CLEARWATER SEAFOODS INCOME FUND

2008 Annual Report

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Letter from the Chairman and CEO of Clearwater Seafoods Limited Partnership

To fully understand the loss that Clearwater reported in 2008 it is necessary that I explain the three major components of this loss:

- **Non-cash mark to market loss on Contracts with Glitnir Banki** of $51.4 million – In October 2008 the Icelandic Financial Services Authority 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. Volatility in the markets in 2008 significantly increased the mark to market liability of these contracts and as a result as at December 31, 2008 Clearwater has included an estimated $51.4 million in liabilities. Clearwater has consulted with external legal counsel and has received advice that these contracts should be declared null and void. As a result, Clearwater is taking steps to extinguish these contracts but as of December 31, 2008 that has not been reflected in its financial statements.

- **Realized losses on foreign exchange contracts**, $44.5 million **-** In 2008, the unprecedented weakening of the Canadian dollar against most world currencies, specifically the Yen, Euro and U.S. dollar, combined with a large book of exchange option contracts, resulted in significant realized losses. As of December 31, 2008 all the option contracts except one yen option contract with an estimated liability of $3.9 million had been settled.

- **Reorganization costs,** $8.1 million - Clearwater incurred approximately $8.1 million in costs associated with the unsuccessful privatization and the subsequent restructuring and interim refinancing of the business. Although Clearwater will incur additional costs in 2009 as part of the debt refinancing these costs are expected to be lower than those incurred in 2008.

With the previously noted items stripped out, Clearwater reported normalized cash flow and EBITDA of $24.7 million and $44.0 million in 2008 versus $23.1 million and $40.6 million in 2007 (for calculation of normalized cash flow and normalized EBITDA refer to the Definitions and Reconciliations section of the 2008 annual MD&A).

Although the operations of the business were impacted by both historically high fuel costs and the continued disruption of our clam fleet in 2008, **in the second half of the year the business benefited from three very positive key trends**. The clam fleet operated with more harvesting capacity showing 4 % year-over-year growth, the lobster business improved its performance with the benefit of lower procurement costs and our harvesting costs declined as fuel costs began to move down dramatically.

These factors combined with **the mid year launch of the new clam vessel and the finalization of a new shrimp joint venture helped results improve quickly in the second half of 2008**. During the last quarter of 2008, sales prices and margins performed well and as a result margins, excluding the impact of a new inventory accounting standard, improved by $3.1 million or 18% over the last quarter of 2007.

Management is pleased to have completed our multi-year vessel renewal program and as a result of the completion of this program, no material capital expenditures are currently planned in the next 3-5 years. With the last of Clearwater's planned frozen-at-sea vessel conversions complete, the fleet is now fully operational. Clearwater is completing the conversion of a smaller non-factory lobster vessel and expects to begin fishing with it in April of 2009. Management believes this will result in a more efficient fleet with unsurpassed quality, lower costs, and improved catch volumes, all of which will serve to improve profitability.

One of the most significant challenges we have faced over the last several months has been refinancing a portion of our term debt. The recent global financial crisis has tightened liquidity in the financial markets, and when combined with our lower earnings, has impacted our borrowing capacity. However, **the business continues to perform well**:

- **Positive cash flows -** Cash flow from operations when normalized continues to be positive (see calculation in liquidity and capital resources section of the MD&A).

- **Strong markets & industry -** Although Clearwater has seen weakening in a few of our markets for certain product lines, our overall sales volumes are in line with management's expectations and margins have been strong. This is in part due to favorable exchange rates but more so to our strong global reputation for providing a consistent supply of the highest quality, safe and sustainable seafood products. As the world slips into recession the market has re-awakened to the need to provide its customers with a 'truly exceptional eating experience' to ensure repeat purchases. This has precipitated a demand for a reliable supply of high quality, safe and sustainability harvested seafood products. In addition, we believe that as a food company the business will respond well in the current recessionary period.

- **Favorable cost trends** – There has not been any material negative impact to date on Clearwater's costs with the exception of favourable lower lobster raw material prices and lower fuel costs.

- In the fall of 2008 lobster costs were significantly lower than recent years, lowering Clearwater's costs and partially offsetting lower sales prices. Clearwater procures approximately 80% of the live lobster it uses in its live and processed lobster business from independent fishermen at prevailing shore prices.

  Fuel prices declined in the latter part of 2008 and this trend continued into 2009 resulting in current spot rates that are approximately 34 cents/litre below our 2008 average cost/litre. Based on 2008 fuel purchases for Clearwater's factory vessels, a one-cent per litre change in the price of fuel impacts harvesting costs by approximately $280,000.

- **Favorable exchange trends -** The US dollar, Japanese Yen and European Euro currencies strengthened relative to the Canadian dollar in the latter part of 2008. Sales in these currencies in 2008 were US$116 million, Euro 43 million and Yen 2.9 billion and the average exchange rates realized in 2008 were 1.07 for the US dollar, 1.55 for the Euro and 0.01 for the Yen.

  The strengthening exchange rates have a significant positive impact on sales receipts.

  In 2009, the positive impact of strengthening exchange rates will be partially offset by forward contracts in place that effectively lock in place US$78 million at an average rate of 1.11, Euros 8 million at an average rate of 1.62 and Yen 3 billion at an average rate of 0.0123.

We are executing very well on our **focused liquidity strategy** through this difficult lending environment. This includes tightly managing our working capital in the form of tighter inventory controls and accounts receivable collection, limiting capital spending, liquidating under performing assets and selling non-core assets, limiting distributions and reviewing alternative lending arrangements.

We believe that we will be able to refinance our maturing debt and this, combined with the improving operations, which continue to provide positive cash flows, will enable Clearwater to maintain liquidity sufficient to operate the business. However, while we expect to be successful in refinancing this debt there is no guarantee that it will be able to do so in the current markets. Clearwater believes the refinancing of its debt will include restrictions on future distributions, restrictions on capital expenditures as well as some agreed reductions in principal. Over the next several years Clearwater will be focused on reducing its leverage. This will come from a combination of improved earnings levels, which will improve trailing EBITDA levels. Using the positive cash flow of the business to reduce debt, Clearwater believes that over time this approach will provide for a lower cost of capital by restoring access to a greater variety of debt sources and allow a resumption of our growth program.

Looking forward to 2009, Clearwater believes that the improvements to its clam, shrimp and lobster fleets will allow the Company to operate without disruption. This, combined with the possibility of lower fuel costs, will position Clearwater to grow and to generate positive cash flows and increased profit margins. Of course, this is subject to any impact of weakening economic conditions in North America, Europe and Asia.

Clearwater's core strengths are our strong ownership positions in our internationally recognized sustainable fisheries, our leading edge, innovative harvesting and processing technologies, our vertical integration, our global reputation for providing the highest quality seafoods, our Global sales team and established loyal customer base and our dedicated, proud and experienced work force. Combined these core strengths position Clearwater to deliver on our business strategy of long-term value creation.

I would like to take this opportunity to thank our Board members and Trustees, our partners in the business, our committed worldwide team of employees, and our investors for their continued support of Clearwater in 2008.

Colin MacDonald
Chairman and Executive Officer
ManPar Inc.

March 27, 2009

Letter from the Chairman of the Board of Trustees of Clearwater Seafoods Income Fund

Clearwater faced a number of significant non-operational challenges in 2008 that negatively impacted results. The failure of Glitnir Banki hf resulted in the collapse of privatization plans for the company and led to reorganization costs related to restructuring. Foreign exchange volatility resulted in large realized and unrealized exchange losses. Refinancing obligations also added costs. These items had a significant negative impact on earnings and cash flows.

When these items are factored out, **Clearwater's core operations continued to be cash flow positive and showed improvement in 2008** with reported normalized cash flow and EBITDA of $24.7 million and $44.0 million versus $23.1 million and $40.6 million in 2007 (for calculation of normalized cash flow and normalized EBITDA refer to the Definitions and Reconciliations section of Clearwater's 2008 annual MD&A). In the last quarter of 2008 sales prices and margins performed well and, as a result margins, excluding the impact of a new inventory accounting standard, improved by $3.1 million or 18% over the last quarter of 2007. We believe that this speaks to the underlying strength of the core business.

The current financial environment, as well as the non-operational items outlined above, have impacted Clearwater's borrowing capacity over the past year. As a result, management has taken a focused approach to maintaining liquidity. The payment of distributions is not foreseen in the near term. However, the Trustees believe that **as Clearwater strives to improve its earnings and reduce its leverage over the next few years the market should recognize and value these improvements**, thereby providing opportunity for unitholder returns through an appreciation in the value of the units.

Clearwater anticipates that investors in both series of the Fund's convertible debentures will continue to receive their interest payments. Approximately $45 million of convertible debentures come due in December 2010. **Over the next several years Clearwater plans to use its cash flows to reduce debt levels, which management believes will position it well to refinance its debentures due in 2010**.

Over the past several years your Trustees have worked closely with our financial advisor, BMO Nesbitt Burns, to review strategic opportunities that might exist to improve unitholder value. In 2008 we came very close to concluding a transaction whereby a consortium led by Clearwater Fine Foods Inc. ("CFFI"), would acquire the business of the Fund. However, unprecedented uncertainty and volatility in global financial markets and, in particular, the failure of Glitnir Banki hf shortly before the anticipated closing in October 2008 effectively scuttled the deal since the consortium could not secure alternative sources of funding.

The Trustees were disappointed that the consortium partners were unable complete the transaction. However, we remain confident in the business and its prospects for the long term. **We will continue to work with CFFI to review alternatives to maximize value for all unit holders.**

As a Board, our commitments to responsible stewardship of Clearwater's resources, helping the Company to expand and grow and, most importantly, ensuring you receive the best possible return on your investment remain unchanged. On behalf of the Trustees and Directors, I would like to express our appreciation to Colin MacDonald and the entire Clearwater team for their perseverance and performance despite significant challenges in 2008 and thank our investors for their continued belief in Clearwater.

Tom Traves

Thomas Traves
Chairman
Clearwater Seafoods Income Fund

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared effective March 27, 2008.

The Audit Committee and the Board have reviewed and approved the contents of this MD&A, the financial statements, the Annual Information Form as well as the related 2008 fourth quarter news release.

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

Clearwater Seafoods Limited Partnership ("Clearwater") has established and maintains disclosure controls and procedures over financial reporting, as defined under the rules adopted by the Ontario Securities Commission in multilateral instrument 52-109. The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have evaluated and tested the design and effectiveness of Clearwater's disclosure controls and procedures as of December 31, 2008 and have concluded that such procedures are adequate and effective to provide reasonable assurance that the material information relating to Clearwater and its consolidated subsidiaries would be made known to them by others within those entities to allow for accurate and complete disclosures in annual filings.

Management of Clearwater, with the participation of the Chairman and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer (collectively "Management"), are responsible for establishing and maintaining adequate internal controls over financial reporting. Clearwater's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management evaluated the design and effectiveness of Clearwater's internal control over financial reporting as at December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework. This evaluation included reviewing controls in key risk areas, assessing the design of these controls, testing these controls to determine their effectiveness, reviewing the results and then developing an overall conclusion. Based on management's evaluation, the Chairman and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer have concluded that, as at December 31, 2008, Clearwater's internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

There have been no significant changes in the Company's internal control over financial reporting or in other factors that occurred during the period of January 1, 2008 to December 31, 2008 or subsequent to the date of management's evaluation, that have materially affected, or are reasonably likely to materially affect the company's internal control over financial reporting.

COMMENTARY REGARDING FORWARD-LOOKING STATEMENTS

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

OVERVIEW OF THE FUND AND CLEARWATER

Clearwater is recognized for its consistent quality, wide diversity, and reliable delivery of premium seafood, including scallops, lobster, clams, coldwater shrimp, crab and ground fish. Our key competitive advantages include our ownership of significant quotas in key species, our innovations in harvesting and processing technologies, and our vertical integration, which allows Clearwater to manage marketing, sales and distribution in-house. Since it's founding in 1976, Clearwater has invested in science, people, technology, resource ownership and resource management to preserve and grow its seafood resource. This commitment has allowed Clearwater to remain a leader in the global seafood market.

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

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

Date	Number of units issued	Method and related investment in Clearwater	Ownership of Clearwater by the Fund
July 2002	21,170,435	IPO (acquired equal number of units)	45.36%
August 29, 2002	2,117,043	Over-allotment option granted to the underwriters – acquired equal number of units	49.90%
December 27, 2002	1,271,186	Private placement - acquired equal number of units	51.23%
May 1, 2003	4,000,000	Warrants converted to units - acquired equal number of units	54.98%
September 17, 2003	848,962	Private placement - acquired equal number of units	55.71%
June 2, 2007	169	Conversion of $1,000 of debentures to units	55.71%
Various dates in 2007	(1,162,100)	Normal course issuer bid – reduced investment by $5,583,000	54.71%
January 2008	(500,000)	Normal course issuer bid	54.27%
	27,745,695		

On June 15, 2004, the Fund completed an offering for $50 million of 7% convertible unsecured subordinated debentures, which are due December 31, 2010 and used the proceeds to purchase 4,081,633 Class C units issued by Clearwater. The convertible debentures pay interest semi-annually and are convertible at any time up to maturity at the option of the holder into trust units of the Fund at a conversion price of $12.25 per trust unit. The Clearwater Class C units are all held by the Fund and these units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the convertible debentures of the Fund. 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. As part of its strategy to reduce leverage levels, the Fund filed normal course issuer bids and during 2006, $3 million of the Class C units were repurchased and cancelled with the proceeds used to repurchase and cancel an equivalent amount of convertible debentures. In 2007, an additional $2 million of Class C Partnership units were repurchased and cancelled with proceeds used by the Fund to repurchase and cancel an equivalent amount of the 2004 series convertible debentures. The principal outstanding as at December 31, 2008 of the 2004 series convertible debentures was $45 million.

On March 9, 2007, the Fund completed an offering for $43.5 million of 7.25% convertible unsecured subordinated debentures, which are due March 31, 2014. On April 11, 2007 the Fund's syndicate exercised the over-allotment option in the amount of $4,542,000 principal amount of convertible unsecured subordinated debentures. The convertible debentures are convertible at any time up to maturity at the option of the holder into trust units of the Fund at a conversion price of $5.90 per trust unit. The debentures pay interest semi-annually in arrears on March 31 and September 30, commencing September 30, 2007. The debentures are not redeemable before March 31, 2010. On and after March 31, 2010, but before March 31, 2012, the debentures may be redeemed at the option of the Fund provided that the market price of the trust units is not less than 125% of the conversion price. On and after March 31, 2012, the debentures may be redeemed at the option of the Fund at a price equal to their principal amount plus accrued interest. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering that number of trust units equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash. In 2007, approximately $3.7 million of Class D Partnership units were repurchased and cancelled with proceeds used by the Fund to repurchase and cancel an equivalent amount of the 2007 series convertible debentures. The principal outstanding as at December 31, 2008 of the 2007 series convertible debentures was $44.4 million (2007 – $44.4 million).

Clearwater's Partnership Agreement provides that as long as Clearwater Fine Foods Incorporated ("CFFI") owns greater than 45% of the units of the Fund on a fully diluted basis, CFFI has the right to appoint 4 of the 7 directors of CS ManPar, the managing general partner. Since CFFI currently owns 48.23% (including its ownership of units in the Fund), it has maintained this right. Therefore, the Fund does not consolidate the results of Clearwater's operations, but rather, accounts for the investment using the equity method. Under this method, the Fund's share of the earnings of Clearwater is reflected in the statement of earnings of the Fund as a one-line item entitled "Equity in the Earnings of Clearwater Seafoods Limited Partnership". Due to the limited amount of information that this provides on Clearwater, the financial statements of Clearwater are included whenever the Fund discloses its financial results.

OVERALL PERFORMANCE OF CLEARWATER SEAFOODS LIMITED PARTNERSHIP

Clearwater reported normalized cash flow and EBITDA of $24.7 million and $44 million in 2008 versus $23.1 million and $40.6 million in 2007 (for calculation of normalized cash flow and normalized EBITDA refer to the Definitions and Reconciliations section of the 2008 annual MD&A). With the launch of the new clam vessel and the finalization of a new shrimp joint venture, results have showed improvement in 2008. During the last quarter of 2008 sales prices and margins performed well and as a result margins, excluding the impact of a new inventory accounting standard, improved by $3.1 million or 18% over the last quarter of 2007.

Clearwater had a challenging year in 2008 and it incurred several significant charges as follows:

- Contracts with Glitnir Banki, $51.4 million – In October 2008 the Icelandic Financial Services Authority 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. Volatility in markets in 2008 significantly increased the mark to market liability of these contracts and as a result as at December 31, 2008 Clearwater has included an estimated $51.4 million in liabilities. Clearwater has consulted with external legal counsel and has received advice that these contracts should be declared null and void. As a result Clearwater is taking steps to extinguish these contracts but as of December 31, 2008 that has not been reflected in its financial statements.

- Realized losses on foreign exchange contracts, $44.5 million - In 2008, the significant volatility in exchange rates, combined with a large book of exchange option contracts, resulted in significant realized losses. As of December 31, 2008 all the option contracts except one yen option contract with an estimated liability of $3.9 million had been settled.

- Reorganization costs, $8.1 million - Clearwater incurred approximately $8.1 million in costs associated with restructuring, refinancing the business and the failed privatization. Clearwater will incur additional costs in 2009 as part of the debt refinancing but these costs are expected to be lower than 2008.

Operationally the business was impacted by higher fuel costs in 2008. However, in the second half of the year the business benefited from three key trends; the clam fleet operated with more harvesting capacity, the lobster business benefited from lower procurement costs and fuel costs began to decline..

Management is pleased to have completed our multi-year vessel renewal program and as a result of the completion of this program, no material capital expenditures are currently planned in the next 3-5 years. With the last of Clearwater's planned frozen-at-sea vessel conversions complete the fleet is now fully operational. Clearwater is completing the conversion of a smaller non-factory lobster vessel and expects to begin fishing with it in 2009. Management believes this will result in a more efficient fleet with lower costs, improved quality and greater catch volumes, all of which will serve to improve profitability.

The recent global financial crisis has tightened liquidity in the financial markets and has affected investor confidence in global equity and debt markets. This has constrained lending activity and led to significant declines in global market indices which in turn have negatively impacted the value of most publicly traded securities including Clearwater's.

Management has evaluated the various aspects of Clearwater's business and financial circumstances that could be affected by these conditions as they currently exist as follows:

- Cash flow from operations when normalized continues to be positive (see calculation in liquidity and capital resources section of the MD&A).

- Although Clearwater has seen weakening in a number of markets for certain product lines, sales volumes are in line with management's expectations and margins have been strong, in part due to favourable exchange rates. In addition, we believe that as a food company the business will respond well in the current recessionary period.

- There has not been any material impact to date on Clearwater's costs with the exception of lower lobster raw material prices and lower fuel costs.

  In the fall of 2008 lobster costs were significantly lower than recent years, lowering Clearwater's costs and partially offsetting lower sales prices. Clearwater procures approximately 80% of the live lobster it uses in its live lobster business.

  Fuel prices declined in the latter part of 2008 and this trend continued into 2009 resulting in current spot rates that are approximately 34 cents/litre below our 2008 average cost/litre. Based on 2008 fuel purchases for Clearwater's factory vessels, a one-cent per litre change in the price of fuel impacts harvesting costs by approximately $280,000.

- The US dollar, Japanese Yen and European Euro currencies have strengthened relative to the Canadian dollar in the latter part of 2008. Sales in these currencies in 2008 were US$116 million, Euro 43 million and Yen 2.9 billion and the average exchange rates realized in 2008 were 1.07 for the US dollar, 1.55 for the Euro and 0.01 for the Yen.

The strengthening exchange rates have a significant positive impact on sales receipts.

In 2009, the positive impact of strengthening exchange rates will be partially offset by forward contracts in place that effectively lock in place US$78 million at an average rate of 1.11, Euros 8 million at an average rate of 1.62 and Yen 3 billion at an average rate of 0.0123.

- Clearwater has had some non-routine costs in 2008 – over the past year Clearwater has incurred approximately $8.1 million in costs associated with restructuring and refinancing the business. Clearwater will incur additional costs in 2009 as part of the debt refinancing but these costs are expected to be lower than 2008.

  In 2008, the significant volatility in exchange rates, combined with a large book of exchange contracts resulted in significant exchange losses. Realized losses (on derivative contracts, net of gains on debt and working capital) increased by $35.1 million to $34.1 million in 2008, a significant portion of these coming from option contracts. Management will only use forward contracts in managing its exchange program going forward.

- Clearwater expects to be successful in refinancing its near-term debt maturities and foreign exchange lines – 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 become due and payable 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 $16 million short-term loan. Therefore, the total debt facilities that Clearwater is planning to refinance total approximately CDN$102 million. Clearwater also intends to put in place facilities to allow for its hedging program.

  In 2010 Clearwater Seafoods Income Fund has $45 million of convertible debentures that come due. These funds were invested by the Fund in Class C Units issued by Clearwater with similar terms and conditions, including a maturity in December 2010. Clearwater believes that it will be successful in refinancing these units and the related convertible debentures as they come due. Clearwater intends to focus on using its cash flow to reduce debt levels which management believes will put it in a strong position to refinance these debentures.

- Borrowing costs are higher on maturing debt facilities – the current economic environment in debt markets will result in higher borrowing costs for Clearwater. Specifically, Clearwater recently extended US dollar and Canadian dollar term notes for six months and amended the terms of some additional US dollar and Canadian dollar term notes. The total amount of these notes as at December 31, 2008 was approximately CDN $86 million. The average interest rate on these notes was approximately 7% before the extension, whereas the rate after the extension was 11%. Since December 2008, volatility and related interest rate spreads have further increased. Based on the approximately CDN $102 million of debt that Clearwater is currently attempting to refinance, every 1% change in interest rates would impact interest costs by $1 million. Clearwater continues to pursue a strategy of keeping its cost of capital as low as possible, however, given current market conditions, this may require it to vary the term of any debt and employ different borrowing structures going forward which may impact its borrowing costs.

- Clearwater has a focused strategy for maintaining liquidity – given that its borrowing capacity has been impacted by lower earnings over the year as well as the current difficult borrowing environment, Clearwater is taking a multi-faceted approach to maintaining liquidity:

    - Tightly managing its working capital – this includes lowering its investment in trade receivables through a combination of tighter collection terms and discounting and limiting its investment in inventories through tight review of any slow moving items and improved integration of its fleet and sales force;

    - Limited capital spending – Clearwater has completed its current multi-year fleet renewal program and currently it has no material planned capital expenditures over the next three to five years. Management believes this fleet renewal program will result in a more efficient fleet with lower costs, improved quality and greater catch volumes, all of which will serve to improve profitability. Clearwater's capital program focus over the next few years will be to maintain its existing fleet and complete any necessary repairs and maintenance. Clearwater's planned capital expenditures for 2009 total $5 million;

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    - Liquidating under performing assets, selling non-core assets – Clearwater has and will continue to review and liquidate underperforming and non-core assets. In the fourth quarter of 2008 Clearwater sold a surplus long-liner vessel for net proceeds of approximately $1 million and subsequent to year-end 2008 it has taken deposits on some non-core quota sales and a second long-liner.

- Limiting distributions – no distributions were paid in 2008 and none are expected to be paid in 2009 or 2010 until such time as the convertible debentures are refinanced; and

- Reviewing alternative lending arrangements – Clearwater is reviewing alternative lending arrangements, including asset backed lending arrangements and other financing structures available to more highly levered borrowers. Generally, the amount of leverage available to borrowers has declined. At the same time, lower than expected earnings have impacted trailing EBITDA coverage ratios which limits access to some of the more traditional debt markets that Clearwater has had access to in the past. This may result in higher borrowing costs in the short-term.

Clearwater believes that it will be able to refinance its maturing debt and this, combined with the improving operations, which continue to provide positive cash flow, should enable Clearwater to maintain liquidity sufficient to operate the business. However, while management expects to be successful in refinancing this debt there is no guarantee that it will be able to do so in the current markets. Clearwater believes the refinancing of its debt will include restrictions on future distributions, restrictions on capital expenditures as well as some agreed reductions in principal. Over the next several years Clearwater will be focused on reducing its leverage. This will come from a combination of improved earnings levels, which will improve trailing EBITDA levels, and from using the positive cash flow of the business to reduce debt. Clearwater believes that over time this approach will provide for a lower cost of capital by restoring access to a greater variety of debt sources.

In the fourth quarter of 2008 the Fund recorded a non-cash provision to reduce the value of the Fund's investment in Clearwater to December 31, 2008 closing values on the Toronto Stock Exchange. This, combined with a provision taken in the second quarter of 2008, has resulted in a total accumulated provision of $229 million. This provision was made as a result of the exaggerated monetary decline and extended timeframe that the market value of the Fund's units have been below the carrying value in the financial accounts of the Fund.

SELECTED ANNUAL INFORMATION

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

Please note that the 2006 results have not been restated for the new refit policy adopted in the third quarter of 2008. In addition, Clearwater adopted the new inventory standard issued by the Canadian Institute of Chartered Accountants, effective January 1, 2008. This standard was not applied retroactively and prior years' numbers have not been restated.

(In 000's except per unit amounts)		2008		2007		2006
Sales	$	292,175	$	302,681	$	315,736
Net (loss) earnings		(102,405)		20,951		1,834
Basic and diluted net earnings (loss) per unit		(2.00)		0.40		0.03
Normalized cash flows from operating activities [1]		24,563		23,077		43,560
Total assets		394,120		407,153		409,500
Long-term debt		241,285		227,564		190,260

1. See cash flows in Liquidity and Capital Resources section of Management's Discussion and Analysis

During 2008 volatility in exchange rates resulted in large foreign exchange losses of $80.2 million versus income in 2007 of $18.6 million, a change of $98.8 million. Approximately 80% of Clearwater's 2008 sales were denominated in U.S. dollars, European Euro, Japanese Yen and Pound Sterling.

VISION, CORE BUSINESS AND STRATEGY

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

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

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

By adhering to the values and goals of each of these areas, Clearwater believes that it will realize its corporate vision and achieve strong sustainable financial results over the long-term. The 2008 results illustrate the effects of factors such as currency fluctuations; however they also demonstrate the return of Clearwater's fleet of factory vessels back to normal operations. It is this discipline and focus on long-term results that will enable Clearwater to ride out these challenges and return to its traditional levels of performance.

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

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

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

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

The key attributes of this strategy include:

- Resource ownership and management - Quota ownership is the cornerstone of Clearwater's business. From the beginning, Clearwater has invested in quota ownership to guarantee access to supply, as well as to create a defensible position in the market place. Clearwater's scale of resource ownership provides not only the security of supply, but also the scale needed to invest in leading edge science and innovative harvesting, processing and marketing efforts. Its strategy of resource ownership depends on ensuring sustainable harvesting through responsible resource management. Clearwater has been proactive in protecting key resources through investments in science and by actively co-managing these resources in partnership with the federal Department of Fisheries and Oceans. In Argentina, its product has earned the Marine Stewardship Council certification ("MSC") and is in fact the first scallop fishery in the world to receive this rigorous independent certification. This is just one example among many of Clearwater's dedication to resource management.

- Market and customer focus - Clearwater prides itself on being a global company. As demand for premium shellfish has grown, Clearwater has developed a worldwide presence. Clearwater has sales offices in the United States, Canada, the United Kingdom, and Japan as well as four representative offices in China. In addition to Nova Scotia, it maintains distribution facilities in Louisville, Kentucky. Clearwater's success is based on relationships with leading retailers, food processors and restaurants that understand both the need and the demand for quality in today's increasingly sophisticated market.

At the same time, Clearwater mitigates risk through diversification of its customer base.

- Skilled and dedicated employees - Accomplishing Clearwater's goals depends on the skill and dedication of its employees. Clearwater's decentralized decision-making and personal accountability enhances performance, fosters innovation, improves quality, increases yields, and lowers costs. Clearwater emphasizes customer service, quality and efficiency and invests in its 1,500 employees to further their training and create new opportunities in which they can excel.

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

KEY PERFORMANCE DRIVERS

Clearwater's key performance drivers include:

- Quota ownership and the amounts harvested and procured;

- Markets for the various species of shellfish and the related customer relationships in those markets;

- Innovation and technology, including Clearwater's ability to leverage science and technology to create new products, increase quality and reduce costs.

CAPABILITY TO DELIVER RESULTS

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

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

- The sea scallop resource and landings have been strong over the last number of years. Clearwater believes that this is a very well managed fishery.

- The Arctic Surf clam resource is stable. In addition, Clearwater has harvested and marketed the by-catch (i.e., Greenland cockles and northern propeller clams) that has been landed by the clam fleet.

- The Argentine scallop resource is strong due in part to rotational fishing efforts used to manage the resource, which ensure the scallops have adequate time to regenerate. In Argentina, Clearwater's product is the first scallop fishery in the world to have earned the rigorous Marine Stewardship Council ("MSC") independent certification.

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

- The lobster resource is considered strong and landings continue to be stable and in January 2007 Clearwater purchased an additional offshore lobster licence.

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

The condition and operating capability of these vessels is paramount for Clearwater to successfully operate in its fisheries. In the past five years Clearwater has invested approximately $50.4 million on its fleet.

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

The following schedule sets out Clearwater's historic capital expenditures and harvesting license investments for the past five years.

	2008	2007 *(as restated)*	2006	2005	2004	TOTAL
Vessels	$ 22,200	$ 7,600	$ -	$ 11,800	$ 8,800	$ 50,400
Plants and other	4,289	-	-	1,600	5,500	11,389
Licenses	10,000	5,300	-	-	-	15,300
Maintenance capital	7,000	3,500	1,900	2,400	2,700	17,500
	$ 43,489	$ 16,400	$ 1,900	$ 15,800	$ 17,000	$ 94,589

Please note that the amounts capitalized related to the clam vessel, the Atlantic Seahunter, that had capsized prior to Clearwater taking delivery were removed from the chart above. This vessel capsized in Taiwan prior to Clearwater taking possession in the third quarter of 2007. The result of the incident was a complete loss of the vessel for which Clearwater recovered the total cost invested through a claim filed with the shipyard. The capital expenditure amounts excluded from the table above include:

- 2008 $nil
- 2007 $3.7 million,
- 2006 $18.7 million,
- 2005 $12.8 million and,
- 2004 $10.9 million.

In addition to the amounts capitalized annually above, Clearwater historically has spent and expensed on average about $18.4 million a year on the maintenance of its fleet and processing plants. This reflects Clearwater's commitment to ensuring that the assets are kept in top condition, enabling it to harvest and process its allowable catch efficiently and allow for the processing of additional capacity for selective procurement when required.

Amounts for licences in 2008 include joint venture contributions of $10 million for turbot licences.

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

	2008	2007 *(as restated)*	2006	2005	2004	TOTAL
Maintenance capital	$ 7,000	$ 3,500	$ 1,900	$ 2,400	$ 2,700	$ 17,500
Repairs and maintenance	12,600	12,000	18,000	17,300	14,600	74,500
	$ 19,600	$ 15,500	$ 19,900	$ 19,700	$ 17,300	$ 92,000
Depreciation/Amortization	$ 534	$ 14,400	$ 13,800	$ 14,400	$ 14,600	$ 57,734

In 2008 $14,586,000 of depreciation expense was moved to cost of goods sold as a result of the change to inventory accounting policies (2007-$nil). Total depreciation expense for 2008 prior to this change is $15,172,000.

Vessel investments significantly impact the amount spent annually on capital expenditures. During the past two years, Clearwater has been converting a vessel for our clam fishery incurring $6.2 million in 2008. In 2008, through its joint venture, Clearwater added a 54% interest in a vessel for our shrimp fishery at a cost of $6.9 million. Finally, Clearwater is currently converting a vessel for its lobster fishery. The total expected cost of this vessel including conversion costs is approximately $6.9 million, $6.2 was incurred in 2008. In 2008 Clearwater also invested approximately $10 million in turbot quotas. In 2007 Clearwater began investment in the clam vessel and purchased an offshore lobster licence. In 2006, capital expenditures were solely for maintenance projects. In 2005, Clearwater completed construction of two FAS scallop vessels. In 2004, capital expenditures included progress payments on clam vessels; two FAS scallop vessels and the investment in a new processed lobster facility.

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

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

- Two are used to harvest shrimp and are on average 15 years old. These vessels provide incremental returns compared to the technology previously used, due to greater harvesting efficiencies and lower fuel costs. At the end of 2007, a shrimp vessel, the Arctic Endurance, was removed from the shrimp business and converted to a clam vessel. In 2008 Clearwater, through its shrimp fishing joint venture, added a new vessel such that it maintained its two l shrimp vessels.

- Four are used to harvest Canadian sea scallops with and are on average 8 years old. These vessels provide a return on investment well in excess of the cost of capital due to greater harvesting efficiencies compared to the technology previously used, lower costs and a higher quality product, frozen-at-sea scallops.

- Two are used to harvest Argentine scallops and are on average 28 years old. One vessel is expected to be replaced over the next five years and the second is expected to be replaced in the next 10 years. Management estimates a new vessel would cost approximately $15 million and believes that there is opportunity to improve efficiency in this fishery through the investment in new technology as well as additional research.

- Two are used to harvest clams and are on average of 14 years old. In 2008 the Arctic Endurance was converted from a shrimp vessel to a clam vessel and added to the fleet to replace the Atlantic Vigour which was retired.

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

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

EXPLANATION OF 2008 ANNUAL RESULTS

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

The 2008 annual results were prepared in accordance with the new inventory standard issued by the Canadian Institute of Chartered Accountants, effective January 1, 2008 for Clearwater. This standard provides more extensive guidance on the determination of cost and requires that variable overheads, a portion of administration expenses and depreciation be inventoried and as a result, included in the cost of goods sold. This standard was not applied retroactively and prior year numbers were not restated. An adjustment was made to opening deficit to reflect the impact of this standard on the opening inventory figure for January 1, 2008. The 2007 results do not reflect a similar adjustment and therefore the periods are not readily comparable.

The following table illustrates the impact of the new standard on the amounts reported in the 2008 annual financial statements.

	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
Gross profit	65,301	(25,540)	39,761
Administration and selling	36,629	(10,703)	25,926
Depreciation and amortization	15,172	(14,586)	586
Net income (loss)	$ (102,154)	$ (251)	$ (102,405)

In addition, in the third quarter of 2008 Clearwater changed its accounting policy from expensing refit costs as incurred to capitalizing and amortizing the cost of a refit over the time period between refits as this results in the financial statements providing more reliable and relevant information about the effects these refits have on Clearwater's financial position and financial performance. Clearwater has applied this change in accounting policy retroactively 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
Cost of good sold	$ 236,748	$ (4,164)	$ 232,584
Gross profit	65,933	4,164	70,097
Depreciation	11,267	3,139	14,406
Income taxes	133	232	365
Minority interest	4,024	110	4,134
Net earnings (loss)	$ 20,268	$ 683	$ 20,951

Overview

The statements of earnings disclosed below reflect the annual earnings (loss) of Clearwater for the years ended December 31, 2008 and December 31, 2007.

(In 000's of Canadian dollars)	2008	2007 *(as restated)*
Sales	$ 292,175	$ 302,681
Cost of goods sold	$ 252,414	232,584
Gross profit	39,761	70,097
Gross profit percentage	*13.6%*	*23.2%*

(2008 gross profit includes $25,540 of costs from new inventory standard, see the table prior to the one above for details).

Net (Loss) Earnings

Net earnings decreased by $123 million in 2008 compared to 2007, due primarily to the following:

In (000's of Canadian dollars)	2008	2007 (as restated)	Change
Net (loss) earnings	$ (102,405)	$ 20,951	$ (123,356)
Explanation of changes in earnings:			
Higher realized foreign exchange and derivative loss			(35,070)
Lower unrealized foreign exchange and derivative income			(63,773)
Higher other expense (2008 includes $8.1M in reorg costs and a $4.9 million writedown for an underutilzed plant)			(12,712)
Lower gross margin, excludes $25.5 million from new inventory standard			(4,796)
Higher income taxes			(4,230)
Insurance claim in 2007, minimal in 2008			(4,097)
Higher interest on long term debt			(2,370)
Lower minority interest expense			1,256
Lower administration/selling costs, excludes $10.7 million from inventory standard			1,189
All other			1,247
			$ (123,356)

Year-to-date sales to customers by product category were as follows:

	2008	2007	Change	%
Scallops	117,239	110,589	6,650	6%
Lobster	70,448	75,894	(5,446)	-7%
Clams	47,502	45,881	1,621	4%
Coldwater shrimp	33,462	45,577	(12,115)	-27%
Ground fish and other	8,341	8,526	(185)	-2%
Crab	15,183	16,360	(1,177)	-7%
Hedging program	-	(146)	146	-100%
	292,175	302,681	(10,506)	-3%

Scallop sales in 2008 were up 6% from 2007 due mainly to higher sales volumes of Argentine scallops. Higher prices for Canadian scallops as compared to 2007, were offset by higher harvest costs for both Canadian and Argentine scallops as well as lower prices for Argentine scallops resulting in lower overall margins. Prices have improved in the fourth quarter of 2008, due mainly to the impact of exchange, and fuel costs began to decline late in the fourth quarter of 2008, which should positively impact Clearwater's 2009 results. For example, our Canadian frozen–at-sea scallops harvest costs were approximately 58 cents a pound higher as compared to 2007 due to higher fuel costs, this should improve in 2009 should fuel costs stay at current levels.

Lobster sales were 7% lower as compared to 2007 due largely to lower average prices. However, given that Clearwater procures approximately 80% of the live product that it sells, lower purchase prices and good quality in the fall of 2008 resulted in lower cost product partially offsetting the negative impact from lower prices in the market. Raw lobster sales were relatively flat in 2008 as compared to 2007 as Clearwater spent much of the year trying new product formats. Clearwater continues to realize the benefits of its raw lobster product and believe there are solid opportunities to grow this business over the next few years as it develops more product formats.

In the third quarter of 2008 Clearwater purchased a vessel it will convert to the lobster fleet. The new vessel will be a larger, safer and more stable platform and will be capable of operating 24 hours a day as well as fishing in all types of weather. This conversion will include the addition of an on-board temperature controlled storage facility; a conveyor and weighing/grading systems similar to Clearwater's shore plants that will minimize handling in all areas of the operation; a semi-automatic trap handling system and a more automated unloading system to ensure fast discharge and proper handling which will minimize damage and shrinkage. Clearwater expects to realize increased returns from this vessel due to lower fleet operating costs (due to having fewer vessels) and lower costs from the improved handling. The total expected cost, including conversion costs is approximately $6.9 million. This vessel will lower the average age of the lobster fleet, improve operating efficiency and reliability of fishing efforts, significantly lower fuel consumption and result in greater stability in crewing. As a result, Clearwater expects to retire 3 of its 4 lobster vessels in the first quarter of 2009.

Clam sales increased 4% from 2007 with the increase occurring in the latter half of year as Clearwater integrated our new clam vessel into its fleet and began to sell the harvest into the market. The Arctic Endurance was newly converted for clam fishing in 2008 and has been successfully integrated into the fleet and this investment has resulted in growing clam sales volumes as well as greater harvesting efficiencies. The clam fleet has operated without any significant breakdowns in 2008; in 2007 breakdowns had a significant negative impact on margins. Clearwater expects to see further improvements in profitability of the clam business over time. Sales volumes were up in 2008 and selling prices benefited from a strong exchange environment but the resulting higher overall margins were partially offset by higher harvest costs due to higher fuel costs. With both vessels now harvesting, Clearwater expects to increase its harvest and sales volumes in 2009 and improve margins in future periods. Poor weather in December 2008 and January 2009 resulted in lower catch volumes and higher costs. This will have a negative impact on the first quarter 2009 clam sales and margins.

Coldwater shrimp sales were 27% lower as compared to the comparative period in 2007 due to lower volumes. Volumes were significantly lower as a result of having less harvesting capacity for a portion of the year. In the fourth quarter of 2007 the Arctic Endurance, a factory freezer shrimp vessel, was removed from the shrimp fleet to be converted to a clam vessel, which reduced Clearwater’s shrimp harvesting capacity. To address this, Clearwater renewed and expanded its joint venture agreement for its shrimp harvesting operations effective April 1, 2008. The key terms of this new agreement included an extension of the joint venture for a further 10 years, the contribution by the other partner of the factory vessel Ocean Prawns and the contribution by both partners of rights to fish shrimp and turbot fishing quotas. Each partner’s ownership percentage in the joint venture was adjusted to reflect the contribution of the vessel and use of quotas such that Clearwater’s share of the joint venture earnings have increased from 50% to 54% from April 1, 2008 onwards. This joint venture has enabled Clearwater and its partner to combine shrimp harvesting assets and related shrimp and turbot quotas into a larger operating entity that has created efficiencies and improved profits for the business with significantly less capital employed. Margins in 2008 were positively impacted by higher selling prices, partially offset by higher catch costs, due largely to higher fuel costs. Late in the year and continuing into 2009 difficult credit conditions in certain Eastern European markets have reduced credit availability to a number of shrimp customers necessitating a move of the product to other sales markets. This is impacting sales prices in early 2009.

Groundfish sales were relatively consistent but margins improved in 2008 due to the addition of more profitable turbot quota.

Crab sales were impacted by lower sales of Jonah Crab. In late 2008 Clearwater made a decision to exit this product line, as it was not providing sufficient margins. This represented approximately $3.6 million of Clearwater's sales in 2008.

Foreign exchange increased the value of sales and margins by approximately $6.4 million in 2008 compared to the rates received in 2007.

	2008		**2007**	
Currency	**% sales**	**Average rate realized**	**% sales**	**Average rate realized**
US dollars	42.4%	1.066	46.4%	1.066
Euros	22.8%	1.554	18.9%	1.450
Japanese Yen	10.4%	0.010	8.5%	0.009
UK pounds	6.4%	1.956	7.2%	2.120
Canadian dollar and other	18.0%		19.0%	
	100.0%		100.0%	

The US dollar, Japanese Yen and European Euro currencies have all strengthened relative to the Canadian dollar starting in the latter part of 2008. Sales in these currencies in 2008 were US$116 million, Euro 43 million and Yen 2.9 billion and the average exchange rates realized in 2008 were 1.07 for the US dollar, 1.55 for the Euro and 0.01 for the Yen. This environment of strengthening exchange rates has a significantly positive impact on sales receipts. In 2009, the impact will be partially offset by forward contracts in place that effectively lock in place US $ 78 million at an average rate of 1.11, Euros 8 million at an average rate of 1.62 and Yen 3 billion at an average rate of 0.0123.

In summary, sales for the year were 3% lower than the prior year due to lower shrimp and lobster sales, partially offset by higher scallop sales. Gross profits, excluding the $25.5 million impact from the new inventory standard were $4.8 million lower than 2007, primarily due to the impact of the lower profits from scallops, lobster and shrimp, partially offset by improved clam and groundfish margins.

Fuel costs were higher in 2008 as compared to 2007. Clearwater's factory freezer vessels used approximately 28 million litres of fuel in 2008 and higher fuel costs increased harvesting costs for our factory vessels by approximately $6.1 million. However, fuel prices declined in the latter part of 2008 and continuing into 2009 resulting in current spot rates that are approximately 34 cents/litre below our 2008 average cost/litre. Based on 2008 fuel purchases for the factory vessels, a one-cent per litre change in the price of fuel impacts harvesting costs by approximately $280,000.

Administration and selling costs were impacted by the adoption of the new accounting standard for inventories whereby certain administration and selling costs are classified as cost of goods sold. Excluding the annual impact of $10.7 million on 2008 from this new standard, administrative and selling expenses were $36.6 million in 2008 versus $37.8 million in 2007 or approximately 3% lower. Management has previously stated that they anticipate a reduction in administration and selling costs due to process and system improvements with tighter control over spending. The majority of the savings in 2008 as compared to 2007 was the result of less spending on professional and consulting fees.

Gain on disposal of property, plant and equipment and licences in 2008 includes a $965,000 gain on disposal of a vessel previously used in the long-line fishing business. In 2008 Clearwater made a decision to exit this business and has a similar vessel that it expects to sell in 2009. The related quotas that were fished by these vessels will be leased out for a royalty or sold. Gain on disposal of property, plant and equipment and licences in 2007 included approximately $4 million of gains on sales of non-core quotas and an amount of approximately $350,000 related to the recovery of accounts receivable previously expensed and was partially offset by a $750,000 write-down of equipment related to the clam business and a write-down of approximately $1.5 million for processing equipment no longer in use due to the conversion of the Arctic Endurance.

Other expense / (income) in 2008 is higher than 2007 due to significant costs incurred for an ongoing strategic review and refinancing of senior debt, a provision in 2008 for an underutilized plant, and higher investment in vessel research and development (which is research conducted by Clearwater's vessels on the resources it harvests), partially offset by a higher level of investment income.

Other expense (income) detail		2008		2007
Restructuring expenses	$	8,080	$	-
Writedown of property, plant and equipment		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)

Restructuring expenses include amounts incurred as part of the ongoing strategic review including an unsuccessful privatization transaction in 2008 and the ongoing refinancing of Clearwater's debt facilities.

The $6 million provision for underutilized plant relates primarily to the goodwill, building and equipment associated with a plant that has operated on a seasonal basis the past several years.

"Other" includes royalty income from the lease of non-core quotas to third parties and processing fees charged to others for sorting, grading and packaging of third party products. Quota revenues vary year to year and are dependant on quota levels and the pricing of the underlying species. Clearwater expects that revenues from quota rentals will be lower in 2009 due to the anticipated sale of the underlying non-core quotas.

The insurance claim received in 2007 related 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.

Foreign exchange and derivative contracts resulted in a loss of $80.2 million in 2008 as compared to a gain of $18.6 million in 2007. In 2008, the significant volatility in exchange rates, combined with a large book of exchange contracts resulted in significant exchange losses. Realized losses increased by $35.1 million to $34.1 million in 2008. In late 2008, as part of on ongoing refinancing of its debt facilities, Clearwater closed out certain of its foreign exchange contracts and financed the resulting loss with a $16 million short-term loan. Clearwater currently has a book of exchange contracts outstanding that mature throughout 2009 and as of December 31, 2008 had an estimated fair value liability of $13 million.

Included in foreign exchange are unrealized gains and losses related to the translation of Clearwater's long-term debt and mark to market adjustments for foreign exchange and options contracts. Clearwater does not account for its foreign exchange contracts as accounting hedges, and therefore records the mark-to-market value of the contracts each reporting period, recording the non-cash impacts of foreign exchange on the outstanding contracts as income or expense. Unrealized losses increased by $63.7 million to $46.1 million in 2008.

Proceeds generated from derivative option contracts are included in realized foreign exchange and derivative income when the option is written. The other realized loss includes foreign exchange losses on the conversion of current assets and liabilities denominated in foreign currencies to Canadian dollars.

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

In (000's of Canadian dollars)	2008	2007
Realized loss (income)		
Foreign exchange and derivatives	$ 44,598	$ (8,159)
Other realized	(10,464)	7,223
	34,134	(936)
Unrealized (gain) loss		
Balance sheet translation	(7,060)	(5,696)
Mark to market on exchange derivative contracts	23,995	(9,709)
Mark to market on interest and currency swap contracts	29,141	(2,292)
	46,076	(17,697)
Total loss (gain)	$ 80,210	$ (18,633)

Bank interest and interest on long-term debt increased significantly because in 2008 there were higher average amounts of debt outstanding with higher interest rates, mainly the Icelandic denominated bond. The increase in debt is partially due to the convertible debentures that were issued at a 7.25% interest rate in March of 2007 effectively doubling the amount of convertible debt at the end of the first quarter of 2007. Also, no interest was capitalized in 2008 compared to $1.5 million capitalized in 2007.

Depreciation and amortization was impacted by the adoption of a new accounting standard for inventories. Excluding the $14.6 million impact on 2008 year-to-date figures from this new standard, depreciation and amortization expense was $15.2 million versus $14.4 million in 2007.

Income taxes were higher in 2008 as 2007 included one-time future and current tax recoveries of $3.3 million related to Clearwater's clam business, offset partially to lower taxes in taxable entities.

Minority interest relates to minority partners share of earnings in subsidiaries in Argentina and Newfoundland and Labrador.

LIQUIDITY AND CAPITAL RESOURCES

Current market conditions

The recent global financial crisis has tightened liquidity in the financial markets and has affected investor confidence in global equity and debt markets. This has constrained lending activity and led to significant declines in global market indices which in turn have negatively impacted the value of most publicly traded securities including Clearwater's.

Management has evaluated the various aspects of Clearwater's business and financial circumstances that could be affected by these conditions as they currently exist as follows:

- Cash flow from operations when normalized continues to be positive (see calculation in liquidity and capital resources section of the MD&A).
- Although Clearwater has seen weakening in a number of markets for certain product lines, sales volumes are in line with management's expectations and margins have been strong, in part due to favourable

- There has not been any material impact to date on Clearwater's costs with the exception of lower lobster raw material prices and lower fuel costs.

  In the fall of 2008 lobster costs were significantly lower than recent years, lowering Clearwater's costs and partially offsetting lower sales prices. Clearwater procures approximately 80% of the live lobster it uses in its live lobster business.

  Fuel prices declined in the latter part of 2008 and this trend continued into 2009 resulting in current spot rates that are approximately 34 cents/litre below our 2008 average cost/litre. Based on 2008 fuel purchases for Clearwater's factory vessels, a one-cent per litre change in the price of fuel impacts harvesting costs by approximately $280,000.

- The US dollar, Japanese Yen and European Euro currencies have strengthened relative to the Canadian dollar in the latter part of 2008. Sales in these currencies in 2008 were US$116 million, Euro 43 million and Yen 2.9 billion and the average exchange rates realized in 2008 were 1.07 for the US dollar, 1.55 for the Euro and 0.01 for the Yen.

  The strengthening exchange rates have a significant positive impact on sales receipts.

  In 2009, the positive impact of strengthening exchange rates will be partially offset by forward contracts in place that effectively lock in place US$78 million at an average rate of 1.11, Euros 8 million at an average rate of 1.62 and Yen 3 billion at an average rate of 0.0123.

- Clearwater has had some non-routine costs in 2008 – over the past year Clearwater has incurred approximately $8.1 million in costs associated with restructuring and refinancing the business. Clearwater will incur additional costs in 2009 as part of the debt refinancing but these costs are expected to be lower than 2008.

  In 2008, the significant volatility in exchange rates, combined with a large book of exchange contracts resulted in significant exchange losses. Realized losses (on derivative contracts, net of gains on debt and working capital) increased by $35.1 million to $34.1 million in 2008, a significant portion of these coming from option contracts. Management will only use forward contracts in managing its exchange program going forward.

- Clearwater expects to be successful in refinancing its near-term debt maturities and foreign exchange lines – 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 become due and payable 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 $16 million short-term loan. Therefore, the total debt facilities that Clearwater is planning to refinance total approximately CDN$102 million. Clearwater also intends to put in place facilities to allow for its hedging program.

In 2010 Clearwater Seafoods Income Fund has $45 million of convertible debentures that come due. These funds were invested by the Fund in Class C Units issued by Clearwater with similar terms and conditions, including maturity in December 2010. Clearwater is currently in negotiations to refinance the senior notes payable and believes that it will be successful in refinancing these units and the related convertible debentures as they come. Clearwater intends to focus on using its cash flow to reduce debt levels which management believes will put it in a strong position to refinance these debentures.

- Borrowing costs are higher on maturing debt facilities – the current economic environment in debt markets will result in higher borrowing costs for Clearwater. Specifically, Clearwater recently extended US dollar and Canadian dollar term notes for six months and amended the terms of some additional US dollar and Canadian dollar term notes. The total amount of these notes as at December 31, 2008 was approximately CDN $86 million. The average interest rate on these notes was approximately 7% before the extension, whereas the rate after the extension was 11%. Since December 2008, volatility and related interest rate spreads have further increased. Based on the approximately CDN $102 million of debt that Clearwater is currently attempting to refinance, every 1% change in interest rates would impact interest costs by $1 million. Clearwater continues to pursue a strategy of keeping its cost of capital as low as possible, however, given current market conditions, this may require it to vary the term of any debt and employ different borrowing structures going forward which may impact its borrowing costs.

- Clearwater has a focused strategy for maintaining liquidity – given that its borrowing capacity has been impacted by lower earnings over the year as well as the current difficult borrowing environment, Clearwater is taking a multi-faceted approach to maintaining liquidity:

- Tightly managing its working capital – this includes lowering its investment in trade receivables through a combination of tighter collection terms and discounting and limiting its investment in inventories through tight review of any slow moving items and improved integration of its fleet and sales force;

- Limited capital spending – Clearwater has completed its current multi-year fleet renewal program and currently it has no material planned capital expenditures over the next three to five years. Management believes this fleet renewal program will result in a more efficient fleet with lower costs, improved quality and greater catch volumes, all of which will serve to improve profitability. Clearwater's capital program focus over the next few years will be to maintain its existing fleet and complete any necessary repairs and maintenance. Clearwater's planned capital expenditures for 2009 total $5 million;

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- Liquidating under performing assets, selling non-core assets – Clearwater has and will continue to review and liquidate underperforming and non-core assets. In the fourth quarter of 2008 Clearwater sold a surplus long-liner vessel for net proceeds of approximately $1 million and subsequent to year-end 2008 it has taken deposits on some non-core quota sales and a second long-liner.

- Limiting distributions – no distributions were paid in 2008 and none will be paid in 2009 or 2010 until such time as the convertible debentures are refinanced; and

- Reviewing alternative lending arrangements – Clearwater is reviewing alternative lending arrangements, including asset backed lending arrangements and other financing structures to more highly levered borrowers. Generally, the amount of leverage available to borrowers has declined. At the same time lower than expected earnings have impacted trailing EBITDA coverage ratios which limits access to some of the more traditional debt markets that Clearwater has had access to in the past. This may result in higher borrowing costs in the short-term.

Clearwater believes that it will be able to refinance its maturing debt and this, combined with the improving operations, which continue to provide positive cash flow, should enable Clearwater to maintain liquidity sufficient to operate the business. However, while management expects to be successful in refinancing this debt there is no guarantee that it will be able to do so in the current markets. Clearwater believes the refinancing of its debt will include restrictions on future distributions, restrictions on capital expenditures as well as some agreed reductions in principal. Over the next several years Clearwater will be focused on reducing its leverage. This will come from a combination of improved earnings levels, which will improve trailing EBITDA levels, and from using the positive cash flow of the business to reduce debt. Clearwater believes that over time this approach will provide for a lower cost of capital by restoring access to a greater variety of debt sources.

Capital Structure

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

In December 2008 Clearwater extended certain of its term debt facilities to June 2009. Canadian $43 million and US$15 million of term notes previously due on December 8, 2008 were extended to June 8, 2009 in order to provide sufficient time for management 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. In addition, $15 million of the notes were converted from Canadian dollar denominated Series A notes to $11.6 million of US dollar denominated Series B notes. Finally, as part of the extension the interest rates on the Series A, B and D notes was 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.

In December 2008 Clearwater also arranged with its foreign exchange lenders to restructure certain of its foreign exchange contracts to better match its foreign currency receipts. As a result, foreign exchange and option contracts with a mark – to - market liability of approximately $16 million were closed out and the resulting cash payment due was financed by its foreign exchange lenders through the provision of a short-term loan of approximately $16 million. The loan is repayable over a twelve-month period. At the same time, Clearwater entered into an amount of forward contracts equivalent to the amount of option contracts closed out but with maturities that extend throughout 2009. The effect of the closeout of these options and new forward contracts in 2009 is that net cash flows from US dollar, Euro and Yen sales will be at contract rates of approximately US 1.11, Euro 1.62 and Yen 0.0123 providing effective coverage for 2009 estimated annual cash flows. As well, in concert with this restructuring of its exchange contracts, Clearwater has reconfirmed its policy to hedge a portion of its foreign currency receipts for 12 to 24 months but will limit the derivatives used going forward to exchange contracts. Clearwater has traditionally hedged between 50% and 75% of its foreign exchange receipts. Currently, Clearwater does not have facilities in which to enter into new exchange contracts. However, it expects to put in place new facilities to enable it to do so in 2009.

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 Clearwater'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.

As at December 31, 2008, the Fund owns 54.27% (December 31, 2007 - 54.71%) of the outstanding partnership units of Clearwater. However, as Clearwater Fine Foods Incorporated ("CFFI") maintained the right to nominate the majority of the board of directors of Clearwater at the time of the initial investment by the Fund, the assets and liabilities at acquisition have been recorded using the book values as recorded by CFFI.

As at December 31, 2008, the Fund and Clearwater had similar equity/convertible debt structures as illustrated in the table below:

	Fund	Clearwater
Units		
Publicly Listed Trust Units	$ 27,745,695	
Class A Partnership Units		$ 27,745,695
Units Held solely by Clearwater Fine Foods Incorporated		
Special Trust Units	$ 23,381,217	
Class B Partnership Units		$ 23,381,217
	$ 51,126,912	$ 51,126,912
Convertible debentures/Class C Partnership Units (face value)		
Convertible debentures	$45,000,000	
Class C Partnership Units		$45,000,000
Convertible debentures/Class D Partnership Units (face value)		
Convertible debentures	$44,389,000	
Class D Partnership Units		$44,389,000

As of March 27, 2009, there have been no changes to the number of units outstanding.

Clearwater also has other debt, and as a result its total capital structure is as follows as at December 31, 2008 and December 31, 2007:

In (000's of Canadian dollars)		December 31 2008		December 31 2007
a. Equity – Partnership units	$	164,770	$	167,698
b. Convertible debt, Class C units, due in 2010		43,731		43,201
c. Convertible debt, Class D units, due in 2014		41,517		40,951
d. Non-amortizing debt				
Term notes due in 2008		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				
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

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

b. Convertible debt - In June 2004, 4,081,633 **Class C units** were issued by Clearwater (indirectly) to the Fund concurrently with the issue by the Fund of $50 million of convertible debentures ($45 million in principal outstanding as at December 31, 2007 and December 31, 2008 due to buybacks under a normal course issuer bid). The Class C units are non-voting, redeemable and retractable at a price of $12.25 per unit. These units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the convertible debentures of the Fund and in a manner that ensures that the distributions on the Class C units will be able to (indirectly) fund the ongoing interest payments on the convertible debentures. As noted previously, Clearwater has repurchased some of this debt such that at June 28, 2008, the face value of the debt outstanding was $45 million, $44 million net of financing charges and option to convert (December 31, 2007 - $43 million, net of option to convert and financing charges). The **convertible debentures** issued by the Fund are unsecured and subordinated, bear interest at 7%, and are due on December 31, 2010. They are convertible at any time up to maturity, at the option of the holder into trust units of the Fund at a conversion price of $12.25 per trust unit. The debentures pay interest semi-annually in arrears on June 30 and December 31. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering that number of trust units equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash.

c. Convertible debt - In 2007 8,142,712 Class D units were issued for proceeds of $48 million. **Class D units** were issued by Clearwater (indirectly) to the Fund concurrently with the issue by the Fund of $48 million of convertible debentures, ($44 million in principal outstanding as at December 31, 2007 and December 31, 2008 due to buybacks under a normal course issuer bid). The Class D units are non-voting, redeemable and retractable at a price of $5.90 per unit. These units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the convertible debentures of the Fund and in a manner that ensures that the distributions on the Class D units will be able to (indirectly) fund the ongoing interest payments on the convertible debentures. The **convertible debentures** issued by the Fund are unsecured and subordinated, bear interest at 7.25%, and are due on March 31, 2014. They are convertible at any time up to maturity, at the option of the holder, into trust units of the Fund at a conversion price of $5.90 per trust unit. The debentures pay interest semi-annually in arrears on March 31 and September 30. The debentures are not redeemable before March 31, 2010. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering that number of trust units equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash.

d. Non-amortizing debt - In addition to the convertible debentures and Class C and D Partnership units, Clearwater has additional primary debt facilities. These facilities include **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**.

The notes include the following:

- $28,000 principle Canadian Series A Notes issued in 2003, bearing interest at 11% payable semi-annually, maturing June 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 June, 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.

To the extent the Canadian $28 million Series A and US $26.6 million Series B notes are repaid by June 8, 2009, the Canadian $20 million Series C and US $5 million Series D notes must also be repaid.

During the third quarter of 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.

Other amortizing debt includes a $16 million loan. 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 repayable through 2009.

As part of its strategy to manage its capital structure, the Fund filed a normal course issuer bid by which it could acquire its units. In 2007, the Fund repurchased and cancelled 1,162,100 units at a cost of approximately $5.6 million. The transactions resulted in decreasing the unit value outstanding by $11.8 million and increasing contributed surplus by $6.2 million. During 2008 the Fund repurchased and cancelled 500,000 units at a cost of approximately $2.3 million. The transaction resulted in decreasing the unit value outstanding by $5.1 million and increasing contributed surplus by $2.7 million. The normal course issuer bid has expired.

Clearwater is in compliance with all of the non-financial and financial covenants associated with its debt facilities. However, should Clearwater not be successful in refinancing the term notes due in June 2009, management believes that the significant cash balances currently being carried will not be sufficient to meet Clearwater's cash requirements. These debt facilities have covenants that include, but are not limited to, leverage ratios against earnings (excluding most significant non-cash items and non-recurring items from earnings) and fixed charge ratios that limit the amount of distributions paid. During 2008, the terms of lending agreements were amended resulting in additional conditions on the amount of distributions that can be declared. In addition, the debt related to these facilities takes priority over the securities in Clearwater held by the Fund. When considering leverage, it has increased during 2008 due to lower earnings and in addition, debt levels have increased due to seasonal working capital requirements, capital expenditures and foreign exchange contract settlements. Clearwater will continue to monitor and manage debt levels based on business needs and opportunities.

Working capital and cash flows

As of December 31, 2008 there is a cash position on the balance sheet in the amount of $15.5 million. This cash balance is intended to be used to manage working capital needs and to reduce existing debt balances as appropriate.

The net investment in working capital, excluding derivative financial instruments and cash, is relatively consistent with December 31, 2007, due to the higher levels of inventories and receivables offset by higher levels of accounts payable and accrued liabilities.

CASH FLOWS

In 2008 the ongoing restructuring of the business as well as significant exchange rate volatility had a significant impact on cash flows. However, when excluding those items, as disclosed in the following table, cash flow from operating activities before changes in working capital was quite consistent from 2008 to 2007.

($000's)	December 31, 2008	December 31, 2007
Cash flows from operating activities	(26,938)	30,711
Add (deduct):		
Change in non-cash operating working capital	(1,077)	(6,698)
Cash foreign exchange on dereivative instruments	44,598	(936)
Reorganization costs	8,080	0
Normalized cash flow from operating activities before changes in working capital	24,663	23,077

During 2008 funded debt (net of cash balances) has increased by approximately $69 million due largely to capital expenditures of $43.4 28 million and negative cash flows from operating activities.

Cash flows generated by Clearwater along with cash on deposit are used to fund current operations, seasonal working capital demands, capital expenditures, and other commitments. Due to the seasonality in Clearwater's business, sales and gross profit are typically higher in the second half of the calendar year than in the first half of the year. In addition, investments in certain inventories such as lobster, crab and in-shore shrimp reach a seasonal peak in the late spring and early summer, which results in higher seasonal demands on working capital.

CAPITAL EXPENDITURES

Capital expenditures were $43.4 million (2007 - $16.0 million). Of this amount, $36.4 million was considered to be return on investment ("ROI") capital. Refit costs, which are now capitalized and treated as maintenance capital, were $3.5 million versus $4.1 million in 2007. ROI and maintenance capital are tracked on a project-by-project basis. The significant ROI projects completed in 2008 included the conversion of the shrimp vessel to a clam vessel, the purchase of turbot quota, the expansion of Clearwater's plant in St. Anthony, Newfoundland and the purchase of a vessel for the lobster business. In addition, concurrent with the renegotiation of Clearwater's shrimp joint venture, the other partner contributed a vessel with a value of approximately $17 million and $4 million was spent by the partnership to upgrade the vessel and harvesting contracts with a value of approximately $7 million were also contributed, of which $15.1 million represents Clearwater's proportionate share. Significant expenditures that are expected to have an average return in excess of average cost of capital are classified as ROI, and expenditures that have less than the average cost of capital are classified as maintenance.

In early October Clearwater completed a major refit on one of its Argentine scallop vessels, which is expected to increase the life of the vessel and delay the need to replace it by at least another three to five years.

In the third quarter of 2008 Clearwater purchased a vessel it will convert to the lobster fleet. The new vessel will be larger, safer and offer a more stable platform and will be capable of operating 24 hours a day as well as fishing in all types of weather. The total expected cost, including conversions costs is approximately $6.9 million, of which $6.2 million was incurred by year-end and $3.7 million was financed by the vendor of the vessel and is to be repaid in 2009. This vessel will lower the average age of the lobster fleet, improve operating efficiency and reliability of fishing efforts, significantly lower fuel consumption and result in greater stability in crewing. As a result, Clearwater expects to complete the retirement of 3 of its 4 remaining lobster vessels in the first quarter of 2009. This conversion will include the addition of an on-board temperature controlled storage facility; a conveyor and weighing/grading systems similar to our shore plants that will minimize handling in all areas of the operation; a semi-automatic trap handling system and a more automated unloading system to ensure fast discharge and proper handling which will minimize damage and stress.

We expect to realize increased returns from this vessel due to lower fleet operating costs (due to having fewer vessels) and lower costs from the improved handling.

Clearwater has completed its current multi-year fleet renewal program and currently has no material planned capital expenditures over the next three to five years. Management believes this fleet renewal program will result in a more efficient fleet with lower costs, improved quality and greater catch volumes, all of which will serve to improve profitability. Clearwater's capital program focus over the next few years will be maintaining its existing fleet and completing any necessary repairs and maintenance. The planned capital expenditures for 2009 total $5 million.

COMMITMENTS AND OTHER LONG-TERM OBLIGATIONS

In addition to capital expenditures and derivative contracts previously disclosed, as at December 31, 2008, Clearwater had commitments for long-term debt, operating leases and other long-term obligations, as follows:

Payments due by year	Long term debt	Operating leases	Other obligations	Total
< 1 year	$ 103,640	$ 3,329	$ -	$ 106,969
< 2 years	58,210	$ 2,314	-	60,524
< 3 years	1,044	$ 1,907	-	2,951
< 4 years	1,044	$ 1,682	-	2,726
< 5 years	31,453	$ 815	-	32,268
> 5 years	45,894	$ 715	14,477	61,086
Total	$ 241,285	$ 10,762	$ 14,477	$ 266,524

Further details on these obligations are disclosed in the notes to the annual consolidated financial statements.

Amounts in years 2009 and 2013 are high as non-amortizing term credit facilities are scheduled for renegotiation.

Included in the above commitments for operating leases are amounts that Clearwater is committed directly and indirectly through its proportionate share of its joint ventures for various licences and lease agreements, office, machinery and vehicle leases.

In addition to the commitments noted above, Clearwater has commitments for the conversion of a vessel for the lobster fishery. At December 31, 2008 $6.2 of total estimated cost of $6.9 million were incurred. In addition, $3.7 million in vendor financing is due to be paid in 2009.

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.

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 due to the failure of the counterparty to execute.

- 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. Clearwater believes it will receive the full value of this deposit through the settlement of the related bond.

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.

DISTRIBUTIONS

In the fourth quarter of 2008 Clearwater made a decision to stop providing calculations of distributable cash. Clearwater has not paid any distributions over the past twelve months and it will not in the foreseeable future due to current and anticipated restrictions in lending agreements, the losses incurred in 2008 and the high leverage position of the business. Management believes that the annual cash flow statement, together with a commentary of Clearwater's distributions policy, provides more comprehensive information.

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

- In 2008 the business incurred a cash loss. Cash flow from operations (prior to changes in non-cash operating working capital) was a shortfall of $28 million in 2008 versus positive cash flow of $24 million in 2007.

- Capital expenditures - Clearwater recently completed its most significant capital project for 2008, the conversion of a vessel to its clam fleet in the second quarter of 2008. The conversion cost approximately $17.5 million and Clearwater took delivery of the vessel in April 2008. In the third quarter Clearwater completed a major refit to one of its Argentine vessels and as of year-end, has spent approximately $6.2 million of $6.9 million committed for a new lobster vessel. Other than scheduled refits, no material capital expenditures are planned for 2009.

- Leverage and financial covenants – Leverage levels have increased during the year due to lower EBITDA levels and higher debt levels. Debt levels are higher due to seasonal investments in inventories as well as capital expenditures in excess of cash flows generated from operations. Clearwater is in compliance with all of the non-financial and financial covenants associated with its debt facilities. During 2008, the terms of lending agreements were amended resulting in additional conditions on distributions that can be declared. Please see the Definitions and Reconciliations section at the end of this report for the calculation of leverage.

- Expectations regarding future earnings – Management believes that with the expansion of the clam fleet in 2009, and assuming exchange rates and fuel costs remain relatively constant throughout the year, Clearwater will continue to grow and to generate positive cash flows and increase profit margins, subject to any impact of weakening economic conditions in North America, Europe and Asia.

The Trustees continue to monitor the distribution policy and given restrictions in current loan agreements and expectations regarding replacement financing, does not expect to pay distributions in 2009.

EXPLANATION OF FOURTH QUARTER 2008 RESULTS

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

The fourth quarter of 2008 results were prepared in accordance with the new inventory standard issued by the Canadian Institute of Chartered Accountants, effective January 1, 2008 for Clearwater. This standard provides more extensive guidance on the determination of cost and requires that overheads, a portion of administration expenses and depreciation be inventoried and as a result, included in the cost of goods sold. This standard was not applied retroactively and prior year numbers were not restated. An adjustment was made to opening deficit to reflect the impact of this standard on the opening inventory figure for January 1, 2008. The fourth quarter of 2007 does not reflect a similar adjustment and therefore the quarters are not readily comparable.

The following table illustrates the impact of the new standard on amounts reported in the fourth quarter 2008 financial statements.

	Amount prior to application of new standard	Adjustment for new standard	Amount per financial statements
Cost of good sold	$ 63,264	$ 7,169	$ 70,433
Gross profit	21,006	(7,169)	13,837
Administration and selling	10,449	(2,755)	7,694
Depreciation and amortization	3,616	(3,854)	(238)
Net income (loss)	$ (81,174)	$ (560)	$ (81,734)

In the third quarter of 2008 Clearwater changed its accounting policy from expensing refit costs as incurred to capitalizing and amortizing the costs of the refit over the time period between refits as this results in the financial statements providing more reliable and relevant information about the effects these refits have on the Clearwater's financial position and financial performance. Clearwater has applied this change in accounting policy retroactively 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
Cost of good sold	$ 61,642	$ (1,740)	$ 59,902
Gross profit	16,078	1,740	17,818
Depreciation	2,639	649	3,288
Income taxes	591	446	1,037
Minority interest	479	173	652
Net earnings (loss)	$ (4,843)	$ 472	$ (4,371)

Overview

The statements of earnings disclosed below reflect the unaudited interim earnings of Clearwater for the 13-week periods ended December 31, 2008 and December 31, 2007.

(In 000's of Canadian dollars)	2008	2007 *(as restated)*
Sales	$ 84,270	$ 77,720
Cost of goods sold	70,433	59,902
Gross profit	13,837	17,818
Gross profit percentage	*16.4%*	*22.9%*
(2008 gross profit includes $7,169 of costs from new inventory standard, see the table prior to the one above for details).		
Administration and selling	7,694	9,196
(2008 Administration excludes $2,755 due to new inventory standard, see the table prior to the one above for details).		
Loss / (gain) on disposal of property, plant and equip	(1,100)	1,466
Other expense (income)	6,147	(1,239)
Insurance claim	10	(90)
Foreign exchange and derivative contracts	74,063	2,172
Bank interest and charges	228	153
Interest on long-term debt	4,709	4,700
Depreciation and amortization	(238)	3,288
(2008 Depreciation and amortization excludes $3,854 due to new inventory standard, see the table prior to the one above for details).		
Reduction in foreign currency translation account	-	854
	91,513	20,500
Loss before income taxes and minority interest	(77,676)	(2,682)
Income taxes	3,040	1,037
Loss before minority interest	(80,716)	(3,719)
Minority interest	1,018	652
Net (Loss) Earnings	$ (81,734)	$ (4,371)

Net earnings decreased by $77 million in 2008 compared to the fourth quarter of 2007, due primarily to the following:

In (000's of Canadian dollars)	2008	2007 *(as restated)*	Change
Net loss	$ (81,734)	$ (4,371)	$ (77,363)
Explanation of changes in earnings:			
Higher realized losses on foreign exchange and derivatives			(38,738)
Higher unrealized losses on foreign exchange and derivatives			(33,153)
Higher other expense			(7,386)
Higher income taxes			(2,003)
Increased gross margin			3,188
Lower net losses on asset disposals			2,566
Increased administration and selling costs			(1,253)
All other			(584)
			$ (77,363)

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

	2008	2007	Change	%
Scallops	39,355	34,574	4,781	14%
Lobster	17,937	21,186	(3,249)	-15%
Clams	12,723	9,397	3,326	35%
Coldwater shrimp	8,785	9,484	(699)	-7%
Ground fish and other	2,146	1,522	624	41%
Crab	3,324	1,557	1,767	114%
	84,270	77,720	6,550	8%

Scallop sales in the fourth quarter of 2008 were up 14% from 2007 due mainly to higher sales volumes of Argentine scallops. In addition, higher prices for Canadian scallops as compared to 2007, partially offset by higher harvest costs contributed to higher margins during the quarter. The scallop fleet's operating costs were higher in the current quarter due mainly to higher fuel costs.

Lobster sales were 15% lower as compared to 2007 due largely to lower average prices. However, given that Clearwater procures approximately 80% of the live product that it sells, lower shore prices and good quality in the fall of 2008 buy resulted in lower cost product, a large portion of which was sold in the fourth quarter partially offsetting the negative impact of lower prices in the market.

In the third quarter of 2008 Clearwater purchased a vessel it will convert to the lobster fleet. The new vessel will be a larger, safer and more stable platform and will be capable of operating 24 hours a day as well as fishing in all types of weather. This conversion will include the addition of an on-board temperature controlled storage facility; a conveyor and weighing/grading systems similar to Clearwater's shore plants that will minimize handling in all areas of the operation; a semi-automatic trap handling system and a more automated unloading system to ensure fast discharge and proper handling which will minimize damage and shrinkage. Clearwater expects to realize increased returns from this vessel due to lower fleet operating costs (due to having fewer vessels) and lower costs from the improved handling. The total expected cost, including conversion costs is approximately $6.9 million. This vessel will lower the average age of the lobster fleet, improve operating efficiency and reliability of fishing efforts, significantly lower fuel consumption and result in greater stability in crewing. As a result, Clearwater expects to retire 3 of its 4 lobster vessels in the first quarter of 2009.

Clam sales increased 35% from 2007 and saw the benefit of a reinvigorated fleet. The clam fleet has operated normally without disruption in 2008. The Arctic Endurance, newly converted for clam fishing in 2008 has been successfully integrated into the fleet and this investment has resulted in growing clam sales volumes as well as greater harvesting efficiencies. Sales volumes were up in the fourth quarter and selling prices benefited from a strong exchange environment but with higher overall margins partially offset by higher harvest costs due to higher fuel costs. With both vessels now harvesting, Clearwater expects to increase its harvest and sales volumes in 2009 to historic levels and improve margins in future periods. Poor weather in December of 2008 and January 2009 resulted in lower catch volumes and higher costs. This will have a negative impact on the first quarter 2009 clam sales and margins.

Coldwater shrimp sales were lower in the fourth quarter of 2008 compared to the comparative period in 2007 due to lower volumes. Margins were also impacted by higher catch costs, due largely to higher fuel costs, offset partially by higher selling prices. Difficult credit conditions in certain Eastern European markets reduced credit availability to a number of shrimp buyers necessitating a move of the product to other markets. This is impacting sales prices in the early 2009. In the fourth quarter of 2007 the Arctic Endurance, a factory freezer shrimp vessel, was removed from the shrimp fleet to be converted to a clam vessel reducing Clearwater’s shrimp harvesting capacity. To address this, Clearwater renewed and expanded its joint venture agreement for its shrimp harvesting operations effective April 1, 2008. The key terms of this new agreement included an extension of the joint venture for a further 10 years, the contribution by the other partner of the factory vessel Ocean Prawns and the contribution by both partners of rights to fish shrimp and turbot fishing quotas. Each partner’s interest in the joint venture was adjusted to reflect the contribution of the vessel and use of quotas such that Clearwater’s share of the joint venture earnings have increased from 50% to 54% from April 1, 2008 onwards. This joint venture has enabled Clearwater and its partner to combine shrimp harvesting assets and related shrimp and turbot quotas into a larger operating entity that has created efficiencies and improved profits for the business with significantly less capital employed.

Groundfish sales were higher in the quarter due to higher sales of turbot fished by the newly expanded joint venture.

Crab sales were impacted by the timing of snow crab sales and also by higher average selling prices.

Foreign exchange increased the value of sales and margins by approximately $12.3 million in the fourth quarter of 2008 compared to the rates received in the fourth quarter of 2007.

	2008		2007	
Currency	**% sales**	**Average rate realized**	**% sales**	**Average rate realized**
US dollar	39.8%	1.208	39.9%	0.986
Euros	26.3%	1.579	27.1%	1.419
Japanese Yen	9.8%	0.013	6.7%	0.009
UK pounds	6.1%	1.889	8.7%	2.006

The US dollar, Japanese Yen and European Euro currencies have all strengthened relative to the Canadian dollar starting in the latter part of 2008. Sales in these currencies in 2008 were US$116 million, Euro 43 million and Yen 2.9 billion and the average exchange rates realized in 2008 were 1.07 for the US dollar, 1.55 for the Euro and 0.01 for the Yen. This environment of strengthening exchange rates has a significantly positive impact on sales receipts. In 2009, the impact will be partially offset by forward contracts in place that effectively lock in place US $ 78 million at an average rate of 1.11, Euros 8 million at an average rate of 1.62 and Yen 3 billion at an average rate of 0.0123.

In summary, sales for the quarter were higher than the prior year due to higher clam, scallop, turbot and crab sales. Gross profits, excluding the $7.2 million impact from the new inventory standard were $3.2 million higher than 2007, primarily due to the impact of a more positive exchange rate environment offset partially by higher fuel and other harvest costs.

Fuel costs were higher in 2008 as compared to 2007. Clearwater's factory freezer vessels used approximately 28 million litres of fuel in 2008 and higher fuel costs increased harvesting costs for our factory vessels by approximately $6.1 million. However, fuel prices declined in the latter part of 2008 and continuing into 2009 resulting in current spot rates that are approximately 34 cents/litre below our 2008 average cost/litre. Based on 2008 fuel purchases for our factory vessels, a one-cent per litre change in the price of fuel impacts harvesting costs by approximately $280,000.

Administration and selling costs were impacted by the adoption of the new accounting standard for inventories. Excluding the impact of $2.8 million on 2008 fourth quarter figures from this new standard, administrative and selling expenses were $10.5 million in the fourth quarter of 2008 versus $9.2 million in the fourth quarter of 2007. In 2008 salaries and benefits in wages were higher, due mostly to provisions related to restructuring.

Loss (gain) on disposal of licences and other, net includes a $965,000 gain on disposal of a vessel previously used in the long-line fishing business. In 2008 Clearwater made a decision to exit this business and has a similar vessel that it expects to sell in 2009. The related quotas that were fished by these vessels will be leased out for a royalty or sold. In 2007 the loss related to a write down of approximately $1.5 million for processing equipment no longer in use due to the conversion of the Arctic Endurance.

Other expense (income) in 2008 versus income in 2007 due to restructuring expenses, provisions for underutilized assets, a lower investment in vessel research and development (which is research conducted by the vessels on the resources it harvests, this is simply timing, Clearwater invested more in fiscal 2008 as compared to 2007), partially offset by a higher level of investment income, as a result of higher average cash balances for the period and lower other costs.

Other expense (income) detail		2008		2007
Restructuring expenses	$	5,971	$	-
Writedown of property, plant and equipment		1,138		-
Investment income		(191)		(531)
Vessel research and development expense		482		1,203
Export rebate		(166)		(78)
Other		(1,087)		(1,833)
	$	6,147	$	(1,239)

Restructuring expenses include amounts incurred as part of the ongoing strategic review including a possible privatization transaction in 2008 and the ongoing refinancing of Clearwater's debt facilities.

Other includes royalty income from the lease of non-core quotas to third parties and processing fees charged to others for sorting, grading and packaging of third party products. Quota revenues vary year to year and are dependent on quota levels and the pricing of the underlying species. Clearwater expects that revenues from quota rentals will be lower in 2009 due to the anticipated sales of the underlying non-core quotas.

Foreign exchange and derivative contracts resulted in a loss of $74.1 million in 2008 as compared to a loss of $2.2 million in 2007. In 2008, the significant volatility in exchange rates experienced, combined with a large book of exchange contracts resulted in significant exchange losses. Realized losses increased by $38.7 million to $28.9 million in 2008. In late 2008, as part of on ongoing refinancing of its debt facilities, Clearwater closed out certain of its foreign exchange lines and financed the resulting loss with a $16 million short-term loan. Clearwater currently has a book of forward contracts outstanding that mature throughout 2009 and as of December 31, 2008 had an estimated fair value liability of $13 million.

Included in foreign exchange are unrealized gains and losses related to the translation of Clearwater's long-term debt and mark – to - market adjustments for foreign exchange contracts and options. Clearwater does not account for its foreign exchange contracts as accounting hedges, and therefore records the mark-to-market value of the contracts each reporting, recording the non-cash impacts of foreign exchange on the outstanding contracts as income or expense. In 2008 Clearwater had unrealized losses of $45.2 million versus losses of $12 million in 2007.

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

In (000's)		2008		2007
Realized loss (gain)				
Foreign exchange and derivatives	$	36,793	$	(15,018)
Other realized		(7,919)		5,154
		28,874		(9,864)
Unrealized (gain) loss				
Balance sheet translation		1,158		(910)
Mark to market on exchange derivative contracts		28,797		11,426
Mark to market on interest and currency swap contracts		15,234		1,520
		45,189		12,036
Total loss (gain)	$	74,063	$	2,172

Depreciation and amortization was impacted by the adoption of a new accounting standard for inventories. Excluding the impact of $3.8 million on 2008 fourth quarter figures from this new standard, depreciation and amortization expense was $3.6 million in the fourth quarter of 2008 versus $3.3 million in the fourth quarter of 2007. The change in policy to accounting policy to capitalize and depreciate refits and bring the Endurance back to normal operations are the two largest factors increasing depreciation.

OUTLOOK

In 2008 cash flow from fishing operations, when normalized, continued to be positive and were relatively consistent with 2007 and normalized EBITDA improved from 2007. During the last quarter of 2008 Clearwater's sales volumes and prices were strong and as a result margins, excluding the impact of a new inventory accounting standard, improved by $3.1 million or 18% over 2007.

Harvest costs were impacted in 2008 by higher fuel costs, however, fuel costs declined in the latter part of 2008 and continuing into 2009 resulting in spot rates well below our 2008 average cost/litre. This did not have a material impact on our fourth quarter 2008 results as the product harvest late in the year will be sold in 2009. Based on 2008 fuel purchases for our factory vessels, a one-cent per litre change in the price of fuel impacts harvesting costs by approximately $280,000.

The US dollar, Japanese Yen and European Euro currencies have all strengthened relative to the Canadian dollar starting in the latter part of 2008. Sales in these currencies in 2008 were US$116 million, Euro 43 million and Yen 2.9 billion and the average exchange rates realized in 2008 were 1.07 for the US dollar, 1.55 for the Euro and 0.01 for the Yen. This environment of strengthening exchange rates has a significantly positive impact on sales receipts. In 2009, the impact will be partially offset by forward contracts in place that effectively lock in place US $ 78 million at an average rate of 1.11, Euros 8 million at an average rate of 1.62 and sell Yen 3 billion at an average rate of 0.0123.

Clearwater is pleased to have completed our multi-year factory vessel renewal program. With the last of Clearwater's planned frozen-at-sea vessel conversions complete the fleet is now fully operational with no major vessel acquisitions or conversions currently planned for the next three to five years. Management believes this will result in a more efficient fleet with lower costs, improved quality and greater catch volumes, all of which will serve to improve profitability.

Clearwater is currently working on refinancing approximately $102 million of near-term debt and foreign exchange lines. Clearwater believes that it will be able to refinance its maturing debt and this, combined with the improving operations which continue to provide positive cash flow, should enable Clearwater to maintain liquidity sufficient to operate the business. However, while Clearwater expects to be successful in refinancing this debt there is no guarantee that it will in the current markets.

Clearwater believes the refinancing of its debt will include restrictions on future distributions, restrictions on capital expenditures as well as some agreed reductions in principal. Clearwater is focused on reducing its leverage. This will come from a combination of improved earnings levels, which will improve trailing EBITDA levels, and from using the positive cash flow of the business to reduce debt. Clearwater believes that over time this approach will provide for a lower cost of capital by restoring access to a greater variety of debt sources.

Looking forward to 2009, Clearwater believes that with the improvements to the clam, shrimp and lobster fleets and the possibility of lower fuel costs it will be able to operate without disruption to grow and to generate positive cash flows and increased profit margins, subject to any impact of weakening economic conditions in North America, Europe and Asia. Although Clearwater has seen weakening in a number of markets for certain product lines, sales volumes are in line with management’s expectations and margins have been strong, in part due to favourable exchange rates. Clearwater believes that as a food company the business will respond well in the current recessionary period.

Clearwater’s strengths are its strong positions in its internationally recognized sustainable fisheries, its leading edge, innovative harvesting and processing technologies, its vertical integration and its business strategies to deliver long-term value. Clearwater has an outstanding and dedicated workforce, excellent quota positioning, and global customer relationships that span decades and it looks forward to building on these strengths going forward.

RISKS AND UNCERTAINTIES

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

Leverage

See Clearwater's annual Management's Discussion and Analysis, Liquidity and Capital resources for further information on liquidity.

The degree to which Clearwater is leveraged could have important consequences to the holders of the Units, including (i) the ability of Clearwater (and its affiliates) to obtain additional financing for working capital, capital expenditures or acquisitions in the future; (ii) a material portion of Clearwater's cash flow from operations may need to be dedicated to payment of the principal of and interest on indebtedness, thereby reducing funds available for future operations and to pay distributions; (iii) certain of the borrowings will be at variable rates of interest, which exposes Clearwater to the risk of increased interest rates; and (iv) Clearwater may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures. Clearwater's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

Clearwater's credit facilities contain restrictive covenants of a customary nature, including covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Clearwater to incur additional indebtedness, to pay distributions or make certain other payments and to sell or otherwise dispose of assets. In addition, they contain a number of financial covenants that require Clearwater to meet certain financial ratios and financial condition tests. A failure to comply with the covenants could result in an event of default, which, if not cured or waived, could permit acceleration of the relevant indebtedness. If indebtedness under the credit facilities were to be accelerated, there can be no assurance that the assets of Clearwater would be sufficient to repay in full that indebtedness. There can also be no assurance that the credit facilities would be able to be refinanced.

Resource supply

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

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

Foreign exchange

In excess of 80% of Clearwater's sales are in United States dollars and other currencies, whereas the majority of expenses are in Canadian dollars. As a result, fluctuations 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. Clearwater also uses forward exchange contracts to manage its foreign currency exposures.

Clearwater's sales denominated in U.S. dollars were approximately 42.4% of annual sales in 2008. Based on 2008 sales, a change of 1% in the U.S. dollar rate converted to Canadian dollars would result in a $1.2 million change in sales and gross profit. In addition, approximately 22.8% of 2008 annual sales were denominated in Euros. Based on 2008 sales, a change of 1% the Euro rate as converted to Canadian dollars would result in a $0.7 million change in sales and gross profit. Also, 10.4% of 2008 annual sales were denominated in Japanese Yen. Based on 2008 annual sales, change of 1% the Yen rate as converted to Canadian dollars would result in a change of $0.3 million in sales and gross profit.

The US dollar, Japanese Yen and European Euro currencies have all strengthened relative to the Canadian dollar starting in the latter part of 2008. This environment of strengthening exchange rates has a significantly positive impact on sales receipts. In 2009, the impact will be partially offset by forward contracts in place that effectively lock in place US $ 78 million at an average rate of 1.11, Euros 8 million at an average rate of 1.62 and Sell Yen 3 billion at an average rate of 0.0123.

Food processing risks

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

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

Suppliers, Customers and Competition

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

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

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

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

Input costs

Clearwater’s factory vessels used approximately 28 million litres of marine fuel oil in 2008. A change of one cent in the price of marine fuel oil would result in a change of approximately $280,000 to annual harvesting expenses.

TRANSACTIONS WITH RELATED PARTIES

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

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

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

The following is a summary of the balances due to and from joint venture partners 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	15,391	2,166

As at December 31, 2008, Clearwater was contingently liable for the obligations of the joint venture partners in the amount of $4.5 million (2007 - $4.9 million). However, the joint venture partner’s share of the assets is available for the purpose of satisfying such obligations. The book value of these assets is $8.1 million (2007 - $10.2 million).

In addition to the transactions and balances associated with related parties disclosed above, Clearwater had the following transactions and balances with Clearwater Fine Foods Incorporated during 2008 and 2007:

	2008	2007
Transactions		
Charged by CFFI for rent and other services, net of rent and IT services charged to CFFI	$ 291	$ 14

	2008	2007
Balances		
Distribution and other payable to CFFI (receivable from)	(239)	1,152

In addition, Clearwater was charged approximately $119,000 for vehicle leases in 2008 (2007 - $ 108,000) and approximately $45,000 for other services (2007 - $115,000) by companies controlled by a relative of an officer of Clearwater.

In 2008 Clearwater sold equipment to a minority shareholder in a subsidiary at a market price of $467,000.

At December 31, 2008 Clearwater had a 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 fair market value.

CRITICAL ACCOUNTING POLICIES

Clearwater's critical accounting policies are those that are important to the portrayal of Clearwater's financial position and operations and require management to make judgments based on underlying estimates and assumptions about future events and their effects. These estimates can include but are not limited to estimates regarding inventory valuation, accounts receivable valuation allowances and estimates of future cash flows for impairment tests. Underlying estimates and assumptions are based on historical experience and other factors that are believed by management to be reasonable under the circumstances. These estimates and assumptions are subject to change as new events occur, as more experience is acquired, as additional information is obtained, and as the operating environment changes. Clearwater has considered recent market conditions including changes to its cost of capital in making these estimates. Refer to the notes to the annual financial statements for a complete listing of critical accounting policies and estimates used in the preparation of the consolidated financial statements.

During the course of the year and most recent quarter, Clearwater reviewed all new accounting standards issued by the CICA in order to determine the impact of the new standards, if any. The following sets out the impact.

Impact of new accounting policies adopted in 2008:

Inventories

Effective January 1, 2008, Clearwater adopted section 3031 “Inventories” that establishes more extensive guidance on the determination of cost, requires impairment testing and expands the disclosure requirements to increase transparency. The adoption of this standard impacted the costs that are included in inventory, as a portion of plant overhead, administration and depreciation costs are included in inventory. As a result, the gross profit has been impacted as the administration and depreciation costs that are now included in inventory are expensed as part of the cost of goods sold as opposed to other costs that are listed below the gross profit.

Clearwater has applied the new standard retrospectively without restatement, which resulted in an increase to inventory and decrease in deficit of $5.8 million at January 1, 2008.

Inventories, which consist primarily of finished goods, are stated at the lower of cost or 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.

During 2008, $227,383,000 (Q1 – $45,513,000, Q2 - $52,198,000, Q3 - $56,527,000, Q4 - $73,145,000) of inventories was recognized as cost of sales. There was $1,348,000 in inventory write-downs recorded in 2008.

The following table illustrates the impact of the new standard on 2008 annual and fourth quarter results.

Annual

	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
Gross profit	65,301	(25,540)	39,761
Administration and selling	36,629	(10,703)	25,926
Depreciation and amortization	15,172	(14,586)	586
Net income (loss)	$ (102,154)	$ (251)	$ (102,405)

Fourth quarter

	Amount prior to application of new standard	Adjustment for new standard	Amount per financial statements
Cost of good sold	$ 63,264	$ 7,169	$ 70,433
Gross profit	21,006	(7,169)	13,837
Administration and selling	10,449	(2,755)	7,694
Depreciation and amortization	3,616	(3,854)	(238)
Net income (loss)	$ (81,174)	$ (560)	$ (81,734)

Financial instruments disclosure

Effective January 1, 2008, Clearwater adopted section 3862 “Financial Instruments – Disclosures” ” and 3863 “Financial Instruments – Presentation”, which replace Section 3861 Financial Instruments – Disclosure. This section requires Clearwater to provide disclosure of quantitative and qualitative information in the financial statements that enable users to evaluate the significance of financial instruments for 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. . The adoption of 3862 and 3863 did not have an impact on Clearwater’s financial results or position.

Capital Disclosures

Effective January 1, 2008, Clearwater adopted section 1535, “Capital Disclosures” that establishes guidelines for the disclosure of information on the Partnership’s capital and how it is managed. The enhanced disclosure enables users to evaluate the Partnership’s objectives, policies and processes for managing capital.

Impact of changes in accounting policy

In the third quarter of 2008 Clearwater changed its accounting policy from expensing refit costs as incurred to capitalizing and amortizing them over the period between refits as this results in the financial statements providing more reliable and relevant information about the effects of these refits on the entity's financial position and financial performance.

Clearwater has changed this policy retroactively and as a result has updated the comparative figures presented to reflect the new policy. The adoption of this policy reduced the amounts expensed in cost of goods sold for refit costs, increased amortization expense and increased capital expenditures. The following table sets out the impact of the policy:

Annual 2007

	Amounts prior to application of new refit policy	Adjustment for new policy	Amount per restated financial statements
Cost of good sold	$ 236,748	$ (4,164)	$ 232,584
Gross profit	65,933	4,164	70,097
Depreciation	11,267	3,139	14,406
Income taxes	133	232	365
Minority interest	4,024	110	4,134

Fourth quarter of 2007

		Amounts prior to application of new refit policy		Adjustment for new policy		Amount per restated financial statements
Cost of good sold	$	61,642	$	(1,740)	$	59,902
Gross profit		16,078		1,740		17,818
Depreciation		2,639		649		3,288
Income taxes		591		446		1,037
Minority interest		479		173		652
Net earnings (loss)	$	(4,843)	$	472	$	(4,371)

Impact of standards to be adopted in the future

International Financial Reporting Standards ("IFRS")

Effective January 1, 2011, Canadian GAAP will converge with IFRS. At this time, financial reports will be based on IFRS and will require comparative information.

To date, Clearwater has formally engaged third party advisors to aid in the transition to IFRS and has hired a full time resource to aid in the planning and implementation of IFRS within the organization. Significant work has been done to clearly identify the key areas impacted during the transition to IFRS as well as the major differences between current Canadian standards and the adoption of international standards going forward.

The key elements of Clearwater's plan include assessing the impact on information technology and internal control and disclosure systems, ensuring directors and employees receive appropriate training, assessing the impact on business activities including but not limited to debt covenants and ensuring Clearwater has a robust internal and external communication process. Clearwater continues to work closely with all stakeholders and monitor all new announcements being made by the International Accounting Standards Board during this transition and any significant impacts will be reported on a timely basis.

Due to the complexity of the new guidelines it is difficult to determine the impact on Clearwater. However, based on the preliminary work Clearwater has done to date there are a number of standards likely to impact Clearwater, including but not limited to property, plant and equipment, intangible assets, consolidation, provisions and contingencies, income tax and joint ventures. The change in Clearwater'sr refit policy in the third quarter of 2008 reduces one of the Canadian GAAP/IFRS differences. In addition, there are a number of choices available under IFRS 1 – First Time Adoption of IFRS that will impact Clearwater's reporting as well as the additional volume of disclosures typically required under all IFRS standards. .

SUMMARY OF QUARTERLY RESULTS

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

(In 000's of Canadian dollars except per unit amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2008 *(as restated)*				
Sales	$ 57,114	$ 69,233	$ 81,557	$ 84,270
Net (loss) income	(21,770)	11,333	(10,233)	(81,734)
Basic (loss) income per unit	(0.43)	0.22	(0.20)	(1.60)
Fiscal 2007 *(as restated)*				
Sales	$ 59,095	$ 75,311	$ 90,555	$ 77,720
Net earnings (loss)	5,055	11,563	8,705	(4,371)
Basic earnings (loss) per unit	0.10	0.22	0.17	(0.08)

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

The impact of the foreign exchange rates can have a significant impact on the volatility of earnings in the quarterly results, which include large cash non-cash losses related to foreign exchange derivatives.

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

DEFINITIONS AND RECONCILIATIONS

Gross Profit

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

Earnings before interest, tax, depreciation and amortization

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

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

Reconciliation of years ended December 31, 2008 and December 31, 2007 EBITDA:

($000's)	Year ended December 31, 2008	Year ended December 31, 2007 *(as restated)*
Net (loss) earnings	$ (102,405)	$ 20,951
Add (deduct):		
Minority interest	2,878	4,134
Income taxes	4,595	365
Reduction in foreign currency translation	-	2,644
Depreciation and amortization	586	14,406
Interest on long-term debt	18,275	15,905
Bank interest and charges	838	840
Add (deduct) other non-routine items >$2 million		
Foreign exchange and derivative income unrealized	46,076	(17,697)
Realized foreign exchange on dereivative instruments	44,598	(936)
Provision for underutilized plant	6,028	-
Reorganization costs	8,080	-
Depreciation included in cost of good sold	14,586	-
Normalized EBITDA	44,135	40,612

Leverage

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

Leverage is calculated by dividing the current and preceding three quarters' EBITDA by the total debt on the balance sheet adjusted for cash reserves and subordinated debt (convertible debentures and ISK bonds).

Leverage for banking purposes differs from the above calculations in that in provides for certain adjustments to EBITDA, the inclusion of mark to market liabilities on foreign exchange contracts in debt and the exclusion of certain subordinated debt. Clearwater is in compliance with all of the non-financial and financial covenants associated with its debt facilities.

($000's of Candian dollars)	December 31, 2008	December 31, 2007
EBITDA (as per previous table)	$ 44,135	$ 40,612
Total debt (per below)	96,661	21,142
Leverage	2.19	0.52
Debt per balance sheet	241,285	227,564
Less subordinated debt	(129,110)	(135,544)
Less unreserved cash	(15,514)	(70,878)
Net debt for leverage	96,661	21,142

Normalized cash flow

Realized foreign exchange losses and gains have been backed out of the calculation of normalized cash flow due to the variability and reorganization costs have been backed out as management does expect to incur similar amounts of cost in future periods.

Normalized cash flow is not a recognized measure under Canadian GAAP, and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes that in addition to net income and cash provided by operating activities, normalized cash flow is a useful supplemental measure from *which to determine the Fund's ability to generate cash available for debt service, working capital, capital expenditures, income taxes and distributions. Normalized cash flow should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of performance, as a measure of liquidity, or as a measure of cash flows and management does not use this measure as a performance measure of earnings.*

Reconciliation of years ended December 31, 2008 and December 31, 2007:

($000's)	December 31, 2008	December 31, 2007
Cash flows from operating activities	(26,938)	30,711
Add (deduct):		
Change in non-cash operating working capital	(1,077)	(6,698)
Cash foreign exchange on dereivative instruments	44,598	(936)
Reorganization costs	8,080	0
Normalized cash flow from operating activities before changes in working capital	24,663	23,077

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	*Robert Wight*
Chief Executive Officer	*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.

Quarterly and unit information

The financial information disclosed below was derived from the unaudited interim earnings statements of Clearwater for periods from January 1, 2007 to December 31, 2008.

Clearwater Seafoods Limited Partnership ($000's except per unit amounts)

	2008				2007 (restated)			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Sales	84,270	81,558	69,233	57,114	77,720	90,555	75,311	59,095
Net earnings (loss)	(81,734)	(10,234)	11,333	(21,770)	(4,371)	8,704	11,563	5,055
Per unit data								
Basic and diluted net earnings (loss)	(1.60)	(0.20)	0.22	(0.43)	(0.08)	0.17	0.22	0.10

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

	2008				2007			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Trading price range of units (board lots)								
High	4.42	4.48	3.85	4.65	4.95	4.99	5.25	5.15
Low	0.50	3.22	3.08	3.11	4.25	4.41	4.71	4.70
Close	0.85	4.44	3.35	3.73	4.50	4.60	4.79	4.82
Tranding volumes (000's)								
Total	7,953	6,090	790	1,633	5,209	1,770	8,197	6,958
Average daily	86	91	12	27	83	28	130	109
Units outstanding at end of quarter								
Units	27,745,695	27,745,695	27,745,695	27,745,695	28,245,695	28,949,895	29,190,395	29,357,526
Special	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217
Total	51,126,912	51,126,912	51,126,912	51,126,912	51,626,912	52,331,112	52,571,612	52,738,743

Selected Annual Information

	2008 (Audited)	2007 (Audited)	2006 (Audited)	2005 (Audited)	2004 (Audited)
Sales	$292,175	$302,681	$ 315,736	$ 314,839	$ 345,459
Cost of goods sold	252,414	232,584	228,423	242,601	253,322
Gross profit	39,761	70,097	87,313	72,238	92,137
Administration and selling	25,926	37,818	38,245	33,594	36,759
Gain on disposals and other income	8,858	(8,333)	(3,710)	(5,762)	(11,451)
Foreign exchange loss (income)	80,210	(18,633)	9,990	(11,712)	(7,482)
Bank interest and charges	838	840	953	786	659
Interest on long-term debt	18,275	15,905	13,110	12,450	10,490
Depreciation and amortization	586	14,406	14,766	15,400	16,145
Reduction in foreign currency translation account	-	2,644	2,369	1,236	3,006
	134,693	44,647	75,723	45,992	48,126
Earnings before the undernoted	(94,932)	25,450	11,590	26,246	44,011
Income taxes	4,595	365	4,123	2,975	4,276
Earnings before minority interest	(99,527)	25,085	7,467	23,271	39,735
Minority interest	2,878	4,134	5,633	3,398	2,262
Net earnings	$ (102,405)	$ 20,951	$ 1,834	$ 19,873	$ 37,473

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Convertible Debenture symbols: CLR.DB and CLR.DB.A

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