximately $15 million and believes that there is opportunity to improve efficiency in this fishery through the investment in new technology as well as additional research.
- Two are used to harvest clams, with one to be retired upon the completion of the conversion of the Arctic Endurance in 2008.

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

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

EXPLANATION OF 2007 ANNUAL RESULTS

The results of operations of the Fund are entirely related to Clearwater's performance; therefore the commentary below is on the operations of Clearwater.

OVERVIEW

Clearwater's fourth quarter and year-end 2007 results indicate a continuing trend of performance improvements in key markets, but also reflect pressure caused by a number of factors, including vessel disruptions, foreign exchange and seafood market fluctuations.

The statements of earnings disclosed below reflect the audited annual earnings of Clearwater for the 52-week periods ended December 31, 2007 and December 31, 2006. The prior year has been restated to reflect the impact of the new accounting policy for refits, adopted in fiscal 2007 and applied retroactively. Please refer to the critical accounting policies section of the MD&A for further details.

In (000's)	2007	2006
Sales	$ 302,681	$ 315,736
Cost of goods sold	236,748	228,423
	65,933	87,313
	21.8%	27.7%
Administration and selling	37,818	38,245
(Gain) loss on disposal and other, net	(2,261)	2,143
Other income	(1,985)	(5,853)
Insurance claim	(4,087)	–
Foreign exchange (income) loss	(18,633)	9,990
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	2,644	2,369
	41,508	75,723
Earnings before income taxes and minority interest	24,425	11,590
Income taxes	133	4,123
Earnings before minority interest	24,292	7,467
Minority interest	4,024	5,633
Net earnings	$ 20,268	$ 1,834

NET EARNINGS

Net earnings increased by $18.4 million in 2007, due primarily to the impact of higher unrealized foreign exchange offset by a lower gross margin and lower realized foreign exchange.

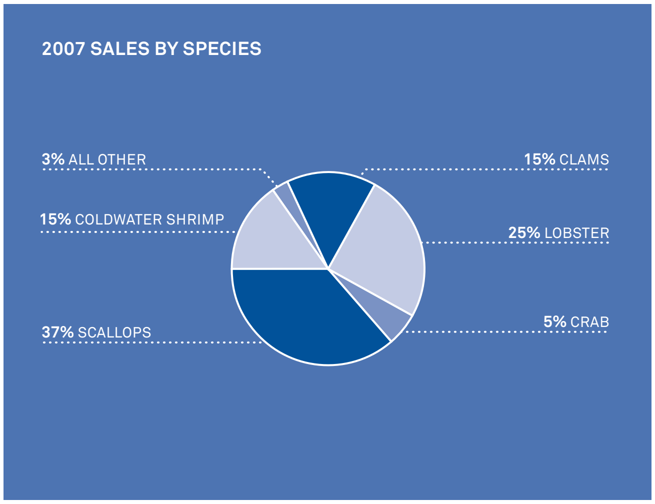
In (000's)	2007	2006	Change
Net earnings	$ 20,268	$ 1,834	$ 18,434
Explanation of changes in earnings:			
Higher unrealized foreign exchange and derivative income			40,727
Higher gain on disposal and other, net			4,404
Lower gross profit, net of insurance claim of $3.8 million			(17,580)
Lower realized foreign exchange and derivative expense			(12,104)
All other			2,987
			$ 18,434

Annual sales to customers by product category were as follows:

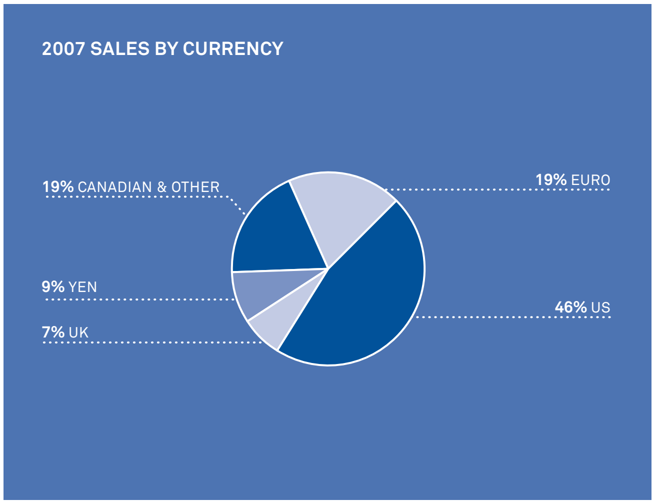
In (000's)	2007	2006	Change	%
Scallops	$ 110,589	$ 110,139	$ 450	– %
Lobster	75,894	76,236	(342)	– %
Clams	45,881	62,268	(16,387)	(26)%
Coldwater shrimp	45,577	40,406	5,171	13%
Groundfish and other	8,526	12,633	(4,107)	(33)%
Crab	16,360	7,025	9,335	133%
Hedging program	(146)	7,029	(7,175)	(102)%
	$ 302,681	$ 315,736	$ (13,055)	(4)%

Clam sales, volumes and gross profits were impacted by the loss of the Atlantic Pursuit in December 2006, for which an insurance claim of $3.8 million has been received and included in other income and the loss of the Atlantic Seahunter in June of 2007. These losses resulted in maintaining older vessels that were planned to be retired during the year. The impact on 2007 was continued vessel disruptions resulting in higher vessel costs and lower harvest volumes. Looking forward, clam sales and volumes are expected to continue to reflect the impacts of these factors until the clam fleet is updated in 2008 with the conversion of the Arctic Endurance. In order to mitigate impacts to our customers and maintain our relationships with them, we have communicated these disruptions in supply and have put plans in place to manage the shortage of volumes expected for 2008.

On June 25, 2007, the new clam vessel that was to have been delivered in the third quarter capsized prior to Clearwater taking possession of the vessel. In the third quarter we agreed to a cash settlement of $46 million with the shipyard that had been constructing the vessel for a recovery of all the construction costs invested by Clearwater. This settlement has been collected in full. This accident will delay the growth we had expected to see in the clam portion of our business until we are able to bring a replacement vessel into use. This business unit typically represents approximately 20% of annual sales.



Clearwater has a diverse product offering with no one specie representing more than 37% of 2007 sales.



Clearwater is primarily an export company with the majority of its sales dollars denominated in foreign currencies.

We are currently in the process of converting a vessel from our shrimp fleet into a clam vessel. The conversion is expected to cost approximately $16 million and delivery is expected in the second quarter of 2008. This investment in new harvesting capacity will result in growth in clam sales volumes and greater harvesting efficiencies, which will serve to boost the profitability of the clam business over the next several years. The re-assignment of the vessel from the shrimp fleet is not expected to have any material impact on the shrimp business, as Clearwater anticipates that the quota will be included in a new joint venture.

Sales levels of scallops, one of Clearwater's more profitable species, were consistent with the prior year, as an 18% increase in volume, weighted towards smaller product sizes, compared to the prior year, was offset by lower selling prices. The mix and lower prices contributed significantly to the negative variance in gross margins. While the scallop market was soft in the first half of the year, it improved in the third and fourth quarters.

Lobster sales were also consistent with the prior year as lower volume sales have been offset by higher selling prices with a different product mix as the raw lobster product accounted for approximately 25% of total lobster sales for 2007. We continue to realize the benefits of our raw lobster product and the application of technology that provides a more effective method to sort and grade our live lobster, improving margins. In addition, in January 2007, Clearwater purchased an additional offshore lobster licence and related assets which, based on recent TAC levels, should provide a favourable return on investment.

Coldwater shrimp sales were higher in 2007 compared to the prior year primarily due to a 10% increase in volumes as the prior year had experienced a scheduled refit.

Groundfish and crab sales were both impacted by a labour dispute in Glace Bay, Nova Scotia that began in March 2006 and was resolved in the second quarter of 2007. The plant is now operating on a seasonal basis producing crab, which has translated into greater sales volumes of crab compared to the prior year. The disruption impacted groundfish sales during the dispute, but did not have a material impact on earnings because the licences were rented generating royalty income.

Foreign exchange decreased the value of sales and margins by approximately $18.1 million in 2007 compared to the rates received in 2006. Higher effective rates on the Euro and Pound Sterling were offset by a lower exchange rate on the U.S. dollar.

	2007		2006	
Currency	% sales	Rate	% sales	Rate
U.S. dollar	46.4%	1.066	41.5%	1.187
Euro	18.9%	1.450	24.7%	1.441
Japanese Yen	8.5%	0.009	9.6%	0.010
UK pound	7.2%	2.120	5.9%	2.099
Canadian dollar and other	19.0%		18.3%	
	100.0%		100.0%	

In summary, 2007 sales and gross profits were lower than in 2006, primarily due to softer market conditions and sales mix for scallops, clam vessel disruptions and foreign exchange. This resulted in overall gross profits that were $21.4 million lower than those reported in 2006.

Administration and selling costs were consistent with the prior year. We have been investing in developing markets for our products in Asia, and have incurred costs to improve our processes such as our sales management information systems. In addition, in 2007 we have expensed fees and costs of approximately $800,000 related to potential acquisition activities and $250,000 related to costs associated with the strategic review. These costs were offset by reduced salaries and benefits. For 2008, management anticipates reducing administration and selling costs due to process and system improvements with tighter control over spending.

Gain on disposal and other, net is greater than the prior year result. The 2007 earnings includes a gain of approximately $4 million on the sale of non-core fishing quotas, and an amount of approximately $350,000 related to recovery of accounts receivable previously provided for. This is partially offset by write-downs of redundant assets of approximately $750,000 for equipment related to the clam business and approximately $1.5 million related to the shrimp business. The $1.5 million write-down relates to equipment removed from the shrimp vessel being converted to a clam vessel. This equipment valuation adjustment was considered when determining the return on investment for the conversion. The 2006 amount included a gain of approximately $1.2 million on the sale of non-core fishing quotas offset by a provision related to a plant previously operated in North Sydney, Nova Scotia, totalling approximately $3.1 million.

Other income is lower in 2007 mainly due to lower royalties and export rebate. In the third quarter of 2007, approximately $0.7 million of the export rebate receivable was written down due to changes in the rules for the government rebate program in Argentina. As well, quota rental and royalties were lower when compared to the prior year, as 2006 included the revenue derived from the licence rental for the quota related to the Glace Bay plant when it was not in operation.

Other income (expense) detail:	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

The insurance claim relates to one of Clearwater's clam vessels, the Atlantic Pursuit, which was damaged extensively on December 5, 2006 when it was struck by a large wave. This was an older vessel and scheduled to be retired from the fleet later in 2007, however, as a result of the damage incurred, was retired from service early. An agreement was reached with Clearwater's insurers during the first quarter, and as a result a gain of approximately $3.8 million was recorded. The vessel had a nominal book value and management has disposed of the vessel.

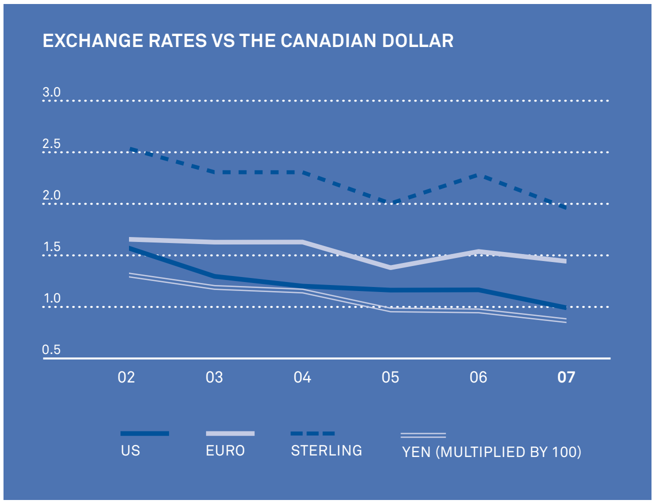
Foreign exchange and derivative contracts resulted in a gain of $18.6 million in 2007 as compared to a loss of $10.0 million in 2006. The 2007 figure includes approximately $17.7 million of unrealized exchange gains compared to $23.0 million of losses in 2006. Clearwater does not account for its foreign exchange contracts as accounting hedges, and therefore must record the mark-to-market value of the contracts each quarter, adjusting for non-cash impacts of foreign exchange on the outstanding contracts.

From a cash perspective, the fluctuating exchange rates resulted in realized foreign exchange income of $0.9 million in 2007 on Clearwater's economic hedging program, a reduction of $12.1 million compared to 2006. A significant gain of approximately $9.7 million was recorded in the fourth quarter 2007 primarily related to the unwinding of all the forward contracts in place at that time. The majority of forward contracts have been subsequently replaced by year-end. As our derivative contracts mature or are settled, gains and losses that would otherwise impact operating margins are included as foreign exchange and derivative income. Please refer to note 5 in the financial statements for a detailed listing of outstanding contracts at year-end and their fair values. As of December 31, 2007, the mark-to-market valuation was a net liability of $12.0 million versus $27.0 million at December 31, 2006.

Over the longer term, the changing Canadian dollar will continue to impact Clearwater, as approximately 80% of our sales are denominated in foreign currencies. Clearwater therefore maintains an active currency management program to provide a degree of certainty to future foreign currency cash receipts when converted to Canadian dollar cash flows with respect to sales.

Clearwater's foreign exchange management program involves the use of foreign exchange forward contracts supplemented by the use of foreign exchange options. Income generated from forward exchange derivative contracts is recognized as realized foreign exchange and derivative income when the contract is settled. Until that time, the fluctuations are recorded as unrealized foreign exchange and derivative income. Proceeds generated from derivative option contracts are included in realized foreign exchange and derivative income when the option is written. Included in other realized loss is approximately $4 million of interest payments related to the swaps associated with the Icelandic bond for 2007 ($3.8 million for 2006). The 2007 other realized loss is compounded by the foreign exchange losses on the revaluation of current assets in 2007 (and offset by the conversion in 2006).

Schedule of foreign exchange and derivative contract (income) loss:



Approximately 80% of Clearwater's sales are to the United States, Europe and Asia. The continued strengthening of the Canadian dollar against the currencies of major markets has had the effect of removing approximately $18 million from our revenue stream in 2007.

[1] For purposes of presentation, the Yen rate was multiplied by 100. The rate for the US dollar, GBP and Euro are actual rates.

In (000's)	2007	2006
Realized income		
Foreign exchange and derivative income	$ (8,159)	$ (14,834)
Other realized loss	7,223	1,794
	(936)	(13,040)
Unrealized (income) loss		
Balance sheet translation	(5,696)	(4,886)
Mark-to-market on exchange derivative contracts	(9,709)	23,880
Mark-to-market on interest and currency swap contracts	(2,292)	4,036
	(17,697)	23,030
Total (income) loss	$ (18,633)	$ 9,990

Bank interest and interest on long-term debt increased, as in 2006, $2.6 million of interest was capitalized compared to $1.5 million in 2007. Also in 2007, new debt was issued at a 7.25% interest rate. This was partially offset by the change in the method of accounting for an inflation indexed bond. Prior to 2007, interest expense included an estimate of the assumed inflation rate on the Icelandic bond. The estimated change in the liability associated with inflation indexing is included in unrealized foreign exchange and derivative contract expense for 2007.

Depreciation and amortization is lower compared to 2006 primarily due to a lower depreciable asset base in 2007, due in part to the write-down of the North Sydney plant and equipment at the end of the second quarter of 2006.

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

Income taxes have decreased compared to the prior year, partially due to lower net earnings in taxable entities along with a higher amount of tax recovery related to the clam business.

Minority interest relates to earnings from Clearwater's investment in its subsidiaries in Argentina and Newfoundland and Labrador. It was lower in 2007 than in 2006 due to lower net earnings in these businesses.

LIQUIDITY AND CAPITAL RESOURCES

Earnings before interest, tax, depreciation and amortization ("EBITDA") and leverage are not recognized measures under Canadian Generally Accepted Accounting Principles ("GAAP") and therefore are unlikely to be comparable to similar measures presented by other companies. Management believes that in addition to net income and cash provided by operating activities, EBITDA is a useful supplemental measure from which to determine the Fund's ability to generate cash available for debt service, working capital, capital expenditures, income taxes and distributions. In addition, as EBITDA and leverage are measures frequently analyzed for public companies, we have calculated the amount in order to assist readers in this review. EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of performance, as a measure of liquidity, or as a measure of cash flows, and management does not use this measure as a performance measure of earnings. Please refer to the section on definitions and reconciliations for calculation of the EBITDA and leverage referred to in this document.

CAPITAL STRUCTURE

Clearwater's capital structure includes a combination of equity and various classes 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.

Management believes that the significant cash balances currently being carried and the available credit lines provided by its bank syndicate will be sufficient to meet Clearwater's cash requirements. We use leverage, in particular senior revolving and term debt, to lower our cost of capital. The amount of senior debt available to Clearwater is a function of earnings that 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. We maintain flexibility in our capital structure by regularly reviewing forecasts of future results and making any required changes on a timely basis. These changes can include early repayment of debt, repurchasing units, issuing new debt or equity, extending the term of existing debt, selling assets to repay 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 in advance of maturity dates.

In 2008, two of the four term note series debt (note 7 (a) to the financial statements) are due, resulting in $57.6 million of debt considered current. Management intends to refinance the debt during the next two quarters with such refinancing happening as part of the strategic review currently being conducted or as a stand alone refinancing.

As at December 31, 2007, the Fund owns 54.71% (December 31, 2006 - 55.71%) of the outstanding partnership units of Clearwater. However, as Clearwater Fine Foods Incorporated ("CFFI") maintained the right to nominate the majority of the board of directors of Clearwater at the time of the initial investment by the Fund, the assets and liabilities at acquisition have been recorded using the book values as recorded by CFFI.

As at December 31, 2007, the Fund and Clearwater had similar equity/convertible debt structures as illustrated in the table below:

	Fund	Clearwater
Units		
Publicly Listed Trust Units	28,245,695	
Class A Partnership Units		28,245,695
Units Held solely by Clearwater Fine Foods Incorporated		
Special Trust Units	23,381,217	
Class B Partnership Units		23,381,217
	51,626,912	51,626,912
Convertible debentures/Class C Partnership Units		
Convertible debentures	$ 43,201,000	
Class C Partnership Units		$ 43,201,000
Convertible debentures/Class D Partnership Units		
Convertible debentures	$ 40,951,000	
Class D Partnership Units		$ 40,951,000

Clearwater also has other debt, and as a result its total capital structure is as follows as of December 31, 2007 and December 31, 2006:

In (000's)	2007	2006
a. Equity – Partnership units	$ 167,698	$ 173,079
b. Convertible debt, Class C units, due in 2010	43,201	46,430
c. Convertible debt, Class D units, due in 2014	40,951	–
d. Non-amortizing debt		
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		
Marine mortgage	4,911	5,584
Other loans	1,339	1,643
	6,250	7,227
Deficit	(33,909)	(22,761)
	$ 361,353	$ 304,578

a. Equity consists of Class A Limited Partnership units, Class B General Partnership units and an equity portion of Class C Partnership units and Class D Partnership units. Both Class A and Class B units are equally eligible for any distributions that are declared by Clearwater. The Class B Partnership units were issued concurrent with **Special Trust Units** that were issued by the Fund solely to provide voting rights to Clearwater Class B Partnership units held by CFFI.

b. Convertible debt - In June 2004, 4,081,633 **Class C** units were issued by Clearwater (indirectly) to the Fund concurrently with the issue by the Fund of $50 million of convertible debentures ($45 million in principal outstanding as at December 31, 2007 due to buybacks under a normal course issuer bid) to fund capital projects. The Class C units are non-voting, redeemable and retractable at a price of $12.25 per unit. These units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the convertible debentures of the Fund and in a manner that ensures that the distributions on the Class C units will be able to (indirectly) fund the ongoing interest payments on the convertible debentures. The Class C units are classified in accordance with their component parts: the value ascribed to the holders' option to convert to units, $882,000 on issuance, was classified as equity and the remaining portion of the units was classified as debt. As noted previously, Clearwater has repurchased some of this debt such that at December 31, 2007, the face value of the debt outstanding was $45 million, $43 million net of financing charges and option to convert (December 31, 2006 - $46 million, net of option to convert, with no netting against financing charges). The **convertible debentures** issued by the Fund are unsecured and subordinated, bear interest at 7%, and are due on December 31, 2010. They are convertible at any time up to maturity, at the option of the holder into trust units of the Fund at a conversion price of $12.25 per trust unit. The debentures pay interest semi-annually in arrears on June 30 and December 31. The debentures are not redeemable before December 31, 2007. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering that number of trust units equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash.

c. Convertible debt - On March 9, 2007, 7,372,881 and on April 10, 2007, an additional 769,831 **Class D units** were issued for proceeds of $48 million. Class D units were issued by Clearwater (indirectly) to the Fund concurrently with the issue by the Fund of $48 million of convertible debentures, ($3.7 million due to buybacks under a normal course issuer bid) $44 million net of financing charges and option to convert, to fund potential acquisitions. 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 (indirectly) 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 units, $1,579,000, has been classified as equity and the remaining portion of the units has been classified as debt. The **convertible debentures** issued by the Fund are unsecured and subordinated, bear interest at 7.25%, and are due on March 31, 2014. They are convertible at any time up to maturity, at the option of the holder, into trust units of the Fund at a conversion price of $5.90 per trust unit. The debentures pay interest semi-annually in arrears on March 31 and September 30. The debentures are not redeemable before March 31, 2010. 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.

d. Non-amortizing debt - In addition to the convertible debentures and Class C and D Partnership units, Clearwater has additional primary debt facilities. These facilities include approximately $82 million in **five and ten year notes** in Canadian and U.S. dollars from a syndicate of five institutional lenders (including U.S. $20 million that was available to be drawn at market rates until late 2007) due in 2008 and 2013 and 2,460 million ISK in **five-year bonds**. The 2,460 million ISK bonds yield 6.7%, are adjusted for changes in the Icelandic consumer price index (CPI), mature in 2010 and are unsecured. These bonds have been fully swapped into Canadian, U.S., Euro and Pound Sterling debt with floating interest rates. The bond is recorded in long-term debt at $38.2 million along with $6.1 million of accrued interest and $7.1 million of accrued CPI, both of which are completely offset by swap contracts. The mark-to-market adjustment related to the bond as of December 31, 2007 is an asset of $0.9 million.

During the second quarter, Clearwater renegotiated the terms and maturity of its $60 million **revolving term debt facility** from a syndicate of banks. This facility was not drawn upon at December 31, 2007. This 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.

As part of its strategy to manage its capital structure, the Fund filed a normal course issuer bid by which it can acquire up to $4.8 million principal amount of 2007 convertible debentures and $4.5 million principal amount of 2004 convertible debentures in the 12-month period ending August 2008. This is accompanied by a similar agreement by Clearwater to repurchase Class C Partnership units. Under a previously filed normal course issuer bid that expired August 2007, a total of $5 million of the Class C units have been repurchased ($3 million in fiscal 2006, $1 million in the first quarter of 2007, and $1 million in the third quarter of 2007) and cancelled and the proceeds were used to repurchase and cancel an equivalent amount of convertible debentures. Under the current normal course issuer bid, approximately $3.7 million of the Class D units have been repurchased and cancelled, with the proceeds used to repurchase and cancel an equivalent amount of convertible debentures.

The Board of Trustees believes that repurchase of the Fund's units, from time to time, may represent an attractive opportunity to realize additional unitholder value and that the purchase of units would be an appropriate and desirable use of the Fund's available resources. Therefore, on January 24, 2007, the Fund received approval for a normal course issuer bid which enabled it to purchase, from time to time, up to 2.5 million outstanding trust units, which amount represented less than 10% of the public float. Any such purchases of units were to be made during the 12-month period commencing on January 24, 2007, and in accordance with the requirements of the TSX. The units were to be purchased by the Fund for cancellation and accompanied by a similar repurchase of units by Clearwater. Purchases were to be made at market prices through the facilities of the TSX, and to be funded out of the Fund's available cash and through borrowings under its existing credit facility (subject to receiving the approval of its lenders). For 2007, the Fund repurchased and cancelled 1,162,100 units at a cost of approximately $5.6 million. The transactions resulted in decreasing the unit value outstanding by $11.8 million and increasing contributed surplus by $6.2 million.

Subsequent to December 31, 2007, 500,000 units were repurchased and cancelled.

Clearwater is in compliance with all of the non-financial and financial covenants associated with its debt facilities. These covenants include, but are not limited to, leverage ratios against earnings (excluding most significant non-cash items and non-recurring items from earnings) and fixed charge ratios that can limit the amount of distributions paid. Subsequent to year-end, the terms of a lending agreement were amended resulting in additional conditions on the amount of distributions that can be declared in 2008. In addition, the debt related to these facilities takes priority over the securities in Clearwater held by the Fund. Due to the items previously noted that impacted results in 2007, earnings were unusually low, and in turn, leverage has increased as at December 31, 2007 when compared to December 31, 2006. Clearwater will continue to monitor and manage debt levels based on business needs and opportunities.

WORKING CAPITAL AND CASH FLOWS

As of December 31, 2007 there is a significant cash position on the balance sheet in the amount of $70.9 million. This cash balance is intended to be used to fund planned capital expenditures related to the conversion of the Arctic Endurance and the purchase of groundfish quota, as well as to reduce existing debt balances as appropriate.

Working capital position, excluding derivative financial instruments, has improved compared to 2006, due to the changes in accounts receivable and inventory levels. When considering the change in inventory levels, it is important to note that the reduction is impacted by the mix of product as lower levels of live lobster and clam inventories were offset by higher volumes of scallop inventory.

CASH FLOWS

SUMMARIZED CASH FLOW INFORMATION

For the years ending December 31, 2007 and December 31, 2006. See statements of cash flows for more detail.

In (000's)	2007	2006
Cash flow from operations (before change in working capital)	$ 19,849	$ 51,719
Investing, financing, and change in non-cash working capital		
Change in non-cash working capital and foreign exchange loss on cash held in foreign currency	7,080	(7,071)
Other investing activities	(1,042)	1,817
Capital expenditures (net of proceeds on sale)	(10,077)	(18,748)
Distributions to unitholders	(31,557)	(13,198)
Distributions to minority partner	(3,893)	(6,125)
Purchase of units	(5,583)	–
Vessel settlement	46,000	–
Other	(313)	1,263
	615	(42,062)
Increase in long-term debt, net of cash	$ 20,464	$ 9,657

During 2007, funded debt (net of cash balances) has increased by approximately $20 million.

Cash flows generated by Clearwater along with its banking facilities are used to fund current operations, seasonal working capital demands, capital expenditures, other commitments and distributions to unitholders. Due to the seasonality in Clearwater's business, sales and gross profit are typically higher in the second half of the calendar year than in the first half of the year. Inventories reach a seasonal peak in the summer due to better weather for harvesting, resulting in seasonal demands on working capital.

CAPITAL EXPENDITURES

Capital expenditures were $16.0 million (2006 - $20.6 million). Of this amount, $12.5 million (2006 – $18.7 million) was considered return on investment ("ROI") capital and $3.5 million (2006 – $1.9 million) was maintenance capital. ROI and maintenance capital are tracked on a project-by-project basis. The only ROI project as of December 31, 2007 was the conversion of the shrimp vessel to a clam vessel. Significant expenditures that are expected to have an average return in excess of average cost of capital are classified as ROI, and expenditures that have less than the average cost of capital are classified as maintenance.

During the third quarter, Clearwater reached an agreement with the shipyard that had been constructing the new clam vessel that capsized in June 2007, for a cash settlement of $46 million. The full amount of this settlement has been collected. We are currently in the process of converting a vessel from our shrimp fleet into a clam vessel. The conversion is expected to cost approximately $16 million with delivery expected in the second quarter of 2008. This investment in new harvesting capacity will result in growth in sales volumes and greater harvesting efficiencies, which will serve to boost the profitability of the clam business over the next several years. The impact of removing this vessel from the shrimp business is expected to be immaterial, as we anticipate that the quota will be included in a new joint venture.

Clearwater is reviewing its options with regards to the vessel status in Argentina and plans to perform a major refit on one of its vessels, increasing the life of the vessel and delaying the need to replace a vessel by approximately two years. We expect to move forward with this project in 2009.

COMMITMENTS AND OTHER LONG-TERM OBLIGATIONS

In addition to capital expenditures and derivative contracts previously disclosed, as at December 31, 2007, Clearwater had commitments for long-term debt, operating leases and other long-term obligations, as follows:

CONTRACTUAL OBLIGATIONS

Payments due by year	Long-term debt	Operating leases	Other obligations	Total
< 1 year	58,779	3,757	–	62,536
< 2 years	1,122	2,755	–	3,877
< 3 years	95,473	2,252	–	97,725
< 4 years	880	2,148	–	3,028
< 5 years	867	2,129	–	2,996
> 5 years	70,443	1,993	2,166	74,602
Total	227,564	15,034	2,166	244,764

Further details on these obligations are disclosed in the notes to the annual consolidated financial statements. Amounts in years less than 1 and 3 are high as non-amortizing term credit facilities are scheduled for renegotiation.

In addition to the commitments noted above, Clearwater has commitments surrounding the conversion of the shrimp vessel to a clam vessel in the amount of $10 million and has a $10 million commitment made in the third quarter of 2007 related to groundfish quota that received government approval in 2008.

DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

(Please refer to the definitions and reconciliation section of the MD&A for the reconciliation from cash flows from operations to distributable cash.)

Distributable cash does not have any standardized meaning prescribed by Canadian GAAP and therefore is unlikely to be comparable to similar measures presented by other companies. This provides guidance to readers seeking to assess the sustainability of distributions by comparing distributions paid to the amount of distributable cash. As distributable cash is a measure frequently analyzed for income trusts, we have calculated the amount in order to assist readers in this review. However, distributable cash should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of performance, as a measure of liquidity, or as a measure of cash flows, and management does not use this measure as a performance measure of earnings. Management uses distributable cash as a measure of cash generated by Clearwater available for distribution to unitholders without eroding Clearwater's production capacity.

In 2007, Clearwater generated $13.1 million of distributable cash (2006 - $42.4 million) and declared distributions of $31.5 million (2006 - $15.8 million). Please refer to the distributable cash reconciliation included in this document for detailed reconciliations of these amounts.

As discussed above, the more significant factors that impacted earnings in 2007 included soft scallop market conditions, clam vessel disruptions and foreign exchange. The impact of these factors reduced distributable cash generated in 2007 by $29.3 million as compared to 2006.

When determining the level of distribution payment, the Trustees consider the financial results, on-going capital expenditure requirements, leverage, covenants and expectations regarding future earnings. Future earnings can be impacted by a number of factors including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates and fuel costs. An update on those factors is as follows:

- Current financial results – 2007 was impacted by market conditions, clam vessel disruptions and foreign exchange, with these factors reducing distributable cash generated by $29.3 million as compared to 2006.

  As of December 31 2007, EBITDA and distributable cash, excluding the impact of non-cash foreign exchange, have declined compared to 2006 with the rolling four quarters' EBITDA and distributable cash being $37.4 million and $13.1 million respectively, as compared to $65 million and $42.4 million for 2006.

- Capital expenditures – Clearwater currently has two significant capital projects in process; the conversion of a vessel for its clam fleet and a $10 million commitment for the purchase of turbot quota. The vessel will cost approximately $16 million and is expected to be complete in the second quarter of 2008.

  Clearwater has spent approximately $31 million on its fleet in the past five years. This has allowed it to implement changes to improve profitability through the use of new technology and a younger fleet. For greater details on Clearwater's strategy for capital replacement, a 5-year history of capital expenditures as well as information on Clearwater's strategy in maintaining its assets, please refer to the Capability to Deliver Results section.
- Leverage and financial covenants – Due to the items previously noted that impacted 2007's results, leverage has increased compared to December 31, 2006. However, it is important to note that Clearwater's lending covenants exclude large non-cash items from EBITDA calculations and subordinated debt. Clearwater is in compliance with all of the non-financial and financial covenants associated with its debt facilities. Subsequent to year-end, the terms of the lending agreement were amended resulting in additonal conditions on distributions that can be declared for 2008. Please see the Definitions and Reconciliations section at the end of this report for the calculation of leverage.
- Expectations regarding future earnings – Management expects 2008 to continue to show improvement compared to 2007. Management believes that with the expansion of the clam fleet in 2008, Clearwater will continue to grow and to generate positive cash flows and increase profit margins. They also anticipate that 2008 will experience a higher Canadian scallop total allowable catch, improved profit in the lobster business and reduced overhead costs.

The Fund announced on January 21, 2008 that, having declared distributions of $0.60 per unit in 2007 and having distributed cash in excess of the amounts generated, it would suspend monthly cash distributions. The Trustees and Directors have also agreed that upon reinstatement, if Clearwater remains in its current structure, distributions will be determined quarterly and paid in arrears after considering the traditional criteria in determining the distribution policy. This distribution policy change will not impact Clearwater's outstanding convertible debentures. Clearwater will continue to pay interest semi-annually on the convertible debentures at their regularly scheduled dates.

The Trustees have appointed BMO Nesbitt Burns as their financial advisor for the strategic review. The objective of the strategic review, which commenced during the fourth quarter of 2007, is to identify and consider strategic alternatives available to maximize unitholder value. 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 the news release announcing the appointment of BMO Nesbitt Burns as the financial advisor for the strategic review, Stan Spavold, Executive Vice-President of CFFI stated, "Clearwater remains an important strategic investment for CFFI and we continue to believe in the long-term prospects of the business. We have come to the belief that the current structure of CSLP is inhibiting the ability of CSLP to grow and respond to its current challenges."

Clearwater has a large depreciable asset base and some of the business units are incorporated. As a result, some of our distributions are treated as return of capital for tax purposes and are not taxable to the unitholder, and some are taxed as dividend income and are taxable to unitholders. The following table summarizes the history of the taxation of distributions.

Taxation year	Return of capital	Dividend income	Other income
2002 per $ of distribution	62%	4%	34%
2003 per $ of distribution	45%	20%	35%
2004 per $ of distribution	62%	3%	35%
2005 per $ of distribution	52%	–	48%
2006 per $ of distribution	32%	–	68%
2007 per $ of distribution	23%	76%	1%

SUMMARY OF DISTRIBUTABLE CASH AND OTHER KEY FIGURES

In (000's)	13 weeks ended December 31, 2007	Year ended December 31, 2007	Year ended December 31, 2006	Year ended December 31, 2005
Cash flow from operations	$ 28,478	$ 26,547	$ 44,612	$ 36,142
Net earnings (loss)	(4,843)	20,268	1,834	19,873
Distributions declared	7,807	31,499	15,837	27,367
Distributable cash	12,598	13,084	42,351	27,205
(Shortfall) excess of distributable cash over distributions declared	4,791	(18,415)	26,514	(162)
(Shortfall) excess of cash flows from operating activities over distributions declared	20,671	(4,952)	28,775	8,775
(Shortfall) excess of net income over cash distributions declared	(12,650)	(11,231)	(14,003)	(7,494)

Cash on hand along with cash flow from operations were used to fund the distributions for 2007. Distributions have been suspended effective for January 2008. When considering Clearwater's ability to reinstate distributions, the Trustees will weigh considerations including, but not limited to, the current financial conditions, capital expenditures, leverage and expectations for future earnings.

In July 2007, the Canadian Institute of Chartered Accountants ("CICA") released guidance on the calculation and disclosure for distributable cash in which it requires a calculation of "Standardized Distributable Cash" and allows a calculation of "Adjusted Standardized Distributable Cash". Adjusted Standardized Distributable Cash is consistent with the calculation we have always provided and therefore for the purposes of our report we refer to it as "distributable cash".

EXPLANATION OF FOURTH QUARTER RESULTS

Consolidated Operating Results for the thirteen weeks comprising the fourth quarter, in thousands of Canadian dollars. The prior year has been restated to reflect the impact of the new accounting policy for refits, adopted in fiscal 2007 and applied retroactively. Please refer to the critical accounting policies section of the MD&A for further details.

The results of operations of the Fund are entirely related to Clearwater's performance and therefore the commentary below is on the operations of Clearwater. The statements of earnings disclosed below reflect the unaudited interim earnings of Clearwater for the 13-week periods ended December 31, 2007 and December 31, 2006.

	2007	2006
Sales	$ 77,720	$ 84,136
Cost of goods sold	61,642	64,229
Gross profit	16,078	19,907
	20.7%	23.7%
Administration and selling	9,196	10,915
Loss (gain) on disposal of licences and other, net	1,466	(55)
Other income	(1,239)	(1,093)
Insurance claim	(90)	–
Foreign exchange and derivative loss	2,172	20,799
Bank interest and charges	153	257
Interest on long-term debt	4,700	3,222
Depreciation and amortization	2,639	3,568
Reduction in foreign currency translation account	854	672
	19,851	38,285
Loss before income taxes and minority interest	(3,773)	(18,378)
Income tax expense (recoverable)	591	(567)
Loss before minority interest	(4,364)	(17,811)
Minority interest	479	904
Net loss	$ (4,843)	$ (18,715)

NET LOSS

The net loss decreased by $14.2 million in the fourth quarter of 2007.

	2007	2006	Change
Net loss	$ (4,843)	$ (18,715)	$ 13,872
Explanation of changes in earnings:			
Lower unrealized foreign exchange and derivative loss			11,559
Higher realized foreign exchange and derivative income			7,068
Lower gross profit			(3,829)
All other			(926)
			$ 13,872

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

	2007	2006	Change	%
Scallop	$ 34,574	$ 26,558	$ 8,016	30%
Lobster	21,186	22,441	(1,255)	(6%)
Clams	9,397	16,301	(6,904)	(42%)
Coldwater shrimp	9,484	14,360	(4,876)	(34%)
Groundfish and other	1,522	1,845	(323)	(18%)
Crab	1,557	1,348	209	16%
Hedging program	–	1,283	(1,283)	(100%)
	$ 77,720	$ 84,136	$ (6,416)	(8%)

Scallop sales were higher in the fourth quarter of 2007 compared to the same period in the prior year, indicating improvement in market conditions, which had been soft in the first half of 2007. Sales increased in the quarter compared to 2006 due to a 72% higher sales volume with lower selling prices and product mix weighted more in smaller product classes offsetting the majority of the benefit of the higher volumes.

Lobster sales are relatively consistent with the prior year. We continue to realize the benefits of our raw lobster product and the application of technology that provides a more effective method to sort and grade our live lobster, improving margins. In addition, in January 2007, Clearwater purchased an additional offshore lobster licence and related assets, which, based on recent TAC levels, should provide a favourable return on investment. In the fourth quarter of 2007, the lobster volumes were negatively impacted by higher than normal shore prices and the impact of a slower market in North America.

Clam sales in the fourth quarter were significantly lower than the prior year due to lower volumes; however, this was partially offset by higher selling prices and a more profitable product mix. The loss of the Atlantic Pursuit in December 2006 and the Atlantic Seahunter in June of 2007 along with the continued vessel disruptions resulted in significantly lower harvest and sales volumes in the fourth quarter of 2007. The impact of these disruptions will continue to be felt into 2008, as volumes are expected to continue to be low until the clam fleet is expanded.

Coldwater shrimp sales are lower than the prior year primarily due to lower volumes. This is due to the removal of one of the shrimp vessels from the fleet in the fourth quarter so that it could be converted to a clam vessel. The re-assignment of the vessel from the shrimp fleet is not expected to have any material impact on the shrimp business, as Clearwater anticipates that the quota will be included in a new joint venture.

Crab sales were consistent with the prior year as both the Highland plant in Glace Bay and the St. Anthony plant in Newfoundland that process crab are operated on a seasonal basis and were not in operation for the majority of the fourth quarter. The Highland plant was not in operation in the prior year due to a labour dispute in Glace Bay, Nova Scotia that began in March 2006 and was resolved in the second quarter of 2007.

There is no hedging income in 2007. Due to the increasing complexity of applying accounting standards, Clearwater stopped designating its foreign exchange derivative contracts as hedges for accounting purposes as of April 2, 2006. This has had the impact of reducing sales and margins compared to the prior year, as gains or losses on derivative contracts are included below the gross profit line as opposed to being included in sales.

In summary, sales for the quarter were $6.4 million less than in 2006, as lower sales in both clams and shrimp due to reduced volumes were partially offset by increased scallop sales.

Foreign exchange reduced sales and margins by approximately $7.5 million in the fourth quarter of 2007 when compared to the rates received in the fourth quarter of 2006.

	2007		2006	
Currency	% sales	Rate	% sales	Rate
U.S. dollar	39.9%	0.986	42.7%	1.175
Japanese Yen	6.7%	0.009	8.8%	0.009
Euros	27.1%	1.419	22.1%	1.485
UK pounds	8.7%	2.006	6.6%	2.189
Canadian dollar and other	17.6%		19.8%	
	100.0%		100.0%	

Clearwater maintains an active hedging program to provide a higher degree of certainty to future Canadian dollar cash flows. For additional detail please refer to note 5 in the financial statements.

Administration and selling costs are lower in the quarter than they were in the similar quarter of the previous year as the bonus expense was lower in 2007.

Loss (gain) on disposal of licences and other, net includes a write-down of approximately $1.5 million in 2007 on equipment related to the shrimp business. This write-down was considered when analyzing the return on the project.

Other income is relatively consistent with the prior year, as outlined in the table below, with lower export rebates out of Argentina offset by higher other sources of revenue.

OTHER INCOME DETAIL FOR THE QUARTER

In (000's)	2007	2006
Investment income	$ 531	$ 252
Export rebate	78	416
Quota rental and royalties	–	27
Other	630	398
	$ 1,239	$ 1,093

Foreign exchange and derivative contract loss was $2.2 million in 2007 versus $20.8 million in 2006. From a cash perspective, the business generated $9.9 million of cash from foreign exchange management in the fourth quarter of 2007 versus $2.8 million in 2006. The significant gain in the fourth quarter primarily related to the unwinding of all the forward contracts in place at that time resulting in a gain of approximately $9.7 million. The majority of forward contracts have been subsequently replaced by year-end. The other realized amount includes approximately $1 million of interest payments related to the Icelandic bond and the revaluation of current foreign denominated net assets.

FOREIGN EXCHANGE AND DERIVATIVE CONTRACT DETAIL FOR THE QUARTER

In (000's)	2007	2006
Realized (income) loss		
Foreign exchange derivatives	$ (15,018)	$ (2,247)
Other realized	5,154	(549)
	(9,864)	(2,796)
Unrealized (income) loss		
Foreign exchange on balance sheet	(910)	2,525
Mark-to-market on foreign exchange derivative contracts	11,426	19,407
Mark-to-market on interest and currency swap contracts	1,520	1,663
	12,036	23,595
Total exchange loss	$ 2,172	$ 20,799

Bank interest and interest on long-term debt increased compared to 2006. The prior year included $0.7 million of interest that was capitalized. In addition, interest costs were higher in 2007 due to new convertible debentures that were issued in the first quarter of 2007. This increase was partially offset by a change in the method of accounting for an inflation indexed bond. Prior to 2007, interest expense included an estimate of the assumed inflation rate on the Icelandic bond. The estimated change in the liability associated with inflation indexing is included in foreign exchange and derivative contract expense for 2007.

Depreciation and amortization is lower compared to the fourth quarter of 2006 primarily due to a lower depreciable asset base in 2007.

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

Income taxes have increased compared to the prior year, partially due to the fact that in 2006 there was a higher amount of future tax recovery related to the clam business.

OUTLOOK

Clearwater weathered a very challenging year and experienced a number of external factors simultaneously impacting the business. Foreign exchange negatively impacted sales and earnings by $30.2 million. The clam business was impacted by the loss of two vessels and having to maintain two older vessels. We also experienced a slower scallop market compared to the prior year. However, Clearwater remains well-positioned to build on our three decades as a Canadian leader in the global seafood business.

Having suspended monthly distributions effective for January 2008, due to lower distributable cash generated in 2007, Clearwater will continue to monitor its financial position on a regular basis. At the same time, the Trustees and special committee are committed to thoroughly examining all the options available, to maximize unitholder value and foster long-term growth, through the strategic review that we announced in the fourth quarter of 2007.

Management continues to believe there is strong potential for growth in the clam business as this business is far stronger and much better organized and coordinated from the vessel to the market. With the delivery of the new clam vessel in 2008, combined with the ocean bottom mapping technology, the clam business will begin to realize the returns of these investments in 2008 and beyond. We also anticipate that we will experience a higher Canadian scallop total allowable catch, improved profit in the lobster business and reduced overhead costs. All this provides opportunity for improved results in 2008.

We hold significant quotas in key species, have leading-edge, innovative harvesting and processing technologies and we are vertically integrated. Our business strategies to deliver long-term value are sound.

We have an outstanding and dedicated workforce, excellent quota positioning and global customer relationships that span decades and we look forward to taking up the opportunities that 2008 will bring.

RISKS AND UNCERTAINTIES

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

RESOURCE SUPPLY

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

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

FOREIGN EXCHANGE

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

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

Clearwater's sales denominated in U.S. dollars were approximately 46.4% of annual sales in 2007. Based on 2007 sales, a change of 1% in the U.S. dollar rate converted to Canadian dollars would result in a $1.4 million change in sales and gross profit. In addition, approximately 18.9% of 2007 annual sales were denominated in Euros. Based on 2007 sales, a change of 1% in the Euro rate as converted to Canadian dollars would result in a $0.5 million change in sales and gross profit. Also, 8.5% of 2007 annual sales were denominated in Japanese Yen. Based on 2007 annual sales, a change of 1% in the Yen rate as converted to Canadian dollars would result in a change of $0.25 million in sales and gross profit.

FOOD PROCESSING RISKS

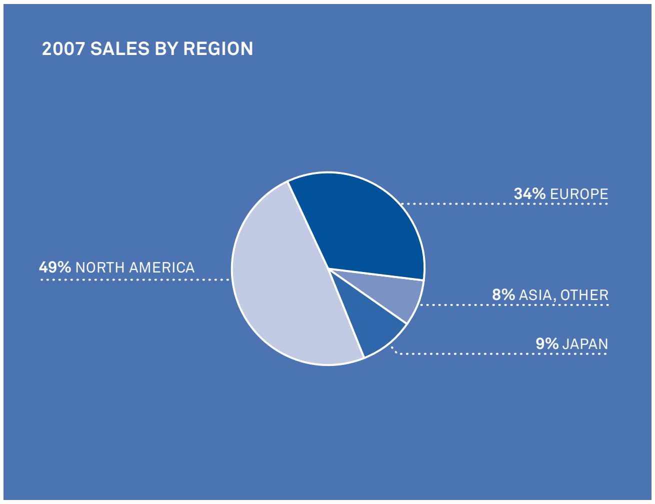
Clearwater's food processing operations are subject to federal, provincial and local food processing controls, and may be impacted by consumer product liability claims, product tampering, and the possible unavailability and/or expense of liability insurance. A determination by applicable regulatory authorities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

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

SUPPLIERS, CUSTOMERS AND COMPETITION

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

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



Clearwater's broad geographical presence allows us to distribute products to a wide range of markets and customers.

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

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

INPUT COSTS

Clearwater used approximately 30 million litres of marine fuel oil in 2007. A change of one cent in the price of marine fuel oil would result in a change of approximately $300,000 to annual harvesting expenses.

TRANSACTIONS WITH RELATED PARTIES

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

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

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

The following is a summary of the balances due to and from joint venture partners 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	2,166	2,280

As at December 31, 2007, Clearwater was contingently liable for the obligations of the joint venture partners in the amount of $4.9 million (2006 - $5.6 million). However, the joint venture partner's share of the assets is available for the purpose of satisfying such obligations. The book value of these assets is $17.9 million (2006 - $15.7 million).

In addition to the transactions and balances associated with related parties disclosed above, Clearwater had the following transactions and balances with Clearwater Fine Foods Incorporated 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
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 (2006 – $81,000) by companies controlled by a relative of an officer of Clearwater.

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

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

CRITICAL ACCOUNTING POLICIES

Clearwater's critical accounting policies are those that are important to the portrayal of Clearwater's financial position and operations and require management to make judgments based on underlying estimates and assumptions about future events and their effects. Underlying estimates and assumptions are based on historical experience and other factors that are believed by management to be reasonable under the circumstances. These estimates and assumptions are subject to change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes. Refer to the annual report for a complete listing of critical accounting policies and estimates used in the preparation of the consolidated financial statements.

IMPACT OF RECENTLY ADOPTED ACCOUNTING POLICIES

Due to the increasing complexity of applying accounting standards, as well as the requirement to adopt the Comprehensive Income accounting standard in the future, Clearwater no longer designates contracts as hedges for accounting purposes, effective April 2, 2006. 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, all contracts were marked-to-market each reporting period and any gains or losses, both realized and unrealized, were included in foreign exchange income.

During the course of the quarter, Clearwater reviewed all new accounting standards issued by the CICA in order to determine the impact of the new standards, if any.

IMPACT OF ACCOUNTING POLICIES ADOPTED IN 2007:

Financial instruments and comprehensive income

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.

(a) Financial Instruments

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. Other financial liabilities are initially measured at cost or at amortized cost depending on 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 requires 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 has 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 the opening retained earnings for January 1, 2007. This related to 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.

(b) 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".

(c) Additional Disclosure

The financial statements include additional disclosure regarding financial instruments. Note 5 (b) includes a summary of the net asset/liability position based on the type of derivative contract outstanding as of the end of the year. As well, the quarterly financial statements include the expanded note previously only included in the annual financial statements.

Refit accruals

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

In the absence of specific guidance in Canada on this topic, we believe it appropriate to follow FASB AUG AIR-1, and therefore adopted this standard on January 1, 2007. As a result of adopting this standard, we have reduced opening refit accruals by $4.9 million, reduced future tax assets by $295,000, increased future tax liability by $260,000 and reduced the opening deficit by $4.3 million. This change in policy will result in more variability in earnings, as refit expenses were previously amortized over a period of years and now will be expensed as incurred. This policy has been applied retroactively. As a result, $4.8 million has been expensed in 2007 ($3.3 million in 2006).

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

Future Income Tax and other

The Fund recorded a future income tax expense of $34 million in the second quarter of 2007, accounting for the largest change in the Fund's net income (loss) quarter-over-quarter and on a year-to-date basis in 2007 relative to the prior year. The second quarter expense reflects the impact of the trust tax legislation. With the June 2007 substantive enactment of Bill C-52, a new 31.5 per cent tax will be applied to distributions from Canadian public trusts starting in 2011. As a result, the Fund recorded a $34 million future income tax expense and corresponding future income tax liability related to the differences between the accounting and tax basis of the Fund's and underlying partnership's assets. Prior to this legislation, the Fund did not record future income taxes, as it was not subject to income tax. While net income in the second quarter of 2007 was reduced significantly by this future income tax adjustment, there was no impact on cash from operating activities. On October 30, 2007, the Canadian Federal Government announced changes to the tax rates that will reduce the proposed tax applied to distributions for Canadian public income trusts from 31.5 per cent to 29.5 per cent in 2011 and 28.5 per cent for 2012 and going forward.

IMPACT OF STANDARDS TO BE ADOPTED IN THE FUTURE

Inventory

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.

International Financial Reporting Standards ("IFRS")

Effective January 1, 2011, Canadian GAAP will converge with IFRS. At this time, financial reports will be based on IFRS and will require comparative information. We are currently in the process of developing and implementing a plan to ensure Clearwater is prepared to meet the requirements of the new accounting guidelines. Due to the complexity of the new guidelines it is difficult to determine the impact at this time. As we develop further in the process, any significant impacts will be reported on a timely basis.

SUMMARY OF QUARTERLY RESULTS

The following financial data provides historical data for the twelve most recently completed quarters. Please note that the first, second, third, and fourth quarters of 2006 have been restated for the change in refit policy.

(In 000's except per unit amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2007				
Sales	$ 59,095	$ 75,311	$ 90,555	$ 77,720
Net earnings (loss)	3,668	12,120	9,323	(4,843)
Basic earnings (loss) per unit	0.07	0.23	0.18	(0.09)
Fiscal 2006				
Sales	$ 70,349	$ 81,312	$ 79,939	$ 84,136
Net earnings (loss)	1,634	10,407	8,507	(18,714)
Basic earnings (loss) per unit	0.03	0.22	0.16	(0.35)
Fiscal 2005				
Sales	$ 67,359	$ 69,712	$ 93,548	$ 84,220
Net earnings	1,645	1,371	12,136	4,721
Basic earnings per unit	0.03	0.03	0.23	0.09

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

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

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

DEFINITIONS AND RECONCILIATIONS

DISTRIBUTABLE CASH

Distributable cash does not have any standardized meaning prescribed by Canadian GAAP and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes that distributable cash is a useful supplemental measure, as it provides an indication of cash available for distribution to readers seeking to assess the sustainability of distributions by comparing distributions paid to the amount of distributable cash. In addition, as distributable cash is a measure frequently analyzed for income trusts, we have calculated the amount in order to assist readers in this review. Distributable cash should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of performance, as a measure of liquidity or as a measure of cash flows, and management does not use this measure as a performance measure of earnings. Management uses distributable cash as a measure of cash generated by Clearwater available for distribution to unitholders without eroding Clearwater's production capacity.

We calculate distributable cash by starting with the actual cash from operating activities. From that we add or deduct, as appropriate, actual changes in working capital and gains/losses on disposals of property, plant, equipment and licences. Finally, we deduct the actual amount of our minority partners' share in EBITDA, interest and taxes and the amount spent on capital expenditures that management has designated as being for maintenance rather than growth.

This reconciliation has been prepared using reasonable and supportable assumptions, all of which reflect Clearwater's planned courses of action given management's judgement about the most probable set of economic conditions. Any adjustments based on forward-looking information may vary from actual results, perhaps materially.

Distributable cash generated was $13.1 million in 2007 compared to $42.4 million generated in 2006. In determining the payment of distributions, Clearwater considers the financial results, on-going capital expenditure requirements, leverage and expectations regarding future earnings. Future earnings can be impacted by a number of factors including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates and fuel costs.

As discussed above, factors including market conditions, foreign exchange and clam vessel disruptions impacted earnings in 2007. These impacts also translated into a reduction of distributable cash generated by $29.3 million as compared to 2006.

In (000's)	13 weeks ended December 31, 2007	13 weeks ended December 31, 2006	Year ended December 31, 2007	Year ended December 31, 2006
Cash flow from operating activities	$ 28,860	$ 4,891	$ 26,547	$ 44,612
Add (deduct):				
Capital expenditures per cash flow	(4,390)	(2,906)	(15,961)	(20,647)
Standardized Distributable Cash	24,470	1,985	10,586	23,965
Change in non-cash working capital [A]	(15,245)	4,948	(7,080)	7,107
Minority share EBITDA, int., taxes [B]	23	(1,707)	(2,822)	(7,625)
Adjustment for ROI capital [C]	3,377	2,228	12,569	18,697
Gain (loss) on disposal P,P,E /licences [D]	(27)	(217)	(169)	208
Distributable cash	$ 12,598	$ 7,237	$ 13,084	$ 42,352
Distributions [E]	$ 7,807	$ 7,919	$ 31,499	$ 15,837

A. Change in non-cash working capital is excluded as changes in working capital are, for the most part, due to seasonality and tend to reverse over the year, and are financed using Clearwater's debt facilities. Changes in this item depend on variables including, but not limited to, supply and demand, collectibility of accounts and timing of payments. Due to the seasonal nature of the seafood industry, inventories tend to build up over the summer months due to more favourable fishing conditions, as well as during seasonal buys for product such as lobster. It also includes foreign exchange loss on cash held in foreign currency.

B. Minority share in EBITDA, interest and taxes represents cash flows attributable to the minority interest in certain non-wholly owned subsidiaries. It is the calculated minority partners' interest in the earnings before interest, taxes, depreciation and amortization of the subsidiaries less their proportionate share of the interest and taxes. The adjustment is based on the actual results of minority interest entities and can fluctuate based on the results from the particular businesses.

C. Proportionate maintenance capital represents capital expenditures that are related to sustaining existing assets rather than expansion or productivity improvement. The adjustment includes all capital expenditures with the exception of those projects designated as ROI projects based on achieving at least a 20% return on investment; such projects are disclosed in the capital expenditures section of the MD&A. The amount can vary and may relate to actual and expected spending and future benefit when determining if the project is a maintenance project or ROI project.

D. Gains (losses) on property, plant and equipment are added back (deducted), as during the course of operating the business Clearwater will typically realize gains and losses from the turnover of assets, which occurs frequently due to Clearwater's focus on innovation. This includes gains and losses in the investing section of the Statement of Cash Flows along with any other minor adjustments not significant enough to disclose separately. The amount can vary and may relate to actual spending.

E. There were no distributions for the first and second quarters of 2006

Clearwater's business is seasonal in nature, with the result that lower amounts of distributable cash are generated in the first half of the year as compared to the latter half.

GROSS PROFIT

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

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTIZATION

Non-cash foreign exchange losses and gains have been removed from the calculation of EBITDA due to the variability in non-cash gains and losses.

Earnings before interest, tax, depreciation and amortization is not a recognized measure under Canadian GAAP, and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes that in addition to net income and cash provided by operating activities, EBITDA is a useful supplemental measure from which to determine the Fund's ability to generate cash available for debt service, working capital, capital expenditures, income taxes and distributions. In addition, as EBITDA is a measure frequently analyzed for public companies, we have calculated the amount in order to assist readers in this review. EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of performance, as a measure of liquidity, or as a measure of cash flows and management does not use this measure as a performance measure of earnings.

Reconciliation of four quarters ended December 31, 2007 and four quarters ended December 31, 2006 EBITDA.

In (000's)	Four quarters ended December 31, 2007	Four quarters ended December 31, 2006
Net earnings	$ 20,268	$ 1,834
Add (deduct):		
Minority interest	4,024	5,633
Income taxes	133	4,123
Reduction in foreign currency translation	2,644	2,369
Foreign exchange and derivative loss (income) unrealized	(17,697)	23,030
Depreciation and amortization	11,267	14,766
Interest on long-term debt	15,905	13,110
Bank interest and charges	840	953
EBITDA	$ 37,384	$ 65,818

LEVERAGE

Leverage is not a recognized measure under Canadian GAAP, and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes leverage to be a useful term when discussing liquidity. In addition, as leverage is a measure frequently analyzed for public companies, we have calculated the amount in order to assist readers in this review. Leverage should not be construed as an indicator of performance, as a measure of liquidity or as a measure of cash flows, and management does not use this measure as a performance measure of earnings.

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

In (000's)		December 31, 2007		December 31, 2006
EBITDA (as per previous table)		$ 37,384		$ 65,818
Total debt (per below)		149,405		187,619
Leverage		4.0		2.9
Debt per balance sheet		227,564		190,260
Adjust ISK denominated bond to swapped value:				
Less Icelandic bond	(51,392)		(46,795)	
Estimated payment for Icelandic bond (excluding CPI)	44,111	(7,281)	47,004	209
Reduce cash by unreserved cash				
Less cash balance	(70,878)		(10,850)	
Add cash reserve for new vessels	–	(70,878)	8,000	(2,850)
Net debt for leverage		149,405		187,619

Estimated payment for Icelandic bond when considering currency swaps

December 31, 2007

Currency in (000's)	Amount	Current rate	Canadian $
Canadian	$ 25,000	1.000	$ 25,000
US	$ 9,708	0.9913	9,624
Euro	2,500	1.4428	3,607
Sterling	3,000	1.9600	5,880
			$ 44,111

December 31, 2006

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

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
Chief Executive Officer

Robert Wight
Vice-President, Finance and Chief Financial Officer

AUDITOR'S 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

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**

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Canadian 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts expressed in thousands of dollars)

NOTE 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.

NOTE 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 licences with indefinite lives, lincence agreements with finite lives, customer relationships and goodwill.

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 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 reporting unit's goodwill is compared to the carrying value of goodwill and an impairment loss would be recognized in an amount equal to the excess 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 tax 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 requires 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 Fund'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 Fund'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.

NOTE 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 June 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 1,162,100 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 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 holders' 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 years 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.

NOTE 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 28.0 per cent, 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 per cent in 2011 and 28 per cent for 2012 and beyond.

While the Fund believes it will be subject to an additional tax under the new legislation, the estimated effective tax rate on the 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 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.

NOTE 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 price of these units and the underlying carrying value, being $6,211,000, was included in contributed surplus.

NOTE 7. EARNINGS PER UNIT

The computations for earnings per unit are as follows (in thousands except per unit 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.

NOTE 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.

NOTE 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.

NOTE 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.

NOTE 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 5)	$ 288,913	$ 299,282
Convertible debentures	87,624	46,430
Contributed surplus	6,211	–
Deficit	(63,861)	(24,051)
Total capital	$ 318,887	$ 321,661

NOTE 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.

NOTE 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 unitholder 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.

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
Chief Executive Officer

Robert Wight
Vice-President, Finance and Chief Financial Officer

AUDITOR'S 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 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

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 C. Risley
Chairman

Colin MacDonald
Chief Executive Officer

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 claim (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

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

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, plant, 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 (decrease) 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts expressed in thousands of Canadian dollars)

NOTE 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.

NOTE 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 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 issued Section 3031, "Inventories", which replaces Section 3030, "Inventories" and harmonizes the Canadian standard 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 "accumulative 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
Income statement		
Decrease in cost of goods sold		641
Increase in future tax expense		270
Increase in net earnings		371

The impact on 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.

NOTE 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

NOTE 4. LICENCES

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

NOTE 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 assesssed 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
Icelandic bond contracts (note 5(d))	(904)	4,342
Other	–	43
Net liability position	$ 11,958	$ 27,002
Financial statement balance sheet disclosure		
Portion disclosed as derivative financial instrument asset (includes forward contracts (in net asset position for 2007) above, commodity contracts and Icelandic bond contracts)	$ 2,303	$ –
Portion disclosed as derivative financial instrument liability (includes options 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.

NOTE 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.

NOTE 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 principal Canadian Series A Notes issued in 2003, bearing interest at 6.4% payable semi-annually, maturing December 8, 2008.
- $15,000,000 principal U.S. Series B Notes issued in 2003, bearing interest at 5.65% payable semi-annually, maturing December 8, 2008.
- $20,000,000 principal Canadian Series C Notes issued in 2003, bearing interest at 7.23% payable semi-annually, maturing December 8, 2013.
- $5,000,000 principal 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 years 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 31, 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

NOTE 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 SIFT Rules, certain distributions by a SIFT entity relating to income from a business carried on in Canada by the SIFT and income, other 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 and indirect interest are still under review. As such, there may be an interpretation of the legislation under which 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% (2006 – 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

NOTE 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 to 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 (December 31, 2006 – 52,788,843).

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.

NOTE 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

NOTE 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.

NOTE 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 (2006 – $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.

NOTE 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).

NOTE 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
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

Property, plant, equipment, licences and goodwill December 31	2007	2006
Canada	$ 202,637	$ 251,282
Argentina	17,407	18,024
Other	811	602
	$ 220,855	$ 269,908

NOTE 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.

NOTE 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

NOTE 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 repurchase of Class A units at a cost of $2.3 million.

Subsequent to December 31, 2007, Clearwater sold equipment to one of our minority shareholders. 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.

QUARTERLY AND UNIT INFORMATION

The financial information disclosed below was derived from the unaudited interim earnings statements of Clearwater for periods from January 1, 2006 to December 31, 2007. Please note 2006 has been restated for the change in refit policy effective January 1, 2007.

Clearwater Seafoods Limited Partnership

	2007				2006			
($000's except per unit amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	77,720	90,555	75,311	59,095	84,136	79,939	81,312	70,349
Net earnings (loss)	(4,843)	9,323	12,120	3,668	(18,715)	8,507	9,787	1,634
Distributable cash	12,598	5,793	594	(5,901)	7,237	10,362	16,459	8,294
Distributions	7,807	7,875	7,901	7,918	7,919	7,918	–	–
Per unit data								
Basic and diluted net earnings (loss)	(0.09)	0.18	0.23	0.07	(0.36)	0.15	0.19	0.03

Trading information, Clearwater Seafoods Income Fund, symbol CLR.UN, IPO July 30, 2002.

	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Trading price range of units (board lots)								
High	4.95	4.99	5.25	5.15	5.36	5.68	4.60	4.25
Low	4.25	4.41	4.71	4.70	4.56	4.20	3.93	3.35
Close	4.50	4.60	4.79	4.82	4.97	5.33	4.32	4.05
Tranding volumes (000's)								
Total	5,209	1,770	8,197	6,958	2,895	2,794	4,051	4,311
Average daily	83	28	130	109	47	45	64	67
Units outstanding at end of quarter								
Units	28,245,695	28,949,895	29,190,395	29,357,526	29,407,626	29,407,626	29,407,626	29,407,626
Special	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217
Total	51,626,912	52,331,112	52,571,612	52,738,743	52,788,843	52,788,843	52,788,843	52,788,843

SELECTED ANNUAL INFORMATION

	2007	2006	2005	2004	2003	Combined pro-forma 2002
Sales	$ 302,681	$ 315,736	$ 314,839	$ 345,459	$ 349,737	$ 319,928
Cost of goods sold	236,748	228,423	242,601	253,322	252,111	232,383
Gross profit	65,933	87,313	72,238	92,137	97,626	87,545
Administration and selling	37,818	38,245	33,594	36,759	34,579	29,412
Gain on disposals and other income	(8,333)	(3,710)	(5,762)	(11,451)	(6,753)	(4,233)
Foreign exchange loss (income)	(18,633)	9,990	(11,712)	(7,482)	(21,443)	(179)
Bank interest and charges	840	953	786	659	921	2,445
Interest on long-term debt	15,905	13,110	12,450	10,490	6,138	13,072
Depreciation and amortization	11,267	14,766	15,400	16,145	15,540	14,003
Reduction in foreign currency translation account	2,644	2,369	1,236	3,006	1,443	0
	41,508	75,723	45,992	48,126	30,425	54,520
Earnings before the undernoted	24,425	11,590	26,246	44,011	67,201	33,025
Income taxes	133	4,123	2,975	4,276	2,338	2,036
Earnings before minority interest	24,292	7,467	23,271	39,735	64,863	30,989
Minority interest	4,024	5,633	3,398	2,262	2,746	1,456
Net earnings	$ 20,268	$ 1,834	$ 19,873	$ 37,473	$ 62,117	$ 29,533

GLOSSARY OF TERMS

CFIA – means the Canadian Food Inspection Agency, the federal agency responsible for the regulation of food safety in Canada.

DFO – means the Department of Fisheries and Oceans (Canada), the federal regulatory agency that has jurisdiction over Canada's entire marine environment.

Enterprise allocation which is also sometimes referred to as a quota – means permission to catch a specified percentage of the total allowable catch of a particular species in a specific area that is allocated by the DFO to an offshore licence holder. The enterprise allocations of licence holders vary from one another. From year-to-year, the DFO may change the total allowable catch based on scientific advice but the enterprise allocation percentage allocated to an offshore licence holder generally remains the same unless a new licence is issued. New licences are rarely issued unless and until increases in the total allowable catch evidences significant and substantial growth. The enterprise allocation system promotes both greater efficiency in harvesting seafood and improved resource stewardship practices. Enterprise allocations can be transferred, traded and sold.

The transferability of enterprise allocations has encouraged industry consolidation.

FAS vessel – means a vessel on which processing into a frozen, market-ready form takes place.

Groundfish – means several fish species, including, haddock, cod, redfish, turbot and flounder.

HACCP – means Hazard Analysis Critical Control Point, which is an internationally recognized system for ensuring that food products are safe and wholesome to eat.

Harvesting – means the catching of seafood.

IQF – means individually quick frozen.

Landing(s) – means the weight, number or value of a species of seafood caught and delivered to a port.

Licence or fishing licence – means an instrument by which an applicable regulatory authority grants permission to a person or enterprise to harvest certain species of seafood, subject to the conditions attached to the licence.

Total allowable catch or TAC – means the total amount of a particular species in a specific area that is allowed to be harvested by all licence holders. The total allowable catch for each species in each area is set by the applicable regulatory authority on an annual basis based on scientific advice.

CORPORATE INFORMATION

TRUSTEES OF CLEARWATER SEAFOODS INCOME FUND

Bernard Wilson
Former Vice Chairman, PricewaterhouseCoopers

Brian Crowley
Founding President, Atlantic Institute for Market Studies

Thomas D. Traves
President and Vice-Chancellor, Dalhousie University

DIRECTORS OF CS MANPAR INC., MANAGING PARTNER OF CLEARWATER SEAFOODS LIMITED PARTNERSHIP

Bernard Wilson
Former Vice Chairman, PricewaterhouseCoopers
Chairman, Audit Committee

Hugh K. Smith
Vice-President, Municipal Group of Companies
Chairman, Corporate Governance and Compensation Committee

Thomas D. Traves
President and Vice-Chancellor, Dalhousie University
Chairman, Clearwater Seafoods Income Fund

Brian Crowley
Founding President, Atlantic Institute for Market Studies

Brendan Paddick
Chief Executive Officer, Columbus Communications Inc.

John C. Risley
Chairman, CS ManPar Inc.

Colin E. MacDonald
Chief Executive Officer, CS ManPar Inc.

OFFICERS OF CS MANPAR INC.

John C. Risley
Chairman

Colin MacDonald
Chief Executive Officer

Eric R. Roe
Chief Operating Officer

Michael D. Pittman
Vice-President, Fleet

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

Stan Spavold
Corporate Secretary

INVESTOR RELATIONS

Tyrone D. Cotie, C.A.
Director of Corporate Finance and Investor Relations
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AUDITORS

KPMG LLP
Halifax, Nova Scotia

UNITS LISTED

Toronto Stock Exchange
Unit symbol: CLR.UN
Convertible Debenture symbols: CLR.DB and CLR.DB.A.

TRANSFER AGENT

Computershare Investor Services Inc.

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