CLEARWATER SEAFOODS INCOME FUND

2008 Annual Financial Statements

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

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

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

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

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

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

March 27, 2009

Colin MacDonald
Chief Executive Officer

Robert Wight
Vice-President, Finance and Chief Financial Officer

AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheets of Clearwater Seafoods Income Fund as at December 31, 2008 and 2007 and the consolidated statements of loss and deficit, comprehensive loss and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Halifax, Canada

March 26, 2009

CLEARWATER SEAFOODS INCOME FUND

Consolidated Balance Sheets
(In thousands of Canadian dollars)

	December 31, 2008	December 31, 2007 *(as restated Note 2 (b))*
Assets		
Current Assets		
Distributions and interest receivable from Clearwater Seafoods Limited Partnership	$ 807	$ 3,795
Investment in Clearwater Seafoods Limited Partnership (note 3)	60,227	346,333
	$ 61,034	$ 350,128
Liabilities and Unitholders' Equity		
Current Liabilities		
Distributions and interest payable	$ 781	$ 3,733
Convertible debentures (note 4)	87,927	87,624
Future income taxes (note 5)	-	29,300
Unitholders' Equity		
Trust units (note 6)	283,839	288,913
Deficit	(320,458)	(65,653)
Contributed surplus	8,945	6,211
	(27,674)	229,471
	$ 61,034	$ 350,128

See accompanying notes to consolidated financial statements

Going Concern (note 1)

Approved by the Board of Trustees:

Tom Traves

Thomas D.Traves

Bernard R. Wilson

Bernard R. Wilson

CLEARWATER SEAFOODS INCOME FUND

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

Years ended December 31		2008		2007
				(as restated Note 2 (b))
Equity in net earnings (loss) of Clearwater Seafoods Limited Partnership	$	(55,667)	$	12,704
Interest income	$	6,336		5,924
Interest expense	$	(6,668)		(6,318)
Provision for impairment in investment in Clearwater Seafoods Limited Partnership (note 3)	$	(229,160)		-
Future income taxes	$	29,300		(29,300)
Net loss	$	(255,859)	$	(16,990)
Deficit at beginning of year as previously reported		(63,861)		(24,106)
Application of new inventory accounting standard (note 2(b))		3,284		-
Application of new refit policy (note 2(b))		(1,777)		(2,166)
Deficit at beginning of year restated		(62,354)		(26,272)
Loss on reduction in investment (note 3)		(2,245)		(5,243)
Distributions declared		-		(17,471)
Adjustment for cancellation of Class C Units		-		323
Deficit end of year	$	(320,458)	$	(65,653)
Loss per unit, basic and diluted (note 7)	$	(9.22)	$	(0.58)

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS INCOME FUND

Consolidated Statements of Comprehensive Loss
(In thousands of Canadian dollars)

Years ended December 31		2008		2007
				(as restated Note 2 (b))
Comprehensive Income (loss)				
Net loss	$	(255,859)	$	(16,990)
Other comprehensive (loss) income, net of tax unrealized gains and losses on translating financial statements of self-sustaining foreign operations		(314)		548
Comprehensive loss	$	(256,173)	$	(16,442)

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS INCOME FUND

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

		2008		2007
				(as restated Note 2 (b))
Cash flows from (used in) operating activities				
Net loss	$	(255,859)	$	(16,990)
Items not involving cash:				
Provision for impairment in investment in Clearwater Seafoods Limited Partnership		229,160		-
Equity in net earnings of Clearwater Seafoods Limited Partnership, net of cash distributions received of $nil (2007 - $17,529)		55,667		4,825
Future income taxes		(29,300)		29,300
Other		332		394
		-		17,529
Cash flows from (used in) financing activities				
Repurchase of convertible debentures		-		(5,388)
Repurchase of Class A units		(2,337)		(5,583)
Issuance of convertible debentures		-		48,042
Distributions to unitholders		-		(17,529)
		(2,337)		19,542
Cash flows from (used in) investing activities				
Redemption of Class A units		2,337		5,583
Redemption of Class C units		-		2,000
Redemption of Class D units		-		3,388
Purchase of Class D units		-		(48,042)
		2,337		(37,071)
(Decrease) increase in cash		-		-
Cash - beginning of year		-		-
Cash - end of year	$	-	$	-

See accompanying notes to consolidated financial statements

(All amounts expressed in thousands of dollars unless otherwise noted)

1. GOING CONCERN AND BASIS OF PRESENTATION

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

These consolidated financial statements consolidate the accounts of the Fund and its subsidiary, Clearwater Seafoods Holdings Trust (“CSHT”). CSHT owns 54.27% (December 31, 2007 – 54.71%) of the units of Clearwater. However, as the Fund does not have the right to nominate the majority of the board of directors, it does not consolidate the results of Clearwater’s operations but rather accounts for the investment using the equity method. Under this method, the cost of the investment is increased by the Fund’s proportionate share of Clearwater’s earnings and reduced by any distributions paid to the Fund by Clearwater and amortization of the purchase price discrepancy. Due to the limited amount of information that this provides on the underlying operations of Clearwater, the financial statements of Clearwater are also enclosed.

These consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the Fund’s sole investment, Clearwater, will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is significant doubt about the appropriateness of the use of the going concern assumption because Clearwater has significant near-term debt maturities due in June 2009.

In December 2008 Clearwater obtained an extension on certain notes and amended the conditions of others to the extent that approximately CDN $28 million and US $26.6 million of notes are to be repaid by June 8, 2009 and upon the payment of these notes additional notes of approximately CDN $20 million and US $5 million will become due and payable immediately for a total of approximately CDN $86 million of notes to be refinanced. In addition, in December 2008 Clearwater arranged with its foreign exchange lenders to restructure certain of its foreign exchange contracts to match its foreign currency receipts with a CDN $16 million short-term loan. Therefore, the total debt facilities that Clearwater is attempting to refinance approximates CDN$102 million.

The ability of Clearwater to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent on the successful completion of this refinancing. While management believes it can mitigate the refinancing risk which raises doubt about the validity of the "going concern" assumption used in preparing these financial statements there is no certainty that these and other strategies will be sufficient to permit Clearwater to continue beyond June 2009.

The financial statements do not reflect adjustments that would be necessary if the "going concern" assumption were not appropriate. If the "going concern" basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

2. ACCOUNTING POLICIES

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

a) Consolidation

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

b) Inventories

Effective January 1, 2008, Clearwater adopted CICA Handbook section 3031 “Inventories”. This section establishes more extensive guidance on the determination of cost, financial statement presentation, impairment testing and expands the disclosure requirements. The adoption of this standard impacted the costs that are included in inventory for Clearwater, as a portion of overhead, administration and depreciation costs are now included in inventory. Clearwater adopted the new standard retrospectively without restatement and the Fund’s proportionate share resulted in an increase in its investment in Clearwater Seafoods Limited Partnership and a decrease in the opening deficit of $3,284 at January 1, 2008.

Refits

During 2008 Clearwater changed its accounting policy from expensing refit costs as incurred to capitalizing and amortizing the costs over the period between refits as this results in the financial statements providing more reliable and relevant information about the effects of the refits on the entity's financial position and financial performance. Clearwater has applied this change in accounting policy retroactively with restatement to January 1, 2007 and the Fund’s proportionate share resulted in a decrease in its investment in Clearwater Seafoods Limited Partnership of $1,777, an increase in the opening deficit of $2,166 and an increase in equity in net earnings of Clearwater at January 1, 2007.

c) Comprehensive Income

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

d) Convertible Debentures

Convertible debentures are classified in accordance with their component parts: the value ascribed to the holders’ option to convert to units has been classified as equity and the remaining portion of the convertible debenture has been classified as debt. Issue costs were classified as deferred financing costs and amortized over the estimated term to maturity for periods prior to January 1, 2007 using the effective interest rate method. Effective January 1, 2007, Clearwater adopted the CICA Handbook Standards relating to financial instruments. These standards were adopted on a prospective basis with no restatement of prior period financial statements and as a result the issue costs are offset with the related debt. Interest on the debt is calculated by applying an effective interest rate of approximately 7.34% for the 2004 convertible debentures and 7.87% for the 2007 convertible debentures to the outstanding debt component. The difference between actual cash interest payments and interest expense is added to the debt component of the debentures.

e) Income taxes

Income taxes are accounted for by the asset and liability method of accounting for income taxes. Under this method, future income taxes are recognized for temporary differences between the tax and accounting basis of assets and liabilities based on income tax rates and income tax laws that are enacted or substantially enacted and expected to apply to taxable income in years in which these temporary differences are expected to be recognized or settled. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.The Fund is a unit trust for income tax purposes. As such, the Fund is only taxable on any taxable income not allocated to the unitholders. As substantially all taxable income has been allocated to the unitholders, no provision for income taxes on earnings of the Fund has been made in these financial statements. Income tax liabilities relating to distributions of the Fund are the obligations of the unitholders.

Pursuant to the draft legislation announced on October 31, 2006 and issued on December 15, 2006 specified investment flow-throughs ("SIFTS") will be taxed, beginning in 2011, on distributions paid to unitholders. This tax will be at a total combined rate of 29.5 % in 2011 and 28% going forward.

f) Financial Instruments

Effective January 1, 2008, the Fund adopted CICA Handbook section 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation", which replace Section 3861 Financial Instruments – Disclosure and Presentation. These sections require the Fund to provide disclosure of quantitative and qualitative information in the financial statements that enable users to evaluate the significance of financial instruments for the Fund's financial position and performance and the nature and extent of risks arising from financial instruments to which the Fund is exposed to during the period at the balance sheet date and management's objectives, policies and procedures for managing such risks. Disclosures required by this standard are included in note 18 of Clearwater's financial statements.

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

Loans and receivables are initially recognized at their fair values and subsequently measured at amortized cost using the effective interest rate method, with gains and losses recognized in net earnings in the period in which they arise. Other financial liabilities are initially measured at cost or at amortized cost, depending upon the nature of the instrument, and are subsequently measured at amortized cost using the effective interest rate method, with gains and losses recognized in net earnings in the period in which they arise.

The Fund's financial assets and liabilities are classified into the following categories:

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

g) Use of estimates

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

h) Capital Disclosures

Effective January 1, 2008, the Fund adopted CICA Handbook section 1535, "Capital Disclosures" which establishes standards for the disclosure of information on the Fund's capital and how it is managed. The enhanced disclosure enables users to evaluate the Fund's objectives, policies and processes for managing capital. Disclosures required by this standard are included in Note 9.

3. INVESTMENT IN CLEARWATER SEAFOODS LIMITED PARTNERSHIP

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

	2008	2007
		(as restated Note 2 (b))
Investment in Class A Partnership units, at cost	$ 281,587	$ 286,661
Investment in Class C Partnership units	45,000	45,000
Investment in Class D Partnership units	44,389	44,389
Add: Cumulative equity in net earnings	39,933	91,805
Less: Cumulative distributions received	(121,522)	(121,522)
Less: Provision for impairment of investment in Clearwater	(229,160)	-
	$ 60,227	$ 346,333

The Fund analyzes the carrying value of its investment in Clearwater by considering both the market price of the Fund's units and the underlying value of the business as if the Fund had consolidated Clearwater. As a result of the exaggerated monetary decline and extended timeframe that the market value of the Fund's units have been below market, it was concluded that the Fund should no longer assess fair value based on the underlying business and should only make reference to the market price of the Fund's units on a go-forward basis. As a result a provision was recorded in 2008 at the Fund level to reduce the value of the Fund's investment in Clearwater to the December 31, 2008 closing values on the Toronto Stock Exchange. This, combined with a provision as outlined in the following paragraph, results in a total accumulated provision of $229,160.

On August 14, 2008 Clearwater Seafoods Income Fund entered into an acquisition agreement with CS Acquisition Limited Partnership ("CS Acquisition"), a partnership consortium led by Clearwater Fine Foods Incorporated ("CFFI"), the controlling unitholder of Clearwater Seafoods Limited Partnership. Under the terms of the Agreement, CS Acquisition was to acquire all of the assets of the Fund, which would result in the Fund's unitholders receiving $4.50 per unit and the holders of convertible debentures receiving 101% of the par value of debentures plus accrued interest. This offer would have effectively resulted in CS Acquisition Limited Partnership acquiring all of the Fund's investment in Clearwater. As a result of this offer and the recommendation by the Board of Trustees of the Fund that such offer be accepted, a writedown of $126,716 of the investment was recorded to reflect the values offered for Clearwater. Subsequently, this offer was withdrawn by CS Acquisition as a result of unprecedented uncertainty and volatility in global financial markets and, in particular, Glitnir Banki hf being placed into receivership shortly before the anticipated closing in October 2008. Glitnir was to provide approximately 10 per cent of the financing required to complete the transaction. CS Acquisition was unsuccessful in arranging alternative sources of financing, which was needed for the completion of the transaction. As a result both parties have terminated the transaction agreement.

In 2004, 4,081,633 Class C units were issued by Clearwater to the Fund concurrently with the issue by the Fund of an equivalent dollar amount of Convertible Debentures. The Class C units are convertible at any time and are redeemable and retractable at a price of $12.25 per unit. These units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the Convertible Debentures of the Fund and in a manner that ensures that the distributions on the Class C units will be able to fund the ongoing interest payments on the Convertible Debentures. In 2007 Clearwater repurchased $5 million of the Class C units leaving $45 million outstanding at December 31, 2008.

In 2007, 8,142,712 Class D units were issued concurrently by Clearwater with the issue by the Fund of $48.0 million of Convertible Debentures and are held by the Fund through CSHT. The Class D units are redeemable and retractable at a price of $5.90 per unit. In 2007 and 2008 Clearwater repurchased $3.6 million of the Class D units leaving $44.4 million outstanding at December 31, 2008.

During 2008 Clearwater repurchased 500,000 Class A Units from the Fund for $2,337 (2007 1,162,000 Class A Units for $5,583).

Included in equity in net earnings for the year is an expense of $91, (2007 – recovery of $1,079,000) for amortization and other adjustments relating to purchase price discrepancies recognized by the Fund in accounting for its investment in Clearwater using the equity method.

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. In 2007 Clearwater repurchased $5 million of the Class C units leaving $45 million outstanding at December 31, 2008.

In 2007, the Fund completed an offering for $48 million of 7.25% convertible unsecured subordinated debentures, which are due March 31, 2014. The convertible debentures are convertible at any time up to maturity at the option of the holder into trust units of the Fund at a conversion price of $5.90 per trust unit. The debentures pay interest semi-annually in arrears on March 31 and September 30, commencing September 30, 2007. The debentures are not redeemable before March 31, 2010. On and after March 31, 2010, but before March 31, 2012, the debentures may be redeemed at the option of the Fund provided that the market price of the trust units is not less than 125% of the conversion price. On and after March 31, 2012, the debentures may be redeemed at the option of the Fund at a price equal to their principal amount plus accrued interest. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering that number of trust units equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash. The convertible debentures are classified in accordance with their component parts: the value ascribed to the 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. In 2007 Clearwater repurchased $3.6 million of the Class D units leaving $44.4 million outstanding at December 31, 2008.

The estimated fair value of the Fund's convertible debentures at December 31, 2008 was $36,643 (2007 - $85,347) based on the quoted market value of the debentures Clr.db and Clr.db.a on the Toronto Stock Exchange.

5. FUTURE INCOME TAXES

In June 2007, Bill C-52 Budget Implementation Act, 2007 was substantively enacted by the Canadian federal government, which contains legislation to tax publicly traded trusts in Canada. As a result, a new tax will be applied to distributions from Canadian public income trusts. The new tax is not expected to apply to Clearwater Seafoods Income Fund until 2011 as a transition period applies to publicly traded trusts that existed prior to November 1, 2006. As a result of this substantive enactment of trust legislation, the Fund recorded a $29.3 million future income tax expense and future income tax liability in 2007. As a result of provisions for the impairment of the investment in Clearwater there is no longer a future income tax liability related to temporary differences in the Fund..

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

6. TRUST UNITS AND SPECIAL TRUST UNITS

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

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

	Units	Special Trust Units	Total $ (in 000's)
Balance December 31, 2006	29,407,626	23,381,217	$298,454
Equity component of Convertible Debentures			828
Balance December 31, 2006			299,282
Cancellation of Class A units	(1,162,100)	-	(11,794)
Issue of Class A Units	169	-	1
	28,245,695	23,381,217	287,489
Equity component of Convertible Debentures 7.25%			1,579
Equity component of Convertible Debentures repurchased 7%			(155)
Balance December 31, 2007			288,913
Cancellation of Class A units	(500,000)	-	(5,074)
Balance December 31, 2008	27,745,695	23,381,217	$ 283,839

As at December 31, 2008 there were in total 51,126,912 units outstanding (December 31, 2007- 51,626,912).

7. EARNINGS PER UNIT

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

	2008	2007
		(as restated Note 2 (b))
Basic		
Net loss	$ (255,859)	$ (16,990)
Weighted average number of units outstanding	27,764	29,269
Loss per unit	$ (9.22)	$ (0.58)

The affect 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 an Administration Agreement with Clearwater. Under the terms of the agreement, Clearwater is responsible to provide administrative and support services to the Fund and is to provide these services for no additional consideration, other than payment of out-of-pocket expenses. There were no charges for out-of-pocket expenses for the years ended December 31, 2008 and 2007.

9. CAPITAL STRUCTURE

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

The Fund lowers its cost of capital through the use of leverage, in particular lower cost debt. The Fund maintains some flexibility in its capital structure as the amount of capital available to Clearwater can be impacted by known and unknown risks, uncertainties, and other factors outside management's control including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs as well as capital expenditures and distributions paid. The Fund maintains flexibility in its capital structure by regularly reviewing forecasts of future results and making any required changes on a timely basis. These changes can include repaying debt early or repurchasing units, issuing new debt or equity, extending the term of existing debt and if required, limiting distributions paid. Refinancing risk is reduced by staggering the maturities of debt instruments and a policy whereby maturing debt agreements are revisited and updated or replaced as required well in advance of maturity dates.

The Fund's total capital structure is as follows:

Years ended December 31	2008	2007
		(as restated Note 2 (b))
Equity - Trust units (see note 6)	$ 283,839	$ 288,913
Convertible debentures (note 4)	87,927	87,624
Contributed surplus	8,945	6,211
Deficit	(320,458)	(65,653)
	$ 60,253	$ 317,095

During the year, the Fund recognized provisions for impairment in its investment in Clearwater of $229,160. (See note 3.)

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

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

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

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

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

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

March 27, 2009

Colin MacDonald
Chief Executive Officer

Robert Wight
Vice-President, Finance and Chief Financial Officer

AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheets of Clearwater Seafoods Limited Partnership as at December 31, 2008 and 2007 and the consolidated statements of operations and deficit, comprehensive income (loss) and accumulated other comprehensive loss and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Halifax, Canada

March 26, 2009

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

Consolidated Balance Sheets
(In thousands of Canadian dollars)

Years ended December 31	2008	2007
		(as restated see note 2)
Assets		
Current Assets		
Cash	$ 15,514	$ 70,878
Accounts receivable	52,702	48,861
Inventories	57,464	52,152
Derivative financial instruments (note 8 (a))	-	2,303
Prepaids and other	4,362	6,643
	130,042	180,837
Other long-term assets (note 5)	7,581	8,694
Property, plant and equipment (note 6)	129,448	100,314
Licences (note 7)	120,006	106,930
Goodwill	7,043	10,378
	$ 394,120	$ 407,153
Liabilities and Unitholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 38,191	$ 30,264
Distributions payable	-	2,581
Income taxes payable	529	1,204
Current portion of long-term debt (note 9)	103,640	58,779
Derivative financial instruments (note 8 (a))	66,807	14,261
	209,167	107,089
Long-term debt (note 9)	137,645	168,785
Future income taxes	5,888	5,423
Due to joint venture partner / deferred gain (note 15 (a))	14,477	2,166
Minority interest	3,991	2,631
Unitholders' Equity		
Partnership units (note 10)	164,770	167,698
Deficit	(133,534)	(37,184)
Contributed surplus	1,816	1,224
Accumulated other comprehensive loss	(10,100)	(10,679)
	22,952	121,059
	$ 394,120	$ 407,153

Note 1 Going Concern
See accompanying notes to consolidated financial statements

Approved by the Board of CS ManPar Inc.:

John Risley
Director

Colin MacDonald
Chairman and Chief Executive Officer

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

Consolidated Statements of Operations and Deficit
(In thousands of Canadian dollars)

Years ended December 31		2008		2007
				(as restated see note 2)
Sales	$	292,175	$	302,681
Cost of goods sold		252,414		232,584
		39,761		70,097
Administration and selling		25,926		37,818
Gain on disposal of property, plant and equipment and licences		(1,879)		(2,261)
Other expense (income) (note 11)		10,727		(1,985)
Insurance claim		10		(4,087)
Foreign exchange and derivative contracts (note 8(b))		80,210		(18,633)
Bank interest and charges		838		840
Interest on long-term debt		18,275		15,905
Depreciation and amortization		586		14,406
Reduction in foreign currency translation account		-		2,644
		134,693		44,647
Earnings (loss) before income taxes and minority interest		(94,932)		25,450
Income taxes (note 13)		4,595		365
Earnings (loss) before minority interest		(99,527)		25,085
Minority interest		2,878		4,134
Net earnings (loss)	$	(102,405)	$	20,951
Deficit at beginning of year as previously reported	$	(33,909)	$	(22,832)
Application of new inventory accounting standard (note 2(b))		6,055		-
Application of new refit accounting policy (note 2(a))		(3,275)		(3,958)
Deficit at beginning of year restated		(31,129)		(26,790)
Distributions declared		-		(31,499)
Adjustment for cancellation of Class C and Class D Units		-		154
Deficit end of year	$	(133,534)	$	(37,184)
Basic and diluted earnings (loss) per unit (note 14)	$	(2.00)	$	0.40

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

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

Years ended December 31		2008		2007
				(as restated see note 2)
Comprehensive Income (loss)				
Net earnings (loss)	$	(102,405)	$	20,951
Other comprehensive (loss) income, net of tax unrealized gains and losses on translating financial statements of self-sustaining foreign operations		(579)		1,002
Comprehensive income (loss)	$	(102,984)	$	21,953
Accumulated other comprehensive loss				
Balance beginning of year	$	(10,679)	$	(12,321)
Reduction in cumulative foreign currency translation account		-		2,644
Unrealized gain (loss) on translation of self-sustaining foreign operation		579		(1,002)
Balance end of year	$	(10,100)	$	(10,679)

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

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

Years Ended December 31		2008		2007
				(as restated see note 2)
Cash flows from (used in) operating activities				
Net earnings (loss)	$	(102,405)	$	20,951
Items not involving cash:				
Depreciation and amortization		14,504		14,406
Unrealized foreign exchange on long term debt		(7,060)		(5,696)
Unrealized inflation and interest on long term debt		3,141		3,154
Future income tax expense (recovery)		3,632		(2,512)
Minority interest		2,878		4,134
Reduction in foreign currency translation account		-		2,644
Unrealized (gain) loss on derivative contracts		23,995		(9,709)
contracts		29,141		(2,292)
Writedown of equipment and other long term assets		6,038		-
Loss on disposal of property, plant and equipment and other assets and other changes		(1,879)		(1,067)
		(28,015)		24,013
Change in non-cash operating working capital		1,077		6,698
		(26,938)		30,711
Cash flows from (used in) financing activities				
Proceeds from long-term debt		53,255		46,035
Reduction of long-term debt and swap contracts		(35,671)		(1,083)
Other		2,438		(313)
Repurchase of units		(2,336)		(10,971)
Distributions to minority partners		(1,388)		(3,893)
Distributions to unitholders		-		(31,557)
		16,298		(1,782)
Cash flows from (used in) investing activities				
Increase in other long-term assets		(3,836)		(1,042)
Purchase of property, plant, equipment, licences and other		(43,489)		(20,125)
Proceeds from vessel settlement		-		46,000
Proceeds on disposal of property, plant, equipment, licences and other		2,840		5,884
		(44,485)		30,717
Foreign exchange loss on cash held in foreign currency		(239)		382
(Decrease) increase in cash		(55,364)		60,028
Cash - beginning of year		70,878		10,850
Cash - end of year	$	15,514	$	70,878
Supplementary cash flow information				
Interest paid	$	17,558	$	16,371
Income taxes paid (recovered)	$	2,421	$	6,440

See accompanying notes to consolidated financial statements

(All amounts expressed in thousands of dollars unless otherwise noted)

1. GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that Clearwater Seafoods Limited Partnership ("Clearwater") will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is significant doubt about the appropriateness of the use of the going concern assumption because Clearwater has significant near-term debt maturities due in June 2009.

In December 2008 Clearwater obtained an extension on certain notes and amended the conditions of others to the extent that approximately CDN $28 million and US $26.6 million of notes are to be repaid by June 8, 2009 and upon the payment of these notes additional notes of approximately CDN $20 million and US $5 million will become due and payable immediately for a total of approximately CDN $86 million of notes to be refinanced. In addition, in December 2008 Clearwater arranged with its foreign exchange lenders to restructure certain of its foreign exchange contracts to match its foreign currency receipts with a CDN $16 million short-term loan. Therefore, the total debt facilities that Clearwater is attempting to refinance approximates CDN$102 million.

The ability of Clearwater to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent on the successful completion of this refinancing. While management believes it can mitigate the refinancing risk which raises doubt about the validity of the "going concern" assumption used in preparing these financial statements there is no certainty that these and other strategies will be sufficient to permit Clearwater to continue beyond June 2009.

The financial statements do not reflect adjustments that would be necessary if the "going concern" assumption were not appropriate. If the "going concern" basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

2. CHANGE IN ACCOUNTING POLICIES AND ADOPTION OF NEW ACCOUNTING STANDARDS

a) Refit Policy

In 2008 Clearwater changed its accounting policy from expensing refit costs as incurred to capitalizing and amortizing the costs over the period between refits as this results in the financial statements providing more reliable and relevant information about the effects of the refits on the entity's financial position and financial performance. Clearwater has applied this change in accounting policy retroactively with restatement to January 1, 2007 and as a result has restated the 2007 comparative figures as follows:

		Amounts prior to application of new refit policy		Adjustment for new policy		Amount per restated financial statements
Statement of Earnings:						
Cost of good sold	$	236,748	$	(4,164)	$	232,584
Depreciation and amortization		11,267		3,139		14,406
Income taxes		133		232		365
Minority interest		4,024		110		4,134
Net earnings		20,268		683		20,951
Earnings per Unit		0.39		0.01		0.40
Balance Sheet:						
Property, plant and equipment		103,547		(3,233)		100,314
Future income taxes		5,623		(200)		5,423
Minority interest		2,389		242		2,631
Deficit		(33,909)		(3,275)		(37,184)
Statement of Cash Flows:						
Cash Flows from Operations						
Net earnings		20,268		683		20,951
Depreciation and amortization		11,267		3,139		14,406
Future income tax		(2,744)		232		(2,512)
Minority interest		4,024		110		4,134
Cash Flows Used in Investing Activities						
Purchase of property, plant and equipment		(15,961)		(4,164)		(20,125)

b) Inventories

Effective January 1, 2008, Clearwater adopted CICA Handbook section 3031 “Inventories”. This section establishes more extensive guidance on the determination of cost, financial statement presentation, requires impairment testing and expands the disclosure requirements. The adoption of this standard impacted the costs that are included in inventory, as a portion of overhead, administration and depreciation costs are now included in inventory. Additionally, Section 3031 requires that depreciation that is inventoried be classified as a component of cost of goods sold. Previously, all depreciation was expensed on the statement of operations.

As required, Clearwater has applied the new standard retrospectively without restatement, which resulted in an increase in inventory and a decrease in the opening deficit of $6,055 as at January 1, 2008.

Inventories, which consist primarily of finished goods, are stated at the lower of cost and net realizable value. Cost includes the cost of materials plus direct labor applied to the product and the applicable share of manufacturing overheads, administration and depreciation and is determined on a first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

In 2008, $227,383 of inventories were recognized as cost of sales. Clearwater incurred $1,348 in inventory write-downs in 2008, which is included in cost of goods sold.

The following table illustrates the impact of the new standard:

	Amount prior to application of new standard	Adjustment for new standard	Amount per financial statements
Cost of good sold	$ 226,874	$ 25,540	$ 252,414
Administration and selling	36,629	(10,703)	25,926
Depreciation and amortization	15,172	(14,586)	586
Net loss	$ (102,154)	$ (251)	$ (102,405)

c) Financial Instruments

Effective January 1, 2008, Clearwater adopted CICA Handbook section 3862 “Financial Instruments – Disclosures” and 3863 “Financial Instruments – Presentation”, which replace Section 3861 “Financial Instruments – Disclosure and Presentation”. These sections require Clearwater to provide disclosure of quantitative and qualitative information in its financial statements that enable users to evaluate the significance of financial instruments on Clearwater’s financial position and performance and the nature and extent of risks arising from financial instruments to which Clearwater is exposed to during the period and balance sheet date and management’s objectives, policies and procedures for managing such risks. Disclosures required by this standard are included in note 8.

d) Capital Disclosures

Effective January 1, 2008, Clearwater adopted CICA Handbook section 1535, “Capital Disclosures” which establishes guidelines for the disclosure of information on the Clearwater’s capital and how it is managed. The enhanced disclosure enables users to evaluate Clearwater’s objectives, policies and processes for managing capital. Disclosures required by this standard are included in Note 18.

3. BASIS OF PRESENTATION

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 the acquisition was accounted for using the book values of the assets and liabilities as recorded by CFFI.

4. ACCOUNTING POLICIES

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

a) Consolidation

These consolidated financial statements include the accounts of Clearwater, its subsidiaries, and Clearwater’s proportionate share of the assets, liabilities, revenues and expenses of joint ventures over which it exercises joint control.

b) Property, plant and equipment

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

Clearwater's policy is to 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. This resulted in in $nil being capitalized in 2008 and $1,578 in 2007.

c) Impairment of long-lived assets

Clearwater reviews long-lived assets subject to amortization for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered to be impaired. An impairment loss is measured as the amount by which the carrying amount of the group of assets exceeds its fair value.

d) Licences

Licences 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.

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

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 in the statement of operations.

For the fiscal year ended December 31, 2008 an impairment loss of $3,300 was recorded with respect to an underutilized plant. For the year ended December 31, 2007, no impairments were recorded. See note 11.

f) Class C Partnership Units and Class D Partnership Units

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

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

g) Translation of foreign currencies

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

To the extent that there is a reduction in the net investment of a self-sustaining foreign operation, a portion of the cumulative translation component related to the self-sustaining foreign operation is recognized in the consolidated statement of operations and deficit during the period of the net reduction. As a result, the dividends declared by Clearwater’s subsidiary in Argentina have resulted in such a decrease in the net investment in the current year of $ nil (2007 - $2,644). Any future dividends received, which reduce Clearwater’s net investment in this subsidiary, will result in further reductions in the cumulative translation component of accumulated comprehensive income. The cumulative translation component of the accumulated comprehensive income at December 31, 2008 amounted to $10,100 (December 31, 2007 - $10,679)

Foreign denominated monetary assets and liabilities of the Canadian operations and integrated foreign subsidiaries have been translated into Canadian dollars using the exchange rate in effect at the balance sheet date and foreign denominated non-monetary assets and liabilities are translated at historic exchange rates. Revenues and expenses are translated at rates in effect at the time of the transactions. Realized and unrealized exchange gains or losses arising from translation of these foreign monetary balances are included in earnings.

h) Financial Instruments

Clearwater’s financial assets and liabilities are classified into the following categories:

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

Held-for-trading assets are carried at fair value with transaction costs expensed immediately and gains and losses recognized in net earnings in the period in which they arise. Loans and receivables are initially recognized at their fair values and subsequently measured at amortized cost using the effective interest rate method, with gains and losses recognized in net earnings in the period in which they arise. . Other financial liabilities are initially measured at cost or at amortized cost, depending upon the nature of the instrument, and are subsequently measured at amortized cost using the effective interest rate method, with gains and losses recognized in net earnings in the period in which they arise.

The fair value of Clearwater's long term debt was estimated based on discounted cash flows using current rates for similar financial instruments subject to similar risks and maturities except for the convertible debentures as the fair value is based on quoted market prices. The fair values of Clearwater's interest rate and foreign exchange derivative financial instruments are estimated using current market measures for interest rates and foreign exchange rates.

i) Income taxes

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

j) Revenue recognition

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

k) Use of estimates

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

l) Recent accounting pronouncements

In 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets" ("CICA 3064"). CICA 3064, which replaces Section 3062, "Goodwill and Intangible Assets", and Section 3450, "Research and Development Costs", establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for Clearwater's interim and annual consolidated financial statements commencing January 1, 2009. Clearwater does not expect the adoption of the new standard will have a material impact on its financial statements.

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations" ("CICA 1582"), CICA 1582 requires that all assets and liabilities of an acquired business will be recorded at fair value at acquisition. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2011. Clearwater is currently assessing the impact of the new standard on its financial statements.
In January 2009, the CICA issued Handbook Section 1601, "Consolidations" ("CICA 1601"), and Section 1602, "Non-controlling Interests" ("CICA 1602"). CICA 1601 establishes standards for the preparation of consolidated financial statements. CICA 1602 establishes

standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Clearwater is currently assessing the impact of the new standard on its financial statements.

In January 2009, the CICA issued EIC Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The EIC requires Clearwater to take into account Clearwater's own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. Clearwater is currently assessing the impact of the new standard on its financial statements.

5. OTHER LONG TERM ASSETS

	2008	2007
Shareholder advances	$ 3,849	$ -
Advances to fishermen	3,460	3,291
Prepaid quotas	-	1,481
Assets held for resale	140	873
Future tax asset	110	3,032
Other	22	17
	$ 7,581	$ 8,694

6. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated depreciation	2008 Net
Land and land improvements	$ 2,961	$ 932	$ 2,029
Buildings and wharves	64,701	50,583	14,118
Equipment	71,870	63,591	8,279
Vessels and vessel refits	162,198	63,498	98,700
Construction in progress	10,495	-	10,495
	312,225	178,604	133,621
Less: Deferred government assistance	(8,036)	(3,863)	(4,173)
	$ 304,189	$ 174,741	$ 129,448

	Cost	Accumulated depreciation	2007 Net
Land and land improvements	$ 3,151	$ 895	$ 2,256
Buildings and wharves	63,386	46,778	16,608
Equipment	74,257	66,039	8,218
Vessels and vessel refits	144,776	69,826	74,950
Construction in progress	4,211	-	4,211
	289,781	183,538	106,243
Less: Deferred government assistance	(26,339)	(20,410)	(5,929)
	$ 263,442	$ 163,128	$ 100,314

In 2008 $14,586 of depreciation expense was classified as cost of goods sold as a result of the change to inventory accounting policies (2007 - $nil). Total depreciation expense of property, plant and equipment for 2008 is $15,172.

7. LICENCES

	Gross carrying amount	Accumulated amortization	Net
2008	$ 140,223	$ 20,217	$ 120,006
2007	$ 126,823	$ 19,893	$ 106,930

In 2008 additions of $13,400 were incurred as a result of Clearwater's $10,000 investment in turbot quota and it's proportionate share of licences acquired through its joint venture (see note 15) of $3,400.

8. FINANCIAL INSTRUMENTS

a) Forward exchange contracts, interest rate swaps and cross currency swaps are used by Clearwater in the management of its foreign currency and interest rate exposures. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which payments are based. Instruments such as expandables, knock outs and option hedges are foreign currency derivatives that provide Clearwater the rights and/or obligations to purchase or sell currencies at fixed or variable rates at a future time.

Foreign currency options are stated at quoted market prices. Realized and unrealized gains and losses on these securities are included in earnings. At expiry of these contracts, Clearwater will either have no obligation or will be called to deliver foreign currency at a rate outlined in the respective option agreement.

At December 31, 2008 and December 31, 2007, Clearwater had outstanding forward and options contracts as follows:

Currency	Notional Amount (in 000's)	Contract Exchange Rate	Maturity	Fair Value Asset (Liability)
December 31, 2008				
United States dollar	Sell forwards 78,000	1.1047	2009	(8,674)
Euro	Sell forwards 8,000	1.6067	2009	(690)
Yen	Sell forwards 2,000,000	0.014	2009	339
	Option 1,000,000	0.009524	2009	(3,943)
				(12,968)
December 31, 2007				
United States dollar	Sell forwards 50,000	1.009	2008	1,262
	Option 100,000	0.942-1.056	2008	(2,704)
	Buy option 60,000	1.013-1.185	2008	(7,318)
	Expandables 22,000 to 74,000	1.009-1.106	2008	(187)
	Reverse knock outs 41,000	1.183	2008	(64)
Euro	Sell forwards 33,675	1.438	2008	(355)
	Buy forwards 15,000	1.432	2008	237
	Option 31,000	1.448 - 1.550	2008	(227)
Yen	Sell forwards 1,000,000	0.009	2008	243
	Option 6,000,000	0.008 - 0.009	2008	(3,545)
				(12,658)

The above foreign exchange contracts are included in the balance sheet at their fair value as shown.

In reviewing the sensitivity of exchange rate fluctuations to the above contracts, it is important to note the contracts are anticipated to be settled at the contracted rates. However, a 10% increase in the exchange rates relative to the Canadian dollar at December 31, 2008 would result in the following decrease to net earnings and net equity USD $7,800 Euros 800 and Yen 300,000.

If Clearwater had settled both the forward and option contracts prior to maturity, at December 31, 2008, it would have made a net payment of $12,968. For the contracts outstanding at December 31, 2007, if they had been settled it would have led to a net payment of $12,658. The liability or asset recorded is included in derivative financial instruments, and the resulting loss or gain is included in income.

Summary of net liability position for derivative contracts

		2008		2007
Forward, option and expandable contracts	$	12,968	$	12,658
Commodity contracts		-		(12)
Interest rate contracts		2,425		216
Contracts with Glitnir Banki hf (see note 19)		51,414		(904)
Net liability position	$	66,807	$	11,958
Portion disclosed as derivative financial instrument (asset)	$	-	$	(2,303)
Portion disclosed as derivative financial instrument liability		66,807		14,261
Net liability position	$	66,807	$	11,958

b) Foreign exchange and derivative contract detail

		2008		2007
Realized loss (gain)				
Foreign exchange and other derivative loss	$	44,598	$	(8,159)
Other realized		(10,464)		7,223
		34,134		(936)
Unrealized (gain) loss				
Unrealized foreign exchange gain on long term debt		(7,060)		(5,696)
Mark-to-market on foreign exchange contracts		23,995		(9,709)
Mark-to-market on interest and currency swaps		29,141		(2,292)
		46,076		(17,697)
Total (gain) loss	$	80,210	$	(18,633)

c) Credit risk

Credit risk refers to the risk of losses due to failure of Clearwater’s customers or other counterparties to meet their payment obligations. Clearwater is exposed to credit risk in the event of non-performance by counter parties to its derivative financial instruments, but does not anticipate non-performance by any of the counter parties as Clearwater only deals with highly rated financial institutions other than Glitnir, as disclosed in note 18.

Clearwater has significant accounts receivable from customers operating in Canada, United States, Europe and Asia. Significant portions of Clearwater’s customers from a sales dollar perspective have been transacting with Clearwater in excess of five years and losses have occurred infrequently. Clearwater has a policy of utilizing a combination of credit reporting agencies, credit insurance, letters of credit and secured forms of payment to mitigate customer specific credit risk and country specific credit risk. As a result, Clearwater does not have any significant concentration of credit risk.

As at December 31, 2008, Clearwater's trade accounts receivable aging based on the invoice date is as follows: 95% 0-30 days, 1% 31-60 days, and 4% over 60 days.

The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts of $770,000. Clearwater reviews accounts past due on a regular basis and provides an allowance on a specific account basis. Accounts are only written off completely when it becomes virtually certain that collection will not occur. Changes in the allowance for doubtful accounts are summarized in the table below:

		2008
Opening Balance	$	1,229
Additional allowance		612
Allowance released		(213)
Bad debts written off		(916)
Revaluation		41
Translation		17
Closing Balance	$	770

d) Foreign currency exchange rate risk

Foreign exchange risk refers to the risk that the value of financial instruments or cash flows associated with the instruments will fluctuate due to changes in foreign exchange rates. In excess of 80% of Clearwater's sales are in United States dollars and other currencies, whereas the majority of expenses and any cash distributions are in Canadian dollars. As a result, fluctuations in foreign exchange rates may have a material impact on Clearwater's financial results.

Risks associated with foreign exchange are partially mitigated by the fact that Clearwater operates internationally which reduces the impact of any country-specific economic risks on its business.

Excluding derivative financial instruments, at December 31, 2008 Clearwater's balance sheet exposure to foreign currency was as follows (as converted to Canadian dollars):

Cash	$ 2,095
Accounts receivable	42,948
Accounts payable and accrued liabilities	(19,507)
Long-term debt	(59,255)
Net balance sheet exposure	$ (33,719)

The major components of this net exposure by currency are as follows (in local currency '000's):

	GBP	USD	Yen	Euros	ISK	DKK	Argentine Peso
Cash	206	618	5,740	211	-	1,804	98
Accounts receivable	1,705	9,765	161,068	8,885	773,066	3,129	4,792
Accounts payable and accrued liabilities	582	2,357	5,090	1,726	403,378	1,369	22,564
Long-term debt	-	16,290	133,951	-	3,543,988	7,771	-
Net balance sheet exposure	1,329	(8,264)	27,767	7,370	(3,174,300)	(4,207)	(17,674)

The above items are included in the balance sheet at their carrying value, which is materially equal to fair value other than long-term debt. The valuation of long-term debt was conducted using both a discounted cash flow approach and a review of currnt market values for the convertible debentures. At December 31, the estimated fair value of Clearwater's debt was $189,528.

A 10% increase in the exchange rates relative to the Canadian dollar (i.e. increase is when GBP moves from 1.79 to 1.96) would result in the following increase (decrease) to net earnings and net equity (in thousands):

- GBP 238
- USD (1,012)
- Yen 37
- Euros 1,256
- ISK (3,200)
- DKK (96)
- Argentine Peso (631)

e) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The majority of Clearwater's debt has fixed interest rates, however it is subject to renewal as indicated in notes 1 and 9. Clearwater manages its interest rate risk exposure by using a mix of fixed and variable rate debt and periodically using interest rate derivatives to achieve the desired proportion of variable to fixed rate debt. Clearwater's interest rate risk arises from long term borrowings issued at fixed rates that create fair value interest rate risk and variable rate borrowings that create cash flow interest rate risk. At December 31, 2008, substantially all of Clearwater's debt had fixed interest rates with a weighted average interest rate of 8.98%. Changes in market interest rates cause the fair value of long term debt with fixed interest rates to fluctuate but do not affect net earnings, as Clearwater's debt is carried at amortized cost and the carrying value does not change as interest rates change.

These facilities include approximately $86 million in five and ten year notes in Canadian and U.S. dollars from a syndicate of five institutional lenders due in 2009 and 2013 and Icelandic Krona ("ISK") denominated bonds.

During 2008 Clearwater renewed the ISK bonds by issuing an additional ISK 3 billion of five-year bonds with a coupon of 11%, adjusted for changes in the Icelandic consumer price index (CPI), that mature in August 2013. Proceeds from these bonds were used to pay all but ISK 778 million of the previous issue of ISK bonds that were due to mature in 2010.

f) Liquidity risk

Liquidity risk is the risk that Clearwater will encounter difficulty in meeting obligations associated with financial liabilities. Clearwater manages liquidity risk by monitoring forecasted and actual cash flows, minimizing reliance on any single source of credit, maintaining sufficient undrawn committed credit facilities and managing the maturity profiles of financial assets and financial liabilities to minimize financing risk. Please refer to notes 1 and 18 for additional information on how Clearwater addresses liquidity risk.

In addition please see section (c) of this note for disclosure on maturities of derivative financial instruments.

The following table provides detail on the maturities of items not previously disclosed in section (a) of this note:

Payments due by year		Long term debt		Interest on long term debt		Operating leases		Other obligations		Total
< December 31, 2009	$	103,640	$	16,107	$	3,329	$	-	$	123,076
2010		58,210		12,955	$	2,314		-		73,479
2011		1,044		9,294	$	1,907		-		12,245
2012		1,044		9,194	$	1,682		-		11,920
2013		31,453		9,114	$	815		-		41,382
> 2013		45,894		29,027	$	715		14,477		90,113
Total	$	241,285	$	85,691	$	10,762	$	14,477	$	352,215

Amounts due in years 2009 and 2010 are high as non-amortizing term credit facilities are scheduled for refinancing in those years. Interest payable on long-term debt obligations can be determined by reviewing the debt balances and maturities as disclosed in note 9.

Included in the above commitments for operating leases are amounts that Clearwater is committed directly and indirectly through its proportionate share of its joint venture, for various licences and lease agreements, office, machinery and vehicle leases. These commitments require approximate minimum annual payments in each of the next five years as shown above.

Also included in commitments for operating leases are amounts to be paid to a company controlled by a relative or an officer of Clearwater over a period of years ending in 2012 for vehicle leases, which aggregate approximately $155 (2007 - $190).

In addition to the commitments noted above, Clearwater has commitments for the conversion of a vessel for the lobster fishery. To December 31, 2008, $6,200 of total estimated cost of $6,900 were incurred. In addition, $3,700 in vendor financing related to this conversion is due to be paid in 2009 and is included within accounts payable and accrued liabilities.

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

9. LONG-TERM DEBT

In (000's)		2008		2007
Notes payable (a)				
Canadian	$	47,805	$	62,573
United States dollars		38,578		19,697
Class C Partnership Units (b)		43,731		43,201
Class D Partnership Units (c)		41,517		40,951
Bond payable (d)		43,862		51,392
Term loan due in 2009 (e)		16,054		-
Marine mortgage, due in 2017 (f)		5,344		4,911
Term loan, due in 2091 (g)		3,500		3,500
Other loans		894		1,339
		241,285		227,564
Less current portion		(103,640)		(58,779)
	$	137,645	$	168,785

(a) Notes payable consist of senior secured notes issued in four series:

- $28,000 principle Canadian Series A Notes issued in 2003, bearing interest at 11% payable semi-annually, maturing May 2009, net of financing costs.
- $26,556 principle U.S. dollar Series B Notes issued in 2003, bearing interest at 11% payable semi-annually, maturing May, 2009, net of financing costs.
- $20,000 principle Canadian Series C Notes issued in 2003, bearing interest at 7.23% payable semi-annually, maturing December 8, 2013, net of financing costs.
- $5,000 principle U.S. dollar Series D Notes issued in 2005, bearing interest at 11% payable semi-annually, maturing December 8, 2013, net of financing costs.

In December 2008, $15,000 of the notes were converted from Canadian dollar denominated Series A notes to $11,600 of US dollar denominated Series B notes.

In addition, the Canadian Series A and US dollar Series B notes previously due on December 8, 2008 were extended to June 8, 2009 in order provide sufficient time for Clearwater to refinance all its senior indebtedness. Under the extension, the term notes contain additional positive covenants, including without limitation, minimum earnings before interest, taxes, depreciation and amortization levels and additional negative covenants, including without limitation, restrictions on capital spending and asset dispositions, restrictions on incurring additional indebtedness and a prohibition on the payment of distributions during the extension period.

As part of this extension, Clearwater amended the conditions of the Series C and D notes such that to the extent the Series A and B notes are repaid by June 8, 2009, the C and D must also be repaid.

Finally, as part of the extension, the interest rates on the Series A, B and D notes were further increased to 11% with provisions for the interest rate on the Series A, B, C and D notes to increase by 1% on each of March 8th, April 8th, May 8th and June 8th of 2009.

The notes are secured by mortgages and charges on all of the present and future property and assets of Clearwater and certain of its wholly owned subsidiaries, the interests of the Fund in Clearwater Seafoods Holdings Trust ("CSHT") and all the issued shares of CS ManPar Inc., the general partner of Clearwater.

(b) In June 2004, 4,081,633 Class C units were issued concurrently with the issue by the Fund of $50 million of Convertible Debentures and are held by the Fund through CSHT. The Class C units are redeemable and retractable at a price of $12.25 per unit and are due December 31, 2010. These units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the Convertible Debentures of the Fund and in a manner that ensures that the distributions on the Class C units will be able to fund the ongoing interest payments on the Convertible Debentures. The Class C units are classified in accordance with their component parts: the value ascribed to the holders' option to convert to Class A units has been classified as equity and the remaining portion of the units has been classified as debt. Interest on the debt is calculated by applying an interest rate of approximately 8.56% to the outstanding debt component. The difference between actual cash payments, which will approximate 7.02% and interest expense, is added to the debt component of the units. In 2007 Clearwater repurchased $5 million of the Class C units leaving $45 million outstanding at December 31, 2008. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering that number of trust units equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash.

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

In 2007 Clearwater repurchased $3.6 million of the Class D units leaving $44.4 million outstanding at December 31, 2008.

(d) During 2008 Clearwater renewed the ISK bonds by issuing an additional ISK 3 billion of five-year bonds with a coupon of 11%, adjusted for changes in the Icelandic consumer price index (CPI) and which mature in August 2013. Proceeds from these bonds were used to pay all but ISK 778 million of the previous issue of ISK bonds that were due to mature in 2010.

		December 31, 2008		December 31, 2007
Principal	$	35,723	$	38,174
Accrued interest		2,735		6,101
Accrued CPI		5,404		7,117
	$	43,862	$	51,392

(e) In December 2008 Clearwater arranged with its foreign exchange lenders to restructure certain of its foreign exchange contracts to match its foreign currency receipts with a $16 million short-term loan payable through 2009.

(f) Marine mortgage payable in the principal amount of CDN $3,256,000 (December 31, 2007 - $4,032,000), DKK 14,393,000 (December 31, 2007 - DKK 16,480,000) and YEN 248,059,000 (December 31, 2007 - 277,826,000) bearing interest at UNIBOR plus 1% payable semi-annually, 54% of which represents Clearwater's proportionate share. Principal payments are required annually with CDN $776,000, DKK 2,087,000 and YEN 29,767,000 due in 2009-2012, CDN $152,000 due in 2013, DKK 2,087,000 and YEN 29,767,000 due in 2013-2014, DKK 1,871,000 due in 2015, YEN 29,767,000 due in 2015-2016 and YEN 9,923,000 due in 2017, 54% 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.

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

Clearwater's debt facilities contain various non-financial and financial covenants. They include, but are not limited to, leverage ratios and fixed charge ratios (which exclude most significant non-cash items and non-recurring items from earnings) that can limit distributions paid and the amount of allowable debt outstanding. In addition, payments related to these debt facilities take priority over payments on securities held in Clearwater by the Fund. Clearwater is in compliance with all debt covenants as at December 31, 2008.

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

2009	103,640
2010	58,210
2011	1,044
2012	1,044
2013	31,453

During 2008 Clearwater incurred $5,000 of costs associated with restructuring its debt facilities (see note 11). These costs were expensed and included in the caption "restructuring expenses" within other expense. The estimated fair value of long term debt at December 31, 2008 was $189,528.

10. 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.

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

In 2007, 8,142,712 Class D units were issued concurrently with the issue by the Fund of $48.0 million of Convertible Debentures and are held by the Fund through CSHT. The Class D units are non-voting, redeemable and retractable at a price of $5.90 per unit. These units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the Convertible Debentures of the Fund and in a manner that ensures that the distributions on the Class D units will be able to fund the ongoing interest payments on the Convertible Debentures. The Class D units are classified in accordance with their component parts: the value ascribed to the holders' option to convert to Class A units has been classified as equity and the remaining portion of the units has been classified as debt.

On January 24, 2007, the Fund received approval for a normal course issuer bid which will enable it to purchase, from time to time, up to 2.5 million outstanding trust units (the "Units"), which amount represents less than 10% of the public float. Any such purchases of Units would be made during the 12-month period commencing on January 24, 2007 and is in accordance with the requirements of the TSX. The Units will be purchased by the Fund for cancellation and will be accompanied by a similar repurchase of units by Clearwater. During 2007, The Fund purchased and cancelled 1,162,000 Class A units for proceeds of $5,583. The units had an original book value of $6,807 thus the excess of the redemption proceeds resulted in an increase of $1,224 in contributed surplus. During 2008, the Fund purchased and cancelled 500,000 Class A units for proceeds of $2,336. The units had an original book value of $2,928 thus the excess of the redemption proceeds resulted in an increase of $592 in contributed surplus. The total units purchased under this plan since January 24, 2007 is 1,662,000.

	Class A Units	Class B Units	$ (in 000's)
Balance December 31, 2006			
(includes $828 equity component of Class C	29,407,626	23,381,217	$ 173,079
Cancellation of Class A Units	(1,162,100)	-	(6,807)
Issuance of Class A Units	169	-	1
Subtotal	28,245,695	23,381,217	166,273
Equity component of Class D Units			1,579
Cancellation of $2 million Class C Units			(35)
Cancellation of $3.7 million Class D Units			(119)
Balance December 31, 2007			167,698
Cancellation of Class A Units	(500,000)	-	(2,928)
Balance December 31, 2008	27,745,695	23,381,217	$ 164,770

At December 31, 2008 there were in total 51,126,912 units outstanding (December 31, 2007- 51,626,912).

Distributions declared for the year ended December 31, 2008 were $nil (2007 - $31,499,000). All of the Partnership's distributions are at the discretion of the Trustees and are subject to certain conditions imposed by lending agreements.

As CFFI controlled Clearwater's seafood business both before and after the initial public offering, the acquisition of the seafood business by Clearwater was accounted for using the book values of the assets and liabilities as recorded by CFFI. The excess of the capital contributions of $267,728,000 over book values of the assets of $180,533,000, being $87,195,000, was debited to partnership units.

11. OTHER EXPENSE (INCOME)

	2008	2007
Restructuring expenses	8,080	-
Writedown of property, plant, equipment and goodwill	6,028	-
Investment income	(1,926)	(1,618)
Vessel research and development expense	1,838	1,500
Export rebate	(526)	25
Other	(2,767)	(1,892)
	10,727	(1,985)

During 2009 Clearwater incurred $8,080 of costs associated with a strategic review of the business and the related renegotiation of its debt facilities.

Included in the writedown of property, plant, equipment and goodwill is a $4,800 write-down for an underutilized plant and other provisions for non-core equipment and related goodwill.

Included in "other" in 2008 is a $700 expense to restructuring a foreign lobster sales office.

Management believes all of the above items to be non-routine.

Additional non-routine expense incurred in 2008 include $1,600 vessel commissioning expenses included in cost of goods sold and a $6,100 gain on settlement of an ISK denominated bond which is included in foreign exchange and derivative contracts income.

12. INSURANCE CLAIM

The insurance claim received in 2007 largely relates to one of Clearwater's clam vessels, the Atlantic Pursuit, which was damaged extensively on December 5, 2006 when it was struck by a large wave. This was an older vessel and scheduled to be retired from the fleet later in 2007, however, as a result of the damage incurred, was retired from service early. An agreement was reached with Clearwater's insurers during the first quarter of 2007, and as a result a gain of approximately $3.6 million was recorded. The vessel had a nominal book value and management has since disposed of the vessel.

13. INCOME TAXES

a) Future tax liability

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

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

The SIFT Rules have only recently been enacted and the Canada Revenue Agency’s administrative policies regarding the interpretation of the SIFT Rules and their application to the trusts and partnerships in which a publicly traded income fund holds a direct or indirect interest are still under review. As such, there may be an interpretation of the legislation under which Clearwater and its subsidiary partnerships (“Partnerships”) would be viewed as SIFTs. At this time management does not interpret the legislation to consider Clearwater to be a SIFT. This was the intent of the legislation and there are valid technical arguments supporting the fact that Clearwater is not a SIFT. No future income tax has been recorded in Clearwater as a result of the SIFT Rules. Subsequent to the reporting period, on March 4, 2009, amendments to the SIFT rules that clarify what constitutes a SIFT were substantively enacted. Under these rules it appears that CSLP would not be considered a SIFT.

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

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

	2008	2007
		(as restated see note 2)
Future income tax asset		
Loss carry-forwards and future deductible expenses of foreign subsidiaries, included in other long-term assets	110	3,032
Future income tax liabilities		
Licences	4,941	4,941
Property, plant and equipment	947	482
	5,888	5,423

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

	2008	2007
		(as restated see note 2)
Deductible temporary differences:		
Licences	$ 22,242	$ 14,082
Financing fees	111	1,090
Foreign exchange contracts	30,109	4,758
Other	4,545	2,617
	$ 57,007	$ 22,547
Taxable temporary differences:		
Property, plant and equipment	220	9,213
Net deductible temporary differences	$ 56,787	$ 13,334

b) Income tax expense

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

		2008		2007
				(as restated see note 2)
Current	$	963	$	2,877
Future (recovery)		3,632		(2,512)
	$	4,595	$	365

The provision for income taxes in the consolidated statement of operations represents an effective tax rate different from the Canadian statutory rate of 35.5% (2007 – 38.1%). The differences are as follows:

		2008 Amount	%		2007 (as restated in note 2) Amount	%
Income tax expense computed at statutory rates	$	(33,701)	35.5	$	9,702	38.1
Income of the partnership distributed directly to unitholders		31,676	(33.4)		(5,591)	(22.0)
Income of foreign subsidiary not subject to tax		(1,874)	2.0		(2,711)	(10.7)
Valuation allowance on losses		7,376	(7.8)		-	0.0
Other tax differences		1,118	(1.2)		(1,035)	(4.0)
	$	4,595	(4.9)	$	365	1.4

14. EARNINGS (LOSS) PER UNIT

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

		2008		2007
				(as restated see note 2)
Basic				
Net earnings (loss)	$	(102,405)	$	20,951
Weighted average number of units outstanding		51,145		52,516
Earnings per unit	$	(2.00)	$	0.40

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

15. JOINT VENTURES

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

a) Renewal of Joint Venture Agreement

Effective April 1, 2008 Clearwater renewed and expanded its joint venture agreement for its shrimp harvesting operations. The key terms of this new agreement included an extension of the joint venture for a further 10 years, the contribution by the other joint venture partner of the factory vessel, "Ocean Prawns", and the contribution by both parties of rights to fish shrimp and turbot quotas. Each partner's equity interest in the joint venture was adjusted to reflect the contribution of the assets such that Clearwater's share of the joint venture's earnings have increased from 50% to 54% from April 1, 2008 onwards.

Included in due to joint venture partner/deferred gain are the following:

		2008		2007
Due to joint venture partner	$	3,201	$	2,166
Deferred gain		11,276		-
	$	14,477	$	2,166

The due to joint venture partner relates to a repayable capital contribution made by the partner.

The deferred gain resulted from the transfer of fishing rights by Clearwater to the joint venture. The transfer occurred at fair market value and the gain is being amortized over 10 years, the term of the joint venture agreement. The total deferred gain was $12,190 and the accumulated amortization is $914. The amortization in 2008 of the gain of $914 is included in depreciation and amortization expense.

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

		2008		2007
Current assets	$	10,094	$	4,935
Property, plant, equipment and other long-term		39,513		12,935
Current liabilities		5,587		2,413
Long-term liabilities		4,025		3,329

c) 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		2008		2007
Sales	$	19,618	$	10,396
Expenses		17,650		8,387
Earnings before taxes		1,967		2,009

d) 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:

		2008		2007
Accounts receivable from joint venture partner	$	76	$	504
Accounts payable to joint venture partner		228		32
Due to joint venture partner, long-term		3,201		2,166

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

December 31		2008		2007
Commissions charged to joint ventures	$	1,833	$	1,534
Interest charged to joint ventures (charged by)		299		(49)

As at December 31, 2008 Clearwater was contingently liable for the obligations of the joint venture partners in the amount of $4,552 (December 31, 2007 - $4,911), 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 $8,122 (December 31, 2007 - $10,207).

16. SEGMENTED INFORMATION

a) General information

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

b) Net sales to customers by product category

		2008		2007
Scallops	$	117,239	$	110,589
Lobster		70,448		75,894
Clams		47,502		45,881
Coldwater shrimp		33,462		45,577
Ground fish and other		8,341		8,526
Crab		15,183		16,360
Hedging program		-		(146)
	$	292,175	$	302,681

c) Net sales to customers by geographic information

		2008		2007
United States	$	87,459	$	99,827
Europe				
France		45,964		36,910
Denmark		5,962		17,363
UK		23,264		22,373
Other		28,442		26,221
Asia				
Japan		32,590		27,788
Other		24,461		24,040
Canada		43,341		45,931
Other, including hedging program		692		2,228
	$	292,175	$	302,681

d) Geographic information

December 31		2008		2007
				(as restated see note 2)
Property, plant, equipment, licences and goodwill				
Canada	$	247,358	$	213,263
Argentina		8,860		3,906
Other		279		453
	$	256,497	$	217,622

17. RELATED PARTY TRANSACTIONS

Clearwater had the following transactions and balances with CFFI, the controlling shareholder of Clearwater, during 2008 and 2007.

(000's)		2008		2007
Transactions				
Charged by CFFI for rent and other services (net)	$	291	$	14
Balances				
Distribution and other payables / (receivable) to CFFI	$	(239)	$	1,152

In addition Clearwater was charged approximately $119 for vehicle leases in 2008 (2007 - $108) and approximately $45 for other services in 2008 (2007 - $115) by companies controlled by a relative of an officer of Clearwater. There was also a management fee charged to a joint venture partner in 2008 of $379 (2007 – $239).

In 2008 Clearwater sold equipment to a minority shareholder of a subsidiary for $467.

At December 31, 2008 Clearwater had a long-term receivable of $3.8 million for advances on dividends made to a minority shareholder in a subsidiary.

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

18. CAPITAL STRUCTURE

Clearwater’s objectives when managing capital are as follows:

- To maintain financial flexibility to preserve access to capital markets and meet its financial obligations
- To have sufficient capital to maintain its capital program
- To meet requirements of lending facilities

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

Capital is managed by monitoring key metrics such as cash generation, capital expenditures, distribution payments, which in turn impact ratios such as leverage.

Clearwater uses leverage, in particular senior revolving and term debt, to lower its cost of capital. The amount of senior debt available to Clearwater is a function of earnings that can be impacted by known and unknown risks, uncertainties, and other factors outside management’s control including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs. Clearwater maintains flexibility in its capital structure by regularly reviewing forecasts of future results and making any required changes on a timely basis. These changes can include early repayment of debt, repurchasing units, issuing new debt or equity, extending the term of existing debt, selling assets to repay debt and if required, limiting distributions paid. Refinancing risk is reduced by staggering the maturities of debt instruments and a policy whereby maturing debt agreements are revisited and updated or replaced as required in advance of maturity dates.

Clearwater's total capital structure is as follows:

In (000's)		December 31 2008		December 31 2007
a. Equity – Partnership units (note 10)	$	164,770	$	167,698
b. Convertible debt, Class C units, due in 2010 (note 9)		43,731		43,201
c. Convertible debt, Class D units, due in 2014 (note 9)		41,517		40,951
d. Non-amortizing debt (note 9)				
Term notes due in 2009		60,521		57,641
Term notes due in 2013		25,862		24,629
Bond payable, due in 2010 and 2013		43,862		51,392
Term loan, due in 2091		3,500		3,500
		133,745		137,162
Amortizing debt (note 9)				
Marine mortgage		5,344		4,911
Other loans		16,949		1,339
		22,293		6,250
Deficit		(133,534)		(37,184)
Contributed surplus		1,816		1,224
	$	274,338	$	359,302

For additional information regarding current market conditions please refer to Note 1, Going Concern.

19. Transactions with Glitnir Banki hf:

On October 7, 2008 the Icelandic Financial Services Authority ("FME") took control of Glitnir Banki hf ("Glitnir") and subsequently placed it into receivership. Prior to Glitnir's receivership Clearwater had derivative contracts with Glitnir including foreign exchange forwards and options and cross currency and interest rate swaps (see note 8).

At December 31, 2008 Clearwater has included in current liabilities an estimated $51.4 million liability associated with these contracts.

Clearwater has consulted with external legal counsel and has received advice that indicate the following contracts may become declared null and void:

- Expired option contracts - US $4 million at an average rate of 1.03, Euro 8 million at an average rate of 1.45
- Option contracts - US $10 million at an average rate of 1.02, Euro 7 million at an average rate of 1.60 and Yen 1 billion at an average rate of 0.0097.
- Forward contracts - US $26 million at an average rate of 1.04 and Yen 2 billion at an average rate of 0.0097.
- Interest rate and cross currency rate swaps – Receive a net of 1.2 billion ISK and pay $25 million Canadian, US $5 million, US $4.7 million, 3 million Pound Sterling and Euro

2.5 million. The terms of the swap agreements also economically hedge the changes in the Icelandic Consumer Price Index (“CPI”).

Clearwater is taking steps with respect to these contracts but as of December 31, 2008 has not reflected the potential extinguishment or reduction in this liability in its financial statements.

Clearwater also has approximately ISK 773,067,000 (approximately Canadian $7,793,000) on deposit with Glitnir for the purpose of settling a similar amount of ISK denominated bonds. This amount is included in accounts receivable.

While the assumptions reflect management’s best estimates, they are subject to the measurement uncertainty associated with the current challenging economic environment and material estimates generally. As a result, material revisions could be required to these estimates in future periods.

20.COMPARITIVE FIGURES

Certain 2007 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2008.

CORPORATE INFORMATION

TRUSTEES OF CLEARWATER SEAFOODS INCOME FUND

Bernard Wilson
Former Vice Chairman, PricewaterhouseCoopers

Brian Crowley
Founding President, Atlantic Institute for Market Studies

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

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

Bernard Wilson
Former Vice Chairman, PricewaterhouseCoopers

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

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

Brian Crowley
Founding President, Atlantic Institute for Market Studies

Brendan Paddick
Chief Executive Officer, Columbus Communications Inc.

John C. Risley
Chairman, CS ManPar Inc.

Colin E. MacDonald
Chief Executive Officer, CS ManPar Inc

OFFICERS OF CS MANPAR INC.

John C. Risley
Chairman

Colin E. MacDonald
Chief Executive Officer

Eric R. Roe
Chief Operations Officer

Michael D. Pittman
Vice-President, Fleet

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

Stan Spavold
Corporate Secretary

INVESTOR RELATIONS

Tyrone D. Cotie, C.A.
Director of Corporate Finance and Investor Relations
(902) 457-8181
tcotie@clearwater.ca

AUDITORS

KPMG LLP
Halifax, Nova Scotia

UNITS LISTED

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

TRANSFER AGENT

Computershare Investor Services Inc.

CLEARWATER SEAFOODS INCOME FUND
757 Bedford Highway, Bedford, Nova Scotia, Canada B4A 3Z7
Tel. (902) 443-0550 Fax. (902) 443-7797 www.clearwater.ca