



Innovation driving value

Annual Report | 2004

Why Invest in Seafood?

Seafood is the world's fastest growing protein in a protein-focused world.

1. Global consumption of seafood is significant.

The world's population consumes more than 95 million metric tons of seafood every year with just over 60% coming from the wild fisheries in which Clearwater does business. Almost half of the seafood produced for human consumption is consumed in three countries: 33% in China, 9% in Japan and 6% in the United States. Within these countries, seafood has become a staple upon which many people depend for their protein, creating a stable base of international customers.

2. Seafood consumption is expected to grow by 2% every year for the foreseeable future.

For example in the Western World, aging baby boomers are adopting an improved lifestyle that includes the consumption of healthier foods. In Asia, the growing economic strength of China is creating rapid improvements in per capita income, which is expected to drive an even faster pace of growth in the consumption of seafood in the world's most populous country.

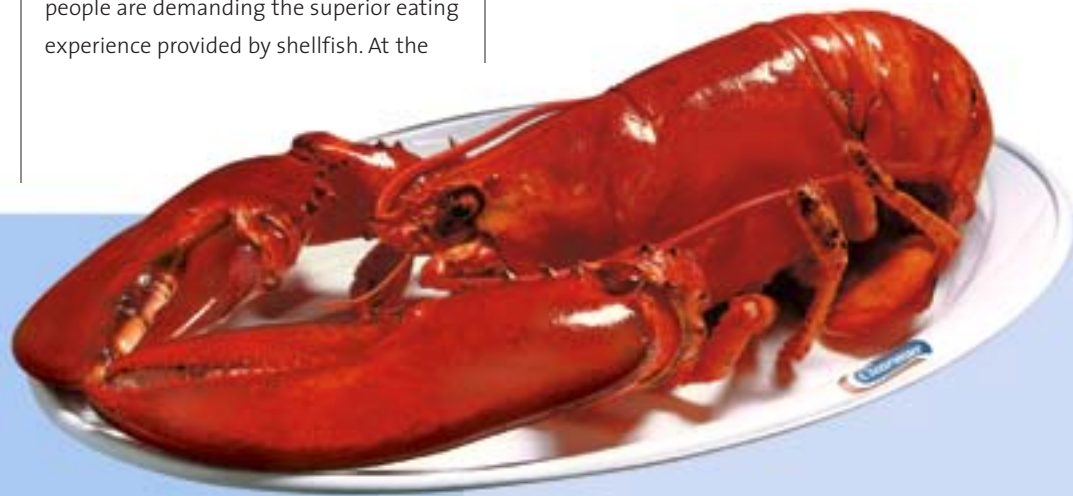
3. People are willing to pay more for shellfish.

With the growing demand, consumers are becoming more sophisticated. Not only do they want more convenient foods, more people are demanding the superior eating experience provided by shellfish. At the

same time, responsible resource management places constraints on the amount that can be harvested. In fact, less than 15% of worldwide seafood production is shellfish. The superior qualities and constraints on supply combine to make shellfish a premium product that can demand a significantly higher price.

4. Consolidation within the seafood industry will improve opportunities for the stronger market participants.

The seafood industry has a diversity of participants without dominant suppliers or buyers. The growing trend toward consolidation, however, will create opportunities for a supplier that is able to provide consistent quality, diversity and reliable delivery to capture market share.



Clearwater has relationships with 1,100 customers around the world, including leading retailers, food processors and restaurants that understand both the need and demand for quality in today's increasingly sophisticated market.

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Why Invest in Clearwater?

Clearwater is a leader in the global seafood industry recognized for its consistent quality, wide diversity and reliable delivery of premium seafood.

1. Clearwater is the largest publically traded shellfish company in North America.

We own approximately 50% to 100% of the rights to the total allowable catch of the majority of the species that we harvest in Canada, giving us unmatched access to a wide diversity of premium shellfish. This allows us to harvest, process and distribute more than 80 million pounds of seafood every year.

2. We are committed to enhancing stewardship of the resource.

Intelligent development, protection and harvesting have allowed the quantity of shellfish that can be harvested – the total allowable catch – to remain stable or grow in the offshore fisheries of Atlantic Canada and Argentina.

3. Innovations in science and technology have led to significant competitive advantages.

Since 1999, Clearwater has invested more than \$250 million in processing plants and a state-of-the-art fishing fleet. The technology aboard our frozen-at-sea factory vessels allows us to lock in quality, texture and taste within minutes of harvesting while increasing yields. Our industry leading research and development has resulted in new products, such as the raw lobster meat we introduced in 2004.

4. We have made strategic investments to reduce the impact of a weaker U.S. dollar.

The launch of three new vessels with frozen-at-sea capabilities in 2005 and 2006 will allow us to grow the profitability of both our clam and scallop businesses significantly. The development of raw lobster meat processing technology has allowed us to bring a new product to the market that complements our live lobster business and builds upon our reputation as an innovator of premium products.



At - a - Glance

Clearwater's strengths rest upon the diversity in species harvested and markets supplied. This creates a natural hedge against weakness in demand in any one species or market.

2004 Sales by Species



17% Clams
33% Scallops
19% Lobster
10% Cold Water Shrimp
16% Groundfish, Other and Hedging
5% Crab

2004 Sales by Region



33% United States
32% Europe
19% Asia
15% Canada
1% Other

Species



CLAMS

Clearwater harvests three premium clam products; Arctic surf clams, Greenland cockles and propeller clams.



SCALLOPS

Clearwater harvests a larger scallop in the waters of the cold North Atlantic and a smaller scallop off the coast of Argentina.



LOBSTER

Homarus Americanus: A large hard-shelled lobster found only off the coasts of Eastern Canada and the Northeastern United States.



COLD WATER SHRIMP

Pandalus borealis: A full flavored species of cold water shrimp caught in the pristine water of the North Atlantic.



GROUNDFISH & OTHER

Haddock, pollock, redfish, flounder, cod, snow crab, Jonah crab and others.

Overview

- **VOLUME:** Up 6% in 2004
- **SALES:** Up 4% to \$60 million in 2004 from \$58 million in 2003
- **PERCENTAGE OF TAC:** 100%
- **STATUS OF TAC:** Stable at 44,000 metric tons for the past five years, although the harvesting of Propeller clams and

- **VOLUME:** Up 16% in 2004
- **SALES:** Up 12.9% to \$115 million in 2004 from \$102 million in 2003
- **PERCENTAGE OF TAC:** 49% of Canadian TAC plus two of four Argentine licences issued
- **STATUS OF TAC:** Stable with modest declines in the past two years to historic ranges

- **VOLUME:** Down 14% in 2004
 - **SALES:** Down 12% to \$67 million in 2004 from \$76 million in 2003
 - **PERCENTAGE OF OFFSHORE TAC:** 87.5%*
- * This represents approximately 15% of the total pounds of lobster used by Clearwater in 2004. The balance was purchased from inland harvesters.

- **VOLUME:** Up 15% in 2004
 - **SALES:** Up 3% to \$32 million in 2004 from \$31 million in 2003
 - **PERCENTAGE OF TAC:** 21%*
- * In 2004 approximately 40% of Clearwater's shrimp harvest came through royalty agreements.

- **SALES:** Down 7.5% to \$45 million in 2004 from \$48 million in 2003
- **PERCENTAGE OF TAC:** Varies by species
- **STATUS OF TAC:** Varies by species
- **PROCESSING CAPABILITY:** Two processing plants, one for groundfish, a second for crab. Clearwater leases a portion of its quota for

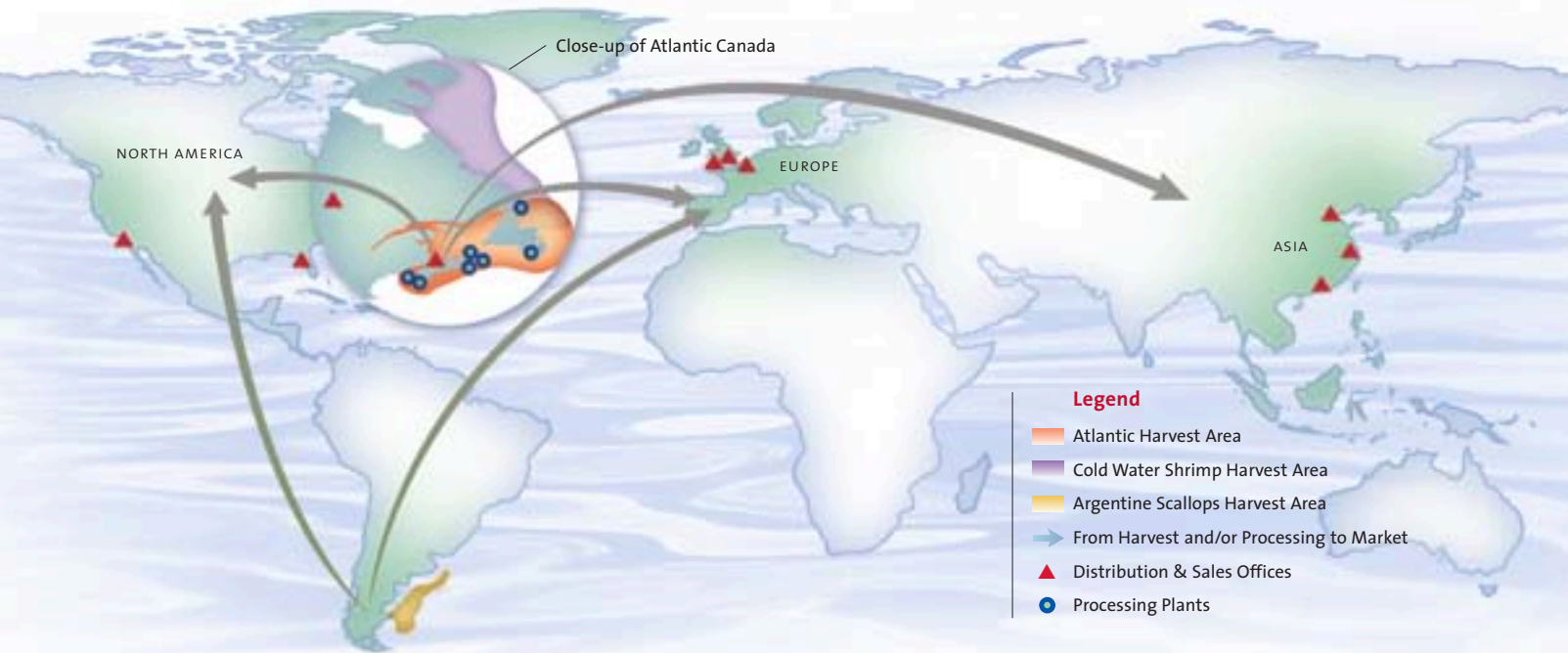
THERE ARE TWO TERMS THAT WE WILL USE OFTEN IN OUR REPORT:

Total allowable catch or TAC: The total amount of a species in an area that can be harvested. In Canada, the Department of Fisheries and Oceans establishes the TAC once a year.

	Performance	Outlook
<p>Greenland cockles is growing. Clearwater has been granted a quota for Quahog clams</p> <ul style="list-style-type: none"> • HARVESTING CAPABILITY: Three FAS factory vessels • PRINCIPAL MARKETS: Japan, China and North America 	<p>The volume of clams harvested by Clearwater increased in 2004 to meet increased demand for our clams in Asia and our canned clam products across our markets. We started construction of a new \$45 million vessel for delivery in 2006.</p>	<p>A solid foundation for growth through a wider diversity of species harvested and expanded capacity has been created by:</p> <ul style="list-style-type: none"> • Development of Greenland cockles and propeller clams. • The delivery of a state-of-the art FAS factory vessel in 2006.
<ul style="list-style-type: none"> • HARVESTING CAPABILITY: Clearwater has improved harvesting efficiency and reduced the number of scallop vessels over the past few years. In 2005, there will be 11 vessels harvesting scallops, six with FAS capability • PRINCIPAL MARKETS: North America and Europe 	<p>Scallops have been a significant source of growth for Clearwater over the past few years. We continue to enhance returns through increased quota, higher yields and the conversion of our vessels to frozen-at-sea capabilities.</p>	<p>The launch of two FAS factory vessels in early 2005 will allow Clearwater to:</p> <ul style="list-style-type: none"> • Reduce costs, • Increase harvesting efficiency, and • Make it possible for Clearwater to secure a premium price for the majority of the scallops harvested.
<ul style="list-style-type: none"> • STATUS OF TAC: Stable for 19 years • HARVESTING CAPABILITIES: Five vessels* * <i>The annual volume of lobsters harvested off the east coast of Canada and the United States exceeds 80,000 metric tons.</i> • PRINCIPAL MARKETS: North America, Europe and Japan 	<p>In July 2004, Clearwater completed the construction of a \$4 million processing facility to produce a new line of processed raw lobster products. This facility provides a new product for markets Clearwater has grown significantly since the development of its dry land pounds in the 1980's.</p>	<p>The development of the raw lobster product in 2004 has the potential to transform Clearwater's lobster business by expanding our markets and improving profitability.</p>
<ul style="list-style-type: none"> • STATUS OF TAC: Increasing. This is consistent with the trend over the past 10 years • HARVESTING CAPABILITY: Two FAS vessels • PRINCIPAL MARKETS: Asia, Europe and the United States 	<p>A worldwide abundance of supply has depressed shrimp prices for the past several years. The impact on Clearwater has been mitigated by our FAS vessels, which have reduced harvesting costs and improved the quality of our catch. Clearwater is a global low cost producer.</p>	<ul style="list-style-type: none"> • Cold water shrimp biomass is at an historically high level and Clearwater is positioned to take advantage of this buoyant resource. • However, shrimp prices are approaching the lowest level since we entered the business in 1987.
<p>a royalty. The revenue from the lease is included in other income.</p> <ul style="list-style-type: none"> • PRINCIPAL MARKETS: United States and Europe 	<p>Groundfish margins, particularly for cod, have decreased over the past year due to increasing competition from China. Crab volumes were down in 2004 due to lower purchased volumes of Jonah and Snow crab.</p>	<ul style="list-style-type: none"> • Increased competition from China has caused Clearwater to decrease production of its IQF cod product. As a result, sales of this low margin product are expected to decline by approximately \$15 million a year. • The haddock TAC is expected to grow dramatically over the next several years.

FAS vessels: Vessels that process their catch within minutes of harvesting into a frozen, market-ready product.

Overview of Activities



Activities



HARVESTING

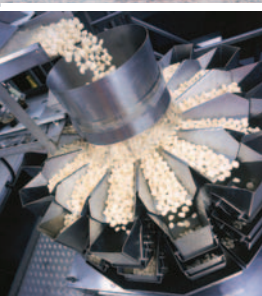
Clearwater operated on average 21 offshore harvesting vessels in 2004. Nine were factory freezer vessels. By the end of 2005 another two will have frozen-at-sea capabilities.

Profile

Clearwater's fleet of FAS vessels can harvest, process and freeze their catch on board. This locks in the quality, texture and taste of the shellfish to provide consumers with the freshest product possible.

Strategic Outlook

- Clearwater will have the capacity to deliver virtually 100% of our scallop harvest FAS with the launch of two factory freezer scallop vessels in early 2005.
- We have commissioned a new FAS clam vessel for delivery in 2006. This vessel will increase product quality and fishing capacity while decreasing costs through greater harvesting efficiency.



PROCESSING

Clearwater operates seven state-of-the-art processing plants on shore. These factories adhere to international, federal and provincial quality control standards.

Clearwater's seven processing facilities are located in Atlantic Canada. Each is equipped with the latest processing technology to ensure maximum quality and efficiency and the lowest possible operating costs.

- The construction of a \$4 million raw lobster processing facility in 2004 has expanded our market for lobster.
- We will continue to adopt and develop new technologies, including new applications for pressure shucking, to improve both quality and yield while improving efficiencies.



SALES, MARKETING & DISTRIBUTION

Clearwater employs a dedicated sales force in offices around the world to market and sell our products.

Not only does Clearwater distribute products to a broad diversity of markets and customers, our sales and marketing strategies have allowed us to establish strong relationships and avoid dependence on any one customer.

- In 2005 we will focus on developing markets for our new raw lobster and clam products while continuing to build markets for our traditional products.
- To further diversify our markets and reduce the impact of fluctuating currency rates, we will establish additional international sales offices and strengthen our product positioning in the market.

Innovation

Driving Value

Letter to Unitholders



JOHN RISLEY
Chairman, CS ManPar Inc.

COLIN MACDONALD
Chief Executive Officer,
CS ManPar Inc.

The year 2004 was one of currency-driven challenges, accomplishments and investments for the future.

During 2004 we continued to experience strong demand for our products and to expand our capabilities. Excluding cod our volume of sales grew by 4% but the rapid and substantial increase in the value of the Canadian dollar relative to the U.S. dollar had the effect of removing approximately \$10 million from our revenue stream. Our growth in the volume of sales, currency hedging program and responsible price increases have mitigated some of the impact, but our revenues for the year remained flat.

The change in the relative value of the Canadian and U.S. currencies caused our distributable cash to decline from \$61.5 million to \$54.2 million. Although we were able to achieve our goal of paying \$1.15 per unit to our unsubordinated unitholders in 2004, we were only able to pay \$0.46 per unit to our subordinated unitholders.

We believe the most effective long-term protection against continuing weakness in the U.S. dollar will be vigorously executing our established growth strategies, reducing costs and expanding our markets.

Our goal is to provide our stakeholders with stability and growth. As in the past, we will accomplish this through new species and products, organic growth and acquisitions. The success of those strategies rest firmly on four cornerstones:

#1: We're innovators of leading edge harvesting and processing technology.

Since 1999, we have invested more than \$250 million in our plants and vessels. From the development of dry land pounds in the early 1980's and the launch of nine factory freezer vessels, our investments in innovation have put us at the leading edge of the global market place, while driving organic growth and allowing us to harvest previously unexploited species

and create altogether new products.

With the launch of two more factory freezer vessels in early 2005, virtually 100% of our scallop catch will be frozen-at-sea, locking in quality, texture and taste within mere minutes of harvesting. Our factory vessels improve yields while delivering a premium product to the market and access to customers who have not purchased scallops in the past because of unpredictable quality.

We've also been building our fleet of clam vessels and developing two new clam species, the Greenland cockle and northern propeller clam. In 2006 we'll take delivery of a \$45 million clam vessel now under construction. This vessel will bring organic growth by allowing us to harvest more efficiently, produce a higher quality product, generate higher yields and allow us to capture by-products from our traditional clam fisheries that have historically been lost overboard. The vessel will also give us the capacity to harvest an untapped resource, Quahog clams.

We've continued to extend our lobster market with the construction of a \$4 million processing plant to produce shell-stripped raw lobster meat. We're very early in production, but the product has been critically acclaimed, attracting buying interest from top line chefs and premier retail establishments in the United States and Europe.

#2: We have access to a diversity of species.

Our most important asset remains our unmatched access to the species that we harvest. We hold quotas that represent approximately 50% to 100% of the total allowable catch of the majority of our species that we harvest in Canada, a scale of operation that makes it possible for us to make the investments in harvesting, processing and distribution systems to

24%

The value of the Canadian dollar has risen by 24% relative to the U.S. dollar over the past two years – a challenge that Clearwater actively manages.

guarantee our customers a stable supply of quality shellfish.

#3: We're committed to sustainability of our resources.

Our scale of quota ownership also makes it possible for us to develop and implement intelligent resource management programs. Working with the Canadian Department of Fisheries and Oceans we have developed the ocean mapping technology that has shifted our business from one of hunter-gatherers to controlled, responsible and predictable harvesters and protectors of the ocean bounty. Our captains now go to sea with laptops under their arms and are truly business managers controlling at-sea factories.

We strive to have a positive impact on the species we harvest and their environment. Our goal is to make our resources – and our quota – grow and contribute to the growth of the company.

#4: We have more than 1,100 customers in a diversity of markets.

Clearwater is a global company. We have three sales offices in China, four in the United States and one in the United Kingdom along with distribution facilities in England, Belgium, and the U.S.

A significant percentage of our customers have been buying from Clearwater for 10 years or more. This success is based on our relationships with leading retailers, food processors and restaurants that understand both the need and the demand for quality in today's sophisticated market. At the same time, we mitigate risk through diversification of customers.

The United States has traditionally been our single most important market, but the depreciation of the U.S. dollar is encouraging us to expand our sales and marketing efforts in Europe and Asia, especially China, the world's largest consumer of seafood. We must be sure that we're well positioned to participate in the growth of the world's largest economy while not missing opportunities in more traditional markets.

Achieving unsurpassed quality and cost efficiencies

By controlling the production process – from harvesting to processing and from marketing to delivery – we provide quality and unsurpassed cost efficiencies to our customers. We emphasize customer service, quality and efficiency and invest in our 2,100 employees to further their training and create new opportunities to excel.

At the same time, the very nature of our business makes decentralized decision-making and personal accountability critical to enhancing performance, fostering innovation, improving quality, increasing yields and lowering costs.

Solid foundation for growth

Volatility in the U.S. dollar could continue to pose a challenge in 2005, but the market for our products is stronger today than at any time in the past. Seafood is the world's fastest growing protein in a protein-hungry world. Demand is being driven by heightened concerns surrounding health in the Western World and a booming economy in China. At the same time, the quality of our product makes us price makers in the market place. Our products

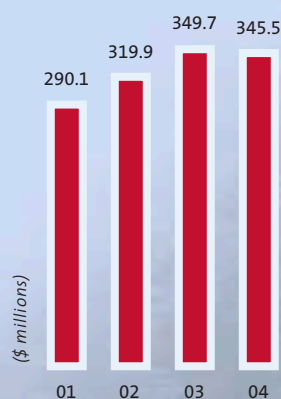
Highlights

(In thousands of dollars, except per unit amounts)

	2004	2003	Change
Sales	\$ 345,459	\$ 349,737	-1%
Net earnings	\$ 37,473	\$ 62,117	-40%
Net earnings per unit	0.71	1.22	-42%
Distributable cash	\$ 54,276	\$ 61,510	-12%
Distributions paid	\$ 54,276	\$ 58,502	-7%
Payout ratio	100%	95%	5%
Capital expenditures	\$ 27,889	\$ 67,762	-59%
Average realized foreign exchange rate (\$CDN/\$US)	1.38	1.46	-5%

Revenue

Lower sales in 2004 reflect a weakening U.S. dollar.





33% China consumes a third of the world's seafood and demand will rise as the Chinese economy grows.

allow our customers to enhance the eating experience they can offer their customers while providing security of income and profit.

We are well experienced in managing the risks inherent in our industry. We've developed vessels that are safer and ergonomically better for our crews to manage the risks of weather: our vessels fish when other vessels can't. We've developed the markets, customer relationships and products that help us overcome the vagaries of the economic cycles. And we've developed the science, technology and co-management regimes with the Canadian Department of Fisheries and Oceans to understand the resource and make sure we're harvesting at sustainable levels. Perhaps most important, we've been able to remove volatility from our business by providing our customers with a consistent quality of supply of seafood that is always safe and delicious.

Our goal for 2005 is to deliver distributions of \$0.84 per unit while moving

over time to a target of a payout ratio of 85% of distributable cash. There are solid reasons for confidence that we will achieve that goal:

- Clearwater's unparalleled access to tremendous resource
- Greater harvesting and production efficiencies
- Growing international demand and an outstanding customer base
- Consistently high margins and achievable performance objectives
- Continuing increases in sales volumes
- Some upward movement in sales prices

As we move beyond 2005 and we see some stability in the exchange rates, the benefits of the cost savings and efficiencies, new species development and the organic growth of the past two years will provide us with the opportunity to experience the annual growth we've enjoyed historically.

Thank you to our staff

Over the past 27 years we've survived and prospered in all ranges of exchange rates and economic circumstances by building a business on solid sustainable

resource access, industry leading innovation and technology, value driven customer relationships and empowered and responsible, highly accountable management and workforce.

We owe our success to the people who work in our processing plants and on our vessels everyday. Clearwater has been in business for 27 years, but we've constantly been the agents of change in an industry that has historically been very traditional. We take our hats off to our people. Together we've created a culture of family, one that's very proud of the name Clearwater and the products it represents.

JOHN C. RISLEY
Chairman, CS ManPar Inc.

COLIN E. MACDONALD
Chief Executive Officer, CS ManPar Inc.

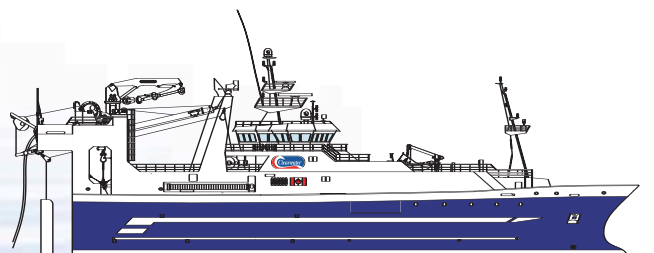
Clearwater's growth has traditionally been driven by new species and by organic developments.



Clams – Extending our business

\$45M

investment in new factory freezer clam vessel will enable Clearwater to increase harvest volumes while reducing operating costs.



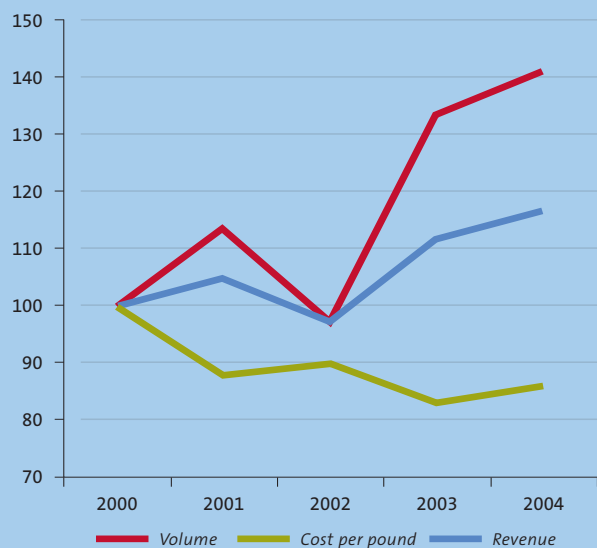
Harvest Area

Onboard Systems Intelligence

Achieving optimum efficiency in Clearwater's new clam vessel began at the planning stage. We used new methods to select the equipment and hull form and designed a power management system that will use innovative operational optimization algorithms to monitor real time data and constantly adjust the energy systems. This intelligent system will also optimize fishing efficiency.



Performance – Clams



Operating efficiencies made possible by our FAS vessels boost harvesting volumes and ensure revenues continue to increase despite the decline in clam prices due primarily to the weakness of the U.S. dollar.

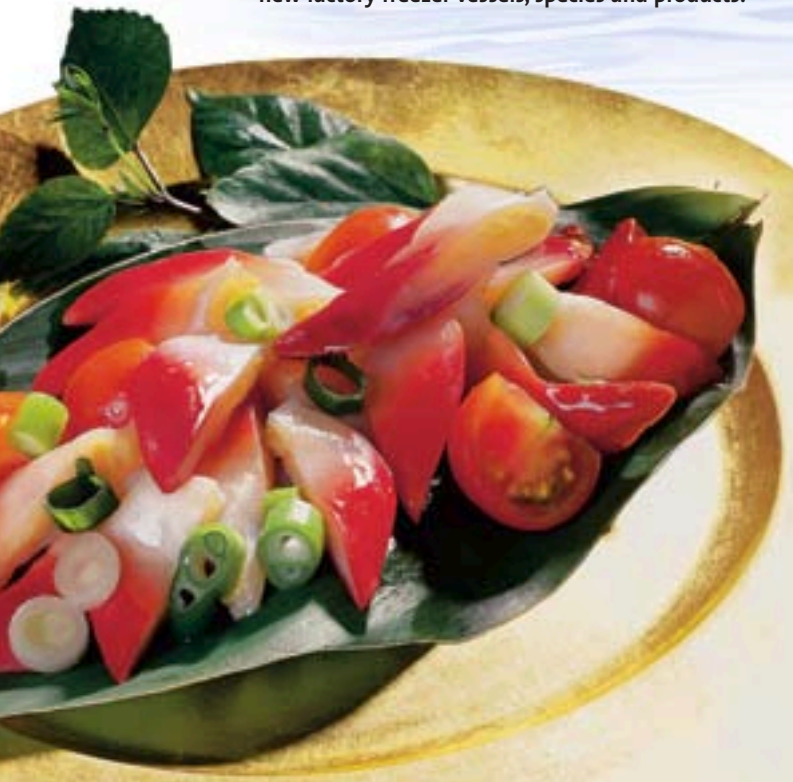
The Investment

- Clearwater was a pioneer in the development of the Arctic surf clam fishery when it began harvesting the species in 1986.
- In mid-2003 Clearwater was granted a quota to harvest Quahog clams, an important ingredient in the U.S. clam chowder industry.
- A \$45 million frozen-at-sea clam vessel is under construction with delivery planned for mid-2006. The new factory freezer vessel will replace one of the three existing vessels in our clam fishery.

“Clams will be one of Clearwater’s most significant growth drivers over the next few years.”

32%

growth in sales of clams over the past three years with new factory freezer vessels, species and products.



COLIN E. MACDONALD

CHIEF EXECUTIVE OFFICER, CS MANPAR INC.

< Arctic Surf Clams

Our Arctic surf clams product is distinguished by its bright red colour. This colour and superior taste make it an ideal product for the sushi market in Japan.



< Northern Propeller Clams and Greenland Cockles

Northern propeller clams and Greenland cockles are both suitable for use in similar applications to the surf clams as well as chowders. Clam chowder is the most popular soup category in the United States.



< Quahogs

Quahogs are an important ingredient in clam chowder. We were granted a quota for Quahogs and expect to begin harvesting in 2006.

Implementation

Arctic surf clams are a slow growing species, taking 10 to 12 years to reach commercial size. Sustainable management practices are critical to a stable fishery. Our significant expansion in clam harvesting is guided at all times by resource sustainability while gradually increasing the yield from our existing quotas. We have taken the same approach with Northern propeller clams and Greenland cockles and our attention to sustainability will be just as vigilant when we begin harvesting Quahogs.

Building Shareholder Value

We expect the new vessel to revolutionize processing in our clam fishery. It will be outfitted to increase fuel efficiency and fishing capacity while onboard pressure shucking technology will allow us to increase yields and retain by-products which have historically been lost overboard.

Not only will we be able to harvest more of our existing clam quota and process it more efficiently, the new vessel will give us the increased catching

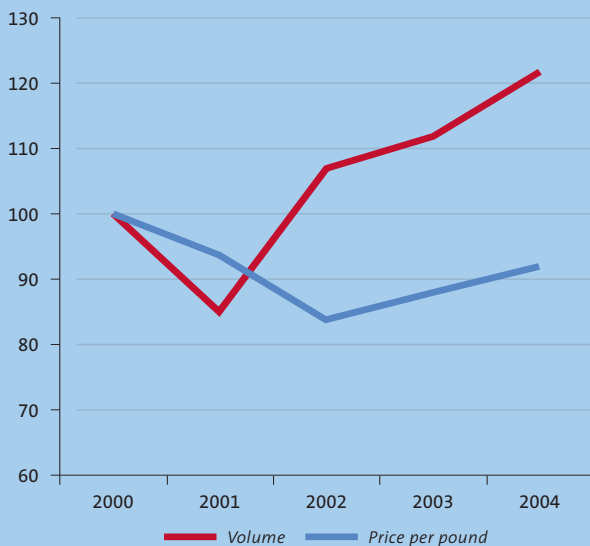
capacity we need to harvest the Quahog quota granted to us in 2003.

These harvesting, shucking and processing technologies will also allow us to deliver a superior product to our customers. This improved productivity and quality is being achieved at the same time we are beginning to see results from our efforts to grow market demand for the by-catch species, northern propeller clams and Greenland cockles.

Scallops – Reducing costs, improving yields



Performance – Canadian Scallops



Canadian sea scallop volumes continue to increase with the purchase of additional quota in 2003. The prices of sea scallops in U.S. dollars continued to climb with the higher mix of frozen at sea product and stronger market prices overall, which more than offset the impact of a stronger Canadian dollar.

The Investment

- In 2001/2002, Clearwater invested \$28 million in two vessels with state-of-the-art capabilities to harvest, process and freeze scallops while at sea.
- In 2003, we purchased additional scallop quota, bringing our share of the scallop TAC to the current level.
- In 2004, we began an investment of \$17 million to purchase two more vessels for conversion to factory freezer scallop vessels.
- Since 1999, we have invested \$11.5 million in our processing facility at Lockeport, Nova Scotia to further reduce costs and improve quality.

“Frozen at sea scallopers reduce costs through increased yields of superior products that command a premium price in the market.”

MICHAEL PITTMAN, VICE-PRESIDENT, FLEET

49%

Clearwater owns 49% of the Canadian total allowable scallop catch along with two of four Argentine scallop licenses issued.



We invested \$28 million in 2001/2002 and committed to \$17 million in 2004 in vessels capable of harvesting, processing and freezing scallops while at sea.

< Delivering premium quality

Scallops have traditionally been a primary growth driver for our business. Our new frozen-at-sea technology has provided us with a significant premium in the market, strengthened our historic customer relationships, and established relationships with new customers by being able to promise – and deliver – predictable quality and supply.

Implementation

The two vessels acquired in August are now undergoing the retrofit that will equip them with our sophisticated frozen-at-sea technology. These ships will enter our fishery in 2005. Once launched, we will have achieved our goal of converting virtually all of our scallop fleet to factory vessels.

Building Shareholder Value

The freezing at sea capability, expanded fishing power and larger storage capacity of the factory vessels has allowed us to reduce our fishing fleet and catch a greater portion of our sea scallop quota in a more efficient manner. This fleet rationalization along with the harvesting efficiencies made possible with ocean floor mapping has reduced operating costs while delivering a higher quality scallop that can command a premium price in the market.

Major investments in our processing plant in Lockeport, Nova Scotia have further reduced production costs over the past four years. At the same time, the virtual elimination of sea scallops broken during the production process has increased yields. Sophisticated, automated grading machines also allow us to offer customers more consistent and precise size grading. The size grading allows Clearwater to obtain greater value for its catch through improved handling and reduced operating costs.

Lobster – Building upon our origins

98%

of chefs who participated in our raw lobster meat research said it was an excellent product.



ANTHONY WALSH, Executive Chef
Canoe, Toronto

"The quality is amazing. When I first tasted it, it jogged my memory and I thought ... that's why people love lobster so much."



JOHN K. CORDEAUX, Executive Chef
The Fairmont Royal York, Toronto

"Yield is 100%. You don't have any waste ... and it captures the essence of the sea."



Performance – Live Lobster



Selective buying caused the upward trend in live lobster sales volume to decline in 2004. This was partly balanced by growing sales of our new raw frozen lobster product.

The Investment

- Clearwater opened its doors in 1976 as a lobster business, growing steadily over the years to become the world's largest exporter of live lobster.
- In 1987, Clearwater opened the second of two dry land lobster pounds. These pounds are capable of storing 2.5 million pounds of live lobster for up to six months.
- In July 2004, Clearwater completed construction of a \$4 million processing facility and began shipping raw lobster meat to markets in North America and Europe.

“Our raw lobster meat will build upon
our reputation as innovators
and expand our markets.”



ROBERT SULATYCKY, Executive Chef
Four Seasons Hotel, Chicago

“When I’ve had a large function of 500 people or more, I’ve been hesitant to use lobster. Now, it’s no problem.”

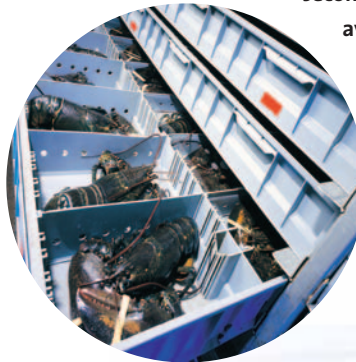
CHARLIE PALMER, Executive Chef
Aureole, New York

“Once again Clearwater has innovated in a way that answers many of the challenges of our operations – labour, time, flexibility and storage. It’s a unique fit.”



ERIC ROE, CHIEF OPERATING OFFICER

Substantial growth in lobster sales since the development of our second dry land pound and year round availability of live lobster.



Resource management

Clearwater works closely with the Canadian government and constantly samples and monitors the lobster fishing grounds to collect the information necessary for informed resource management. Tracking important stock indices such as catch per trap, the ratio of males to females and animal size along with ocean floor mapping reduces operating costs through increased harvesting efficiency.

Implementation

As a customer and solution driven company, Clearwater was challenged to find ways that would allow customers to serve lobster more often and in more ways. Our raw lobster meat was the solution. The process involves high pressure and water to recover whole pieces of tail, claw and knuckle meat. The meat is immediately vacuum packed and frozen to maintain maximum freshness and product integrity.

Building Shareholder Value

Traditionally, we’ve dealt almost exclusively in live lobsters. The ocean produces quality lobster only during the late fall and early spring. The development and construction of two dry land lobster pounds has made live lobster available year round. We’ve also increased the yield from our quota and improved the quality of the product by reducing the stress on the animals and improving their ability to endure shipment to market.

The handling of live lobster remains a challenge for Clearwater and our customers. In July 2004, we completed the construction of our new processing facility and began shipping raw lobster meat. This new product is provided to customers in vacuum packed pouches “chef ready” for quick and easy preparation. We anticipate this product will expand the market for lobster and improve our profitability from this species.

Chairman's Letter



PURDY CRAWFORD

Counsel, Osler, Hoskin & Harcourt LLP

Mr. Crawford is also a Director of the following public companies: Canadian National Railway, Maple Leaf Foods Inc., Seamark Asset Management Limited, Manitoba Telecom Services and Foot Locker Inc. He is an Officer of the Order of Canada and a Member of the Canadian Business Hall of Fame.

- **Trustee, Clearwater Seafoods Income Fund**
- **Director of CS ManPar Inc. since 2002**
- **Chairman, Corporate Governance and Compensation Committee**

The 2004 fiscal year was a difficult one for Clearwater. Last year 53% of our sales were in U.S. dollars and the decline in the value of that currency in both 2003 and 2004 had a major impact on our financial results. While management worked very hard in 2004 to overcome the impact, they were not completely successful. We are confident the strategies that have been developed over the past year will be successful in the future.

Despite the currency challenge, we were able to maintain the distribution of \$1.15 per unit to our unsubordinated unitholders in 2004. However, the Board and Trustees have decided it would be prudent to reduce distributions to unsubordinated unitholders to 84 cents per unit for 2005. Distributions of \$4.3 million or 46 cents per unit were made on subordinated units in 2004 but none are contemplated for 2005. Barring unforeseen circumstances, we are confident that the \$0.84 per unit distribution level can be maintained throughout 2005, and we anticipate continuing this level of distribution in 2006 when subordination ends. Our long-term goal is to distribute 85% of distributable cash.

Your Trustees constitute the Corporate Governance and Compensation Committee of the Board of CS Manpar. Working with the Board, we have been active in providing guidance in recruitment, employee development and succession planning. We review the performance of the CEO against his objectives and other relevant criteria and share this with, and obtain input from, every member of the CS Manpar Board. We believe that under the leadership of the CEO, Clearwater is well positioned for long-term growth.

PURDY CRAWFORD

Chairman

Clearwater Seafoods Income Fund

Trustees and Directors

GEORGE S. ARMOYAN

President and CEO, Clarke Inc.
President, Geosam Investments Limited



Mr. Armoyan and his family own a number of businesses that are primarily involved in transportation, real estate development and operations, hospitality and public company investments. He is a Director of Armco Capital Corporation, Vaquero Energy Ltd, Halterm Income Fund, Royal Host Income Fund and General Donlee Income Fund.

- Director of CS ManPar Inc. since 2002
- Member, Audit Committee

JAMES W. GOGAN

President and Director, High Street
Investments Limited



Mr. Gogan was President and CEO of Empire Company Limited until his retirement in 1998. He is a Director of Empire Company, Seamark Asset Management and Nova Scotia Business Inc.

- Trustee, Clearwater Seafoods Income Fund
- Director of CS ManPar Inc. since 2002
- Chairman, Audit Committee
- Member, Corporate Governance and Compensation Committee

COLIN E. MACDONALD

CEO and Co-founder, Clearwater Seafoods
Income Fund



Mr. MacDonald has 27 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 Chair of the IWK Children's Hospital Foundation as well as serving with a number other family and youth focused charitable organizations.

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

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.

HUGH K. SMITH

Vice President, Municipal Group of
Companies
Chairman, Clarke Inc. Chairman, Mirror
Nova Scotia Limited



Mr. Smith provides counsel to Stewart McKelvey Stirling Scales, an Atlantic Canada law firm, and serves as Chairman of the Halifax Youth Foundation.

- Director of CS ManPar Inc. since 2002
- Member, Audit Committee

THOMAS D. TRAVES

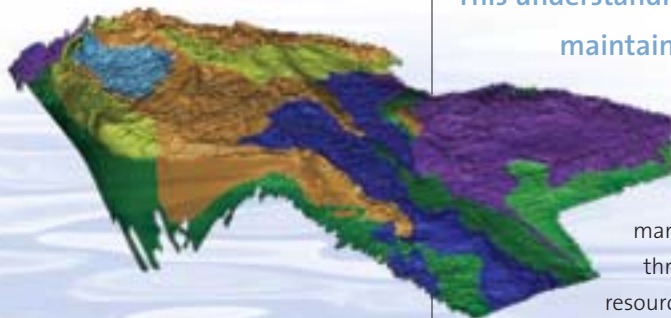
President and Vice-Chancellor, Dalhousie
University



Dr. Traves was Vice-President (Academic) of the University of New Brunswick. He has been involved with a number of boards of directors and is currently a member of the Life Sciences Development Association, Innovacorp and the Greater Halifax Partnership.

- Trustee, Clearwater Seafoods Income Fund
- Director of CS ManPar Inc. since 2002
- Member, Corporate Governance and Compensation Committee

Governance and Sustainability



Mapping the ocean floor

Bottom imaging technology and vessel tracking systems developed in partnership with the industry and Canada's Department of Fisheries and Oceans have provided the ability to better understand sea scallop beds and to target harvesting operations more effectively.

These technologies also allow us to identify areas where the sea scallops are not at full maturity. Operators can defer harvesting in those areas until maturity is reached. This better understanding of the resource and improved management practices have contributed to an increasing to stable annual TAC.

Sustainability is a fundamental commitment for Clearwater. This understanding of the need for sustainability has helped us maintain a leadership position in our industry for nearly three decades.

Our strategy of resource ownership depends on ensuring sustainable harvesting through responsible resource management. We have been proactive in protecting our key resources through our investments in science and by actively co-managing these resources in partnership with the Federal Department of Fisheries and Oceans. Because we have followed responsible harvesting practices, total allowable catch levels have typically remained stable or grown across our products in the regions where we harvest.

For an income trust, sustainability means keeping the business on a sound financial footing. To reinforce that commitment to financial stability, the Trustees of Clearwater Seafoods Income Fund, the Board of Directors of CS ManPar Inc., the managing partner of Clearwater Seafoods Limited Partnership, and the management team of Clearwater are committed to a high standard of corporate governance.

Effective corporate governance requires a well understood and widely known body of reporting structures and business processes along with a commitment by every employee to follow the standards that have been established. It also requires a strategic planning process that involves our management team, Trustees and Board. We believe that sound corporate governance contributes to unitholder value and to trust and confidence in Clearwater.

The Board of Directors of CS ManPar Inc. is responsible for the stewardship of Clearwater Seafoods Limited Partnership, including the business affairs of Clearwater Seafoods Income Fund. To execute this mandate, the Board has two standing committees, each consisting only of independent directors.

This Audit Committee is comprised of Jim Gogan (Chair), George Armoyan, and Hugh Smith. The Corporate Governance and Compensation Committee is comprised of Purdy Crawford (Chair), Tom Traves, and Jim Gogan.

The Trustees from time to time meet separately and, at other times, as part of the Board of Directors and its committees. The major responsibility of the Trustees is to protect the interest of the unitholders, in particular the public unitholders, in all respects. This can relate to monitoring distributions and the subordination of the exchangeable units as well as monitoring and approving all non-arm's length transactions.

Financial Reporting

Management's Discussion & Analysis

This Management's Discussion and Analysis ("MD&A") was prepared effective February 4, 2005.

The Audit Committee and the Board have reviewed and approved the contents of this MD&A.

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

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16	Overall Performance An overview of Clearwater's financial and operating performance in 2004.
18	Selected Annual Information Historical financial data for the three most recently completed financial years.
19	Vision, Strategy and Key Performance Drivers A description of Clearwater's vision with a discussion of strategies and performance drivers.
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23	Explanation of Annual Results A detailed explanation of 2004 performance and the variances from 2003.
26	Distributable Cash and Distributions Explains Clearwater's ability to earn distributable cash and the impact of currency exchange rates.
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This Report may contain forward-looking statements. Such statements involve known and unknown risks, uncertainties, and other factors outside management's control that could cause actual results to differ materially from those expressed in the forward-looking statements. The Fund does not assume responsibility for the accuracy and completeness of the forward-looking statements and does not undertake any obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

OVERVIEW OF THE FUND AND CLEARWATER

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

The Fund commenced operations in July 2002 when it completed an initial public offering of 21,170,435 Units and (indirectly) acquired 45.36% of the partnership units of Clearwater. On August 29, 2002, the Fund issued an additional 2,117,043 Units pursuant to an over-allotment option that had been granted to the underwriters and increased its indirect interest in Clearwater to 49.9%. On December 27, 2002, the Fund issued 1,271,186 Units through a private placement and used the proceeds to acquire an equal number of units in Clearwater increasing its ownership in Clearwater to 51.23%. On May 21, 2003, the Fund issued 4,000,000 warrants (which were converted to Units shortly thereafter) and used the proceeds to acquire an equal number of units in Clearwater increasing its ownership in Clearwater to 54.98%. On September 17, 2003, the Fund issued 848,962 Units through a private placement and used the proceeds to acquire an equal number of units in Clearwater increasing its ownership in Clearwater to 55.71%.

On June 15, 2004 the Fund completed an offering for \$50 million of 7% convertible unsecured subordinated debentures, which are due December 31, 2010 concurrently with the issue by Clearwater of 4,081,633 Class C units in the amount of \$50 million. 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.

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

OVERALL PERFORMANCE

2004 was a challenging year for Clearwater. The weakening U.S. dollar had a significant impact on the Company's results.

Financial Performance

Clearwater Seafoods Limited Partnership's ("Clearwater") 2004 annual sales were \$345 million, down 1.2% from 2003. Although Clearwater has experienced growth in most volumes in 2004, with the exception of live lobster and cod, as well as growth in prices, it did not keep pace with the negative impact from the continuing trend of a weakening U.S. dollar. The weaker U.S. dollar, after taking into account hedging, has had the effect of reducing sales dollars by an estimated \$15 million in 2003 and a further \$10 million in 2004.

Sales volume – In 2004 Clearwater has seen continued sales volume growth in scallops and clams due to the investments that it has made over the past few years and that it continues to make. Annual scallop volumes are up 16% and clam volumes are up 6%. In addition, volumes of our new raw lobster product, which we began the production of in late 2004, have grown to represent approximately 1% of 2004 sales.

Cash distributions – Distributable cash levels for 2004 were lower at \$54 million as compared to \$62 million in 2003. Distributions of \$1.15 annualized were paid to unsubordinated unitholders in 2004 and \$0.46/unit annualized were declared for the subordinated unitholders.

In January 2005, due to Clearwater's outlook for 2005, management and the board determined that it would be prudent and in the best interests of unitholders to reduce monthly cash distributions.

As a result, Clearwater reduced distributions to its Class A and unsubordinated Class B Units to an annualized rate of 84 cents per unit and suspended distributions on its subordinated Class B Units. Clearwater Seafoods Income Fund (the "Fund") made an identical reduction in its' distributions.

The weakening of the U.S. dollar at a rate exceeding the current growth in the business was the main factor in making this decision. Clearwater utilizes a hedging policy to give certainty to its cash flows in Canadian dollars. As these hedges have been expiring they have been renewed at lower and lower rates.

In addition to responding to the trend of a weakening U.S. dollar, this new distribution level has also factored in moving over time to a target of an 85% payout ratio on an annual basis. This will help to ensure the long term stability and growth of Clearwater.

Seasonal nature of business – It is important to note when assessing quarterly results for 2005 that the business is seasonal in nature and as a result distributable cash levels are typically lower in the first half of the year and payout ratios will exceed 100% for that period. Clearwater expects the first quarter of 2005 to be exceptionally slow due to a decision it made to tie up its wet fish scallop vessels in the first quarter in anticipation of receiving our two new FAS scallop vessels in the second quarter. This decision will not hinder its ability to harvest 100% of its quota. It will enable Clearwater to reduce its costs and as well harvest virtually all of its 2005 catch in a frozen at sea format.

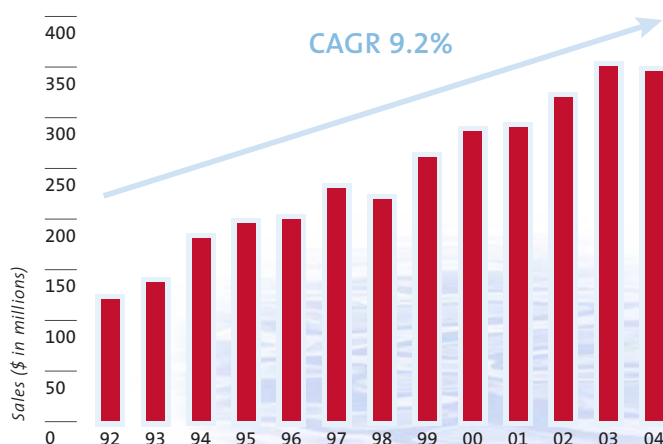
Operating Highlights

Growth through acquisition and investment – In May 2003 Clearwater acquired additional scallop quota and has continued to increase its return from this investment by harvesting a greater portion of this species in a frozen at sea format ("FAS"). In August 2004 Clearwater acquired two additional vessels, which are being converted to factory freezer scallop vessels. These vessels will enter the fishery in the second quarter of 2005. The investment in these vessels completes Clearwater's vision to convert the remainder of its scallop fleet to factory vessels and will provide an incremental contribution by enabling it to produce higher quality, FAS scallops that sell for a premium in the market. In addition, the vessels will enable Clearwater to increase the efficiency of its harvesting operations by reducing the number of vessels employed, thus lowering its costs.

Expanding our clam business – Clearwater continues to see great opportunity in its clam resource. The investment it has made in its sales and marketing team have shown positive results through increased market awareness and a number of new customers. Annual clam volumes are up 6% and it anticipates strong growth over the course of the next several years. In July 2004 Clearwater entered into a contract

CLEARWATER'S SALES HISTORY 1992 - 2004 Compound Annual Growth Rate

Over the past 14 years Clearwater has experienced a cumulative annual growth rate of 9.2%.



with a shipyard in Taiwan to construct a new factory freezer clam vessel. This vessel will be operating by mid 2006. Once operational, this new vessel is expected to generate significant incremental contribution by enabling Clearwater to increase the volume and efficiency of product harvested and processed. In particular, the vessel will consume significantly lower amounts of fuel on a per pound harvested basis. The investment in this new clam vessel is an exciting opportunity to expand its clam business by increasing its catching capacity and volumes processed while reducing harvesting costs, increasing yields and improving quality.

Investment in new products – In July 2004 Clearwater completed construction of a new \$4 million lobster processing facility. This investment has enabled Clearwater to produce an exciting new premium quality raw lobster product, which is being targeted at the high-end foodservice and retail markets. This investment will result in increased growth over the next several years in its lobster business, which has historically been solely a live business. This new raw lobster meat product will complement its quality live lobster offering and leverage its international reputation for lobster through the addition of a value-added product.

Outlook

Overall, the business continues to perform well with both strong volumes and increasing prices in local currencies. In addition, the longer-term prospects for the business are positive with further growth anticipated from our investment in our scallops, clam and raw lobster species and the prospect of further profit margin increases. Clearwater is also committed to reducing its harvesting and processing costs, in particular in the scallop, clam and lobster businesses, as well as administration and selling costs. Clearwater anticipates that over the long-term this strategy will enable it to mitigate any negative impact from a weakening U.S. dollar.

SELECTED ANNUAL INFORMATION

The following financial data provides historical data for the three most recently completed financial years. Clearwater Seafoods Limited Partnership has operated this business since July 30, 2002. However, prior to that period the business operated as a division of Clearwater Fine Foods Incorporated ("CFFI"). Net earnings, long-term liabilities and equity prior to July 30, 2002 do not fully reflect the current capital structure, which would have impacted bank interest, interest on long-term debt, income taxes, minority interest, total long-term debt and equity.

(In 000's except per unit amounts)	2004	2003	2002
Sales	\$ 345,459	\$ 349,737	\$ 319,928
Net earnings	37,473	62,117	29,533
Basic net earnings per unit	0.71	1.22	N/A
Total assets	380,012	374,482	289,919
Long-term debt	169,198	145,802	110,769
Cash distributions on unsubordinated units	1.15	1.15	N/A
Cash distributions on subordinated units	0.46	1.15	N/A

Over the past three years sales volumes have generally been increasing, however the growth in the business has been offset somewhat by the impact of a weakening U.S. dollar relative to the Canadian dollar. Approximately 53% of Clearwater's 2004 sales were denominated in U.S. dollars. The weaker U.S. dollar, after taking into account hedging, has had the effect of reducing sales dollars by an estimated \$15 million in 2003 and a further \$10 million in 2004.

The increase in total assets reflects continued investment in the business including building a new shrimp factory freezer vessel in May 2002, the acquisition of scallop quotas and other fishing assets in May 2003, the acquisition of an additional 10% interest in Clearwater's Argentine subsidiary in September 2003, the investment in a new raw lobster processing facility as well as progress payments in 2004 on two new factory freezer scallop vessels and a new clam vessel.

The increase in long-term debt reflects the financing of a portion of the additional investment in the business with new debt facilities. Clearwater's strategy with respect to financing is to use a combination of debt and equity while staying within market accepted debt levels. Debt levels have grown over the past year due to the recent investments we have made. As we begin to realize the earnings from these investments we expect our leverage ratio to decrease.

Cash distributions on the unsubordinated units have remained at an annualized rate of \$1.15 per unit since the inception of the business as it is currently structured on July 30, 2002. However, in January 2005 distributions on unsubordinated units were reduced to an annualized rate of 84 cents per unit and Clearwater suspended distributions on its subordinated units.

VISION, CORE BUSINESS AND STRATEGY

Clearwater's principal assets include unparalleled access to a wide range of premium shellfish, state-of-the-art vessels, and modern at-sea and shore-based processing capacity.

Clearwater is well positioned to capitalize on the opportunities created by a growing international demand for premium shellfish, a diversified worldwide customer base, consistently high margins, and a fragmented industry comprised of many small enterprises.

In 2003 Clearwater embarked on a process to make strategic planning an integral management process. This process has involved management from throughout the company in revisiting the existing strategy and looking to the future. This process continued in 2004 and we expect to continue it on a regular basis.

Vision – 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 our corporate vision and achieve strong sustainable financial results over the long-term.

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

- 1. Innovation:** We are 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. Our 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 we provide quality and unsurpassed cost efficiencies to our customers.
- 3. Diversity of Species and Markets:** Diversity has always been a key to Clearwater's success. The diversity of our product offering and market positioning creates a natural hedge against downturns in any one species or market while enabling us 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 our business. From the beginning we have invested in quota ownership to guarantee a stable supply as well as to create a defensible position in the market place. Ownership of quota allows us to control our destiny. Our scale of resource ownership provides us not only with security of supply it also provides the scale needed to invest in leading edge science as well as innovative harvesting, processing and marketing efforts. Our strategy of resource ownership depends on ensuring sustainable harvesting through responsible resource management. We have been proactive in protecting our key resources through our investments in science and by actively co-managing these resources in partnership with the Federal Department of Fisheries and Oceans.
- **Market and customer focus** – Clearwater prides it self on being a global company. As demand for premium shellfish has grown, we have developed a worldwide presence. We have three sales offices in China, two in the United States and one in the United Kingdom. As well, we maintain distribution facilities in London, England, Brussels, Belgium and the U.S., in addition to Halifax. While we continually seek new business, we believe that our current customers represent our greatest growth prospects. Our success is based on our 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, we mitigate risk through diversification of our customer base. Clearwater has more than eleven hundred customers worldwide, with no single customer representing more than 5% of sales.
- **Skilled and dedicated employees** – Accomplishing our goals depends on the skill and dedication of our employees. Our decentralized decision-making and personal accountability enhance performance, foster innovation, improve quality, increase yields and lower costs. We emphasize customer service, quality and efficiency – and invest in our 2,100 employees to further their training and create new opportunities for them to excel.

Investing for growth

Clearwater intends to leverage the more than \$250 million that has been invested since 1999 in modernized vessels, its shore-based processing plants and licences. This has already resulted in increased yields, improved product quality, reduced costs, improved environmental responsiveness, and strong stewardship of the resources that Clearwater harvests.

Clearwater will continue to develop new businesses, through the use of technology and research and development.

Clearwater, the dominant harvester in each of its core fisheries, will continue to pursue acquisitions of complementary businesses and joint venture opportunities.

Key Performance Drivers – Clearwater's key performance drivers include:

- its quota ownership and the amounts harvested and procured;
- the 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.
- ensuring Clearwater's employees continue to play an active role in its success.

CAPABILITY TO DELIVER RESULTS

Clearwater's revenues and income are dependent primarily on its ability to harvest and, in some cases purchase, shellfish, which, 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.

Our resource supply

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 cold water shrimp, all of which operate in offshore fisheries that have a limited number of participants. Clearwater harvests Canadian and Argentine scallops, clams and offshore cold water shrimp with its own vessels. Clearwater obtains its lobster and Cold water 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. As previously noted in the 2003 annual report, the 2004 scallop total allowable catch was lower than the historic high levels we experienced over the past few years but well within historic ranges. We expect this trend to continue over the next few years but also expect with a lower level of supply increases in price will offset part, or perhaps all, of the impact.
- **The Arctic surf clam resource** is stable. In addition, Clearwater is now harvesting and marketing a significant amount of the by-catch (i.e., northern propeller clams and Greenland cockles) that is landed by the clam fleet.
- **The Argentine scallop resource** is strong due in part to rotational fishing efforts used to manage the resource, which ensure the resource has adequate time to regenerate.
- **The cold water shrimp resource** remains strong and Clearwater expects that catch rates and landings will continue at historical levels.
- **The lobster resource** is considered strong and landings continue to be stable.

Our fleet of vessels

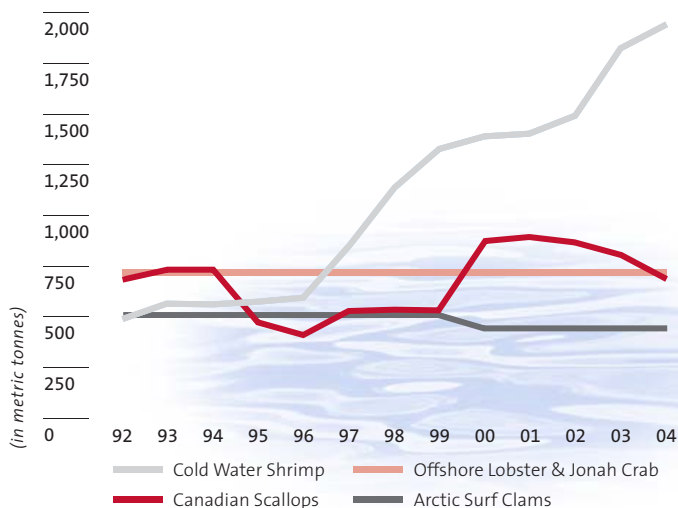
Clearwater maintains the largest fleet of factory freezer vessels in Canada. It also maintains a fleet of wet fish trawlers that harvest Clearwater's offshore lobster quota and a small portion of its sea scallop allocation. In August 2004 Clearwater acquired two additional vessels, which are being converted into FAS scallop vessels. The investment in these vessels completes Clearwater's vision to convert the majority of its scallop fleet to factory vessels and will result in the retirement of 5-6 wet fish vessels.

The condition and operating capability of these vessels is paramount for Clearwater to successfully operate in its fisheries. Since 1999 Clearwater has invested more than \$250 million, excluding acquisitions, on its fleet, its on-shore processing facilities and licences.

1) For purposes of presentation, the TAC for cold water shrimp and Arctic surf clam should be multiplied by 100 and the TAC for sea scallop should be multiplied by 10 to calculate actual figures. The TAC for lobster and Jonah crab are actual figures.

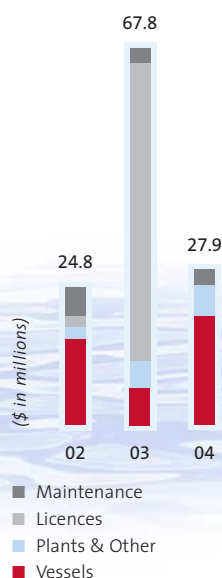
TOTAL ALLOWABLE CATCH IN ATLANTIC CANADA BY SPECIES ¹⁾

Our commitment to resource sustainability is demonstrated by the fact that TAC levels for most of the species we harvest are generally stable or increasing.



CAPITAL EXPENDITURES

In 2003 Clearwater made a significant investment in scallop quota.



Clearwater typically replaces vessels as a result of its focus on innovation and 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:

	2004	2003	2002	2001	2000
Vessels	\$ 19,700	\$ 6,700	\$ 15,600	\$ 24,500	\$ 30,800
Plants and other	5,500	4,900	2,000	7,200	13,200
Licences	–	53,500	2,100	–	–
Maintenance capital	2,700	2,700	5,100	2,800	1,000
	\$ 27,900	\$ 67,800	\$ 24,800	\$ 34,500	\$ 45,000

Vessel expenditures – Vessel costs significantly impact the amount spent annually on capital expenditures. The amounts spent on plants, licences and other capital assets typically run between \$5 - 13 million with \$5 million being more of a base amount with no growth strategy at play. With respect to maintenance capital 2002 was high, \$3 million per year being a reasonable estimate going forward. In 2004 capital expenditures included payments on our clam vessels, two FAS scallop vessels as well as the investment in a new processed lobster facility. In 2003 we acquired a significant amount of scallop and groundfish quotas and licences. In 2002 and 1999 we completed expansions at several of our plants. In 2000 we purchased a FAS shrimp vessel, began construction of a second new shrimp vessel, began construction on two new FAS scallop vessels and expanded our plants at Grand Bank, Lockeport and St. Anthony.

In addition to the amounts capitalized annually, Clearwater historically has spent and expensed on average about \$13 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 and on the processing side provide additional capacity for selective procurement.

Factory freezer vessels – The most costly of our vessels are the factory freezers of which we have nine (and will have eleven by mid 2005). 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, an example being a lobster vessel, which would cost about \$500,000 to a million dollars to replace.

The factory vessels typically have long lives of up to 25 years but we typically will replace them earlier if we see an opportunity to upgrade the technology and improve our return. Of the 9 factory vessels:

- Two are used to harvest shrimp and are less than 3 years old. These vessels provided incremental returns due to greater harvesting efficiencies and lower fuel costs.
- Two are used to harvest Canadian sea scallops and are less than 2 years old. These vessels provide a return on investment well in excess of the cost of capital due to greater harvesting efficiencies, lower costs and a new higher quality product, frozen-at-sea scallops. In the second quarter of 2005 Clearwater will have an additional two vessels.
- Two are used to harvest Argentine scallops with one expected to be replaced over the next 5 years and the second sometime thereafter. Management estimates a new vessel would cost about \$20 million. Management believes that there is opportunity to improve efficiency in this fishery through the investment in new technology as well as additional research.
- Three are used to harvest clams. Clearwater will replace one vessel in 2006 and a second will most likely be replaced in about five years with the third having a useful life of another 10+ years. Management estimates it will cost on average up to \$45 million to replace a clam vessel. Management believes a new clam vessel will generate incremental earnings by increasing the harvesting capacity and improving the processing efficiency to improve yields.

In summary the key criteria for vessel replacement is that a replacement be accretive.

Clearwater will fund future investments in vessels with a combination of debt and equity similar to what it has done in the past with other large capital projects.

Clearwater's management is key to its' ability to deliver results. The executive management team has years of experience in the fishing industry. In addition, Clearwater has a strong succession planning process in place. An illustration of the strength in the succession planning process is the newest member of the executive, Michael Pittman, the new Vice-President, Fleet. Mr. Pittman has worked with Clearwater for 16 years and has 40+ years of experience in the fishing industry.

All segments of the food supply industry are highly competitive. The primary seafood industry is highly fragmented with family type businesses representing minor share positions typically targeting price-conscious consumers. Although Clearwater has a number of competitors in each of its product categories, few of Clearwater's direct competitors offer the diversity of high quality seafood offered by Clearwater.

EXPLANATION OF ANNUAL RESULTS

Consolidated Operating Results for the years ended December 31, 2004 and 2003

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.

	2004	2003
Sales	\$ 345,459	\$ 349,737
Cost of goods sold	253,322	252,111
Gross profit	92,137	97,626
	26.7%	27.9%
Administration and selling	36,759	34,579
Other income (*)	(11,451)	(6,753)
Foreign exchange income	(7,482)	(21,443)
Bank interest and charges	659	921
Interest on long-term debt	10,490	6,138
Depreciation and amortization	16,145	15,540
Reduction in foreign currency translation account	3,006	1,443
	48,126	30,425
Earnings before income taxes and minority interest	44,011	67,201
Income taxes	4,276	2,338
Earnings before minority interest	39,735	64,863
Minority interest	2,262	2,746
Net earnings	\$ 37,473	\$ 62,117

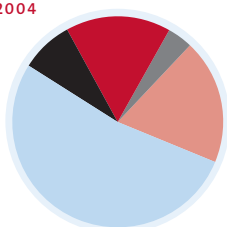
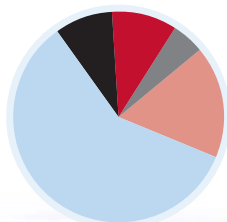
(*) Includes gain on disposal of property, plant, equipment and licences.

Net Earnings

Net earnings decreased by \$24.6 million in 2004 largely due to foreign exchange which negatively impacted sales, gross profit and foreign exchange income. In addition net earnings were impacted by higher interest costs, higher administration and selling expenses, higher tax provisions and a larger non-cash reduction in the cumulative translation account, partially offset by higher other income.

SALES BY CURRENCY

In 2004 we shifted some U.S. denominated sales to other currencies and further reduced the impact of a weakening U.S. dollar through hedging.

2004**2003**

■ U.S. Dollars
■ Japanese Yen
■ Euros
■ UK Pound
■ Canadian Dollar & Other

	2004	2003	Change
Net earnings	\$ 37,473	\$ 62,117	\$ (24,644)
Explanation of changes in earnings:			
Decrease in non-cash foreign exchange income			(13,364)
Lower gross profit			(5,489)
Higher interest costs			(4,090)
Higher administration and selling costs			(2,180)
Higher tax expense			(1,938)
Higher reduction in cumulative translation account			(1,563)
Decrease in cash foreign exchange income			(587)
Higher other income			4,698
All other			(131)
			\$ (24,644)

Currency impact

Although prices in the currency transacted were generally higher in 2004 as compared to 2003, due to the impact of the weakening of the U.S. dollar relative to the Canadian dollar, the prices were lower when converted to Canadian dollars. This resulted in sales for the year being down 1% or \$4.3 million from 2003.

As can be seen in the table below we received about 8 cents less for each U.S. dollar in 2004, which resulted in receiving approximately \$10.6 million less when converted to Canadian dollars. The business was able to offset 48% of this \$10.6 million with \$5.1 million of cost savings, higher prices and volumes and as a result gross profit only declined by \$5.5 million as can be seen in the previous table.

	2004		2003	
Currency	% sales	Rate	% sales	Rate
U.S. Dollars	53.0%	1.382	58.7%	1.462
Japanese Yen	8.2%	0.012	9.4%	0.013
Euros	15.8%	1.613	9.8%	1.615
UK pounds	4.4%	2.382	5.1%	2.464
Canadian dollar and other	18.6%		16.9%	
	100.0%		100.0%	

The company maintains an active hedging program to provide a higher degree of certainty to future Canadian dollar cash flows (See the Financial Instruments and Risks and Uncertainties – foreign exchange exposure sections of the annual MD&A for greater details on the hedges in place as at year-end).

Annual net sales to customers by product category were as follows:

	2004	2003
Scallops	\$ 114,735	\$ 101,552
Lobster	66,603	76,065
Clams	59,898	57,487
Groundfish and other	44,679	48,298
Cold water shrimp	31,741	30,769
Crab	17,246	22,832
Hedging program	10,557	12,734
	\$ 345,459	\$ 349,737

Sales by species

Sea scallop sales are up due to increased volumes from the additional quota purchased in the second quarter of 2003 as well as increased volumes of Argentine scallops. Prices of sea scallops in U.S. dollars were up in 2004 due to a higher mix of frozen at sea product and stronger market prices overall, which offset the impact of a stronger Canadian dollar. We increased prices of our Canadian sea scallops in the second half of 2004 and expect to see further upward movement in prices in 2005. As previously noted in the 2003 annual report, the 2004 scallop total allowable catch was lower than the historically high levels we experienced over the past few years but well within historic ranges. We expect this trend to continue over the next few years but also expect with a lower level of supply, increases in price will offset part, or perhaps all, of the impact on earnings.

Lobster sales were down due to 15% lower live lobster volumes. This resulted from the unavailability of larger volumes of higher quality product. Raw material quality also had a negative impact on cost of goods sold and profit margins due to shrinkage. This was partially offset by growing sales from our new raw frozen lobster product. In the fourth quarter we began to see some positive sales results from this product and we expect to see significant growth in the processed lobster segment over the next several years.

Clam sales were up, primarily due to a 6% increase in volumes. We have seen growth in our key Asian markets and our canned clam volumes are continuing to grow, albeit at a slower rate than management anticipated due to strong competitive pressure. The average selling price achieved in 2004 was lower than in 2003 due to a higher proportion of sales being sold in the canned format at lower prices than 2003. Harvesting costs per pound were higher in 2004 due in part to the scheduled refit of one of our three clam vessels in the latter part of the year, as well as rising fuel costs. The lower selling prices and higher harvesting costs offset the benefit of this growth in volumes.

Groundfish and other sales are down due primarily to lower cod volumes. Clearwater has experienced increasing competition from Chinese processors for individually quick frozen ("IQF") cod and as a result has decreased production of this low margin product. In 2004 cod sales declined from the \$29 million realized in 2003 to \$24 million and we expect a further decline in 2005. This will be offset somewhat by a trend of growing haddock sales, particularly in 2006 and beyond.

Cold water shrimp sales increased due to higher volumes processed but pricing was lower due to a smaller size mix, partially offset by lower costs.

Crab sales are down due to lower purchased volumes of Jonah and Snow crab, however higher margins offset the majority of this decline.

In summary, we have had lower contributions from our clam, lobster, groundfish and shrimp operations. This was partially offset by a higher return from scallop operations.

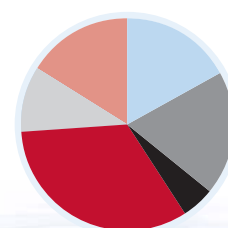
Gross profit margins were 26.7% in 2004 as compared to 27.9% in 2003. Margins have been lower in 2004 due to the negative exchange impact on selling prices denominated in U.S. dollars when converted into Canadian dollars, higher harvesting costs in the clam division and lower shrimp prices, partially offset by increases in volumes of certain species and strong scallop prices.

Administration and selling costs increased by \$2.2 million or 6% in 2004 due to a planned additional investment in our sales force, the continued development of sales support and manufacturing information technology systems and costs incurred for financial statement certification, offset partially by lower bonus provisions in 2004. We have largely completed the most significant upgrades to information technology systems and are focused on reducing our administration and selling costs, but expect this initiative will take several quarters to show the expected savings.

Other income was \$11.5 million in 2004, an increase of \$4.7 million from 2003. The increase is due primarily to higher gains on the disposal of certain quotas and property, plant and equipment, export rebates and quota royalties.

2004 SALES BY SPECIES

Clearwater has a diverse product offering with no one species representing more than 34% of 2004 sales.



- Clams
- Scallops
- Lobster
- Cold Water Shrimp
- Groundfish, Other and Hedging
- Crab

Foreign exchange income was \$7.5 million in 2004, a decrease of \$14 million from 2003.

The business generated \$11.9 million of cash from foreign exchange management to offset the reduced value of U.S. denominated sales proceeds. This is down \$600,000 as compared to the \$12.5 million generated in 2003.

In 2004 foreign exchange income includes approximately \$4.4 million of non-cash unrealized exchange losses, primarily on foreign exchange options. This is a change of \$13.3 million from the \$8.9 million of non-cash gains included in 2003. These unrealized exchange gains and losses are driven primarily by movements in the U.S. dollar relative to the Canadian dollar. The total cash and non-cash gains are illustrated below.

	2004	2003
Foreign exchange income		
Unrealized exchange gains (losses) – non-cash	\$ (4,407)	\$ 8,957
Realized exchange gains – cash	11,889	12,486
	\$ 7,482	\$ 21,443

Bank interest and interest on long-term debt increased by \$4 million due to higher average outstanding senior and convertible debt balances in 2004 and the conversion from mostly short-term debt to longer term debt at higher interest rates. Average debt levels were higher than 2003 primarily due to the acquisition of quotas in May 2003 as well as progress payments on new scallop and clam vessels, which were partially funded by debt. Interest costs will remain high going forward as progress payments are made on the vessels under construction although until such time as construction is complete, interest costs for the new clam vessel are being capitalized (2004 – \$180,000 capitalized).

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

Income taxes were \$4.3 million in 2004 as compared to \$2.3 million in 2003. In 2003 income taxes included a \$2 million one-time recovery related to the recognition of previously unrecognized loss carryforwards in our Argentine subsidiary. In 2004 tax expense includes the impact of a reorganization of certain of our Canadian subsidiaries creating a one-time net tax expense of approximately \$840,000, being cash taxes of approximately \$6 million net of future tax reductions of \$5.2 million. Going forward as a result of this reorganization, we will pay a reduced amount of tax. We currently estimate that in 2005 annual cash taxes excluding the above items will approximate \$2 to \$3 million.

DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

The negative impact of the stronger Canadian dollar has been the main factor behind reduced levels of distributable cash in 2004.

As previously noted, the weaker U.S. dollar, after taking into account hedging, has had the effect of reducing sales dollars by an estimated \$15 million in 2003 and a further \$10 million in 2004.

In 2004 Clearwater generated \$54.2 million of distributable cash (2003 – \$61.5 million) and declared distributions of \$54.2 million (2003 – \$58.5 million) for a payout ratio of 100% of distributable cash (2003 – 95%).

The distributions paid in 2004 equate to a distribution per unit of \$1.15 annualized for unsubordinated unitholders and \$0.46 per unit annualized for subordinated unitholders. It is important to note that unpaid amounts on subordinated units do not carry forward for payment in future years and that subordination expires after December 31, 2005.

In January 2005 Clearwater reduced distributions to its Class A and unsubordinated Class B Units to an annualized rate of 84 cents per unit and suspended distributions on its subordinated Class B Units. Clearwater Seafoods Income Fund (the "Fund") made an identical reduction in its' distributions to 84 cents per unit.

Due to Clearwater's outlook for 2005, management and the board determined that it would be prudent and in the best interests of unitholders to reduce monthly cash distributions. The weakening of the U.S. dollar at a rate exceeding the current growth in the business was the main factor in making this decision. Clearwater utilizes a hedging policy to give certainty to its cash flows in Canadian dollars. As these hedges have been expiring they have been renewed at lower and lower rates.

In addition to the trend of a weakening U.S. dollar, this new distribution level has also factored in moving over time to a target of an 85% payout ratio on an annual basis. This will help to ensure the long term stability and growth of Clearwater.

It is important to note when assessing quarterly results for 2005 that the business is seasonal in nature and as a result distributable cash levels are typically lower in the first half of the year and payout ratios exceed 100% for that period. We expect the first quarter of 2005 to be exceptionally slow due to a decision we made to tie up our wet fish scallop vessels in the first quarter in anticipation of receiving our two new FAS scallop vessels. This decision will enable us to reduce our costs and as well harvest a greater portion of our 2004 catch in a frozen-at-sea format.

Please refer to the distributable cash reconciliation included in this document for detailed reconciliations of these amounts.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2004 the Fund owns 55.71% (2003 – 55.71%) of the outstanding partnership units of Clearwater. However, as Clearwater Fine Foods Incorporated has maintained the right to nominate the majority of the board of directors of Clearwater at the time of the initial investment by the Fund, the assets and liabilities at acquisition have been recorded using the book values as recorded by Clearwater Fine Foods Incorporated.

As at December 31, 2004 the Fund and Clearwater had similar capital structures as illustrated in the table below:

	Fund	Clearwater
Units		
Publicly listed Trust Units	29,407,626	
Class A Partnership Units		29,407,626
Units Held solely by Clearwater Fine Foods Incorporated		
Special Trust Units	23,381,217	
Class B Partnership Units		23,381,217
	52,788,843	52,788,843
Convertible debentures/Class C Partnership Units		
Convertible debentures	\$ 49,165,000	
Class C Partnership Units		\$ 49,165,000

The **Special Trust Units** issued by the Fund were issued solely to provide voting rights to Clearwater Class B Partnership units held by Clearwater Fine Foods Incorporated. The right of 9,352,487 Class B Partnership units to receive distributions is subordinated to the rights of the Class A units until December 31, 2005.

In June 2004, **4,081,633 Class C units** were issued by Clearwater (indirectly) to the Fund concurrently with the issue by the Fund of \$50 million of Convertible Debentures. The Class C units are non-voting, redeemable and retractable at a price of \$12.25 per unit. These units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the Convertible Debentures of the Fund and in a manner that ensures that the distributions on the Class C units will be able to (indirectly) fund the ongoing interest payments on the Convertible Debentures. The Class C units are classified in accordance with their component parts: the value ascribed to the holder's option to convert to units, \$882,000, has been classified as equity and the remaining portion of the units has been classified as debt.

The \$50 million of **Convertible Debentures** issued by the Fund are unsecured and subordinated to senior debt, 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, commencing December 31, 2004. 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.

On May 21, 2003, Clearwater completed the **High Liner Purchase Agreement** pursuant to which Clearwater acquired certain scallop and groundfish licences, quotas and other assets from High Liner Foods Incorporated and extended three loans to unrelated entities that purchased certain of High Liner's assets previously used in connection with such licences and quotas. Although it does not own these unrelated entities, Clearwater has consolidated the results of the entities in accordance with the Canadian Institute of Chartered Accountants Accounting Guideline 15 – Consolidation of Variable Interest Entities, due to its level of influence and economic interest as a result of the related credit agreements. This acquisition was partially financed through the issue of an additional 4,000,000 units of Clearwater to the Fund increasing the Fund's ownership to 54.98%. The Fund in turn issued 4,000,000 warrants to the public (which were converted to units shortly thereafter).

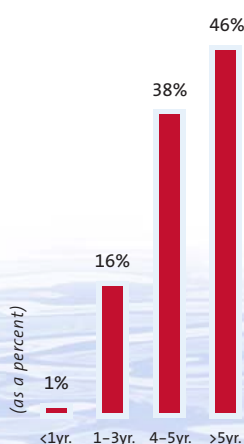
On September 17, 2003 Clearwater completed the acquisition of an additional 10% interest in its' **Argentine subsidiary – Glaciar Pesquera S.A. ("Glaciar")**, increasing its' interest from 70% to 80%. This acquisition was financed through the issuance of an additional 848,962 units of Clearwater to the Fund, bringing the Fund's ownership in Clearwater to 55.71%. The Fund in turn issued 848,962 units to the current minority shareholder of Glaciar.

In addition to the Convertible debentures/Class C Partnership units, Clearwater has two additional primary debt facilities, approximately Canadian \$81 million in **five and ten year notes** in Canadian and U.S. dollars from a group of institutional lenders and a \$120 million revolving term debt facility from a syndicate of banks. As Clearwater continues to expand, this financing provides it with access to longer-term debt at attractive fixed interest rates, a diversified group of financial partners and some additional flexibility in financing accretive growth opportunities.

The **revolving term credit facility** was renegotiated in 2004 and is now due in May 2006. In May 2005, at the request of Clearwater, the syndicate may extend the credit until May 2007. In the second quarter the proceeds from the issue of the Convertible Debenture were applied against this facility. The facility has a balance outstanding of \$24.8 million at December 31, 2004 and a portion of the balance remaining will be used to fund the construction of the new \$45 million clam vessel as well as the two FAS scallop vessels.

DEBT PROFILE

Clearwater has a strong debt profile with staggered maturities.



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

Cash flow generated by Clearwater along with its banking facilities is used to fund current operations, seasonal working capital demands as well as 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 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. These primarily relate to the segments of the business that purchase product from independent fishermen. These purchases cannot be controlled as efficiently as raw materials harvested by Clearwater's own fleet of vessels. However, Clearwater has sufficient capital resources to meet all of its obligations and purchase the product required to meet its operating plans.

In July 2004 Clearwater entered into a contract with a shipyard in Taiwan to construct a **new factory freezer clam vessel**. The total estimated cost of the vessel, including owner supplied materials and related costs, is expected to be approximately \$45 million, of which \$10.9 million has been spent to date. Clearwater expects to be operating the vessel by mid 2006. Once operational, this new vessel is expected to generate significant incremental contribution by enabling Clearwater to increase the volume of product harvested and processed in a far more efficient manner. In particular, the vessel will consume significantly lower amounts of fuel on a per-pound harvested basis. The investment in this new clam vessel is an exciting opportunity to extend Clearwater's clam business by increasing its' catching capacity and volumes processed while reducing harvesting costs, increasing yields and improving quality.

In August 2004 Clearwater acquired two additional vessels, which are being converted to **factory freezer scallop vessels**. The total estimated cost to acquire and convert the vessels, including owner supplied materials and related costs, is expected to be approximately \$17 million, of which \$10.4 million has been spent to date. Clearwater expects these vessels to enter the fishery in the second quarter of 2005. The investment in these vessels completes Clearwater's vision to convert the remainder of their scallop fleet to factory vessels. These vessels will provide incremental contributions by enabling Clearwater to produce a higher quality frozen-at-sea scallop that sells for a premium in the market. In addition, the vessels will enable Clearwater to increase the efficiency of its harvesting operations by reducing the number of vessels employed, thus lowering its costs.

Capital expenditures were \$27.9 million for the year ended December 31, 2004 (2003 – \$67.8 million). Of this amount, \$25.2 million (2003 – \$65.1 million) was considered ROI (return on investment) capital and \$2.7 million (2003 – \$2.7 million) was maintenance capital. The ROI capital investments in 2004 included the investment in new technology for our clam vessels, deposits on two FAS scallop vessels as well as the investment in the new processed lobster facility. The ROI capital investments in 2003 included the acquisition of licences and quotas in May 2003, the completion of Clearwater's second factory freezer scallop vessel, the expansion of our clam cannery and the expansion of our crab plant.

In total Clearwater plans to spend approximately \$30.7 million on capital projects in 2005 with approximately \$25.2 million to be spent on vessels (including the two FAS scallop vessels and the new clam boat), \$1.1 million to be spent on new product and productivity improvements in the plants and approximately \$4.4 million on maintenance capital expenditures (including \$2 million to be spent on an existing clam vessel).

As at December 31, 2004 commitments for Long-term debt, operating leases and other long-term obligations are as follows:

Contractual obligations	Total	Payments due by year			
		< 1 year	1-3 years	4-5 years	> 5 years
Long-term debt	169,198	1,206	27,089	63,574	77,329
Operating leases	26,964	4,148	6,072	5,477	11,267
Other obligations	1,995	—	—	—	1,995
	198,157	5,354	33,161	69,051	90,591

Further details on these obligations are disclosed in the notes to the annual consolidated financial statements. Amounts in years 1 - 3 and 4 - 5 appear high as non-amortizing term credit facilities are due to be renegotiated during those periods.

In addition to the commitments noted above Clearwater has commitments for the construction of three vessels. In July 2004 Clearwater entered into a contract to construct a new factory freezer clam vessel. The total estimated cost of the vessel, including owner supplied materials and related costs, is expected to be approximately \$45 million, of which \$10.9 million has been spent to date. Clearwater expects to be operating the vessel by mid 2006. In August 2004, Clearwater entered into contracts to acquire and convert two vessels to factory freezer scallop vessels for delivery in 2005. The total estimated cost to acquire and convert the vessels, including owner supplied materials and related costs, is expected to be approximately \$17 million, of which \$10.4 million has been spent to date.

EXPLANATION OF FOURTH QUARTER RESULTS

Consolidated Operating Results for the thirteen weeks ended December 31, 2004 and 2003

The results of operations of the Fund are entirely related to Clearwater's performance and therefore the commentary below is on the operations of Clearwater. The statement of earnings disclosed below reflects the unaudited interim earnings of Clearwater for the 13-week periods ended December 31, 2004 and 2003.

	2004	2003
Sales	\$ 98,845	\$ 101,565
Cost of goods sold	69,977	70,589
Gross profit	28,868	30,976
	29.2%	30.5%
Administration and selling	9,011	9,924
Other income (*)	(4,367)	(1,952)
Foreign exchange income	(2,096)	(8,275)
Bank interest and charges	168	239
Interest on long-term debt	2,633	1,661
Depreciation and amortization	4,037	3,836
Reduction in foreign currency translation account	1,045	—
	10,431	5,433
Earnings before income taxes and minority interest	18,437	25,543
Income taxes	966	1,100
Earnings before minority interest	17,471	24,443
Minority interest	918	689
Net earnings	\$ 16,553	\$ 23,754

(*) Includes gain on disposal of property, plant, equipment, and licences.

Net earnings

Net earnings decreased by \$7.2 million in 2004 largely due to foreign exchange which negatively impacted sales, gross profit and foreign exchange income. In addition, net earnings were impacted by higher interest costs and a non-cash reduction in the cumulative translation account, partially offset by higher other income and lower administration and selling expenses.

	2004	2003	Change
Net earnings	\$ 16,553	\$ 23,754	\$ (7,201)

Explanation of changes in earnings:

Higher other income	\$ 2,415
Lower Administration and selling expense	913
Decrease in non-cash foreign exchange income	(5,931)
Lower gross profit	(2,108)
Reduction in foreign currency translation account	(1,045)
Higher interest costs	(901)
All other	(544)
	\$ (7,201)

Currency impact

Although prices in the currency transacted were generally higher in 2004 as compared to 2003, due to the impact of the weakening of the U.S. dollar relative to the Canadian dollar, the prices were lower when converted to Canadian dollars. This, in part, resulted in sales for the quarter being down by \$2.7 million or 3% from 2003.

As can be seen in the table below we received about 7 cents less for each U.S. dollar in the fourth quarter of 2004, which resulted in receiving approximately \$2.3 million less when converted to Canadian dollars.

	2004		2003	
Currency	% sales	Rate	% sales	Rate
U.S. Dollars	45.5%	1.357	53.0%	1.427
Japanese Yen	7.7%	0.012	9.5%	0.013
Euros	22.2%	1.604	12.0%	1.613
UK pounds	4.5%	2.293	5.4%	2.422
Canadian dollar and other	20.1%		20.1%	
	100.0%		100.0%	

The company maintains an active hedging program to provide a higher degree of certainty to future Canadian dollar cash flows. See the Financial Instruments and Risks and Uncertainties – foreign exchange exposure sections of the annual MD&A for greater details on the hedges in place as at year-end.

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

	2004	2003
Scallops	\$ 38,012	\$ 35,078
Lobster	19,527	20,293
Clams	15,925	16,816
Groundfish and other	9,976	12,039
Cold water shrimp	8,925	9,215
Crab	1,852	2,839
Hedging program	4,628	5,285
	\$ 98,845	\$ 101,565

Quarterly sales by species

Sea scallop sales are up due primarily to greater volumes of Argentine scallops as well as increased prices from a higher mix of frozen at sea product and stronger market prices overall, offset partially by lower volumes of Canadian sea scallops. We increased prices of our Canadian sea scallops in the second half of 2004 and expect to see further upward movement in prices in 2005. However, Canadian scallop margins did not increase due to lower volumes and higher costs of fishing in the quarter, in part due to the continued use of wetfish vessels. These vessels have now been tied up and will be replaced by two new FAS scallop vessels, which will arrive in time to begin harvesting in the second quarter of 2005. We expect to see improvements in costs on a more consistent basis when we receive these vessels. Increases in Argentine scallop margins more than offset the decrease in Canadian scallop margins. Argentine margins improved due to higher volumes and lower costs resulting from higher catch rates and lower than expected refit costs.

Lobster sales were down due to 21% lower live lobster volumes. This resulted from the unavailability of large volumes of higher quality product. Raw material quality also had a negative impact on cost of goods sold and profit margins due to shrinkage. This was almost entirely offset by growing sales from our new raw frozen lobster product. In the fourth quarter we began to see some positive sales results from this product and we expect to see significant growth in the processed lobster segment over the next several years.

Clam sales were down as one of our three clam vessels was on a scheduled refit in the quarter, which resulted in lower production volumes and a 6% decrease in sales volumes. Higher harvesting costs, due to the refit, also impacted margins in the fourth quarter.

Groundfish and other sales are down due primarily to lower cod volumes. Clearwater has experienced increasing competition from Chinese processors for individually quick frozen ("IQF") cod and as a result has decreased production of this low margin product.

Crab sales are down due to lower purchased volumes of Jonah and Snow crab, however higher margins offset this decline.

In summary, in the fourth quarter we had lower contributions from our clam operations, partially offset by a higher contribution from our scallop operations.

Overall **gross profit margins** were down slightly at 29.2% in the fourth quarter of 2004 as compared to 30.5% in the fourth quarter of 2003.

Administration and selling costs were lower due primarily to lower bonus provisions in 2004.

Other income was \$4.4 million in 2004, an increase of \$2.4 from 2003, due primarily to a \$2.9 million gain realized in 2004 on the disposition of certain quotas.

Foreign exchange income was \$2.1 million in 2004 versus \$8.3 million in 2003, a decrease of \$6.2 million. The business generated \$2.2 million of cash from foreign exchange management to offset the reduced value of U.S. denominated sales proceeds. In 2004 foreign exchange income includes approximately \$89,000 of unrealized exchange losses on both long-term debt and foreign exchange options. In 2003, foreign exchange income included approximately \$5.8 million of unrealized exchange gains and \$2.4 million of realized gains. These unrealized exchange gains and losses are driven primarily by movements in the U.S. dollar relative to the Canadian dollar.

	2004	2003
Unrealized exchange gains (losses)	\$ (89)	\$ 5,842
Realized exchange gains	2,185	2,433
	\$ 2,096	\$ 8,275

Bank interest and interest on long-term debt increased by \$900,000 due to higher average outstanding debt balances in 2004 and the conversion from mostly short-term debt to longer term debt at higher interest rates. Interest costs will remain high going forward as progress payments are made on the scallop and clam vessels under construction although until such time as construction is complete, interest costs for the new clam vessel are being capitalized.

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

Income taxes were \$966,000 in the fourth quarter of 2004 as compared to \$1.1 million in the fourth quarter of 2003. We currently estimate that in 2005 annual cash taxes will approximate \$2 to \$3 million.

OUTLOOK

We expect to see a continued weakening of the U.S. dollar over the next several years. We utilize a hedging policy to give certainty to our cash flows in Canadian dollars. As these hedges have been expiring they continue to be renewed at lower and lower rates.

Due to Clearwater's outlook for 2005, management and the board determined it would be prudent to reduce cash distributions to an annualized rate of 84 cents per unit in 2005. This new level of distribution will continue until the weakening U.S. dollar can be offset by the continuing growth in Clearwater's underlying business.

In addition to the trend of a weakening U.S. dollar, this new distribution level has also factored in moving over time to a target of an 85% payout ratio on an annual basis. This will help to ensure the long term stability and growth of Clearwater.

It is important to note when assessing quarterly results for 2005 that the business is seasonal in nature and as a result distributable cash levels are typically lower in the first half of the year and payout ratios exceed 100% for that period. We expect the first quarter of 2005 to be exceptionally slow due to a decision we made to tie up our wet fish scallop vessels in the first quarter in anticipation of receiving our two new FAS scallop vessels. This decision will enable us to reduce our costs and as well harvest virtually 100% of our catch in a FAS format that sell for a premium in the market.

In 2004 Clearwater experienced increasing competition from international processors, in particular, China. In response to this Clearwater decreased production during 2004 of one of its lower margin products, IQF cod. As a result we expect our sales of this low margin product to decline in 2005 and we will continue to monitor this area in light of the increased competition.

Overall, the business continues to perform well with both strong volumes and increasing prices in local currencies. In addition, the longer-term prospects for the business are positive with further growth anticipated from our investment in our clam and raw lobster species and the prospect of further price increases. Clearwater is also committed to reducing our harvesting and processing costs, in particular in our scallop, clam and lobster businesses, as well as our administration and selling costs. Clearwater anticipates that over the long-term this strategy will enable it to mitigate any negative impact from a weakening U.S. dollar.

RISKS AND UNCERTAINTIES

The Fund is a limited purpose trust, which is entirely dependent upon the operations and assets of Clearwater. Cash distributions to Unitholders are not guaranteed and depend on the ability of Clearwater to pay distributions on its partnership units.

Clearwater's income and cash flow are generated from, and fluctuate with, the performance of its business, which is susceptible to a number of risks, including risks related to resource supply, food processing and product liability, suppliers, customers, competition and foreign exchange exposure. 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 our investment in science and technology, which enables Clearwater to understand the species that it harvests. Clearwater has invested in projects with the scientific community, such as ocean floor mapping and the development of rotational fishing plans. The guidelines, developed by DFO, are very often a cooperative effort between industry participants and DFO. Clearwater further mitigates the risk associated with resource supply and competition through the diversification across species.

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

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

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

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

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

Risk associated with suppliers is mitigated through diversification of suppliers. Risk associated with customers is mitigated through diversification of the customer base. Clearwater has over 1,100 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.

Foreign exchange exposure – Certain of Clearwater's sales are in United States dollars and other currencies, although cash distributions payable by the Fund and CSLP are in Canadian dollars. As a result, fluctuations may have a material impact on Clearwater's financial results and the amount of cash available for distribution to Unitholders.

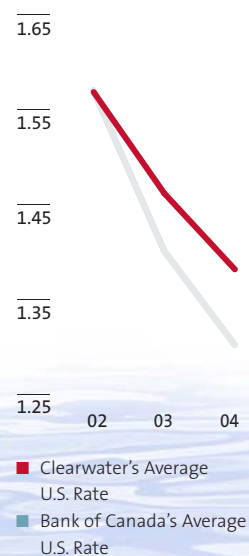
Risks associated with foreign exchange are partially mitigated by the fact Clearwater operates internationally, which reduces the impact of any country-specific economic risks on its business. Clearwater also uses forward exchange contracts to manage its foreign currency exposures.

Clearwater has sales denominated in U.S. dollars of approximately U.S. \$138 million annually. For 2005 Clearwater has approximately 68% of its U.S. dollar sales hedged such that a one penny change in the U.S. dollar as converted to Canadian dollars in 2005 would result in a \$440,000 change in sales. In addition, approximately 16% of the sales are denominated in Euros and 8% are denominated in Japanese Yen. Every one penny change in the Euro and one-twentieth of a penny change in the Yen as converted to Canadian dollars would result in changes of \$340,000 and \$1.1 million respectively in sales.

Fuel costs – Clearwater uses approximately 38 million litres of marine fuel oil annually. A change of one penny in the price of marine fuel oil would result in a change of approximately \$380,000 to annual harvesting expenses.

AVERAGE REALIZED EXCHANGE RATES

Clearwater's hedging program has slowed the impact of a weakening U.S. dollar.



SUMMARY OF QUARTERLY RESULTS

The following financial data provides historical data for the twelve most recently completed quarters. Clearwater Seafoods Limited Partnership has operated this business since July 30, 2002. However, prior to that period the business operated as a division of Clearwater Fine Foods Incorporated ("CFFI"). Net earnings prior to July 30, 2002 do not fully reflect the current capital structure, which would have impacted bank interest, interest on long-term debt, income taxes and minority interest.

(In 000's except per unit amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2004				
Sales	\$ 72,741	\$ 85,038	\$ 88,835	\$ 98,845
Net earnings (loss)	(2,978)	8,760	15,138	16,553
Basic earnings (loss) per unit	(0.06)	0.17	0.29	0.31
Fiscal 2003				
Sales	\$ 75,079	\$ 76,579	\$ 96,514	\$ 101,565
Net earnings	9,881	16,913	11,569	23,754
Basic earnings per unit	0.21	0.33	0.22	0.45
Fiscal 2002				
Sales	\$ 65,055	\$ 68,502	\$ 90,037	\$ 96,334
Net earnings	2,877	1,939	3,482	21,235
Basic earnings per unit	N/A	N/A	N/A	0.45

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 clearly illustrated in the results above.

In comparing results on a quarterly basis the general trend of increase in sales volumes reflects the continued expansion and growth of the business. Net earnings also reflect that continued growth pattern but have also been impacted by changes in foreign exchange rates, primarily the U.S. dollar, as well as differing interest and income tax costs under the current capital structure. The impact of the foreign exchange rates is more clearly seen in the 2004 quarterly results.

For a more detailed analysis of each quarter results please refer to our quarterly reports and our annual report for 2003, which contains an analysis of the fourth quarter of 2003.

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:

	2004	2003
Commissions charged to joint ventures	\$ 2,658	\$ 2,096
Interest charged to joint ventures	879	777

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

	2004	2003
Accounts receivable from joint venture partner	\$ 341	\$ 512
Due from joint venture partner	—	5,949
Accounts payable to joint venture partner	74	254
Due to joint venture partner, long term	1,995	1,995

As at December 31, 2004, Clearwater was contingently liable for the obligations of a joint venture partner in the amount of \$6,696,000 (2003 – \$11,500,000). 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 \$16,336,000 (2003 – \$23,440,000).

In addition to the transactions and balances associated with related parties disclosed above, Clearwater had the following transactions and balances with CFFI during 2004 and 2003:

	2004	2003
Transactions		
Charge by CFFI for use of a corporate airplane	\$ 202	\$ 252
Charged to CFFI for rent and other services	244	236
Balances		
Receivable from CFFI	\$ 38	\$ 21
Distribution payable to CFFI	3,000	6,718

In addition, Clearwater was charged approximately \$225,000 for vehicle leases in 2004 (2003 – \$209,000) and approximately \$69,000 for other services (2003– \$78,000) 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 fair market value.

In addition, CFFI provides certain treasury functions related to derivative financial instruments at no charge to Clearwater.

CRITICAL ACCOUNTING POLICIES

Clearwater's critical accounting policies are those that are important to the portrayal of Clearwater's financial position and operations and require management to make judgments based on underlying estimates and assumptions about future events and their effects. Underlying estimates and assumptions are based on historical experience and other factors that are believed by management to be reasonable under the circumstances. These estimates and assumptions are subject to change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes. Management believes the following are the most critical accounting policies and estimates used in the preparation of the consolidated financial statements. For information on other significant accounting policies see the Accounting Policy notes to both Clearwater and the Fund's consolidated financial statements.

Impact of recently adopted accounting policies – There have not been any substantial changes to any of Clearwater's significant accounting policies in the past two years with the exception of the adopting in the third quarter of 2004 of a policy whereby it will capitalize interest on capital projects for which the total estimated costs is greater than \$5 million and the period of construction is greater than 18 months. As a result of adopting this policy \$180,000 of interest costs were capitalized in 2004. This policy has been applied retroactively, however no adjustments were required to prior periods. During the course of the year Clearwater reviewed all new accounting standards issued by the Canadian Institute of Chartered Accountants in order to determine the impact of the new standards, if any. It adopted the new standard on the Impairment of Long-Lived Assets and determined that no adjustments were required. In 2003 Clearwater provided financing to unrelated entities as part of the High Liner acquisition and, following Accounting Guideline 15 – "Consolidation of Variable Interest Entities", consolidated these entities due to its level of influence and economic interest as a result of the related credit agreements. In addition, Clearwater had early adopted Accounting Guideline 13 – "Hedging Relationships" and as such no adjustments were required with respect to this standard.

Impact of accounting policies to be adopted in the future – Looking forward, new standards will become effective for fiscal years beginning after October 1, 2006, or in Clearwater's case fiscal 2007, with respect to financial instruments, hedging and comprehensive income. Clearwater expects this standard to impact the accounting for contracts used for hedging purposes, in particular the timing of recognition of gains or losses and the related classification. These standards will cause Clearwater to recognize non-cash mark-to-market adjustments on these in comprehensive income. This will not impact distributable cash as any non-cash amounts will be excluded from the calculation of distributable cash.

Licences – One of the key pillars of Clearwater's business is resource ownership. Ownership of licences and quota (hereafter referred to as licences) ensure continued access to the underlying resource. Clearwater owns underlying licences for a significant portion of the products that it sells.

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

Estimating the net recoverable amount requires estimates of future cash flows, which are subject to management judgments concerning the health of the underlying resource, sales prices and operating costs. Should management determine that a licence for a specific species was either fully or partially impaired, the underlying book value of the licence would be written down or written off as appropriate.

Property, plant and equipment – Clearwater's property, plant and equipment, including its' vessels and plants, are depreciated on a straight-line basis over their estimated useful lives. Clearwater believes the straight-line method is the most appropriate as Clearwater has historically spent significant amounts on the maintenance of its fleet and processing plants. Management determines the useful life based on prior experience with similar assets. However, the actual useful life of the assets may differ from management's original estimate due to factors such as technological obsolescence and maintenance activity. The company reviews long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered to be impaired. An impairment loss is measured as the amount by which the carrying amount of the group of assets exceeds its fair value.

Derivative financial instruments – Forward exchange contracts and interest rate swaps are used by Clearwater in the management of its foreign currency and interest rate exposures. Clearwater formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific forecasted transactions. Clearwater also formally assesses on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Clearwater writes foreign currency options. These securities, which according to Generally Accepted Accounting Principles, do not act as a fully effective hedge, and which mature over a short period of time, are stated at estimated quoted market prices. For further information on these contracts please refer to the financial instruments section of this MD&A.

FINANCIAL INSTRUMENTS

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

Foreign exchange and currency options – Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated U.S. dollar, Japanese Yen and European Euro denominated sales are recognized in the consolidated financial statements when the related transaction occurs. At December 31 Clearwater had outstanding contracts for US\$114,500,000 (2003 – US\$55,000,000). Of this amount \$94,500,000 expires in 2005, which represents approximately 68% of 2005 estimated annual sales as denominated in U.S. dollars, and the balance expires in 2006. Although Clearwater has no intention of settling these contracts, at December 31, 2004 Clearwater would have, if it settled these contracts, received a payment of \$10,771,000 (December 31, 2003 – \$5,913,000). Clearwater accounts for these contracts as fully effective hedges and no amount is included in the accounts until such time as the maturity of the hedge. For further details on these contracts please refer to the note to the Annual Financial Statements entitled “Financial Instruments”.

Clearwater also writes foreign currency options. These securities, which, according to Generally Accepted Accounting Principles, do not act as a fully effective hedge, and which mature over a short period of time, are stated at estimated 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 management deemed acceptable upon entering into these contracts. At December 31 Clearwater had outstanding contracts for U.S. \$262,500,000 (2003 – \$230,000,000) and 1,000,000,000 Yen (2003 – 3,000,000,000). The market value of these contracts at December 31, 2004 was a liability of \$2.6 million (2003 – asset of \$3.7 million). This represents the potential net liability/asset in the event the contracts were closed. The asset recorded in 2003 was included in prepaids and other current assets and the liability recorded in 2004 is included accounts payable and accrued liabilities. For further details on these contracts please refer to the note to the Annual Financial Statements entitled “Financial Instruments”.

Clearwater uses **interest rate swaps** to hedge its exposures to changes in interest rates. While Clearwater has no intention of settling these hedges at December 31, 2004, if Clearwater had settled these contracts it would have been required to pay \$1.4 million (2003 – \$487,000).

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

DEFINITIONS AND RECONCILIATIONS

Distributable cash is not a recognized measure under Canadian generally accepted accounting principles (GAAP) and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes that distributable cash is a useful supplemental measure as it provides an indication of cash available for distribution. 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.

(In 000's except per unit amounts)	13 weeks ended Dec. 31, 2004	13 weeks ended Dec. 31, 2003	Year ended Dec. 31, 2004	Year ended Dec. 31, 2003
Cash flow from operating activities	\$ 24,538	\$ 21,119	\$ 47,106	\$ 61,995
Add (deduct):				
Change in non-cash working capital (a)	(4,173)	1,795	6,435	6,219
Minority share EBITDA, int., taxes (b)	(736)	(415)	(2,385)	(4,691)
Proportionate maint. capital (c)	(1,409)	(603)	(2,678)	(2,730)
Taxes on reorganization (d)	—	—	6,002	—
Gain (loss) on disposal capital assets/licences (e)	(202)	132	(204)	717
Distributable cash	\$ 18,018	\$ 22,028	\$ 54,276	\$ 61,510
Distributions	\$ 14,139	\$ 15,171	\$ 54,276	\$ 58,502
Payout ratio	78%	69%	100%	95%

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

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

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

(d) During the first quarter of 2004 Clearwater invested \$6 million in cash taxes in order to effect a reorganization of a subsidiary, which will have the impact of reducing cash taxes on that subsidiary in future years.

(e) Gains and losses on capital assets 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. In the third and fourth quarters of 2004 gains of \$2.6 and \$2.9 million were excluded from the calculation of distributable cash as they related to the sale of licences that did not relate to the typical turnover of assets.

Clearwater's business is seasonal in nature with the result being that lower amounts of distributable cash are generated in the first half of the year as compared to the latter half. As a result, Clearwater will typically use excess cash generated in the latter half of the year to fund a portion of the distributions paid in the earlier portion of the year. Clearwater funds a portion of the distributions paid in the first half of the year using an advance on its existing debt facilities and recovers those advances in the latter portion of the year.

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

Clearwater Seafoods Income Fund

Management's Statement of Responsibility for Financial Reporting

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

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

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

The Board of Directors of CS ManPar Inc., the managing partner of Clearwater Seafoods Limited Partnership, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board, which is composed of three 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.



COLIN MACDONALD
Chief Executive Officer



ROBERT WIGHT
Vice-President, Finance and Chief Financial Officer

February 4, 2005

Clearwater Seafoods Income Fund Auditors' Report to the Unitholders

We have audited the consolidated balance sheets of Clearwater Seafoods Income Fund as at December 31, 2004 and 2003 and the consolidated statements of earnings and cumulative earnings 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 financial statements based on our audit.

We conducted our audit 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, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.





CHARTERED ACCOUNTANTS

Halifax, Canada

February 4, 2005

Clearwater Seafoods Income Fund

Consolidated Balance Sheets

(In thousands of dollars) December 31			2004	2003
ASSETS				
Current Assets				
Distribution and interest receivable from				
Clearwater Seafoods Limited Partnership	\$	2,820	\$	2,817
Investment in Clearwater Seafoods Limited Partnership (note 3)		338,672		303,757
	\$	341,492	\$	306,574
LIABILITIES AND UNITHOLDERS' EQUITY				
Current Liabilities				
Distribution payable to unitholders				
Convertible Debentures (note 4)	\$	2,817	\$	2,817
		49,165		—
Unitholders' Equity				
Trust units (note 5)		299,336		298,454
Cumulative earnings		66,877		48,202
Cumulative distributions (note 6)		(76,703)		(42,899)
		289,510		303,757
	\$	341,492	\$	306,574
See accompanying notes to consolidated financial statements				
Approved by the Board of Trustees:				
<div><div> PURDY CRAWFORD</div><div> JAMES GOGAN</div></div>				

Clearwater Seafoods Income Fund

Consolidated Statements of Earnings and Cumulative Earnings

(In thousands of dollars) Years ended December 31	2004	2003
Equity in earnings of Clearwater Seafoods Limited Partnership	\$ 18,719	\$ 33,198
Interest, net	(44)	–
Net earnings	18,675	33,198
Cumulative earnings at beginning of year	48,202	15,004
Cumulative earnings at end of year	\$ 66,877	\$ 48,202
Basic and diluted net earnings per trust unit (note 7)	\$ 0.64	\$ 1.21

See accompanying notes to consolidated financial statements

Clearwater Seafoods Income Fund

Consolidated Statements of Cash Flows

(In thousands of dollars) Years ended December 31	2004	2003
Cash flows from operating activities		
Net earnings	\$ 18,675	\$ 33,198
Items not involving cash		
Equity in earnings of Clearwater Seafoods Limited Partnership, net of cash distributions received of \$33,804 (2003 – \$31,623)	12,928	(2,327)
Other	2,201	752
	33,804	31,623
Cash flows from financing activities		
Issuance of convertible debentures (note 4)	49,118	–
Issuance of units (note 5)	882	42,400
Distributions to unitholders (note 6)	(33,804)	(31,623)
	16,196	10,777
Cash flows from investing activities		
Acquisition (note 3)	(50,000)	(42,400)
Increase (decrease) in cash	–	–
Cash – beginning of year	–	–
Cash – end of year	\$ –	\$ –

Non-cash transactions:

In September 2003 the Fund issued units with a value of \$10.4 million in exchange for additional units of Clearwater Seafoods Limited Partnership, who in turn used the units to acquire an additional 10% interest in its' Argentine subsidiary.

See accompanying notes to consolidated financial statements

Clearwater Seafoods Income Fund

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of dollars)

1. BASIS OF PRESENTATION

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

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

2. ACCOUNTING POLICES

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

(a) 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, licences 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 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 with their fair value and licence agreements with their net recoverable amount, and an impairment loss would be recognized in income 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.

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 carry 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 and it would be disclosed in the statement of earnings.

(b) 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.

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.

(c) Convertible debentures

Convertible debentures are classified in accordance with their component parts: the value ascribed to the holder's option to convert to units has been classified as equity and the remaining portion of the convertible debenture has been classified as debt. Interest on the debt is calculated by applying an interest rate of approximately 7.3% 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) Financial instruments

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

(e) 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.

(f) Distributions to unitholders

The Fund's distribution policy is to make distributions to unitholders of its available cash to the maximum extent possible consistent with good business practices.

It is anticipated that cash distributions will be payable monthly to the unitholders of record on the last business day of each month and will be paid no later than the 15th day of the following month or, if such day is not a business day, not later than the next business day.

(g) Use of estimates

The preparation of the financial statements in conformity with Canadian Generally Accepted Accounting Principles 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.

3. INVESTMENT IN CLEARWATER SEAFOODS LIMITED PARTNERSHIP

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

	2004	2003
Investment in Class A Partnership units, at cost	\$ 298,454	\$ 298,454
Investment in Class C Partnership units	50,000	—
Add: Cumulative equity in earnings	66,921	48,202
Less: Cumulative distributions received	(76,703)	(42,899)
	\$ 338,672	\$ 303,757

As part of the financing for the High Liner Purchase Agreement by Clearwater in May 2003 the Fund acquired an additional 4,000,000 units of Clearwater for \$42.4 million. The excess of the purchase price over the proportionate share of the net assets, being \$15,905,000, was allocated to licences, licence agreements and customer relationships.

As part of the financing for the acquisition by Clearwater of an additional 10% interest in its Argentine subsidiary, Glaciar Pesquera S.A., the Fund acquired an additional 848,962 units of Clearwater for \$10.4 million, bringing the Fund's ownership in Clearwater to 55.71%. The excess of the purchase price over the proportionate share of the net assets, being \$3.5 million, has been allocated to licences.

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, 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.

Included in equity in earnings is an expense of \$2.2 million (2003 – \$752,000) of amortization and other adjustments relating to purchase price discrepancies recognized by the Fund in accounting for its investment in Clearwater using the equity method.

4. CONVERTIBLE DEBENTURES

On June 15, 2004 the Fund completed an offering for \$50 million of 7% convertible unsecured subordinated debentures, which are due December 31, 2010.

The convertible debentures are convertible at any time up to maturity at the option of the holder into trust units of the Fund at a conversion price of \$12.25 per trust unit. The Debentures pay interest semi-annually in arrears on June 30 and December 31, commencing December 31, 2004. The Debentures are not redeemable before December 31, 2007. On and after December 31, 2007, but before December 31, 2008, the Debentures may be redeemed at the option of the Fund provided that the market price of the trust units is not less than 125% of the conversion price. On and after December 31, 2008, the Debentures may be redeemed at the option of the Fund at a price equal to their principal amount plus accrued interest. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the Debentures on redemption or at maturity, in whole or in part, by delivering that number of trust units equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash.

The convertible debentures are classified in accordance with their component parts: the value ascribed to the holder's option to convert to units has been classified as equity and the remaining portion of the convertible debenture has been classified as debt.

The estimated fair value of this debenture at December 31, 2004 was not materially different from its carrying value.

5. 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.

The right of the holders of 40% of the CSLP Exchangeable Units, or 9,352,487 units, to receive distributions from Clearwater is subordinated to the rights of holders of Class A limited partnership units of Clearwater ("CSLP Ordinary Units") until December 31, 2005. CSLP Exchangeable Units that are not subject to subordination at the option of the holder may be exchanged on a one-for-one basis for units of the Fund. CSLP Exchangeable Units that are subject to subordination as described above are not during such period of subordination exchangeable into units of the Fund and their entitlement to distributions from Clearwater in respect of any month during such period is subordinated until CSLP Ordinary Units and CSLP Exchangeable Units that at the time are not subject to subordination have received distributions of at least \$0.0958 per unit in respect of such month.

	Units	Special Trust Units	\$
Balance December 31, 2002	24,558,664	23,381,217	\$ 245,625
Issuance of Units, May 2003	4,000,000	—	\$ 42,400
Issuance of Units, September 2003	848,962	—	\$ 10,429
Balance, December 31, 2003	29,407,626	23,381,217	\$ 298,454
Equity Component of Convertible Debentures (see notes 2 (c) and 4)			882
December 31, 2004	29,407,626	23,381,217	\$ 299,336

In 2003, as part of the financing for the High Liner Purchase Agreement by Clearwater, the Fund issued 4,000,000 Special Warrants for which proceeds of \$42.4 million were received. These Special Warrants were converted into 4,000,000 partnership units in May 2003.

In September 2003, as part of the financing for the Glaciar Pesquera S.A. investment, 848,962 units of the Fund were issued to the current minority shareholder of Glaciar at an issuance price of \$12.28 per unit.

As at December 31, 2004 there were in total 52,788,843 units outstanding (December 31, 2003 – 52,788,843).

In determining the earnings per unit the weighted average number of units outstanding was calculated assuming that units issued in May 2003 and September of 2003 were outstanding for the full month as those units received the full distribution for those months.

6. DISTRIBUTIONS

During the year ended December 31, 2004, the Fund declared the following cash distributions:

Declaration Date	Record Date	Payment Date	Distribution Per Unit	Total (in \$'000's)
First quarter				
January 19, 2004	January 30, 2004	February 13, 2004	\$ 0.0958	\$ 2,817
February 16, 2004	February 27, 2004	March 15, 2004	0.0958	2,817
March 17, 2004	March 31, 2004	April 15, 2004	0.0958	2,817
				8,451
Second quarter				
April 19, 2004	April 30, 2004	May 14, 2004	\$ 0.0958	\$ 2,817
May 14, 2004	May 31, 2004	June 15, 2004	0.0958	2,817
June 21, 2004	June 30, 2004	July 15, 2004	0.0958	2,817
				8,451
Third quarter				
July 19, 2004	July 30, 2004	August 13, 2004	\$ 0.0958	\$ 2,817
August 13, 2004	August 31, 2004	September 15, 2004	0.0958	2,817
September 20, 2004	September 30, 2004	October 15, 2004	0.0958	2,817
				8,451
Fourth quarter				
October 15, 2004	October 29, 2004	November 15, 2004	\$ 0.0958	\$ 2,817
November 17, 2004	November 30, 2004	December 15, 2004	0.0958	2,817
December 15, 2004	December 31, 2004	January 14, 2005	0.0958	2,817
				8,451
				\$ 33,804

Since inception the Fund has distributed \$76,703,000.

7. EARNINGS PER UNIT

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

	2004	2003
Basic		
Net earnings	\$ 18,675	\$ 33,198
Average number of units outstanding	29,408	27,527
Earnings per unit	\$ 0.64	\$ 1.21

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

8. ADMINISTRATION AGREEMENT

The Fund has entered into 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 during this period.

Clearwater Seafoods Limited Partnership

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 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 three 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 Partnerships 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.



COLIN E. MACDONALD
Chief Executive Officer



ROBERT WIGHT
Vice-President, Finance and Chief Financial Officer

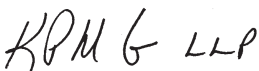
February 4, 2005

Clearwater Seafoods Limited Partnership
Auditors' Report to the Unitholders

We have audited the consolidated balance sheets of Clearwater Seafoods Limited Partnership as at December 31, 2004 and 2003 and the consolidated statements of earnings and cumulative earnings 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 financial statements based on our audit.

We conducted our audit 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, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



CHARTERED ACCOUNTANTS
Halifax, Canada

February 4, 2005

Clearwater Seafoods Limited Partnership

Consolidated Balance Sheets

(In thousands of dollars)
December 31

2004

2003

ASSETS

Current Assets

Cash	\$	–	\$	564
Accounts receivable		61,344		52,763
Inventories		45,661		47,749
Prepays and other		4,744		9,144

111,749

110,220

Other long-term assets

13,497

18,500

Property, plant and equipment (note 3)

139,305

126,749

Licences (note 4)

105,083

108,443

Goodwill

10,378

8,972

Minority interest

–

1,598

\$ 380,012

\$ 374,482

LIABILITIES AND UNITHOLDERS' EQUITY

Current Liabilities

Checks issued in excess of funds on deposit	\$	572	\$	–
Accounts payable and accrued liabilities		37,607		38,320
Distributions payable		5,817		9,537
Income taxes payable		3,234		453
Current portion of long-term debt (note 5)		1,206		3,515

48,436

51,825

Long-term debt (note 5)

167,992

142,287

Future income taxes (note 6)

7,693

13,004

Due to joint venture partner

1,995

1,995

Minority interest

1,874

–

Unitholders' Equity

Partnership units (note 7)		173,133		172,251
Cumulative earnings		130,013		92,540
Cumulative distributions (note 8)		(135,254)		(80,978)
Cumulative foreign currency translation account (note 9)		(15,870)		(18,442)

152,022

165,371

\$ 380,012

\$ 374,482

Commitments (note 12)

See accompanying notes to consolidated financial statements

Approved by the Board of CS ManPar Inc.:



JOHN RISLEY
Chairman



COLIN MACDONALD
Chief Executive Officer

Clearwater Seafoods Limited Partnership

Consolidated Statements of Earnings and Cumulative Earnings

(In thousands of dollars) Years Ended December 31			
	2004	2003	
Sales	\$ 345,459	\$ 349,737	
Cost of goods sold	253,322	252,111	
Gross profit	92,137	97,626	
Administration and selling	36,759	34,579	
Gain on disposal of property, plant, equipment and licences	(5,976)	(2,934)	
Other income	(5,475)	(3,819)	
Foreign exchange income	(7,482)	(21,443)	
Bank interest and charges	659	921	
Interest on long-term debt	10,490	6,138	
Depreciation and amortization	16,145	15,540	
Reduction in foreign currency translation account (note 9)	3,006	1,443	
	48,126	30,425	
Earnings before the undernoted	44,011	67,201	
Income taxes (note 6)	4,276	2,338	
Earnings before minority interest	39,735	64,862	
Minority interest	2,262	2,746	
Net earnings	\$ 37,473	\$ 62,117	
Cumulative earnings at beginning of year	92,540	30,423	
Cumulative earnings at end of year	\$ 130,013	\$ 92,540	
Basic and diluted net earnings per unit (note 10)	\$ 0.71	\$ 1.22	
See accompanying notes to consolidated financial statements			

Clearwater Seafoods Limited Partnership

Consolidated Statements of Cash Flows

(In thousands of dollars)
Years ended December 31

2004

2003

Cash flows from operating activities

Net earnings	\$ 37,473	\$ 62,117
Items not involving cash		
Depreciation and amortization	16,145	15,540
Foreign exchange on long-term debt	(1,860)	(306)
Future income taxes	(4,583)	(1,741)
Reduction in foreign currency translation account	3,006	1,443
Minority interest	2,262	2,746
Unrealized foreign exchange on currency options contracts	6,267	(8,651)
Gain on disposal of property, plant, equipment and licences	(5,976)	(2,934)
Other	807	–

	53,541	68,214
Change in non-cash operating working capital	(6,435)	(6,219)

	47,106	61,995
--	--------	--------

Cash flows from (used in) financing activities

Proceeds from long-term debt	49,524	102,537
Reduction of long-term debt	(22,844)	(67,198)
Other	27	364
Distributions to minority partners	(1,973)	(5,514)
Issuance of units	882	39,757
Distributions to unitholders (note 8)	(54,276)	(58,502)

	(28,660)	11,444
--	----------	--------

Cash flows from (used in) investing activities

Increase in other long-term assets and other	(4,923)	(12,828)
Purchase of property, plant, equipment and licences	(27,889)	(67,762)
Proceeds on disposal of property, plant, equipment and licences	13,230	6,956

	(19,582)	(73,634)
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Decrease in cash	(1,136)	(195)
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Cash position – beginning of year	564	759
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Cash position – end of year	\$ (572)	\$ 564
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Cash position is defined as cash less checks issued in excess of funds on deposit.

Supplementary cash flow information

Interest paid	\$ 11,401	\$ 6,750
Income taxes paid	5,896	6,634

Change in non-cash operating working capital consists of:

Accounts receivable	(6,978)	(796)
Inventories	4,213	(1,795)

Foreign exchange on currency contracts	(6,267)	8,651
--	---------	-------

Prepays and other	4,488	(3,450)
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Accounts payable and accrued liabilities	(4,672)	(6,250)
--	---------	---------

Income taxes payable	2,781	(2,579)
----------------------	-------	---------

	\$ (6,435)	\$ (6,219)
--	------------	------------

Non-cash transactions:

In September 2003 Clearwater issued units with a value of \$10.4 million in exchange for an additional 10% interest in its' Argentine subsidiary.

See accompanying notes to consolidated financial statements

Clearwater Seafoods Limited Partnership

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of dollars)

1. BASIS OF PRESENTATION

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

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

2. ACCOUNTING POLICIES

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

(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 stated at the lower of cost and net realizable value.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less government assistance. 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 at one-half the normal rates in the first year of use except significant additions, which are depreciated commencing in the month they are put into use.

During the third quarter of 2004 Clearwater adopted a policy whereby it will capitalize 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. As a result of adopting this policy \$180,000 of interest was capitalized in 2004. This policy has been applied retroactively, however no adjustments were required to prior periods.

In 2004 Clearwater adopted CICA Handbook section 3063, "Impairment of Long-Lived Assets." Clearwater reviews long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered to be impaired. An impairment loss is measured as the amount by which the carrying amount of the group of assets exceeds its fair value. At December 31, 2004 no such impairment occurred.

(d) Licences and licence agreements

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 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 with their fair value and licence agreements with their net recoverable amount. When an impairment loss exists it is recognized and disclosed in the statement of earnings.

(e) 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 and disclosed in the statement of earnings.

(f) Due to joint venture partner

The amount due to joint venture partner of \$1,995,000 is a non-interest bearing capital advance that is repayable only upon dissolution of the joint venture partnership.

(g) Class C Partnership units

Class C Partnership units are classified in accordance with their component parts: the value ascribed to the 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 classified as deferred financing costs and are being amortized over the estimated term to maturity. Interest on the debt is calculated by applying an interest rate of approximately 7.4% 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. 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 a "cumulative translation account" in unitholders' equity. The cumulative translation account arises substantially from the translation of the vessels of the subsidiary located in Argentina.

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) Hedging and derivative financial instruments

Forward exchange contracts and interest rate swaps are used by Clearwater in the management of its foreign currency and interest rate exposures. Clearwater formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific forecasted transactions. Clearwater also formally assesses on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

To qualify for hedge accounting, the hedging relationship must be appropriately documented at the inception of the hedge and there must be reasonable assurance, both at the inception and throughout the term of the hedge, that the hedging relationship will be effective. Effectiveness requires a high correlation of changes in fair values or cash flows between the hedged item and the hedging item. The company has formally documented and re-assessed all hedging relationships and determined that the new criteria have been met. All hedging instruments and relationships used by the company as at December 31, 2004, meet the new criteria relating to hedge effectiveness.

Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated U.S. dollar, Japanese Yen and European Euro denominated sales are recognized in the consolidated financial statements when the related transaction occurs.

Realized and unrealized gains and losses on derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current, or non-current assets and liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

Clearwater writes foreign currency options. These securities, which according to Generally Accepted Accounting Principles, do not act as a fully effective hedge, and which mature over a short period of time, are stated at estimated 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 management deemed acceptable upon entering into these contracts.

(j) Income taxes

Income taxes are accounted for by the asset and liability method of tax allocation. 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. 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

Revenue is recognized when evidence of an arrangement exists, title passes 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 Generally Accepted Accounting Principles 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.

3. PROPERTY, PLANT AND EQUIPMENT

	2004			2003
	Cost	Accumulated depreciation	Net	Net
Land and land improvements	\$ 3,068	\$ 711	\$ 2,357	\$ 2,253
Buildings and wharves	67,150	42,016	25,134	21,837
Equipment	77,149	58,686	18,463	19,563
Vessels	148,575	66,741	81,834	93,668
Construction in progress	23,039	—	23,039	3,052
	318,981	168,154	150,827	140,373
Less: Deferred government assistance			(11,522)	(13,624)
			\$ 139,305	\$ 126,749

4. LICENCE AND LICENCE AGREEMENTS

	2004			2003
	Gross carrying amount	Accumulated amortization	Net	Net
Licences	\$ 123,181	\$ 19,826	\$ 103,355	\$ 106,590
Licence agreements	2,500	772	1,728	1,853
	\$ 125,681	\$ 20,598	\$ 105,083	\$ 108,443

The aggregate amortization expense for the year ended December 31, 2004 of \$125,000 (2003 – \$125,000) is included in depreciation and amortization expense.

5. LONG-TERM DEBT

	2004	2003
Notes payable (a)		
Canadian	\$ 63,000	\$ 63,000
U.S. dollar	18,030	19,448
Class C Partnership Units (b)	49,165	—
Term credit facility (c)		
Canadian	10,588	8,797
U.S. dollar	7,212	—
Pounds Stirling	4,601	—
Euros	2,437	9,372
YEN	—	10,299
Marine mortgage, due in 2017 (d)		
Canadian	3,050	3,809
Danish Kroner	2,257	2,736
YEN	1,979	2,159
Term loan, due in 2091 (e)	3,500	3,500
Other loans	3,379	5,046
Marine mortgage	—	17,636
	169,198	145,802
Less current portion	1,206	3,515
	\$ 167,992	\$ 142,287

(a) Notes payable, Senior secured notes issued in three series:

\$43,000,000 Canadian Series A Notes bearing interest at 6.4% payable semi-annually, maturing December 8, 2008.

\$15,000,000 U.S. dollars Series B notes bearing interest at 5.65% payable semi-annually, maturing December 8, 2008.

\$20,000,000 Canadian Series C Notes bearing interest at 7.23% payable semi-annually, maturing December 8, 2013.

The notes are secured by mortgages and charges on all of the present and future property and assets of Clearwater Seafoods Limited Partnership 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 (c) 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 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 interest rate of approximately 7.3% 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.

(c) Term credit facility, maturing in May 2006. In May 2005 the banking syndicate at the request of Clearwater may extend the credit for an additional two years until May 2007. The balance outstanding as at December 31, 2004 was CDN\$10,588,000 (2003 – \$8,797,000), US\$6,000,000 (2003 – nil), UK Pound \$2,000,000 (2003 – nil), Euros 1,500,000 (2003 – 5,763,000) and YEN nil (2003 – 852,000,000). The facility bears interest at rates ranging from prime plus 0.5 – 1.25% and Libor plus 1.5 – 2.25% and has no scheduled repayments. The facility is secured by mortgages and charges on all of the present and future property and assets of Clearwater and of certain of its wholly-owned subsidiaries, the interests of the Fund in CSHT, the interests of CSHT in Clearwater and all the issued shares of CS ManPar Inc., and is subject to the maintenance of certain financial covenants. As part of the master netting arrangement, bank account balances associated with the facility are netted with the term credit facility balance.

(d) Marine mortgage payable in the principal amount of CDN\$6,100,000 (2003 – \$7,617,000), DKK 20,653,000 (2003 – DKK 25,045,000) and YEN 337,361,000 (2003 – 357,206,000) bearing interest at UNIBOR plus 1% payable semi-annually, 50% of which represents Clearwater's proportionate share. Principal payments are required annually with CDN\$517,000, DKK 1,391,000 and YEN 19,845,000 due in 2005 – 2007, CDN\$776,000, DKK 2,087,000 and YEN 29,767,000 due in 2008 – 2012, CDN\$669,000 due in 2013, DKK 2,087,000 and YEN 29,767,000 due in 2013 – 2014, DKK 1,871,000 in 2015, YEN 29,767,000 due in 2015 – 2016 and YEN 10,061,000 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.

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

(f) As at December 31, 2004 Clearwater has entered into long-term interest rate swap arrangements to hedge its exposure against changes in interest rates by locking in fixed rates of interest as follows:

Principal	Rate	Maturity
CDN \$25,000	3.78 – 4.65%	2008 – 2009
U.S. \$10,000	4.81%	2009
Euro 3,000	3.38%	2009

Based on the above Clearwater pays (or receives) the difference between the above rates and three month Bankers Acceptance rate quarterly.

Clearwater's debt facilities contain various covenants. Clearwater is in compliance with all debt covenants at December 31, 2004.

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

2005	\$ 1,206
2006	25,968
2007	1,121
2008	62,404
2009	1,170

The estimated fair value of Clearwater's long-term debt at December 31, 2004 was not materially different from its carrying value. Fair value has been estimated based on discounting expected future cash flows at the discount rates which represent borrowing rates presently available to Clearwater for loans with similar terms and maturities.

6. INCOME TAXES

(a) Future tax liability

The income tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities as at December 31 are presented below:

	2004	2003
Future income tax asset		
Loss carry-forwards and future deductible expenses of foreign subsidiaries, included in other long-term assets	\$ 831	\$ 1,615
Future income tax liabilities		
Licences	5,329	10,136
Property, plant and equipment	2,364	2,868
	\$ 7,693	\$ 13,004

(b) Income tax expense

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

	2004	2003
Current	\$ 8,859	\$ 4,079
Future (recovery)	(4,583)	(1,741)
	\$ 4,276	\$ 2,338

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% (2003 – 40.1%). The differences are as follows:

		2004		2003	
	Amount	%	Amount	%	
Income tax expense computed at statutory rates	\$ 16,777	38.1	\$ 26,961	40.1	
Income of the partnership distributed directly to unitholders	(12,391)	(28.2)	(17,435)	(25.9)	
Income of foreign subsidiary not subject to tax	(2,191)	(5.0)	(2,056)	(3.1)	
Previously unrecognized losses of foreign subsidiaries	–	–	(4,361)	(6.5)	
Other tax differences	2,081	4.8	(771)	(1.1)	
	\$ 4,276	9.7	\$ 2,338	3.5	

7. 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 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.

The right of 40% of the holders of Class B units, or 9,352,487 units, to receive distributions from Clearwater is subordinated to the rights of holders of Class A units until December 31, 2005. Class B units that are subject to such subordination are entitled to receive distributions from Clearwater only quarterly, rather than monthly, and only after distributions of at least \$0.0958 per unit in respect of each month during such quarter have first been paid to the holders of Class A units and Class B units that at the time are not subject to such subordination. Class B units that are no longer subject to subordination may at any time thereafter at the option of the holder thereof be exchanged for units of the Fund whereupon CSHT will be issued Class A units and the Class B units that were so exchanged will be cancelled.

Distributions on the Class C Partnership units take priority over the class A and B units and are included in interest expense.

	Class A Units	Class B Units	\$
Balance December 31, 2002	24,558,664	23,381,217	\$ 122,133
Issuance of Class A Units, May 2003	4,000,000	–	39,757
Issuance of Class A Units, September 2003	848,962	–	10,361
Balance December 31, 2003	29,407,626	23,381,217	172,251
Equity Component of Class C Units (see note 2(g) and 5 (b))			882
	29,407,626	23,381,217	\$ 173,133

In May 2003, as part of the financing for the High Liner Purchase Agreement, Clearwater issued to the Fund 4,000,000 Class A partnership units for net proceeds of \$39.8 million (gross proceeds of \$42.4 million less fees and expenses of the offering, including underwriting fees, of \$2.6 million).

In September 2003, as part of the financing for an additional investment in Glaciar Pesquera S.A., 848,962 Class A units were issued to the Fund at an issuance price of \$12.28 per unit.

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 that the distributions on the Class C units will be able to fund the ongoing interest payments on the Convertible Debentures. Class C Partnership units are classified in accordance with their component parts: the value ascribed to the holder's option to convert to units has been classified as equity and the remaining portion of the units has been classified as debt.

As at December 31, 2004 there were in total 52,788,843 units outstanding (2003 – 52,788,843).

In determining the earnings per unit the weighted average number of units outstanding was calculated assuming that units issued in May and September of 2003 were outstanding for the full month as those units received the full distribution for those months.

8. DISTRIBUTIONS

Clearwater's distribution policy is to make distributions to unitholders of its available cash to the maximum extent possible consistent with good business practices. Clearwater intends to make monthly cash distributions of its net monthly cash receipts, less estimated amounts required for the payment of expenses and capital expenditures as determined appropriate.

Cash distributions will be payable monthly to the unsubordinated unitholders of record on the last business day of each month and will be paid no later than the 15th day of the following month or, if such day is not a business day, not later than the next business day.

During the year ended December 31, 2004, Clearwater declared the following cash distributions:

Declaration Date	Record Date	Distribution Payment Date	Total Per Unit	Total
First quarter				
To the Fund, as holders of CSLP Class A partnership units				
January 19, 2004	January 30, 2004	February 13, 2004	\$ 0.0958	\$ 2,817
February 16, 2004	February 27, 2004	March 15, 2004	0.0958	2,817
March 17, 2004	March 31, 2004	April 15, 2004	0.0958	2,817
				8,451
To CFFI, as holders of unsubordinated CSLP Class B partnership units				
February 23, 2004 – concurrent with release of 2003 results			0.1916	2,688
March 17, 2004	March 31, 2004	April 15, 2004	0.0958	1,344
				4,032
To CFFI, as holders of subordinated CSLP Class B partnership units				
March 17, 2004	March 31, 2004	April 15, 2004	0.2874	2,688
				15,171

Declaration Date	Record Date	Distribution Payment Date	Total Per Unit	Total
Second quarter				
To the Fund, as holders of CSLP Class A partnership units				
April 19, 2004	April 30, 2004	May 14, 2004	\$ 0.0958	\$ 2,817
May 14, 2004	May 31, 2004	June 15, 2004	0.0958	2,817
June 21, 2004	June 30, 2004	July 15, 2004	0.0958	2,817
				8,451
To CFFI, as holders of unsubordinated CSLP Class B partnership units				
April 19, 2004	April 30, 2004	May 14, 2004	0.0958	1,344
May 14, 2004	May 31, 2004	June 15, 2004	0.0958	1,344
June 21, 2004	June 30, 2004	July 15, 2004	0.0958	1,344
				4,032
				12,483
Third quarter				
To the Fund, as holders of CSLP Class A partnership units				
July 19, 2004	July 30, 2004	August 13, 2004	\$ 0.0958	\$ 2,817
August 13, 2004	August 31, 2004	September 15, 2004	0.0958	2,817
September 20, 2004	September 30, 2004	October 15, 2004	0.0958	2,817
				8,451
To CFFI, as holders of unsubordinated CSLP Class B partnership units				
July 19, 2004	July 30, 2004	August 13, 2004	\$ 0.0958	\$ 1,344
August 13, 2004	August 31, 2004	September 15, 2004	0.0958	1,344
September 20, 2004	September 30, 2004	October 15, 2004	0.0958	1,344
				4,032
				12,483
Fourth quarter				
To the Fund, as holders of CSLP Class A partnership units				
October 15, 2004	October 29, 2004	November 15, 2004	\$ 0.0958	\$ 2,817
November 17, 2004	November 30, 2004	December 15, 2004	0.0958	2,817
December 15, 2004	December 31, 2004	January 14, 2005	0.0958	2,817
				8,451
To CFFI, as holders of unsubordinated CSLP Class B partnership units				
October 15, 2004	October 29, 2004	November 15, 2004	0.0958	1,344
November 17, 2004	November 30, 2004	December 15, 2004	0.0958	1,344
December 15, 2004	December 31, 2004	January 14, 2005	0.0958	1,344
				4,032
To CFFI, as holders of subordinated CSLP Class B partnership units			0.179	1,656
				14,139
				\$ 54,276
Since inception Clearwater has distributed \$135,254,000.				

9. REDUCTION IN FOREIGN CURRENCY TRANSLATION ACCOUNT

The reduction in the foreign currency translation account is a non-cash adjustment, which relates to the reduction of Clearwater's net investment in its' 80% (70% prior to September 2003) owned subsidiary in Argentina. The cumulative translation account largely arose because of the significant devaluation of the Peso in Argentina versus the Canadian dollar in 2001. It is Clearwater's desire to continue to manage its exposure to Argentina Pesos by repatriating its capital as quickly as possible while not impairing local operations. Dividends declared have resulted in a reduction in Clearwater's net investment in that subsidiary and accordingly, a proportionate share of the cumulative translation account has been recognized in earnings. Clearwater anticipates that the payment of dividends from the subsidiary in Argentina may result in additional reduction of the cumulative translation account in the future. The cumulative translation account is included in the Unitholder's Equity section of the balance sheet and the remaining balance at December 31, 2004 is \$15.9 million (2003 – \$18.4 million).

10. EARNINGS PER UNIT

The computations for earnings per unit are as follows:

(in thousands except per share data)	2004	2003
Basic		
Net earnings	\$ 37,473	\$ 62,117
Average number of units outstanding	52,789	50,909
Earnings per unit	\$ 0.71	\$ 1.22

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

11. ACQUISITIONS

In September, 2003 Clearwater completed the acquisition of an additional 10% interest in its Argentine subsidiary, Glaciar Pesquera S.A. bringing Clearwater's interest in Glaciar to 80% in exchange for units with a value of \$10.4 million. The acquisition has been accounted for using the purchase method and the resulting adjustments to minority interest have been included in Clearwater's consolidated statements from the date of acquisition. The excess of the purchase price over the proportionate share of net assets, being \$14.6 million, has been allocated to licences which have unlimited lives.

12. COMMITMENTS

(a) Clearwater is committed directly, and through its proportionate share of its joint ventures, to various licence and lease agreements, the payments on which aggregate \$26,964,000 as of December 31, 2004. These commitments require approximate minimum annual payments in each of the next five years as follows:

2005	\$ 4,148
2006	3,097
2007	2,975
2008	2,767
2009	2,710

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 2008 for vehicle leases, which aggregate approximately \$299,000.

(b) In addition to the commitments noted above Clearwater has commitments for the construction of three vessels.

In July 2004 Clearwater entered into a contract to construct a new factory freezer clam vessel. The total estimated cost of the vessel, including owner supplied materials and related costs, is expected to be approximately \$45 million, of which \$10.9 million has been spent to date. Clearwater expects to be operating the vessel by mid 2006.

In August 2004 Clearwater entered into contracts to acquire and convert two vessels to factory freezer scallop vessels for delivery in 2005. The total estimated cost to acquire and convert the vessels, including owner supplied materials and related costs, is expected to be approximately \$17 million, of which \$10.4 million has been spent to date.

13. JOINT VENTURES

Clearwater has a 50% interest in two (2003 – three) joint ventures. On December 31, 2004 Clearwater increased ownership in one of its ventures and now fully consolidates it, resulting in \$1.4 million of goodwill being recognized. However, during 2004 it only recognized its' 50% proportionate share of revenues and expenses. 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

	2004	2003
Current assets	\$ 5,050	\$ 6,621
Property, plant, equipment and other long-term assets	15,381	23,293
Current liabilities	3,024	8,538
Long-term liabilities	6,554	11,644

(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	2004	2003
Sales	\$ 19,178	\$ 17,074
Expenses	16,789	15,608
Earnings before taxes	2,388	1,466

(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:

	2004	2003
Accounts receivable from joint venture partner	\$ 341	\$ 512
Due from joint venture partner	–	5,949
Accounts payable to joint venture partner	74	254
Due to joint venture partner, long term	1,995	1,995

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

December 31	2004	2003
Commissions charged to joint ventures	\$ 2,658	\$ 2,096
Interest charged to joint ventures	879	777

As at December 31, 2004, Clearwater was contingently liable for the obligations of the joint venture partners in the amount of \$6,696,000 (2003 – \$11,500,000). 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 \$16,336,000 (2003 – \$23,440,000).

14. SEGMENTED INFORMATION

(a) General information

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

(b) Net sales to customers by product category for the year ended December 31:

	2004	2003
Lobster	\$ 66,603	\$ 76,065
Scallops	114,735	101,552
Clams	59,898	57,487
Groundfish and other	44,679	48,298
Cold water shrimp	31,741	30,769
Crab	17,246	22,832
Hedging program	10,557	12,734
	\$ 345,459	\$ 349,737

(c) Geographic information for the year ended December 31:

	2004	2003
Sales		
United States	\$ 114,710	\$ 128,220
Europe		
France	53,187	40,818
Denmark	14,082	12,482
UK	18,930	16,328
Other	19,419	16,460
Asia		
Japan	35,316	39,956
Other	29,225	28,884
Canada	48,706	52,863
Other, including hedging program	11,884	13,726
	\$ 345,459	\$ 349,737

December 31	2004	2003
Property, plant, equipment, licences and goodwill		
Canada	\$ 235,141	\$ 222,722
Argentina	18,456	20,193
Other	1,169	1,249
	\$ 254,766	\$ 244,164

15. FINANCIAL INSTRUMENTS

(a) Hedging

Forward exchange contracts are used by Clearwater in the management of its foreign currency exposures. Clearwater manages its exposure to fluctuations in exchange rates on United States dollar, Japanese Yen and European Euro denominated revenues using forward exchange contracts.

At December 31, 2004 and 2003 Clearwater had outstanding contracts as follows (as converted to Canadian dollars at contracted rates):

Currency	Year	Notional Amount	Average Exchange Rate	Maturity	Fair value asset (liability)
United States dollar	2004	94,500	1.314	2005	8,783
		20,000	1.327	2006	1,988
	2003	55,000	1.442	2004	5,855
Japanese Yen	2004	–	–	–	–
	2003	1,000,000	0.0123	2004	139
European Euros	2004	–	–	–	–
	2003	6,000,000	1.619	2004	(81)

Although Clearwater has no intention of settling these contracts, at December 31, 2004, if it settled these contracts it would have received a payment of \$10,771,000 (2003 – \$5,913,000). Clearwater accounts for these contracts as fully effective hedges and no amount is included in the accounts until such time as the maturity of the hedge.

Clearwater has also entered into foreign currency options and expandable forward contracts as at December 31, 2004 and 2003 with estimated quoted market values as follows:

Currency	Year	Notional Amount	Exchange Range	Maturity	Fair value asset (liability)
United States dollar	2004	240,000	1.190 – 1.383	2005	(2,867)
		22,500 – 45,000	1.229 – 1.271	2006	378
	2003	150,000	1.310 – 1.405	2004	(2,725)
		80,000 – 160,000	1.376 – 1.444	2004 – 2005	7,329
Japanese Yen	2004	1,000,000	0.1250	2005	(90)
	2003	3,000,000	0.0122 – 0.0123	2004	(915)

Although Clearwater has no intention of settling these contracts prior to maturity, at December 31, 2004, if it settled these contracts it would have made a payment of \$2,579,000 (2003 – received a payment of \$3,689,000). The above market values represent the potential net asset (liability) in the event the contracts were closed. The asset recorded in 2003 is included in prepaids and other current assets, the liability recorded in 2004 is included in accounts payable and accrued liabilities.

(b) 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 the 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.

(c) Interest rate risk and fair values

As indicated in the note entitled “Long-Term Debt” Clearwater uses interest rate swaps to hedge its exposures to changes in interest rates. While Clearwater has no intention of settling these hedges at December 31, 2004, if Clearwater had settled these contracts it would have been required to pay \$1,379,000 (2003 – \$487,000).

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities and distributions payable approximate fair value.

16. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances associated with joint venture parties disclosed in note 13, Clearwater has the following transactions and balances with CFFI during the year ended December 31, 2004 and 2003:

	2004	2003
Transactions		
Charge by CFFI for use of a corporate airplane	\$ 202	\$ 252
Charged to CFFI for rent and other services	244	236
Balances		
Receivable from CFFI	38	21
Distribution payable to CFFI	3,000	6,718

In addition, Clearwater was charged approximately \$225,000 for vehicle leases in 2004 (2003 – \$209,000) and approximately \$69,000 for other services (2003 – \$78,000) 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 which approximates fair market value.

In addition, CFFI provides certain treasury functions related to derivative financial instruments at no charge to Clearwater.

Quarterly and Unit Information

The financial information disclosed below was derived from the unaudited interim earnings statements of Clearwater for periods from January 1, 2003 to December 31, 2004.

Clearwater Seafoods Limited Partnership

(\$000's except per unit amounts)	2004				2003			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	98,845	88,835	85,038	72,741	101,565	96,514	76,579	75,079
Net earnings (loss)	16,553	15,138	8,760	(2,978)	23,754	11,569	16,913	9,881
Distributable cash	18,018	12,457	11,728	11,963	22,028	19,447	12,008	8,027
Distributions	14,139	12,482	12,483	15,171	15,171	15,009	14,545	13,778
Per unit data								
Basic and diluted net earnings (loss)	0.31	0.29	0.17	(0.06)	0.45	0.22	0.33	0.21

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

	2004				2003			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Trading price range of units (board lots)								
High	10.13	11.97	12.48	12.95	12.41	13.15	12.55	11.28
Low	8.10	9.35	10.31	11.80	10.10	11.07	10.94	10.19
Close	8.78	9.65	11.41	12.40	12.00	11.78	12.35	11.15
Trading volumes (000's)								
Total	6,493	2,352	5,428	4,704	5,303	8,607	3,925	3,445
Average daily	105	37	87	71	83	137	60	54
Units outstanding at end of quarter								
Units	29,407,626	29,407,626	29,407,626	29,407,626	29,407,626	29,407,626	28,558,664	24,558,664
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	52,788,843	52,788,843	52,788,843	52,788,843	52,788,843	52,788,843	51,939,881	47,939,881

Selected Annual Information

	2004	2003	Combined Pro-forma 2002	2001	2000
	(Audited)	(Audited)	(Unaudited)	(Audited)	(Audited)
Sales	\$ 345,459	\$ 349,737	\$ 319,928	\$ 290,117	\$ 286,076
Cost of goods sold	253,322	252,111	232,383	205,685	194,991
Gross profit	92,137	97,626	87,545	84,432	91,085
Administration and selling	36,759	34,579	29,412	27,425	26,877
Other income	(11,451)	(6,753)	(4,233)	(2,392)	(2,994)
Foreign exchange loss (income)	(7,482)	(21,443)	(179)	5,574	(3,731)
Bank interest and charges	659	921	2,445	3,475	3,794
Interest on long-term debt	10,490	6,138	13,072	12,403	9,488
Depreciation and amortization	16,145	15,540	14,003	17,040	15,702
Reduction in foreign currency translation account	3,006	1,443	0	0	0
Earnings before the undernoted	48,126	30,425	54,520	63,525	49,136
Income taxes	44,011	67,201	33,025	20,907	41,949
	4,276	2,338	2,036	11,437	17,475
Earnings before minority interest	39,735	64,863	30,989	9,470	24,474
Minority interest	2,262	2,746	1,456	899	403
Net earnings	\$ 37,473	\$ 62,117	\$ 29,533	\$ 8,571	\$ 24,071

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.

Factory 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

Purdy Crawford

Counsel, Osler, Hoskin and Harcourt LLP

James W. Gogan

President, High Street Investments Limited

Thomas D. Traves

President and Vice-Chancellor,
Dalhousie University

Directors of CS ManPar Inc., Managing Partner of Clearwater Seafoods Limited Partnership

Purdy Crawford

Counsel, Osler, Hoskin and Harcourt LLP
Chairman, Corporate Governance and
Compensation Committee

James W. Gogan

President, High Street Investments Limited
Chairman, Audit Committee

Thomas D. Traves

President and Vice-Chancellor,
Dalhousie University

George S. Armoyan

President and Chief Executive Officer,
Clarke Inc.

Hugh K. Smith

Vice-President, Municipal Group of
Companies

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 E. MacDonald

Chief Executive Officer

Eric R. Roe

Chief Operating Officer

J. Michael Magnus

Vice-President, Marketing
and Sales

Michael D. Pittman

Vice-President, Fleet

Robert D. Wight

Vice-President, Finance
and Chief Financial Officer

Investor Relations

Tyrone D. Cotie, C.A.

Director of Corporate Finance
and Investor Relations
(902) 457-8181
tcotie@clearwater.ca

Auditors

KPMG LLP

Halifax, Nova Scotia

Units Listed

Toronto Stock Exchange

Unit symbol: **CLR.UN**

Convertible Debenture symbol: **CLR.DB**

Transfer Agent

Computershare Investor Services Inc.

Annual Meeting of Unitholders

Wednesday, May 11, 2005 at 10:30 a.m.
(Eastern Time) at The Fairmont Royal York
Hotel, Imperial Room, 100 Front St. West,
Toronto, Ontario, Canada



Dedicated to **sustainable seafood** excellence

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 North American seafood industry for almost three decades. As an income trust, sustainability takes on a broader meaning, but the same spirit guides us. We are dedicated to delivering stable cash flow and distribution to our unitholders. Clearwater's commitment to sustainability encompasses the resources, our unitholders, our customers and our employees.

