CLEARWATER SEAFOODS INCOME FUND

2010 Annual Report

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

Clearwater Seafoods Limited Partnership (“Clearwater”), of which Clearwater Seafoods Income Fund (the “Fund”) owns 54.27%, **reported continued improvement in results in 2010.** Clearwater’s annual EBITDA grew by 14%, or $5.5 million over 2009, to $44.8 million. The increase in EBITDA was due to strong sales volumes and market prices as well as lower cost of goods sold. These initiatives offset the negative impact of a stronger Canadian dollar as compared to 2009.

Clearwater used the cash flows generated by these improved results to reduce debt levels by $8.7 million to $205.4 million at December 31, 2010. Reduced debt levels, combined with an improvement of $5.5 million in annual EBITDA, resulted in our leverage improving from 5.22 in 2009 to 4.47 times in 2010.

As Clearwater reduces its leverage and debt levels over the next several years, the Directors will revisit the opportunity to pay distributions. Currently, however, restrictions in our lending agreements and our relatively high leverage position will constrain Clearwater’s ability to pay any distributions for some time.

Over the next few years improved operating results and lower debt levels could provide an opportunity for return through capital appreciation in the units as unitholders await the resumption of distributions. Clearwater unitholders saw the units appreciate 11% to $1.02 per unit in 2010. When we get to the point where we are able to consider resuming distributions your Trustees will give consideration to our lending covenants, earnings levels, on-going capital expenditure requirements, leverage and expectations regarding future earnings before setting distribution levels.

As unitholders know, in 2006 the Canadian federal government announced tax changes for income trusts that took effect on January 1, 2011. Up to December 31, 2010, any distributions paid by a Trust were taxed in the hands of the unitholders at a rate that corresponded to the nature of the underlying earnings of the Trust. Starting in 2011, Trusts are now required to pay taxes on any distributions that it disburses at corporate rates and the recipient of these payments will receive those distributions as taxable dividends.

Clearwater has reviewed its corporate structure in light of these changes in tax legislation giving consideration to the following:

- On March 12, 2009 the federal government enacted rules to allow trusts to convert to a corporation on a tax-free basis prior to 2013.

- Clearwater's structure is a limited partnership (Clearwater Seafoods Limited Partnership) owned by a trust (Clearwater Seafoods Income Fund). Currently the Fund's portion of the taxable earnings of Clearwater, if any, flows through to the Fund and are allocated to unitholders regardless of whether the Fund pays distributions.

- Under the new tax rules starting in 2011 certain trusts will be required to pay taxes on any distribution of taxable earnings they allocate to their unitholders. The tax to be paid by these trusts is equivalent to the corporate tax rates and the recipient of the distributions of taxable income will be taxed on those distributions as taxable dividends.

- Clearwater does not anticipate the Fund will be paying any distributions to its unitholders in the near term and nor will Clearwater be allocating any taxable earnings to the Fund prior to 2013. Therefore, there will be no taxes payable by the fund or unitholders if the Fund does not convert to a corporation.

As a result, Clearwater has concluded that since the new tax rules will have limited impact on the Fund in the near future, unit holders will not suffer any negative tax consequences if the Fund does not convert to a corporation prior to 2012. However, **Clearwater plans to review its current structure, and make an announcement in 2011 regarding updating its capital structure**.

Your Trustees remain fully committed to providing the best possible return on your investment and ensuring the responsible stewardship of the company's assets by encouraging Clearwater to continue its focus on improving core operations.

On behalf of the Trustees and Directors, I would again like to express our appreciation to Ian Smith and the entire Clearwater team for the continued strong results in 2010 and thank our investors for their continued support and belief in Clearwater's future.

Tom Traves

Thomas Traves
Chairman, Board of Trustees
Clearwater Seafoods Income Fund

Letter from the Chairman and CEO
Clearwater Seafoods Limited Partnership

Ladies and Gentlemen

It is my pleasure to report that 2010 was a year of successful EBITDA growth for Clearwater with an EBITDA increase of 14% to $44.8 million.

This 14% increase in EBITDA was due to strong sales volumes and market prices as well as lower cost of goods sold. These initiatives more than offset the large negative impact of a stronger Canadian dollar as compared to 2009.

Sales volumes were healthy with annual volumes up 5% in 2010. Strong demand for core products allowed Clearwater's management team to execute pricing strategy in response to market demand in the majority of species, but in particular scallops, clams and cooked and peeled shrimp.

Outlook for 2011

The Board is encouraged by the 2010 results and the increasing global consumer and customer demand for Clearwater's premium, wild, eco-labeled seafood. Taken in combination with the successful execution of pricing strategy, cost savings and other productivity initiatives, it believes Clearwater is poised to continue to deliver improved operating margins and earnings performance in 2011.

In 2011 Clearwater plans to complete a substantial refit program, the majority of which will be completed in the first and second quarters of 2011. In total, Clearwater expects to invest up to $14 million in fleet and plants upgrades in 2011.

As a result, Clearwater believes that 2011 results will continue to reflect the typical pattern for the business in which EBITDA is typically lower in the first half of the year due to lower sales volumes and higher harvest costs due to more challenging winter weather conditions. In the second half of the year results typically show greater strength due to higher sales volumes and lower harvest costs. In addition, in 2011, Clearwater expects that the impact of exchange rate volatility on cash flows will be muted due to it's the implementation of a targeted foreign exchange hedging program.

These assumptions regarding 2011 results are based on continued strong sales volumes in core species, continued strong demand and strong global market prices as well as the realization of additional cost savings and productivity gains.

New debt facilities

Management and the Board are focused on improving Clearwater's financial strength and flexibility by reducing debt levels and leverage, implementing targeted exchange hedging programs and reviewing the status of its corporate structure as a trust.

Clearwater's strategy for maintaining liquidity and reducing leverage includes carefully managing its working capital and capital expenditures and liquidating non-core assets that do not achieve an adequate return on capital. Clearwater will continue to focus on reducing its leverage by improving earnings and using the positive cash flow of the business to reduce debt. In 2010 Clearwater's EBITDA improved by 14% to $44.8 million and Clearwater reduced its net debt by $8.7 million. As a result, its leverage ratio (net debt to EBITDA) has improved in the past year from 5.22 to 4.47.

On February 4, 2011 Clearwater announced that it had successfully completed a refinancing of its senior debt facilities increasing its' Senior Term Credit Facility ("Senior Notes") from $51.5 million to $70 million, extending the maturity date of its existing Asset Backed Revolving Loan and creating a new US $45 million Second Lien Senior Credit Facility. The proceeds of this refinancing were used to repay and cancel all the Icelandic Krona denominated debt facilities and provide working capital for ongoing corporate needs. This refinancing resulted in a number of benefits for Clearwater including timely funding for its 2011 capital expenditure plan, removing exposure to ISK debt, increasing operational liquidity, increasing financial flexibility, providing capacity to expand its hedging program and removing all near-term debt maturities; all with no increase in annual cash interest costs.

Clearwater has a targeted foreign exchange hedging program that is designed to reduce volatility in net cash flows caused by short-term changes in exchange rates. This program focuses on using forward contracts to lock in exchange rates for up to 75% of its expected sales receipts in its key currencies for periods up to 18 months forward. Clearwater's net exposure, based on 2010 sales figures, i.e. its gross cash receipts less expenses in foreign currencies approximate $233 million annually, so it is targeting a maximum annual hedge position of approximately $175 million. As of March 29, 2011 Clearwater has sold forward Euro 25 million at an average rate of 1.355 and Yen 1.6 billion at an average rate of 0.0121. Using actual gross sales for the last three quarters of 2010 as a benchmark, this represents 52% of 2010 Euro sales and 80% of 2010 Yen sales.

In 2009 the Canadian Federal government announced tax changes for income trusts that took effect on January 1, 2011 and allow trusts to convert to a corporation on a tax-free basis prior to 2013. Clearwater has reviewed its corporate structure in the past in light of these changes in tax legislation and determined that, due to its significant tax assets, it can generate approximately $75 million of currently deductible tax shield which can provide shelter for future taxable earnings allocated to the Fund. As a result, Clearwater has concluded that since the new tax rules will have limited impact on the Fund in the near future, unit holders will not suffer any negative tax consequences if the Fund does not convert to a corporation prior to 2012. However, Clearwater plans to reviews its current structure, and make an announcement in 2011 regarding updating its capital structure.

Business strategy

Management's key areas of focus for 2011 include:

1. Expanding access to supply;
2. Targeting profitable and growing markets, channels and customers;
3. Innovating and positioning our products to deliver superior customer satisfaction and value;
4. Increasing margins by improving price realization and cost management;
5. Preserving the long-term sustainability of our resources; and
6. Improving our organizational capability and capacity, talent, diversity and engagement

Clearwater's management team and board believe this will result in improved results in the near-term and provide Clearwater with a sustainable competitive advantage in the mid to longer term.

Finally, I would be remiss not to acknowledge and recognize Ian Smith, who joined Clearwater on May 17, 2010.

Yours Truly,

Colin Mac Donald

Chairman

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared effective March 29, 2011.

The Audit Committee and the Board of Directors have reviewed and approved the contents of this MD&A and the financial statements as well as the related 2010 annual news release.

This MD&A should be read in conjunction with the 2010 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 the design and effectiveness of Clearwater's disclosure controls and procedures as of December 31, 2010 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.

The Management team of Clearwater, with the participation of the Chief Executive Officer and the 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 Canadian generally accepted accounting principles.

Management evaluated the design and effectiveness of Clearwater's internal controls over financial reporting as at December 31, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in its report "Internal Control – Integrated Framework (1992)". 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 Chief Executive Officer and the Chief Financial Officer have concluded that, as at December 31, 2010, Clearwater's internal controls over financial reporting are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no significant changes in Clearwater's internal controls over financial reporting or in other factors that occurred during the period from October 3, 2010 to December 31, 2010 or subsequent to the date of management's evaluation, that have materially affected, or are reasonably likely to materially affect the Company's internal controls 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 and Clearwater do not undertake any obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances other than as required under applicable securities laws.

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 be a leader in the global seafood market.

Clearwater Seafoods Income Fund (the "Fund") is a limited purpose, open-ended trust established under the laws of the Province of Ontario. The Fund was created to acquire and indirectly hold the securities of Clearwater Seafoods Limited Partnership ("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 were due December 31, 2010 and used the proceeds to purchase Class C units issued by Clearwater. 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.

During November 2010, Clearwater announced that it had obtained approval from the holders of the Class C convertible unsecured subordinated debentures to amend the terms of the debentures. Amendments included an increase in interest rates from 7.0% to 10.5%, a reduction in conversion price from $12.25 to $3.25 per Fund unit, an extension of the maturity date from December 31, 2010 to December 31, 2013 and the change in name from Class C to Class E units. The principal amount outstanding, for the amended **Class E** debentures as at December 31, 2010 was $45 million (2009 - $45 million Class C debentures).

In March and April 2007, the Fund completed an offering for $48.0 million of 7.25% convertible unsecured subordinated debentures, which are due March 31, 2014. 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, 2010 for the 2007 series convertible debentures was $44.4 million (2009 – $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 the majority of the board of 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 fourth quarter sales of $77.8 million and EBITDA of $13.8 million versus 2009 comparative figures of $68.4 million and $9.3 million representing growth rates of 13.8% and 48.0% respectively.

- Annual sales were $291.1 million and EBITDA was $44.8 million versus 2009 comparative figures of $284.1 million and $39.3 million representing growth rates of 2.5% and 14.0% respectively.

- Annual sales volumes increased 5% versus 2009 and good execution of pricing strategy in response to market demand as well as a continued focus on cost reductions resulted in increased quarterly and annual EBITDA.

- Management expects that this positive earnings trend will continue in 2011 as seafood markets are expected to remain strong and operations continue to benefit from cost saving measures.

- Completed restructuring of senior debt facilities, including all ISK denominated debt.

Clearwater reported fourth quarter EBITDA of $13.8 million on sales of $77.8 million versus 2009 comparative figures of $9.3 million and $68.4 million. This 48.4% increase in EBITDA in the fourth quarter of 2010 was due to strong sales volumes and market prices as well as lower cost of good sold resulting from significantly improved operating efficiencies.

For the year ended December 31, 2010 Clearwater reported EBITDA of $44.8 million on sales of $291.1 million versus $39.3 million and $284.1 million in 2009. Consistent with the fourth quarter, this 14% increase in annual EBITDA was due to strong sales volumes and market prices as well as lower cost of goods sold. These initiatives offset the negative impact of a stronger Canadian dollar as compared to 2009.

Sales volumes have remained healthy with fourth quarter volumes up 10% from 2009 and annual volumes up 5%. Strong demand for core products has allowed Clearwater management to execute pricing strategy in response to market demand in the majority of species in particular scallops, clams and cooked and peeled shrimp.

Outlook for 2011

Management is encouraged by Clearwater's 2010 results and the increasing global consumer and customer demand for its' premium, wild, eco-labeled seafood. Taken in combination with the successful execution of pricing strategy, cost savings and other productivity initiatives, Management believe Clearwater is poised to continue to deliver improved operating margins and earnings performance in 2011.

In 2011, Clearwater plans to complete a substantial plant and vessel upgrade program, the majority of which will be completed in the first and second quarters of 2011. In total, Clearwater expects to invest up to $14 million in sustaining its fleet and plants in 2011.

Management believes that 2011 results will continue to reflect the typical pattern for the business in which EBITDA is typically lower in the first half of the year due to lower sales volumes and higher harvest costs due to more challenging winter weather conditions. In the second half of the year results typically show greater strength due to higher sales volumes and lower harvest costs. In 2011 Clearwater expects that the impact of exchange rate volatility on cash flows will be muted due to it's the implementation of a targeted foreign exchange hedging program.

These assumptions regarding 2011 results are based on continued strong sales volumes in core species, continued strong demand and strong global market prices as well as the realization of additional cost savings and productivity gains.

New debt facilities

Management and the Board are committed to improving Clearwater's financial strength and flexibility by reducing debt levels and leverage, implementing targeted exchange hedging programs and reviewing the status of its corporate structure as a trust.

Clearwater's strategy for maintaining liquidity and reducing leverage includes carefully managing its working capital and capital expenditures and liquidating non-core assets that do not achieve an adequate return on capital. Clearwater will continue to focus on reducing its leverage by improving earnings and using the positive cash flow of the business to reduce debt. In 2010 Clearwater's EBITDA improved by 14.0% to $44.8 million and Clearwater reduced its total debt by $8.7 million. As a result, its leverage ratio (net debt to EBITDA) has improved in the past year from 5.22 to 4.47.

On February 4, 2011 Clearwater announced that it had successfully completed a refinancing of its senior debt facilities increasing its' Senior Term Credit Facility ("Senior Notes") from $51.5 million to $70 million, extending the maturity date of its existing Asset Backed Revolving Loan and creating a new US $45 million Second Lien Senior Credit Facility. The proceeds of this refinancing were used to repay and cancel all the Icelandic Krona denominated debt facilities and provide working capital for ongoing corporate needs. This refinancing resulted in a number of benefits for Clearwater including timely funding for its 2011 capital expenditure plan, removing exposure to ISK debt, increasing operational liquidity, increasing financial flexibility, providing capacity to expand its hedging program and removing all near-term debt maturities; all with no increase in annual cash interest costs.

Clearwater has a targeted foreign exchange hedging program that is designed to reduce volatility in net cash flows caused by short-term changes in exchange rates. This program focuses on using forward contracts to lock in exchange rates for up to 75% of its expected sales receipts in its key currencies for periods up to 18 months forward. Clearwater's net exposure, based on 2010 sales figures (i.e. its gross cash receipts less expenses in foreign currencies approximate $233 million annually, so it is targeting a maximum annual hedge position of approximately $175 million. As of March 29, 2011 Clearwater has sold forward Euro 25 million at an average rate of 1.355 and Yen 1.6 billion at an average rate of 0.0121. Using actual gross sales for the last three quarters of 2010 as a benchmark, this represents 52% of 2010 Euro sales and 80% of 2010 Yen sales.

In 2009 the Canadian Federal government announced tax changes for income trusts that took effect on January 1, 2011 and allow trusts to convert to a corporation on a tax-free basis prior to 2013. Clearwater has reviewed its corporate structure in the past in light of these changes in tax legislation and determined that, due to its significant tax assets, it can generate approximately $75 million of currently deductible tax shield which can provide shelter for future taxable earnings allocated to the Fund. As a result, Clearwater has concluded that since the new tax rules will have limited impact on the Fund in the near future, unit holders will not suffer any negative tax consequences if the Fund does not convert to a corporation prior to 2012. However, Clearwater plans to reviews its current structure, and make an announcement in 2011 regarding updating its capital structure.

Business strategy

Ian Smith, Chief Executive Officer, commented, "I am encouraged by our volume strength in 2010 and the increasing global consumer and customer demand for our premium, wild, eco-labeled seafood. Taken in combination with the successful execution of our pricing strategy, cost savings and other productivity initiatives, I believe Clearwater is poised to continue to deliver improved operating margins and earnings performance in 2011. Furthermore, I believe that our strategies of:

1. Expanding access to supply;
2. Targeting profitable and growing markets, channels and customers;
3. Innovating and positioning our products to deliver superior customer satisfaction and value;
4. Increasing margins by improving price realization and cost management;
5. Preserving the long-term sustainability of our resources; and
6. Improving our organizational capability and capacity, talent, diversity and engagement

will result in improved results in the near-term and provide us with a sustainable competitive advantage in the mid to longer term".

SELECTED ANNUAL INFORMATION

(In 000's except per unit amounts)	2010	2009	2008
Sales	$ 291,116	$ 284,066	$ 301,204
Net (loss) earnings	(7,489)	26,148	(102,405)
Basic and diluted net earnings (loss) per unit	(0.15)	0.51	(2.00)
Normalized cash flows from operating activities [1]	21,644	13,107	14,199
Total assets	325,224	338,090	394,120
Long-term debt	205,398	214,117	241,285

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

MISSION, CORE BUSINESS AND STRATEGY

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

1. Expanding access to supply;
2. Targeting profitable and growing markets, channels and customers;
3. Innovating and positioning our products to deliver superior customer satisfaction and value;
4. Increasing margins by improving price realization and cost management;
5. Preserving the long-term sustainability of our resources; and
6. Improving our organizational capability and capacity, talent, diversity and engagement

By adhering to these values and goals, Clearwater believes that it will realize its corporate mission and achieve strong sustainable financial results over the longterm. The 2010 results demonstrate the return of Clearwater's fleet of factory vessels back to normal operations, which resulted in improved results despite currency fluctuations and slow global market conditions in the first half of the year. It is this disciplined management that will enable Clearwater to ride out challenges and maintain its strong levels of performance.

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

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

Expand access to supply of core species and other high demand, premium wild and sustainably-harvested seafood through acquisitions, partnerships and commercial agreements.

Target profitable & growing markets, channels and customers by segmenting and targeting markets, consumers, channels and customers on the basis of size, profitability, demand for eco-label seafood and ability to win. Clearwater prides itself on being a global company with a reputation for price leadership and strong customer relationships. As demand for premium shellfish has grown, Clearwater has developed a worldwide presence with global sales and marketing teams and local sales forces. 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 a distribution facility 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.

Innovate and position products to deliver superior customer satisfaction & value. Innovate and position Clearwater's premium seafood to deliver superior satisfaction and value that's differentiated on the dimensions of taste, quality, safety, sustainability, wellness and convenience. 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. In addition 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 global demand for premium seafood.

Increase margins by improving price realization and cost management by exercising price influence and power to maximize revenue and profit while managing overall supply. In addition Clearwater continues to adopt state-of-the-art harvesting, processing, storage and delivery systems that minimize per pound cost, reduce waste, increase yield and improve quality and reliability of supply.

Pursue and preserve the long term sustainability of resources on Land and Sea. 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 works in partnership with the Department of Fisheries and Oceans ("DFO") to lead research and development of sustainable harvesting practices, ensuring long term health of the resource and value for the licenses and total allowable catch ("TAC"). Several of Clearwater's fisheries have achieved Marine Stewardship Council certification ("MSC") or are in the process of being certified. Clearwater's scallop fishery in Argentina was the first scallop fishery in the world to receive this rigorous independent certification. By the end of 2010, Clearwater had obtained MSC certification for both its Sea and Bay Scallops, its offshore lobster, and its cooked and peeled shrimp.

Build organizational capability, capacity and engagement. Accomplishing Clearwater's goals depends on the skill and dedication of its employees. Clearwater's ability to attract, grow, evaluate, recognize, reward and retain the best talent directly affects the overall success of the organization. Clearwater emphasizes customer service, quality and efficiency and invests in its 1,300 employees to further their training and create new opportunities in which they can excel.

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 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 harvests are scallops (Canadian and Argentine), lobster and coldwater shrimp, which are harvested in offshore fisheries that have a limited number of participants. Clearwater harvests Canadian and Argentine scallops and clams 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 has been stable 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 can land and market the by-catch (i.e., Greenland cockles and northern propeller clams) that has been harvested by the clam fleet.

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

- Coldwater shrimp - Clearwater expects the Northern shrimp TAC to decline over the next several years. However, the access that the offshore has to this quota, which is where Clearwater harvests, is not expected to decline significantly as the impact of these reductions are expected to be absorbed by inshore players. Clearwater does procure shrimp from the inshore for its cooked and peeled business but this business is not material to Clearwater's overall revenues, EBITDA or cash flows.

- The lobster resource is strong with a consistent offshore TAC and a strong inshore resource

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 $31.7 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.

	2010	2009	2008	2007	2006	TOTAL
Return on Investment						
Vessels	$ 700	$ 1,200	$ 22,200	$ 7,600	$ -	$ 31,700
Plants and other	500	-	4,300	-	-	4,800
Licenses		-	10,000	5,300	-	15,300
Maintenance capital	8,100	3,300	7,000	3,500	1,900	23,800
	$ 9,300	$ 4,500	$ 43,500	$ 16,400	$ 1,900	$ 75,600

The amounts capitalized related to the clam vessel, the Atlantic Seahunter, 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 are $3.7 million in 2007, and $18.7 million in 2006.

Vessel and quota investments and debt levels significantly impact the amount spent annually on capital expenditures due to the significant investment required to purchase and maintain the vessels and the significant values attributed to the Canadian and Argentine quotas.

In 2010 capital expenditures were minimal as the majority of Clearwater's significant projects were largely completed in 2008 and restrictions on capital expenditures from senior lending agreements reduced funds available for capital expenditures. Capital expenditures for 2010 primarily related to $5.9 million in vessel refits, $1.2 million in ROI assets including new harvesting technologies, and $967,000 on building additions in Argentina.

During 2009, Clearwater completed a refit of a vessel for its lobster operations. The total cost of the vessel including conversion was approximately $7.4 million of which $1.2 million occurred in 2009. In addition Clearwater completed a refit of a shrimp vessel, through a 54% owned joint venture, incurring costs in 2009 of $1.6 million.

In 2008 Clearwater also invested approximately $10 million in turbot quotas.

In 2007 Clearwater began investment in the conversion of a vessel for its clam fishery and purchased an offshore lobster license.

In 2006, capital expenditures were solely for maintenance projects.

The refinancing of the senior debt facilities provides Clearwater up to $10 million to fund a substantial refit program for its vessels in 2011 during low harvest periods, which should have a positive impact on harvest costs in 2011 and allow Clearwater to sell one factory vessel in 2011.

In addition to the annual amounts capitalized above, Clearwater historically has spent and expensed on average about $13.9 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 providing sufficient capacity.

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.

	2010	2009	2008	2007	2006	TOTAL
Maintenance capital	$ 8,100	$ 3,300	$ 7,000	$ 3,500	$ 1,900	$ 23,800
Repairs and maintenance	13,500	13,400	12,600	12,000	18,000	69,500
	$ 21,600	$ 16,700	$ 19,600	$ 15,500	$ 19,900	$ 93,300
Depreciation/Amortization	$ 13,800	$ 14,900	$ 15,200	$ 14,400	$ 13,800	$ 72,100

The table above includes $13.1 million of depreciation expense included in cost of goods sold for 2010 (2009 - $14.7 million).

Vessel and quota investments significantly impact the amount spent annually on capital and repairs expenditures. The most costly of Clearwater's 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. Non-factory vessels typically do not cost as much to maintain and replace.

Of the ten factory vessels:

- Two are used to harvest shrimp and are on average 17 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 shrimp vessels.

- Four are used to harvest Canadian sea scallops and are on average 10 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 30 years old. One vessel is expected to be substantially renewed or replaced over the next five years and the second is expected to be renewed or replaced in the next 10 years.

- Two are used to harvest clams and are on average of 17 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, 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 ANNUAL 2010 RESULTS

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

Overview

The statements of earnings disclosed below reflect the net earnings (loss) of Clearwater for the year December 31, 2010 and December 31, 2009.

(in 000's of Canadian dollars)	December 31 2010	December 31 2009
Sales	$ 291,116	$ 284,066
Cost of goods sold	234,854	240,215
Gross margin	56,262	43,851
Gross margin percentage	*19.3%*	*15.4%*
Administration and selling	26,883	25,724
Gain on disposal of property, plant and equipment and quota	(1,868)	(9,277)
Other expense	4,941	2,710
Foreign exchange and derivative contracts (income)	2,992	(30,642)
Interest on long-term debt and bank charges	23,965	25,342
Depreciation and amortization	690	236
Reduction in foreign currency translation account	1,066	703
	58,669	14,796
(Loss) earnings before income taxes and minority interest	(2,407)	29,055
Income taxes	3,378	1,868
(Loss) earnings before minority interest	(5,785)	27,187
Minority interest	1,704	1,039
Net (loss) earnings	$ (7,489)	$ 26,148

Net (loss) earnings

Net earnings decreased by $33.6 million compared to 2009, due primarily to large unrealized non-cash foreign exchange gains in 2009:

Year ended In (000's of Canadian dollars)	December 31, 2010	December 31, 2009	Change
Net earnings (loss)	$ (7,489)	$ 26,148	$ (33,637)
Explanation of changes in earnings:			
Higher unrealized non-cash foreign exchange expense			(45,922)
Lower realized foreign exchange losses			12,288
Higher gross margin on product sales			12,411
Lower gain on sale of property, plant and equipment and quotas			(7,409)
Higher other expenses			(2,231)
Lower interest on long term debt			1,377
Higher income tax expense			(1,510)
Higher administration and selling expense			(1,159)
All other			(1,482)
			$ (33,637)

In 2010 Clearwater had strong sales volumes, selling prices and lower costs, all of which positively impacted the results. In 2010 Clearwater had EBITDA of $44.8 million and sales of $291.1 million versus $39.3 million and $284.1 million in 2009, respectively.

Strong sales volumes, up 5% from 2009, and strong market prices, were achieved as a result of strong market demand for premium seafood and in particular scallops, clams and cooked and peeled shrimp.

Gross margin improved $12.4 million to 19.3%, from 15.4% in 2009 due to reductions in harvesting and production costs for clams, shrimp and turbot and higher selling prices in the majority of species particularly scallops, clams, cooked and peeled shrimp, and turbot. In 2010 the strengthening of the Canadian dollar reduced the translation of foreign currency denominated export sales and as a result negatively impacted sales and gross margins by $30.3 million. However, price increases and cost reductions more than offset this exchange impact on gross margin.

Fuel costs increased by $1.3 million from $18.2 million in 2009 to $19.5 million in 2010. This was a result of an average increase of the price per litre of fuel of $0.06, partially offset by a decline in average volumes consumed. Clearwater's vessels used approximately 32 million litres of fuel in 2010. Based on 2010 fuel consumption, a one-cent per litre change in the price of fuel would impact harvesting costs by approximately $320,000.

Annual sales by region were as follows:

In 000's of Canadian dollars Year ended	December 31 2010	December 31 2009	Change	%
Europe	$ 111,317	$ 102,116	$ 9,201	9.0
United States	59,277	66,848	(7,571)	(11.3)
Canada	41,717	44,713	(2,996)	(6.7)
Asia				
Japan	31,188	25,343	5,845	23.1
China	22,212	22,390	(178)	(0.8)
Other Asia	23,754	20,889	2,865	13.7
Other	1,651	1,767	(116)	(6.6)
	$ 291,116	$ 284,066	$ 7,050	2.5

Analysis By Region:

In 2010 Clearwater reported strong sales volumes, strong selling prices and lower costs, positively impacting sales and gross margins. Strong sales volumes were achieved as a result of strong market demand (particularly in Asia and Europe) for frozen-at-sea clams, coldwater shrimp, and turbot. Price increases in the majority of species particularly scallops, clams, lobster, cooked and peeled shrimp, and turbot also contributed to improvements in gross margin.

Europe

Europe is Clearwater's largest scallop region and it is an important market for coldwater shrimp products. It has been a growth area for several years.

European sales increased by $9.2 million, or 9.0%,primarily a result of increased demand for sea scallops and shrimp which produced improved sales prices and volumes. In addition, supply volumes for shrimp increased during 2010, as the number of landings increased since both vessels were fishing in the second quarter of 2010, whereas landings were impacted in 2009 as a refit was performed on the Atlantic Enterprise during the second quarter. Changes in sales mix for sea scallops weighted towards smaller sizes, which have lower average selling prices, as well as a continued strong Canadian dollar partially offset the increase in scallop sales in Europe.

Foreign exchange rates for the European Euro declined by 13.9% from 1.581 in 2009 to 1.362 in 2010, while the UK Pound declined 10.7% from 1.780 to 1.590 over the same period.

United States
The United States is our largest lobster market and is an important market for scallops, coldwater shrimp and for some of our clam products. It is our most diverse market, where a wide variety of product is sold.

Sales within the United States declined by $7.6 million or 11.3%, primarily as a result of a reduction in lower available supply volumes for Argentine scallops, and a reduction in sale volumes for Coldwater shrimp and lobster. Coldwater shrimp had reduced volumes as inventory levels for the first half of 2010 were down due to lower levels of production in 2009. Lobster sales volumes declined through most of the first half of 2010 due to the slow US economy and stabilized in the third quarter. The Canadian dollar continued to strengthen against the US dollar for most of 2010. Average foreign exchange rates for the US dollar declined by 9.3% from 1.138 in 2009 to 1.032 in 2010. Selling prices for sea and bay scallops and coldwater shrimp increased during the period to offset the affect of the weakening US dollar.

Canada
Sales within Canada decreased $3.0 million to $41.7 million primarily as a result of a decline in sales volumes for sea scallops and lobster as the company carried lower volumes of inventory in Canada at the end of 2009 and higher inventory levels in Europe in 2010, reducing amounts available for sale in Canada and the United States. In addition, a difference between size mixes harvested and consumer demand within the region for sea scallops reduced sales volumes during the period.

Prices for lobster, sea and bay scallops increased during 2010 as a result of strong global market demand, partially offsetting the reduction in sales volumes.

Japan
Japan is our largest clam market and it is also an important market for lobster and turbot.

Sales to Japan increased $5.8 million, or 23.1%, for 2010, primarily as a result of an increase in volumes for frozen-at-sea clams, turbot, lobster and shrimp. Volumes for clams increased from the implementation of temporary incentive programs in the first half of 2010, reducing average selling prices for the period. Increased market demand for turbot in Japan and other Asian countries improved selling prices and volumes for 2010.

Foreign exchange rates for the Yen declined 7.1% from 0.0126 in 2009 to 0.0117 in 2010, partially offsetting the increase in sales for the year.

Other Asia
Sales within the other Asia region include sales to Hong Kong, Korea, Taiwan, Singapore and other Asian countries. Other Asian countries are an important market for clams, shrimp and turbot. Sales within other Asia increased 13.7% to $23.8 million due primarily to an increase in clam sales volumes. Changes in sales mix for clams weighted towards products which have lower average selling prices partially offset the increase in sales volumes.

Annual sales by product category were as follows:

In 000's of Canadian dollars Year ended	December 31 2010	December 31 2009	Change	%
Scallops	$ 112,499	116,362	$ (3,863)	(3.3)
Lobster	61,261	65,234	(3,973)	(6.1)
Clams	60,122	49,305	10,817	21.9
Coldwater shrimp	35,553	33,125	2,428	7.3
Crab	13,657	11,924	1,733	14.5
Ground fish and other	8,024	8,116	(92)	(1.1)
	$ 291,116	$ 284,066	$ 7,050	2.5

Analysis By Species:

Sales

The decrease in scallop sales was primarily a result of lower volumes in Argentine scallops from a reduction in volumes harvested and in total allowable catch. Changes in product mix for sea scallops weighted towards smaller sizes that have lower average selling prices also contributed to the reduction in annual sales. In addition, the continued strengthening of the Canadian dollar against other currencies reduced sales. Price increases particularly for Argentine and sea scallops, crab and turbot offset the affect from foreign exchange and volumes.

Lobster sales decreased as a result of a decline in sales prices and volumes due to the continued soft US market conditions for live lobster and the strengthening Canadian dollar.

Clam sales increased as a result of higher volumes, partially offset by a decline in sales prices due to a change in sales mix that was weighted towards products with lower selling prices, weakening foreign exchange rates and temporary volume incentives during the first half of 2010.

Coldwater shrimp sales increased in 2010 as a result of timing of landings for frozen-at-sea shrimp, as a refit was performed on the Atlantic Enterprise during 2009, and higher levels of production for cooked and peeled shrimp in 2010.

Ground fish and other sales increased in 2010 primarily due to an increase in selling prices for turbot as well as an increase in volumes due to strong demand.

Cost of Goods Sold (note that some commentary is on a per pound basis)

Total cost of goods sold declined $ 5.4 million, or 2.2%, to $234.9 million due to a reduction in harvesting and production costs for clams, lobster, shrimp and turbot. Lower catch rates, and higher inflation, served to increase cost per pound for Argentine scallops, and partially reduced the improvements in gross margin.

Improvements in harvesting costs for shrimp and higher catch rates for clams improved margins and reduced cost of goods sold for 2010.

Costs for lobster improved for 2010 as compared to 2009. Clearwater harvests approximately 20% of the lobster supply and procures the balance from inshore lobster suppliers. Procurement provided Clearwater with an opportunity to offset some of the impact of changes in market prices by adjusting the prices we pay to inshore lobster suppliers. In addition offshore catch rates were more favourable and harvesting costs per pound improved during 2010.

Costs for Argentine scallops increased during 2010 as a result of lower catch rates and increased labour costs due to inflation in Argentina both of which served to increase the cost per pound. Costs for sea scallops remained relatively consistent with 2009.

Gross Margin

Gross margin improved $12.4 million, or 28.3%, to $56.3 million. Gross margin was positively impacted by increases in sales volumes for clams, and shrimp, and improved harvesting and production costs for clams, turbot and lobster.

Margins continued to be negatively impacted by foreign exchange rates that resulted in a reduction of sales and gross margin of $30.3 million, or 9.4%, in comparison to 2009. In particular lower average exchange rates on US dollars, Euros and UK pounds decreased the value of sales and margins for 2010 compared to the rates received in the same period of 2009. Although foreign exchange continued to negatively impact margins, Clearwater was able to offset the impact of foreign exchange on gross margin through price increases for the majority of species particularly for scallops, clams, crab, turbot, lobster and cooked and peeled shrimp

Year ended	December 31, 2010		December 31, 2009		
Currency	% sales	Average rate realized	% sales	Average rate realized	Change in rate
US dollars	40.7%	1.032	39.9%	1.138	-9.3%
Euros	27.9%	1.362	25.3%	1.581	-13.9%
Japanese Yen	10.8%	0.012	9.1%	0.013	-7.7%
UK pounds	4.3%	1.590	5.4%	1.780	-10.7%
Canadian dollars and other	16.3%		20.3%		
	100.0%		100.0%		

Administration and selling costs. Administrative and selling expenses increased by 5.2% or $1.8 million to $37.2 million for 2010 as a result compensation costs, which increased due in part to incentive compensation plans. Certain administration and selling costs are classified as cost of goods sold (refer to the table below).

Administration and Selling costs Year ended In 000's of Canadian dollars	December 31 2010	December 31 2009
Administration and selling costs classified in cost of goods sold	$ 10,300	$ 9,619
Costs classifed as administration and selling	26,883	25,724
	$ 37,183	$ 35,343

Gain on disposal of property, plant and equipment and quotas. During 2010 Clearwater realized a gain of $1.9 million on disposals of surplus non-core licences, vessels and equipment with the majority related to gains of $1.2 million on the sale of non-core ground fish quotas. The gain of $9.3 million in 2009 primarily related to gains on the sale of non-core ground fish quotas. Clearwater has now sold the majority of its non-core quota holdings.

Other expense (income)

In 000's Canadian dollars Year ended	December 31 2010	December 31 2009
Refinancing and restructuring expenses	$ 4,843	$ 4,400
Insurance and legal claims/settlements	-	(1,441)
Quota rental and royalties	(1,222)	(547)
Research and development expense	1,624	1,432
Write down of other assets	950	1,273
Other	(1,254)	(2,407)
	$ 4,941	$ 2,710

Other expense increased $2.2 million from 2009 to $4.9 million in 2010. The increase in expense was a result of a reduction in insurance claims and legal settlements in 2010, an increase in restructuring fees and an increase in research and development spending partially offset by higher royalties from quota rentals.

The refinancing and restructuring expense of $4.8 million in 2010 includes $1.5 million related to employee restructuring activities and $3.3 million that related to refinancing activities for Clearwater's convertible debentures and ISK bonds due in 2010. The refinancing and restructuring expenses of $4.4 million in 2009 related to the refinancing of Clearwater's senior debt facility, including make-whole penalties and fees. Clearwater does not anticipate having material expenses associated with refinancing activities in 2011 as it completed a substantial refinancing of its debt facilities in February 2011 and the related expenses for the refinancing are deferred and amortized over the term of the debt.

In 2009 insurance and legal claims/settlements related to the settlement of a claim for damaged clam inventory and the settlement a claim related to a vessel design failure.

Quota rental and royalties income increased in 2010 by $675,000, to $1.2 million primarily as a result of a rental of a non-core license during the second quarter.

Research and development relates to new technology and research into ocean habitats and fishing grounds. Research and development can vary year-to-year depending on the scope, timing and volume of research completed. In the 2010, expenses increased to $1.6 million as a result of a number of active projects.

The write down of other assets primarily relates to funds on deposit with Glitnir for the purpose of settling a portion of the ISK denominated bonds. The write down was recorded based on the current valuation of the funds. Refer to discussion on "Transactions with Glitnir Banki HF" for further information.

Other includes income related to commissions, rental income, processing fees and other miscellaneous income and expense that varies based upon the operations of the business.

Foreign exchange loss (gain)

Year ended December 31 In (000's of Canadian dollars)		2010		2009
Realized loss (gain)				
Foreign exchange and other derivatives	$	(218)	$	8,659
Working capital		2,284		5,695
		2,066		14,354
Unrealized (gain) loss				
Foreign exchange on long term debt		870		(9,429)
Mark to market on foreign exchange derivative contracts		1,475		(23,054)
Mark to market on interest and currency swap contracts		(1,419)		(12,513)
		926		(44,996)
Total loss (gain)	$	2,992	$	(30,642)

In the third quarter of 2010 Clearwater began to implement a targeted foreign exchange hedging program. This program focuses on using forward contracts (up to $175 million in nominal value of forwards, which equates to approximately 75% of Clearwater's annual net foreign exchange exposure). When fully implemented, this program will enable Clearwater to lock in exchange rates up to 12 months for key sales currencies (the US dollar, Euro, Yen and Sterling). The initial focus of this program in 2010, due to restrictions in availability of foreign exchange lines, was to protect the fourth quarter of 2010. Subsequent to year-end, Clearwater has set up facilities that will provide it with the ability to hedge $125 - $150 million or up to 85% of target coverage. Clearwater's use of this facility is governed by the room available on its operating lines, as to the extent there is a mark-to-market liability associated with forward exchange contracts, it reduces Clearwater's ability to borrow under its asset backed lending facility. Clearwater plans to expand the use of the program in 2011, subject to credit availability.

Clearwater does not account for its derivative contracts as accounting hedges, and therefore records the mark-to-market value of the contracts each reporting period and includes the related non-cash adjustment in income or expense. Proceeds generated from the derivative contracts are included in realized foreign exchange income in the period in which the contract is settled.

Foreign exchange loss (gain) was a net loss of $3.0 million for 2010 as compared to a gain of $30.6 million for the same period of 2009. The change was primarily the result of significant volatility in exchange rates applied to exchange contracts outstanding in 2009 that resulted in realized losses of $8.7 million and unrealized exchange gains of $35.6 million. The majority of these contracts were required to be closed out prior to their maturity which resulted in significant cash losses in a condensed period of time.

Realized losses were $2.1 million in 2010 versus $14.4 million in 2009. In 2009 this included realized losses on derivative contracts closed out early of $8.7 million versus a gain of $218,000 realized 2010. In 2010 Clearwater settled Euro 9,000,000 at an average rate of 1.38 and Yen 340,000,000 at average rates of 0.0121 resulting in total gains of $218,000. Also included in realized losses are realized losses on working capital of $2.3 million in 2010 versus $5.7 million in 2009.

Unrealized gains and losses was an unrealized loss of $926,000 in 2010 versus an unrealized gain of $45.0 million in 2009. The 2009 gain included to $9.4 million related to the translation of Clearwater's US dollar and ISK denominated long-term debt, $23.0 million of unrealized gains recorded on contracts required to be closed out early in 2009 and $12.5 million related to cross-currency interest rates swaps that are in dispute with Glitnir. Please refer to the section "Transactions with Glitnir Banki Hf" later in this document for further discussion regarding derivative contracts for which Glitnir is the counter party including cross-currency interest rate swaps.

Interest on long-term debt declined $1.4 million in 2010 to $24.0 million due primarily to lower average interest rates and lower debt balances, partially offset by higher non-cash amortization of deferred financing charges.

The decline in interest rates was primarily due to the fact that in the first half of 2009 Clearwater had a number of short-term loan facilities in place at relatively high interest rates which contributed to higher interest costs. Interest rates on the short-term facilities in place in 2009 related to maturing term debt facilities which had interest rates that escalated 1% per month from December 2008 to as high as 15% by June 2009.

Clearwater's outstanding debt declined $6.7 million to $205.4 million at December 31, 2010 from $214.1 million at December 31, 2009. Total debt repayments were $11.3 million since December 31, 2009, (excluding extension of the Class C convertible debentures, adjustments for foreign exchange, consumer price index, and amortization of the deferred financing charges).

In 2010 interest expense includes approximately $5.6 million of amortization of deferred financing charges compared to $3.8 million for 2009 (refer to table below). Excluding these non-cash charges, actual cash interest expense paid declined to $18.4 million in 2010 versus $21.6 million in 2009.

Interest on long term debt and bank charges

Year ended In (000's of Canadian dollars)	December 31, 2010	December 31, 2009
Cash interest and bank charges	18,384	21,582
Amortization of non-cash interest	5,581	3,760
	23,965	25,342

Depreciation and amortization. Including the allocation of depreciation to cost of goods sold, depreciation and amortization expense was $13.8 million for 2010, a decrease of 7.4% from the same period in 2009 as certain assets were fully depreciated in 2010.

Depreciation and amortization expense Year ended In 000's of Canadian dollars		December 31 2010		December 31 2009
Depreciation of harvestings and production assets classified in cost of goods sold	$	13,137	$	14,693
Depreciation of administration and other assets classifed as depreciation and amortization		690		236
	$	13,827	$	14,929

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

Income taxes were higher in 2010 due to higher taxable earnings in its Argentine subsidiary.

Minority interest relates to earnings from Clearwater's investment in subsidiaries in Argentina and Newfoundland and Labrador.

LIQUIDITY AND CAPITAL RESOURCES

Current market conditions

Management continuously evaluates various aspects of Clearwater's business and financial circumstances that could be affected by economic conditions. A summary of the results of this evaluation is as follows:

- Cash flow from operations when normalized[1] continues to remain positive and has improved from $13.1 million in 2009 to $21.6 million in 2010.

  Cash flows improved due to higher cash earnings and a reduction of our investment in working capital.

- In 2010, total debt declined from $214.1 million at December 31, 2009 to $205.4 million at December 31, 2010. Repayments of $11.3 million since December 31, 2009, (excluding extension of the Class C convertible debentures, adjustments for foreign exchange, consumer price index, and amortization of the deferred financing charges) were made in 2010. These lower debt levels, when combined with higher rolling four quarter EBITDA levels have resulted in a decrease in leverage ratios[2] to 4.47 at December 31, 2010 from 5.22 at December 31, 2009. Clearwater will continue to focus on reducing its leverage by improving earnings and using the positive cash flow of the business to reduce debt and over time, Clearwater is targeting to reduce its leverage ratio to 3.0 or less.

1 - Refer to definition and calculation of normalized cash flow

2 - Refer to definition of leverage

($000's of Candian dollars)	December 31, 2010	December 31, 2009
EBITDA [1]	44,767	39,317
Net debt (per below)	200,127	205,285
Net debt leverage	4.47	5.22
Senior debt (per below)	76,066	80,859
Senior debt leverage	1.70	2.06
Debt per balance sheet	205,398	214,117
Less cash	(5,271)	(8,832)
Net debt	200,127	205,285
Less subordinated debt	124,061	124,426
Senior debt	76,066	80,859
Revolver	25,798	26,873
Amortizing Term Debt	33,864	37,935
Non - Amortizing Term Debt	16,404	16,051
	76,066	80,859

- The relatively stronger Canadian dollar in 2010 as compared to an exceptionally weak Canadian dollar in 2009 have had a significant impact on year-to-date results, reducing sales and margins by $30.3 million. Management has compensated for this through pricing strategies and lower cost of goods sold.

  The US dollar, Japanese Yen and European Euro currencies weakened relative to the Canadian dollar throughout 2010. Sales in these currencies for 2010 were US$114.9 million, Euro 59.5 million and Yen 2.7 billion and the average exchange rates realized in 2010 were 1.032 for the US dollar, 1.362 for the Euro and 0.012 for the Yen (refer to table in the annual overview section).

- In the third quarter of 2010 Clearwater began to implement a targeted foreign exchange hedging program. This program focuses on using forward contracts (up to $175 million in nominal value of forwards, which equates to approximately 75% of Clearwater's annual net foreign exchange exposure). When fully implemented, this program will enable Clearwater to lock in exchange rates up to 12 months for key sales currencies (the US dollar, Euro, Yen and Sterling). The initial focus of this program in 2010, due to restrictions in availability of foreign exchange lines, was to protect the fourth quarter of 2010. Subsequent to year-end, Clearwater has set up facilities that will provide it with the ability to hedge $125 - $150 million or up to 85% of target coverage. Clearwater's use of this facility is governed by the room available on its operating lines, as to the extent there is a mark-to-market liability associated with forward exchange contracts, it reduces Clearwater's ability to borrow under its asset backed lending facility. Clearwater plans to expand the use of the program in 2011, subject to credit availability.

- In 2010 Clearwater had two loans scheduled to mature in the fourth quarter; ISK denominated bonds (including CPI and accrued interest) that matured on September 2010 and $45 million of Class C convertible debentures. During the year Clearwater focused its efforts on refinancing the maturating debt facilities.

    - Class C Units (Convertible Debentures) - On November 12, 2010 Clearwater received Debentureholder approval to amend the terms of debentures otherwise due in 2010 such that the term has been extended to December 31, 2013. As part of this extension, the interest rate on the debentures was increased by 3.5% from 7.0% to 10.5%, the conversion price was reduced from $12.25 per Fund Unit to $3.25 per Fund Unit, the Debentures were changed such that they will not be redeemable prior to June 30, 2011 and the related units were renamed as Class E units.

    - ISK Loans - On December 15, 2010, a partial interest payment was made on the accumulated interest of the bonds of Canadian $1.4 million reducing the amount of the bonds outstanding, including principal, CPI and accrued interest. The total outstanding balance of the refinanced ISK bonds was $6.6 million at December 31, 2010 (December 31, 2009 - $10.5 million). On February 4, 2011 as part of the refinancing of its senior debt facilities, Clearwater repaid both the 2012 and 2013 ISK bond payable. Refer below for further information on the subsequent refinancing of the senior debt facilities

- Interest expense is expected to continue to decrease as Clearwater continues to reduce its total debt facilities.

- Clearwater has a focused, multi-faceted strategy for maintaining liquidity and reducing debt:

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

- **Targeted capital spending**. Clearwater's capital program focus over the next few years will be to maintain its existing fleet, to complete any necessary repairs and maintenance and to make targeted investments in technology. Clearwater's capital expenditures will be limited to planned and required refits and capital maintenance requirements, which are estimated to cost up to $14 million in 2011.

- **Liquidating under performing and non-core assets.** Clearwater has and will continue to review and liquidate underperforming and non-core assets. In 2010, Clearwater realized proceeds of $2.2 million from the sale of non-core quotas. This substantially completes the program of selling non-core quotas that management had undertaken in the last several years.

- **Limiting distributions**. No distributions will be paid for the foreseeable future as management will focus on using cash flow to reduce senior debt. Lending agreements prevent or limit the ability for Clearwater to pay distributions through February 2015.

A continued focus on debt repayment and improved efficiencies has allowed Clearwater to improve operations, reduce costs and maintain strong and positive liquidity to operate the business.

Income Trust Legislation

In 2006 the Canadian federal government announced tax changes for income trusts that took effect on January 1, 2011. Up to December 31, 2010, any distributions paid by a Trust were taxed in the hands of the unitholders at a rate that corresponded to the nature of the underlying earnings of the Trust. Starting in 2011, Trusts are now required to pay taxes on any distributions that it disburses at corporate rates and the recipient of these payments will receive those distributions as taxable dividends.

Clearwater has reviewed its corporate structure in light of these changes in tax legislation giving consideration to the following:

- On March 12, 2009 the federal government enacted rules to allow trusts to convert to a corporation on a tax-free basis prior to 2013.

- Clearwater's structure is a limited partnership (Clearwater Seafoods Limited Partnership) owned by a trust (Clearwater Seafoods Income Fund). Currently the Fund's portion of the taxable earnings of Clearwater, if any, flows through to the Fund and are allocated to unitholders regardless of whether the Fund pays distributions.

- Under the new tax rules starting in 2011 certain trusts will be required to pay taxes on any distribution of taxable earnings they allocate to their unitholders. The tax to be paid by these trusts is equivalent to the corporate tax rates and the recipient of the distributions of taxable income will be taxed on those distributions as taxable dividends.

- Clearwater does not anticipate the Fund will be paying any distributions to its unitholders in the near term and nor will Clearwater be allocating any taxable earnings to the Fund prior to 2013. Therefore, there will be no taxes payable by the fund or unitholders if the Fund does not convert to a corporation.

As a result, Clearwater has concluded that since the new tax rules will have limited impact on the Fund in the near future, unit holders will not suffer any negative tax consequences if the Fund does not convert to a corporation prior to 2012. However, Clearwater plans to reviews its current structure, and make an announcement in 2011 regarding updating its capital structure.

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 risk by borrowing when appropriate in currencies other than the Canadian dollar.

Clearwater uses leverage, in particular senior revolving and term debt, and subordinated 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.

While Clearwater's leverage levels have come down they remain high and it is Management's intention to direct cash flow from operations to reduce its debt.

As at December 31, 2010, 54.27% (December 31, 2009 – 54.27%) of the outstanding partnership units of Clearwater were owned by the Fund. However, as Clearwater Fine Foods Incorporated ("CFFI") continues to maintain the right to nominate the majority of the board of directors of Clearwater since the time of the initial investment by the Fund, the assets and liabilities of Clearwater, when acquired by the Fund, were recorded using the book values as recorded by CFFI.

As at December 31, 2010, the Fund and Clearwater had similar equity/convertible debt structures as illustrated in the table below:

Year ended December 31, 2010 and 2009	**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 E Partnership Units (face value)		
Convertible debentures due December 2013	$45,000,000	
Class E Partnership Units		$45,000,000
Convertible debentures/Class D Partnership Units (face value)		
Convertible debentures due March 2014	$44,389,000	
Class D Partnership Units		$44,389,000

As of March 29, 2011, there have been no changes to the number of units outstanding.

On February 4, 2011 Clearwater announced that it had successfully completed a refinancing of its senior debt facilities increasing its' Senior Term Credit Facility from Canadian $51.5 million to Canadian $70 million, extending the maturity date of its existing Asset Backed Revolving Loan and creating a new US $45 million Second Lien Senior Credit Facility. The proceeds of this refinancing were used to repay and cancel all the Icelandic Krona denominated debt facilities and provide working capital for ongoing corporate needs. This refinancing resulted in a number of benefits for Clearwater including timely funding for its 2011 capital expenditure plan, removing exposure to ISK debt, increasing operational liquidity, increasing financial flexibility, providing capacity to expand its hedging program and removing all near-term debt maturities; all with no increase in annual cash interest costs.

This refinancing provides a number of substantial benefits to Clearwater including:

- ***Funding for capital expenditures plan*** - this refinancing provides Clearwater up to Canadian $10 million to fund a substantial refit program for its vessels in 2011 during the off-peak harvest time of the year, which should have a positive impact on harvest costs in 2011 and allow Clearwater to sell one factory vessel in 2011.

- ***Removes exposure to Icelandic Krona debt*** - as part of the refinancing, all ISK denominated debt were settled removing exposure to the Icelandic Krona and CPI in Iceland.

- ***Increases operational liquidity*** - the completion of this transaction results in excess funds being applied to reduce amounts owing on Clearwater's ABL providing Clearwater with greater flexibility in funding day-to-day operations.

- ***Increases financial flexibility*** - provisions in the new lending agreements provide greater covenant flexibility and adjust the timing of certain cash flow sweeps providing Clearwater with greater financial flexibility.

- ***Provides capacity to expand hedging program*** - In conjunction with this financing, Clearwater obtained the ability to expand its hedging program to cover one year's net foreign exchange exposure.

- ***Removes all near-term debt maturities*** - With this refinancing, Clearwater has no material debt maturities until 2013. However, the loan agreements give Clearwater the flexibility to prepay the Senior Notes and, after the Senior Notes are repaid, repay the Second Lien Facility provided certain conditions are met and the nominal break fees are paid.

- ***Improvements obtained with no increase in annual cash interest costs*** - the Company's new Senior Notes and ABL facilities carry lower interest rates which offset higher interest rates on the Second Lien Facility resulting in no material additional cash interest costs.

Clearwater's total refinanced debt is as follows as at February 2011 (with comparative figures for December 2010):

(Net deferred financing charges)	February 2011	December 31, 2010
New debt facilities		
Second lien loan, due 2016	42,166	-
Expanded/extended debt facilities		
Term debt, due 2015	66,661	50,268
Revolving debt, due 2015	8,836	25,798
Continuing debt facilities		
Convertible debt, Class E units (was Class C) due 2014	42,657	42,544
Convertible debt, Class D units, due 2013	42,544	42,458
Term loan, due 2091	3,500	3,500
Marine Mortgage loan, due 2017	3,121	3,135
Other loans	748	758
Facilities closed out as of Feburary 2011		
ISK demoninated bonds	-	36,937
	210,233	205,398

The new debt and expanded/extended debt facilities consist of the following:

- Second Lien loan - US $45 million, non-amortizing with a maturity of February 2016. Bearing interest payable monthly at an annual rate of 12%. The loan is secured by a third charge (after term and revolving debt facilities) on accounts receivable, cash and cash equivalents subject to certain limitations, inventory, marine vessels, licenses and quotas as well as Clearwater’s investments in certain subsidiaries.

- Term debt – Canadian $70 million, repayable in quarterly installments of $875,000 in 2011 and $1.75 million thereafter with the balance of $45.5 million due at maturity in February 2015. Bearing interest payable monthly at an annual rate of bank prime plus 4.5%. The loan is secured by a second charge on accounts receivable, cash and cash equivalents subject to certain limitations, and inventory as well as a first charge on marine vessels, licenses and quotas as well as Clearwater’s investments in certain subsidiaries.

- Revolving debt – This facility provides for up to $50 million of revolving debt facilities based on 85% of eligible receivables and 70% of eligible inventories. Bearing interest on Canadian balances at a Canadian short-term index margin plus 2.5% convertible into to 3 month rates at BA plus 4%. For US balances the interest rate is a US index margin plus 3% convertible into to 3 month rates at Libor plus 4%. The loan is secured by a first charge on accounts receivable, cash and cash equivalents subject to certain limitations, and inventory as well as a second charge on marine vessels, licenses and quotas as well as Clearwater’s investments in certain subsidiaries.

The terms of the continuing debt facilities are described below.

Clearwater's total capital structure is as follows as at December 31, 2010 and December 31, 2009:

In (000's of Canadian dollars)	December 31 2010	December 31 2009
a. Equity – Partnership units	$ 165,942	$ 164,770
b. Convertible debt, Class E units, due in 2013	42,544	44,338
Convertible debt, Class D units, due in 2014	42,458	41,967
c. Non-amortizing debt		
Extended Bond payable, due in 2010	6,635	10,519
Bond payable, due in 2013	30,302	28,345
Term debt, due in 2012	16,404	16,051
Term loan, due in 2091	3,500	3,500
	56,841	58,415
d. Amortizing debt		
Revolving debt, matures in 2012	25,798	26,873
Term debt, matures in 2012	33,864	37,935
Marine mortgage, matures in 2017	3,135	4,004
Other loans	758	585
	63,555	69,397
Deficit	(124,558)	(117,069)
Contributed surplus	2,609	1,816
	$ 249,391	$ 263,634

a. Equity consists of Class A Limited Partnership units, Class B General Partnership units and the equity portion of both Class E (2009 – 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. The $45.0 million (net of deferred financing charges - $42.5 million) of Class E units (2009 – Class C units) bear interest at 10.5%, mature on December 31, 2013 and are redeemable and retractable at a price of $3.25 per Fund unit (2009 - $12.25 per Fund unit). On November 12, 2010 the holders approved a maturity date extension to December 31, 2013 with amendments including an increase in interest rates from 7% to 10.5%, a reduced conversion price from $12.25 to $3.25 per Fund Unit, and redemption restricted until June 30, 2011. Due to the changes in the conversion price, the 3,673,470 Class C units have been replaced by 13,846,152 Class E units.

The $45.0 million (net of deferred financing charges - $42.5 million) of Class D units bear interest at 7.25%, mature on March 2014 and are redeemable and retractable at a price of $5.90 per Fund unit. The 7,523,559 Class D units were issued concurrently with the issue by the Fund of Convertible Debentures and are held by the Fund through CSHT.

Both the Class D and Class E units continue to 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 units will be able to fund the ongoing interest payments on the convertible debentures.

The Class D and Class E 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% and 10.87% to the outstanding debt component, for Class D and Class E units, respectively. The difference between actual cash payments, which will approximate 7.27% and 10.52% and interest expense, is added to the debt component of the units for Class D and Class E units, respectively.

The convertible debentures issued by the Fund are unsecured and subordinated. 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. Non-Amortizing debt consisted of:
    - ISK denominated bonds, CDN $36.9 million, paid out and cancelled in February 2011
    - $17 million ($16.4 million net of deferred financing) term debt was refinanced in 2011,
    - $3.5 million term loan due in 2091.

d. Amortizing debt consists of a revolving loan and other term loans, all of which were refinanced in 2011, as well as a marine mortgage that matures in 2017.

Clearwater's 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, capital expenditures, and loan repayments that can be paid to amounts approved by lenders. In addition, the debt related to these facilities takes priority over the securities in Clearwater held by the Fund. Clearwater is in compliance with all of the non-financial and financial covenants associated with its debt facilities.

Clearwater's outstanding total debt declined from $214.1 million at December 31, 2009 to $205.4 million at December 31, 2010. Repayments of $11.3 million (excluding repayments on revolving debt and adjustments for CPI, amortization of the discount and foreign exchange) were made in 2010. These lower debt levels, when combined with higher rolling four quarter EBITDA levels have resulted in a decrease in leverage ratios[2] to 4.47 at December 31, 2010 from 5.22 at December 31, 2009.

Some entities provide information on debt to equity ratios. We do not believe that this ratio would provide useful information about Clearwater and its capital structure because a large portion of historical earnings have been paid out in distributions and a significant amount of assets are recorded at historical cost since the IPO in 2002 rather than at fair value.

Working capital and cash flows

As of December 31, 2010 Clearwater had $5.3 million in cash, net of bank advances and a revolving asset-backed operating loan facility with an outstanding balance of $27.3 million (excluding deferred financing charges). The cash balance, together with available credit on the asset-backed loan, is used to manage working capital needs.

CASH FLOWS

In (000's of Canadian dollars)	13 weeks ended December 31 2010	13 weeks ended December 31 2009	Year Ended December 31 2010	Year Ended December 31 2009
Cash flow (used in) from operating activities				
Net earnings (loss)	1,028	(2,426)	(7,489)	26,148
Non-cash operating items	5,173	4,266	21,843	(31,975)
	6,201	1,840	14,354	(5,827)
Change in non-cash operating working capital	3,146	12,575	1,597	9,755
	9,347	14,415	15,951	3,928
Cash flows from (used in) financing activities				
Reduction of long-term debt	(49,186)	(10,234)	(58,347)	(121,999)
Proceeds from long-term borrowings	44,809	-	44,809	99,582
Other	(1,159)	(349)	(1,671)	(1,309)
	(5,536)	(10,583)	(15,209)	(23,726)
Cash flows from (used in) investing activities				
Proceeds on disposal of property, plant, equipment, licences and other	14	(50)	3,247	16,597
Purchase of property, plant, and equipment	(4,984)	(406)	(9,418)	(4,452)
Other	994	437	1,868	971
	(3,976)	(19)	(4,303)	13,116
(Decrease) increase in cash	(165)	3,813	(3,561)	(6,682)
Cash - beginning of period	5,436	5,019	8,832	15,514
Cash - end of period	5,271	8,832	5,271	8,832

For 2010 Clearwater's net cash position declined $3.6 million from $8.8 million in 2009. The decline in the net cash position was primarily a result of capital expenditures of $9.4 million, a reduction in long term debt (net of refinancing costs) of $13.3 million, offset by cash earnings of $14.4 million and a reduction in working capital of $1.6 million.

The working capital was as follows:

In (000's of Canadian dollars)	13 weeks ended December 31 2010	13 weeks ended December 31 2009	52 weeks ended December 31 2010	52 weeks ended December 31 2009
(Increases) decreases in accounts receivable	(5,511)	3,978	(9,759)	16,161
Decreases (increases) in inventory	3,792	5,862	7,581	1,990
(Increases) decreases in prepaids	657	414	(88)	(606)
Increases (decreases) in accounts payable	3,592	2,313	1,896	(7,729)
Increases (decreases) in income taxes payable	616	8	1,967	(61)
	3,146	12,575	1,597	9,755

The reduction in working capital in 2010 was primarily a result of reduced inventories and increased trade accounts payable, partially offset by an increase in accounts receivable in December of 2010 as sales volumes for the month increased more than 20.5% from 2009. Accounts receivable aging "current" balance continued to improve to 98.1% for 2010 from 97.2% in 2009. Reductions in inventory were due to 18.4% lower volumes as a result of in higher sales volumes.

Clearwater's outstanding total debt declined from $214.1 million at December 31, 2009 to $205.4 million at December 31, 2010. Repayments of $11.3 million (excluding repayments on revolving debt and refinancing) were made in 2010.

Cash flows generated by Clearwater's operations along with cash on deposit and the revolving asset-backed loan 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.

Cash flow from operations when normalized continues to remain positive, showing strong improvement despite negative trends in exchange rates. Average foreign exchange rates for the US dollar and European Euro declined from 1.138 in 2009 to 1.032 in 2010, and 1.581 in 2009 to 1.362 in 2010, respectively.

CAPITAL EXPENDITURES

Clearwater grades investments in property, plant, equipment and licences as either return on investment ("ROI") or maintenance capital and tracks each on a project-by-project basis. 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 as are all refits.

Capital expenditures were $9.3 million for 2010 (2009 - $4.5 million). In 2011 Clearwater plans to complete a substantial refit program, the majority of which will be completed in the first and second quarters of 2011. In total, Clearwater expects to invest up to $14 million in fleet and plants upgrades in 2011.

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.

During the course of refinancing the debt facilities that matured in June 2009, Clearwater and Glitnir Banki hf reached an agreement, in the second quarter of 2009, to resolve issues concerning any potential liability associated with foreign exchange derivative contracts entered into with Glitnir. Under the agreement all outstanding derivative contracts were closed, to remove any uncertainty going forward, and the potential liability under these contracts was capped at $13.97 million plus interest.

In November 2009 Clearwater commenced litigation on its position that these contracts are null and void. If Clearwater is successful, there is a minimum settlement of $2.9 million represented by a note secured by a subordinated charge on all of Clearwater's assets. The note is due September 15, 2012. To the extent Clearwater is not successful in its position Clearwater will become liable for the difference between the final amount due, subject to the $13.97 million cap, less the $2.9 million minimum, under a second secured note due the later of September 15th, 2012 and 30 days after the final court ruling. Both notes will bear interest at Libor plus 7% until such time as they are settled. Interest is accrued annually and will be payable upon maturity of the notes. Both notes are subject to a subordination agreement with the senior lenders. As of December 31, 2010 Clearwater has included in other long term liabilities an estimated $15.6 million (December 31, 2009 – $14.5 million) liability associated with these contracts, including accrued interest pending completion of expected legal proceedings against Glitnir.

In addition, Clearwater has a number of interest rate and cross currency swap contracts with Glitnir. These contracts would allow Clearwater to receive 1.2 billion ISK and pay $25 million Canadian, US $9.7 million, 3 million Pounds Sterling and Euro 2.5 million. Clearwater has consulted with external legal counsel and has received advice that these contracts may become declared null and void. The terms of the swap agreements also economically hedge the changes in the Icelandic Consumer Price Index (“CPI”). As of December 31, 2010 Clearwater has included in other long-term liabilities an estimated $9.8 million (2009 - $11.2 million) liability associated with these contracts pending completion of expected legal proceedings with Glitnir.

In the fourth quarter of 2009, Clearwater commenced litigation with Glitnir in relation to the cash held on deposit at Glitnir, damages related to the financing term sheet for the failed privatization in October 2008, foreign exchange forwards and options and cross currency and interest rate swaps.

While the assumptions reflect management’s best estimates, they are subject to the measurement uncertainty associated with the specifics of the contracts, the inactive market for these contracts and the status of ongoing litigation process with Glitnir. As a result, material revisions could be required to these estimates in future periods.

DISTRIBUTIONS

The Fund was set up to make monthly cash distributions, based upon cash receipts of the Fund after satisfaction of administrative and other expenses (including reasonable reserves for such expenses), any debt service obligations (principal and interest) and any amounts payable by the Fund in connection with any cash redemptions or repurchases of Units. The Fund can make additional distributions in excess of the monthly distributions during the year in the discretion of the Trustees. All of the Fund's distributions are at the discretion of the Trustees and are subject to certain conditions imposed by lending agreements.

Clearwater was set up to make monthly distributions to the Fund based upon its cash earnings less any debt service obligations (principal and interest) and any amounts payable by the Fund in connection with any cash redemptions or repurchases of Units. Clearwater can make additional distributions in excess of the monthly distributions during the year at the discretion of the Board. All of the Partnership's distributions are at the discretion of the Board of Directors and are subject to certain conditions imposed by lending agreements.

When reviewing the status of the distributions, the Directors of Clearwater and the Trustees of the Fund consider the operations of Clearwater including lending covenants, earnings levels, on-going capital expenditure requirements, leverage and expectations regarding future earnings.

Clearwater and the Fund have not declared any distributions since December 2007 and no distributions will be paid for the foreseeable future as management will focus on using cash flow to reduce senior debt and lending agreements prevent distributions through February 2015.

EXPLANATION OF FOURTH QUARTER RESULTS

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

Overview

The statements of earnings disclosed below reflect the net earnings of Clearwater for the 13 weeks ended December 31, 2010 and December 31, 2009.

(in 000's of Canadian dollars)	December 31 2010	December 31 2009
Sales	$ 77,824	$ 68,394
Cost of goods sold	60,440	59,475
Gross margin	17,384	8,919
Gross margin percentage	*22.3%*	*13.0%*
Administration and selling	7,532	6,495
Other (income) expense	(82)	240
Foreign exchange and derivative contracts	(214)	(1,727)
Interest on long-term debt and bank charges	6,110	5,946
Depreciation and amortization	158	(616)
Reduction in foreign currency translation account	852	235
	14,356	10,573
Earnings before income taxes and minority interest	3,028	(1,654)
Income taxes	1,390	531
Earnings before minority interest	1,638	(2,185)
Minority interest	610	241
Net earnings (loss)	$ 1,028	$ (2,426)

Net Earnings

In 2010 Clearwater reported net earnings of $1.0 million for the fourth quarter, an increase of $3.5 million, from a loss of $2.4 million in the same period in 2009. The increase in earnings for the period is primarily a result of $8.5 million increase in gross margins for the period. Details of the changes in earnings from year to year are as follows:

13 weeks ended In (000's of Canadian dollars)	December 31, 2010	December 31, 2009	Change
Net (loss) earnings	$ 1,028	$ (2,426)	$ 3,454
Explanation of changes in earnings:			
Higher gross margin on product sales			8,465
Higher other income			322
Higher realized foreign exchange expense			(228)
Lower unrealized foreign exchange income			(1,285)
Higher interest on long term debt			(164)
Higher administration and selling expense			(1,037)
All other			(2,619)
			$ 3,454

Clearwater reported fourth quarter EBITDA of $13.8 million on sales of $77.8 million versus 2009 comparative figures of $9.3 million and $68.4 million. During the fourth quarter strong sales volumes and increased selling prices positively impacted sales and gross margins. Increases in sales volumes of 10.0% were achieved due to strong market demand for frozen-at-sea clams, coldwater shrimp and crab.

Gross margins improved $8.5 million to $17.4 million or 22.3% of sales, as a result of price increases for most species. Scallops, clams, lobster, cooked and peeled shrimp, and turbot all contributed to the improvements in gross margins. In addition, the price increases more than offset the effect of the strengthening Canadian dollar on sales revenue. For the fourth quarter of 2010, the foreign exchange impact was a reduction $6.2 million on sales and gross margin. Lower catch rates and higher harvesting costs for sea and bay scallops, and raw material costs for lobster and cooked and peeled shrimp partially offset improvements in gross margin for the period.

Fuel costs remained consistent for the fourth quarter of 2010 from $4.7 million in 2009 to $4.7 million in 2010. Increases in fuel prices of $0.06 per litre were offset by a decline in litres consumed. Clearwater's vessels used approximately 32 million litres of fuel in 2010. Based on 2010 fuel consumption, a one-cent per litre change in the price of fuel impacts harvesting costs by approximately $320,000.

Fourth quarter sales by region were as follows:

In 000's of Canadian dollars 13 weeks ended	December 31 2010	December 31 2009	Change	%
Europe	$ 35,632	$ 29,580	$ 6,052	20.5
United States	12,776	12,353	423	3.4
Canada	9,547	10,381	(834)	(8.0)
Asia				
Japan	6,438	4,998	1,440	28.8
China	5,961	5,504	457	8.3
Other Asia	6,988	5,092	1,896	37.2
Other	482	486	(4)	(0.8)
	$ 77,824	$ 68,394	$ 9,430	13.8

Analysis By Region:

Strong sales volumes and increased selling prices positively impacted sales and gross margin for the fourth quarter. Strong sales volumes were achieved as a result of strong market demand for frozen-at-sea clams, and coldwater shrimp. Price increases for the majority of species including scallops, clams, lobster, cooked and peeled shrimp, and turbot also contributed to improvements in sales and gross margin.

Europe

Europe is Clearwater's largest scallop region and it is an important market for coldwater shrimp products. It has been a growth area for several years and is Clearwater's largest market.

Sales within Europe increased by $6.1 million, or 20.5%, during the fourth quarter of 2010 due primarily to increased market demand for sea scallops and shrimp which produced improved sales prices and volumes. In addition, supply volumes for shrimp increased during 2010, as the number of landings increased since both vessels were fishing in the forth quarter of 2010, whereas landings were impacted in 2009 as a refit was performed on the Atlantic Enterprise. Changes in sales mix for sea scallops weighted towards smaller sizes which have lower average selling prices as well as a continued strong Canadian dollar partially offset the increase in sales in Europe.

Foreign exchange rates for the European Euro declined 11.9% from 1.561 in 2009 to 1.375 in 2010, while the UK Pound declined 7.1% from 1.725 to 1.602 over the same period.

Price increases for the majority of species including, sea and bay scallops and shrimp served to compensate for the strengthening Canadian dollar.

Canada
Sales within Canada declined $834,000, or 8.0%, during the fourth quarter of 2010 primarily as a result of a decline in sales volumes for lobster, clams, and Argentine scallops as the company carried lower volumes of inventory in Canada and higher inventory levels in Europe in 2010, reducing amounts available for sale in Canada and the United States. In addition, a difference between size mixes harvested and consumer demand within the region for sea scallops reduced sales volumes during the period.

Prices for lobster, sea and bay scallops increased during 2010 as a result of strong global market demand, partially offsetting the reduction in inventory levels.

Japan
Japan is our largest clam market and it is also an important market for lobster and turbot.

Sales to Japan increased $1.4 million, or 28.8%, in the fourth quarter of 2010 as a result of an increase in sales volumes for shrimp, and clams. Volumes for frozen-at-sea clams increased however the sales mix was weighted towards products with lower average selling prices, reducing average sales prices for the period in comparison to 2009. Stronger demand for shrimp increased both volumes and prices during the quarter.

The foreign exchange rate for the Japanese Yen as compared to the Canadian dollar declined by, 9.6%, during the fourth quarter of 2010 from 0.0135 in 2009 to 0.0122 in 2010, partially offsetting the increase in selling prices for the period.

Other Asia
Sales within the other Asia region include sales to Hong Kong, Korea, Taiwan, Singapore and other Asian countries. Other Asian countries are an important market for clams, shrimp and turbot. Sales within other Asia increased 37.2% to $7.0 million due primarily to an increase in clam sales volumes. Changes in sales mix for clams weighted towards products which have lower average selling prices partially offset the increase in sales volumes.

Fourth quarter sales by product category were as follows:

In 000's of Canadian dollars 13 weeks ended	December 31 2010	December 31 2009	Change	%
Scallops	$ 33,970	$ 30,465	$ 3,505	11.5
Lobster	15,852	16,730	(878)	(5.2)
Clams	15,114	10,692	4,422	41.4
Coldwater shrimp	11,097	7,031	4,066	57.8
Crab	914	194	720	371.1
Ground fish and other	877	3,282	(2,405)	(73.3)
	$ 77,824	$ 68,394	$ 9,430	13.8

Analysis by Species:

Sales

The increase in scallop sales was primarily a result of price increases for both sea and bay scallops. Lower volumes in Argentine scallops from lower harvesting volumes and a reduction in total allowable catch partially offset the increase in sales.

Clam sales increased primarily from an increase in sales volumes due to strong demand, partially offset by a weighting towards products with lower selling prices.

Shrimp sales increased during the quarter due to an increase in average sales prices and volumes for frozen-at-sea and cooked and peeled shrimp. This was a result of having acquired more shrimp for production and the timing of landings in 2010.

Ground fish sales declined during the period primarily as a result of timing of landings for turbot.

Cost of goods sold (note that some commentary is on a per pound basis)

Costs for sea and bay scallops increased in the fourth quarter of 2010 in comparison to the same period of 2009 due to lower catch rates, and an increase in labour rates due to higher inflation in Argentina.

Costs for lobster increased in the fourth quarter of 2010 as compared to the same period in 2009. Clearwater harvests approximately 20% of its lobster supply and procures the balance from inshore lobster suppliers. Procurement provided Clearwater with an opportunity to offset some of the impact of changes in market prices by adjusting the prices we pay to our inshore lobster suppliers.

Costs for shrimp increased during the fourth quarter as a result of an increase in raw material procurement costs from independent suppliers for cooked and peeled shrimp in comparison to the same period in 2009.

Gross margin

For the thirteen weeks ended December 31, 2010, Clearwater had gross margin of $17.4 million versus $8.9 million in comparison to the same period of 2009, an increase of $8.5 million, or approximately 95.0%.

Gross margin was positively impacted by increases in selling prices for sea and bay scallops, shrimp, lobster, and snow crab. In addition strong volumes for clams and shrimp contributed to strong margins for the quarter. Lower catch rates and higher harvesting costs for sea and bay scallops, higher production and raw material costs for lobster and cooked and peeled shrimp partially offset improvements in gross margin.

Foreign exchange. The Canadian dollar continued to strengthen against the US dollar, Euro, and UK pound in the fourth quarter of 2010 in comparison to the same period in 2009. This served to reduce the value of sales and gross margins by approximately $6.2 million, or 7.9% of sales in the fourth quarter of 2010.

13 weeks ended	December 31, 2010		December 31, 2009		
Currency	% sales	Average rate realized	% sales	Average rate realized	Change in rate
US dollars	36.8%	1.013	34.3%	1.056	-4.1%
Euros	36.0%	1.375	31.1%	1.561	-11.9%
Japanese Yen	8.8%	0.012	9.9%	0.014	-14.3%
UK pounds	3.9%	1.602	5.8%	1.725	-7.1%
Canadian dollar and other	14.5%		18.9%		
	100.0%		100.0%		

Administration and selling expenses. Administrative and selling expenses increased 9.9% primarily as a result of provisions for employee incentive compensation whereas no incentive payments were made in 2009. Certain administration and selling costs are classified as cost of goods sold (refer to the table below).

Administration and Selling costs 13 weeks ended In 000's of Canadian dollars	December 31 2010	December 31 2009
Administration and selling costs classified in cost of goods sold	$ 2,696	$ 2,815
Costs classifed as administration and selling	7,532	6,495
	$ 10,228	$ 9,310

Other expense (income)

In 000's Canadian dollars 13 weeks ended	December 31 2010	December 31 2009
Refinancing and restructuring expenses	$ (115)	$ -
Insurance and legal claims/settlements	-	(740)
Quota rental and royalties	(162)	(168)
Research and development expense	128	625
Write down of other assets	34	1,246
Other	33	(723)
	$ (82)	$ 240

Other expense (income) was income of $82,000 in the fourth quarter of 2010 and an expense of $240,000 in 2009. The change was primarily a result of a write down in the value of equipment held for sale in 2009, offset partially by an insurance claim. The insurance claim in 2009 relates to the settlement of claim for damaged clam inventory.

Research and development relates to new technology and research into ocean habitats and fishing grounds. Research and development can vary year to year depending on the scope and timing of research completed. In the fourth quarter of 2010, expenses declined by $497,000.

Other includes income related to commissions, rental income, processing fees and other miscellaneous income and expense that varies based upon the operations of the business.

Foreign exchange loss (gain)

13 weeks ended In (000's of Canadian dollars)	December 31 2010	December 31 2009
Realized loss (income)		
Foreign exchange and other derivatives	$ (218)	$ -
Working capital	1,588	1,142
	1,370	1,142
Unrealized (gain) loss		
Foreign exchange on long term debt	(1,935)	(1,415)
Mark to market on foreign exchange derivative contracts	51	-
Mark to market on interest and currency swap contracts	300	(1,454)
	(1,584)	(2,869)
Total loss (gain)	$ (214)	$ (1,727)

In the third quarter of 2010 Clearwater began to implement a targeted foreign exchange hedging program. This program focuses on using forward contracts (up to $175 million in nominal value of forwards, which equates to approximately 75% of Clearwater's annual net foreign exchange exposure). When fully implemented, this program will enable Clearwater to lock in exchange rates up to 12 months for key sales currencies (the US dollar, Euro, Yen and Sterling). The initial focus of this program in 2010, due to restrictions in availability of foreign exchange lines, was to protect the fourth quarter of 2010. Subsequent to year-end, Clearwater has set up facilities that will provide it with the ability to hedge $125 - $150 million or up to 85% of target coverage. Clearwater's use of this facility is governed by the room available on its operating lines, as to the extent there is a mark-to-market liability associated with forward exchange contracts, it reduces Clearwater's ability to borrow under its asset backed lending facility. Clearwater plans to expand the use of the program in 2011, subject to credit availability.

Clearwater does not account for its derivative contracts as accounting hedges, and therefore records the mark-to-market value of the contracts each reporting period and includes the related non-cash adjustment in income or expense. Proceeds generated from the derivative contracts are included in realized foreign exchange income in the period in which the contract is settled.

Foreign exchange loss (gain) was a net gain of $214,000 in the fourth quarter of 2010 as compared to a net gain of $1.7 million in the fourth quarter of 2009. The change was primarily the result of decrease in non-cash gains of $1.3 million.

Realized losses were $1.4 million in 2010 versus $1.1 million in 2009 as Clearwater realized larger exchange losses on working capital in 2010 offset partially by gains on foreign exchange contracts. In the fourth quarter of 2010

Clearwater settled Euro 9,000,000 at an average rate of 1.38 and Yen 340,000,000 at average rates of 0.01211 resulting in total gains of $218,000. Also included in realized losses are realized losses on working capital of $1.6 million in 2010 versus $1.1 million in 2009.

Unrealized gains were $1.6 million in 2010 versus $2.9 million in 2009. Clearwater had unrealized gains of $1.9 million in the fourth quarter of 2010 for balance sheet translation which relates primarily to the translation of Clearwater's US dollar and ISK denominated long-term debt. The mark to market adjustments of $300,000 in 2010 related to cross-currency interest rates swaps as well as the newly entered into foreign exchange contracts, whereas in 2009 they related to only cross-currency interest rates swaps that are in dispute with Glitnir. Please refer to the section Transactions with Glitnir earlier in this document for further discussion regarding derivative contracts for which Glitnir is the counter party including cross-currency interest rate swaps.

Interest on long-term debt of $6.1 million in the fourth quarter of 2010 was consistent with the $5.9 million in 2009.

Interest on long term debt and bank charges
13 weeks ended

In (000's of Canadian dollars)	December 31, 2010	December 31, 2010
Cash interest and bank charges	4,680	4,906
Amortization of non-cash interest	1,430	1,040
	6,110	5,946

Depreciation and amortization. Including the allocation of depreciation to cost of goods sold, depreciation and amortization expense was $3.5 million for 2010, a decline of $626,000, which is due to timing of depreciation recorded in inventory.

Depreciation and amortization expense

13 weeks ended In 000's of Canadian dollars	December 31 2010	December 31 2009
Depreciation in harvetings and production assets classified in cost of goods sold	$ 3,352	$ 4,752
Depreciation of administration and other assets classifed as depreciation and amortization	158	(616)
	$ 3,510	$ 4,136

Reduction in foreign currency translation account is a non-cash adjustment related to a reduction of Clearwater's net investment in its subsidiary in Argentina due to the payment of dividends from Argentina to Canada.

Income taxes were higher in 2010 due to higher taxable earnings in its Argentine subsidiary.

OUTLOOK

Management is encouraged by Clearwater’s 2010 results and the increasing global consumer and customer demand for its’ premium, wild, eco-labeled seafood. Taken in combination with the successful execution of pricing strategy, cost savings and other productivity initiatives, Management believe Clearwater is poised to continue to deliver improved operating margins and earnings performance in 2011.

In 2011 Clearwater plans to complete a substantial plant and vessel upgrade program, the majority of which will be completed in the first and second quarters of 2011. In total, Clearwater expects to invest up to $14 million in sustaining its fleet and plants in 2011.

Management believes that 2011 results will continue to reflect the typical pattern for the business in which EBITDA is typically lower in the first half of the year due to lower sales volumes and higher harvest costs due to more challenging winter weather conditions. In the second half of the year results typically show greater strength due to higher sales volumes and lower harvest costs. In 2011 Clearwater expects that the impact of exchange rate volatility on cash flows will be muted due to it’s the implementation of a targeted foreign exchange hedging program.

These assumptions regarding 2011 results are based on continued strong sales volumes in core species, continued strong demand and strong global market prices as well as the realization of additional cost savings and productivity gains.

Management and the Board are committed to improving Clearwater's financial strength and flexibility by reducing debt levels and leverage, implementing targeted exchange hedging programs and reviewing the status of its corporate structure as a trust.

Clearwater's strategy for maintaining liquidity and reducing leverage includes carefully managing its working capital and capital expenditures and liquidating non-core assets that do not achieve an adequate return on capital. Clearwater will continue to focus on reducing its leverage by improving earnings and using the positive cash flow of the business to reduce debt. In 2010 Clearwater’s EBITDA improved by $14.0% to $44.8 million and Clearwater reduced its net debt by $8.7 million. As a result, its leverage ratio (net debt to EBITDA) has improved in the past year from 5.22 to 4.47.

Clearwater has a targeted foreign exchange hedging program that is designed to reduce volatility in net cash flows caused by short-term changes in exchange rates. This program focuses on using forward contracts to lock in exchange rates for up to 75% of its expected sales receipts in its key currencies for periods up to 18 months forward. Clearwater's net exposure, based on 2010 sales figures (i.e. its gross cash receipts less expenses in foreign currencies approximate $233 million annually, so it is targeting a maximum annual hedge position of approximately $175 million. As of March 29, 2011 Clearwater has sold forward Euro 25 million at an average rate of 1.355 and Yen 1.6 billion at an average rate of 0.0121. Using actual gross sales for the last three quarters of 2010 as a benchmark, this represents 52% of 2010 Euro sales and 80% of 2010 Yen sales.

In 2009 the Canadian Federal government announced tax changes for income trusts that took effect on January 1, 2011 and allow trusts to convert to a corporation on a tax-free basis prior to 2013. Clearwater has reviewed its corporate structure in the past in light of these changes in tax legislation and determined that, due to its significant tax assets, it can generate approximately $75 million of currently deductible tax shield which can provide shelter for future taxable earnings allocated to the Fund. As a result, Clearwater has concluded that since the new tax rules will have limited impact on the Fund in the near future, unit holders will not suffer any negative tax consequences if the Fund does not convert to a corporation prior to 2012. However, Clearwater plans to reviews its current structure, and make an announcement in 2011 regarding updating its capital structure.

Overall, management were encouraged by Clearwater's volume strength in 2010 and the increasing global consumer and customer demand for its premium, wild, eco-labeled seafood. Taken in combination with the successful execution of pricing strategy, cost savings and other productivity initiatives, they believe Clearwater is poised to continue to deliver improved operating margins and earnings performance through the balance into 2011. Furthermore, they believe that Clearwater's strategies of:

1. Expanding access to supply;
2. Targeting profitable and growing markets, channels and customers;
3. Innovating and positioning our products to deliver superior customer satisfaction and value;
4. Increasing margins by improving price realization and cost management;
5. Preserving the long-term sustainability of our resources; and
6. Improving our organizational capability and capacity, talent, diversity and engagement

will result in improved results in the near-term and provide us with a sustainable competitive advantage in the mid to longer term.

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 and convertible bond holders 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 is required to be dedicated to payment of the principal 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 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. As of December 31, 2010 Clearwater is not in violation of the restrictive covenants.

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

Over 80% of Clearwater's sales are in United States dollars, European Euros and Japanese Yen and other currencies, whereas the majority of expenses are in Canadian dollars. As a result, foreign currency 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 has a foreign exchange management program that is limited to the use of forward contracts to cover a maximum of 75% of its net exposure by currency in managing its foreign exchange risk, thereby lowering the potential volatility in cash flows from derivative contracts.

In 2010 approximately 40.7% of Clearwater’s were denominated in US dollars. Based on 2010 sales, a change of 0.01 in the U.S. dollar rate converted to Canadian dollars would result in a $1.1 million change in sales and gross profit. Approximately 27.9% of 2010 sales were denominated in Euros. Based on 2010 sales, a change of 0.01 in the Euro rate as converted to Canadian dollars would result in a $595,000 change in sales and gross profit. Also,10.8% of sales in

2010 were denominated in Japanese Yen. Based on 2010 annual sales, a change of 0.0001 in the Yen rate as converted to Canadian dollars would result in a change of $268,000 in sales and gross profit.

The US dollar, European Euro, the Japanese Yen, and the Pound Sterling all weakened relative to the Canadian dollar during 2010. This environment of weakening exchange rates has a significant impact on sales receipts.

Clearwater has few customers with long term sales contracts. Contracts that are usually limited to short time periods or are based on list prices that change regularly to adjust for foreign exchange rate fluctuations.

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, require a recall on product from the market place 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, 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 which cover Clearwater's sea and land -based facilities. Clearwater's plants have been approved by some of the largest seafood purchasers in the world. 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 input costs, such as energy, 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 long-term formal 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 1,000 customers worldwide with no individual customer representing more than 6% 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 vessels used approximately 32 million litres of fuel in 2010. Based on 2010 fuel consumption, a one-cent per litre change in the price of fuel would impact harvesting costs by approximately $320,000.

CRITICAL ACCOUNTING POLICIES

Clearwater's critical accounting policies are those that are important to the portrayal of Clearwater's financial position and operations and may 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, estimates of expected useful lives of vessels and plant facilities, 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.

Clearwater reviewed all new accounting standards issued by the CICA in order to determine the impact of the new standards and has addressed them in the section entitled "International Financial Reporting Standards" that follows.

International Financial Reporting Standards

Effective January 1, 2011 International Financial Reporting Standards ("IFRS") has replaced Canadian GAAP for publicly accountable enterprises. Accordingly, Clearwater will begin reporting under IFRS in the first quarter of 2011 and will show comparatives for 2010 in accordance with IFRS.

Clearwater has substantially completed all required work and will be in a position to meet all requirements when reporting its results for March 31, 2010 and 2011, and January 1, 2011 in the first quarter of 2011.

We believe it is critical for readers of Clearwater's financial statements to understand that:

1. There is no impact on Clearwater's EBITDA from the adoption of IFRS.

2. There is no impact on Clearwater's cash flows from operations and total cash flows from the adoption of IFRS.

3. The adoption of IFRS does not impact any of Clearwater's key lending ratios

4. All adjustments required to adopt IFRS (which are explained below) are non-cash.

5. There are additional disclosures required under IFRS which will dramatically increase the length of the Q1 2011 Quarterly Report.

The main changes to Clearwater's financial statements will be as follows:

<u>Cash Flows</u>

There are no material changes to the statement of cash flows.

The net earnings figure will change due to non-cash changes in depreciation, the amortization of the cumulative foreign currency translation account and minority interest but cash flow from operations will not change.

<u>Income Statement</u>

1. Higher depreciation and amortization charges – As a result of refining the degree to which we componentized our vessels and plants we will record higher depreciation and amortization charges beginning in January 1, 2010.

2. Lower amortization of The Cumulative Foreign Currency Translation Account – This account accumulates the exchange difference that results from converting foreign subsidiaries at average current rates of exchange and converting long-term assets at historical rates. IFRS 1 allows entities to reduce this account to nil upon adoption, i.e. January 1, 2010, which Clearwater intends to do. As this account is amortized to expense on a basis that corresponds to Clearwater's reduction of its net investment in its subsidiary, the related amortization expense may be reduced in 2010.

3. Presentation of minority interest – Minority interest is presented as an allocation of net earnings rather than as an expense under IFRS.

Balance sheet

1. The carrying value of certain property, plant and equipment will increase upon conversion to IFRS due to asset componentization.

2. Reduction of the Cumulative Foreign Currency Translation Account – IFRS 1 allows entities to reduce this account to nil upon adoption, i.e. January 1, 2010.

3. Minority Interest – Minority interest is presented as a component of equity under IFRS rather than as a liability.

Clearwater has formally engaged third party advisors to aid in the completion of the transition to IFRS and to aid in the planning and implementation of IFRS within the organization. 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. Please refer to the following chart for a summary of the plan. 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.

Key Activity	Milestone / Target Dates	Progress to March 29, 2011
Project Management: ▪ Steering Committee ▪ Project Resourcing	Completed: Q4 2008	▪ A formal IFRS steering committee has been established and a conversion team has been established ▪ Resources for the conversion team are in place and working.

▪ Progress reporting	Target: Quarterly progress reporting to the committee throughout Q1 2011.	▪ Updates are provided to all members of the IFRS conversion team. ▪ Updates of steering committee activities are distributed to the Audit Committee quarterly
Financial Statement Preparation: ▪ Identification of Differences in Canadian GAAP / IFRS accounting policies and choices ▪ Selection of Clearwater's ongoing IFRS policies ▪ Quantification of any accounting policy changes	• Completed: Q1 2009 based upon current standards. Changes in standards will be reviewed for impact throughout 2011. • Completed: Q4 2010 based upon current standards. Changes in standards will be reviewed for impact throughout 2011. • We are in the latter stages of completing this work using 2010 figures to populate the financial statements and comparative notes. • All work, including financial statements, notes and	• All material areas of difference between Canadian GAAP and IFRS have been identified by the conversion team and have been reviewed by the steering committee and communicated to the audit committee • The potential impact of each material difference between Canadian GAAP and IFRS has been assessed and ranked as either high, medium, low, or no impact, to determine the need for further investigation • Differences that have been identified as potentially having a high impact to Clearwater's statements are being reviewed first and are currently being finalized. Refer below for further discussion on high impact accounting changes. • To be performed in combination with the completion and approval of changes in accounting policies.

Selection of IFRS 1 accounting policy choices and quantification of IFRS 1 disclosures for 2010 ▪ Develop Financial Statement Presentation and Changes in Note Disclosures	comparative figures will be complete in time for reporting Q1 2011. • Comparative figures for Q1 2010 complete, being reviewed in Q1 2011	• Final Recommendations regarding IFRS 1 policy choices and other accounting policy choices have been presented to the steering committee and approved. • We are currently completing the financial statement presentation including changes in notes, disclosure and additional information requirements but the majority of the work is expected to be complete in time for reporting in Q1 2011.
Training and Human Capital: • Retraining of key finance and operational staff • Education of management and audit committee	• Conversion team staff began attending external training programs in 2007 and will continue to attend updates on an as needed basis. • Completed: operational team training • Advisor led training session held in November 2010. • Additional training to be completed as accounting policy changes are finalized, on an as needed basis.	• The conversion team has attended a two-day workshop specific to Clearwater as well as other external training programs on IFRS. Operational staff attended a one-day workshop specific to Clearwater in Q4 2008 and have been provided with periodic updates on IFRS. The team receives and reviews new training materials on an as needed basis. • Management and the audit committee have been provided with periodic updates on IFRS as well as training materials provided by external service providers.

• Progress updates with the audit committee • Assess the need for additional resources	• Audit Committee communication is ongoing as part of project status updates on a quarterly basis. • As needed.	• The Audit Committee has continued to receive regular updates on the status of the project as well as changes to IFRS standards that may impact Clearwater. • Additional and appropriate resources have been identified to complete the analysis of changes in accounting policies. These resources were put in place in the second quarter of 2010 and supplemented in late 2010 with external advisors
Business Implications Assessment: • Effect on financial covenants	Initial review completed: Q2 2009. Will continue to review as accounting changes are finalized to ensure that there is no impact on financial covenants.	• Clearwater is required to meet various financial covenants as part of its various lending agreements. These include limitations on capital expenditures, a ratio of EBITDA to fixed charges, and debt to EBITDA ratios. Changes in our policies for property, plant and equipment and changes in standards for joint ventures will impact amounts recorded as capital expenditures, equity and total assets but they should not impact EBITDA. Once Clearwater has determined the impact of these changes it will approach lenders and request amendments if any are required. • We have provisions built into lending agreements that recognize and provide for transition periods to address any impacts caused by the conversion to IFRS. Currently Clearwater has not identified any accounting policy changes that would impact the calculation of any covenants. • We are not aware of any other

• Effect on any other business contracts	As needed.	business contracts that changes in GAAP would have an impact on but we continue to assess.
Infrastructure: • Information technology changes required in order to gather the appropriate data • Determine the requirements needed to run both Canadian GAAP and IFRS for 2010	Largely completed in Q4 2010, will implement further in 2011.	• We have completed our assessment of the impact of IT requirements and resourcing. • We have completed testing of the running of two fixed asset sub ledgers to accommodate both Canadian GAAP and IFRS in 2010.
Control Environment: • For all new accounting policies and changes assess control design and effectiveness including disclosure and presentation of financials	Ongoing, CEO/CFO approved and signed-off all changes as part of certification process for Q4 2010.	• As we implement new accounting policies and disclosures there is ongoing Management oversight to ensure that appropriate consideration is given to implementing effective internal controls over financial reporting and disclosure controls.
External Communication: • Assess the impact of changes in policies on external communications including the MD&A and the Investor relations team's ability to address any incoming questions.	Every quarter including implementation in 2011	• IFRS disclosures in the MD&A will be updated quarterly throughout this project. • All critical finance and investor relations staff are engaged on the IFRS steering committee.

SUMMARY OF QUARTERLY RESULTS

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2010				
Sales	$ 62,660	$ 65,215	$ 85,417	$ 77,824
Net (loss) income	(6,247)	(4,474)	2,204	1,028
Basic (loss) income per unit	(0.12)	(0.09)	0.04	0.02
Fiscal 2009 *(as restated)*				
Sales	$ 71,013	$ 70,176	$ 74,483	$ 68,394
Net earnings (loss) *	16,600	11,290	684	(2,426)
Basic earnings (loss) per unit	0.32	0.22	0.01	(0.04)

Foreign exchange rates can have a significant impact on the volatility of earnings in the quarterly results, which include large cash and non-cash gains or 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.

In general, sales increase with each successive quarter with the largest increase coming in the third quarter of each year. This is best illustrated by looking at the 2010 quarterly results and 2009 was an exception to that trend as exceptional high exchange rates in the first half of the year and softer market conditions in the second half of the year disrupted that trend. This seasonality is more pronounced in 2010 than it has been in 2008 or 2009.

In addition, volatility in exchange rates can have a significant impact on earnings. The volatility in earnings for the last 12 quarters is largely driven by exchange rates and the realized and unrealized gains and losses that resulted on Clearwater's derivative and currency and interest rate swaps. Net losses of $21.8 million and $81.7 million in the first and fourth quarters of 2008 and net earnings of $16.6 million and $11.3 million for the first and second quarter of 2009 primarily related to significant unrealized and realized gains and losses from mark to market on exchange derivatives and interest and currency swap contracts. All previous foreign exchange contracts were settled during the first half of 2009 and the business had no new contracts until late in the third quarter of 2010 and as a result there has been less exchange rate volatility during the period.

DEFINITIONS AND RECONCILIATIONS

Gross Margin

Gross margin consists of sales less harvesting, distribution, direct manufacturing costs, manufacturing overhead, certain administration expenses and depreciation related to manufacturing operations.

Earnings before interest, tax, depreciation and amortization

Foreign exchange losses and gains other than realized gains and losses on forward exchange contracts have been excluded from the calculation of EBITDA due to the variability in these gains and losses. In addition one-time non-recurring items such as severance charges, provisions on property, plant and equipment, gain on quota sales, and reorganization costs are excluded from the calculation of EBITDA.

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 EBITDA 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 for the fourth quarter and the year ended December 31, 2010 and December 31, 2009:

	Quarter ended		Year to Date	
	December 31, 2010	**December 31, 2009**	**December 31, 2010**	**December 31, 2009**
Net earnings (loss)	1,028	(2,191)	(7,489)	26,148
Add (deduct):			-	-
Minority interest	610	241	1,704	1,039
Income taxes	1,390	531	3,378	1,868
Reduction in foreign currency translation	852	-	1,066	703
Depreciation and amortization	3,510	4,135	13,827	14,929
Interest on long-term debt and bank charges	6,110	5,946	23,965	25,342
	13,500	8,662	36,451	70,029
Add (deduct) other non-routine items				
Foreign exchange and derivative income unrealized	(1,584)	(2,869)	926	(46,272)
Application of EIC 173 - on unrealized derivative income	-	-	-	1,276
Realized foreign exchange on working capital	1,588	1,142	2,284	14,354
Restructing and refinancing	(102)	1,150	4,856	6,501
Provision for underutilized plant and other assets	-	1,246	1,056	1,273
Gain on sale of quota	-	-	(1,210)	(7,844)
Stock appreciation rights	404	-	404	-
EBITDA	**13,806**	**9,331**	**44,767**	**39,317**

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 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 it 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, 2010	December 31, 2009
EBITDA [1]	44,767	39,317
Net debt (per below)	200,127	205,285
Net debt leverage	4.47	5.22
Senior debt (per below)	76,066	80,859
Senior debt leverage	1.70	2.06
Debt per balance sheet	205,398	214,117
Less cash	(5,271)	(8,832)
Net debt	200,127	205,285
Less subordinated debt	124,061	124,426
Senior debt	76,066	80,859
Revolver	25,798	26,873
Amortizing Term Debt	33,864	37,935
Non - Amortizing Term Debt	16,404	16,051
	76,066	80,859

Normalized cash flow

Realized foreign exchange losses and gains have been excluded from the calculation of normalized cash flow due to their variability and reorganization costs have been excluded as management does not 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 periods ended December 31, 2010 and December 31, 2009:

	Quarter Ended		Year Ended	
($000's)	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Cash flows from operating activities	9,347	14,415	15,951	3,928
Add (deduct):		-	-	-
Change in non-cash operating working capital	(3,146)	(12,575)	(457)	(9,706)
Paid severance	219	28	392	117
Realized foreign exchange on working capital	1,588	1,142	2,284	14,355
Reorganization and other non-routine costs	(115)	-	3,470	4,411
Normalized cash flow from operating activities before changes in working capital	7,893	3,010	21,640	13,105

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INDEPENDENT AUDITORS' REPORT

TO THE UNITHOLDERS OF CLEARWATER SEAFOODS INCOME FUND

We have audited the accompanying consolidated financial statements of Clearwater Seafoods Income Fund, which comprise the balance sheets as at December 31, 2010 and December 31, 2009, the consolidated statements of loss and deficit and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Clearwater Seafoods Income Fund as at December 31, 2010 and December 31, 2009, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Halifax, Canada
March 29, 2011

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

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

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

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

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

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

March 29, 2011

Ian Smith	*Robert Wight*
Chief Executive Officer	*Vice-President, Finance and Chief Financial Officer*

CLEARWATER SEAFOODS INCOME FUND

Consolidated Balance Sheets
(In thousands of Canadian dollars)

Year ended December 31	2010	2009
Assets		
Current Assets		
Interest receivable from Clearwater Seafoods Limited Partnership	854	807
Investment in Clearwater Seafoods Limited Partnership (note 3)	55,200	59,281
	$ 56,054	$ 60,088
Liabilities and Unitholders' Equity		
Current Liabilities		
Interest Payable	$ 792	$ 781
Convertible Debentures due 2010 (note 4)	-	44,851
	792	45,632
Convertible debentures (note 4)	86,640	43,402
Unitholders' Equity		
Trust units (note 5)	285,011	283,839
Deficit	(326,127)	(321,730)
Contributed surplus	9,738	8,945
	(31,378)	(28,946)
	$ 56,054	$ 60,088

See accompanying notes to consolidated financial statements

Approved by the Board of Trustees:

Tom Traves

Bernard R Wilson

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

CLEARWATER SEAFOODS INCOME FUND

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

Year ended December 31		2010		2009
Equity in net earnings (loss) of ClearwaterSeafoods Limited Partnership	$	(4,063)	$	14,026
Interest income		6,583		6,386
Interest expense		(6,917)		(6,695)
Provision for impairment in investment in Clearwater Seafoods Limited Partnership (note 3)		-		(15,681)
Net earnings (loss)	$	(4,397)	$	(1,964)
Deficit at beginning of year	$	(321,730)		(319,766)
Deficit end of year	$	(326,127)	$	(321,730)
Loss per unit, basic and diluted (note 7)	$	(0.16)	$	(0.07)

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS INCOME FUND

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

Year ended December 31		2010		2009
Comprehensive Income (loss)				
Net loss	$	(4,397)	$	(1,964)
Other comprehensive income, net of tax, unrealized gains and losses on translating financial statements of self-sustaining foreign operations		779		1,896
Comprehensive loss	$	(3,618)	$	(68)

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS INCOME FUND

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

Year ended December 31	2010	2009
Cash flows from (used in) operating activities		
Net loss	$ (4,397)	$ (1,964)
Items not involving cash:		
Equity in net earnings (loss) of Clearwater Seafoods Limited Partnership	4,063	(14,026)
Provision for impairment in investment in Clearwater Seafoods Limited Partnership (note3)	-	15,681
Other	334	309
	-	-
Cash flows from (used in) financing activities	-	-
Cash flows from (used in) investing activities	-	-
(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. 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").

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 ("CSHT"). CSHT owns 54.27% (December 31, 2009 – 54.27%) 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, amortization of the purchase price discrepancy and any provisions for impairment.

b) Comprehensive Income

Other comprehensive income includes the exchange gains and losses arising from the translation of the financial statements of self-sustaining foreign operations, including those of equity accounting for investments that are subsidiaries of Clearwater. The effect of exchange rate variations on the translation of Clearwater's net assets of self-sustaining foreign operations has been recorded as "Other comprehensive income (loss), net of tax".

c) 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 are offset against the related debt and interest on the debt is calculated by applying an effective interest rate of approximately 12.63% 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.

d) 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 substantively 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 there is no taxable income in the Fund, there is no provision for income taxes in the Fund.

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 32.5% in 2011 and 31% thereafter.

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 applies to the Fund in 2011. The income tax requires the Fund to record future income taxes related to temporary differences within the fund, however, as a result of provisions for the impairment of the investment in Clearwater in 2008 there is no longer a future income tax liability related to temporary differences in the Fund.

e) Financial Instruments

Loans and receivables are initially recognized at their fair values and subsequently measured at amortized cost, with gains and losses recognized in net earnings in the period in which they arise. Other financial liabilities are initially measured at fair value and are subsequently measured at amortized cost, depending upon the nature of the instrument, 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 financial liabilities
Convertible debentures	Other financial liabilities

f) Use of estimates

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

3. INVESTMENT IN CLEARWATER SEAFOODS LIMITED PARTNERSHIP

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

Year ended December 31	2010	2009
Investment in Class A Partnership units, at cost	$ 281,587	$ 281,587
Investment in Class E Partnership units	45,000	45,000
Investment in Class D Partnership units	44,389	44,389
Add: Cumulative equity in net earnings	50,587	54,668
Less: Cumulative distributions received	(121,522)	(121,522)
Less: Provision for impairment of investment in Clearwater Seafoods Limited Partnership	(244,841)	(244,841)
	$ 55,200	$ 59,281

The Fund's investment in Clearwater consists of Class A Partnership units, Class E Partnership units (successor to Class C Partnership units after the modifications as described below) and Class D Partnership units. The Class E and Class D Partnership units are essentially in the form of a convertible debt owing from Clearwater to the Fund and correspondingly provide interest income to the Fund to enable the Fund to satisfy its interest obligations on the Fund's convertible debentures (note 4).

On November 12, 2010 the Class C Partnership unitholders approved the following changes to the Class C Partnership units, resulting in the exchange of Class C Partnership units for Class E Partnership units: an extension of the maturity date to December 31, 2013; an increase in interest rate from 7% to 10.5%, a reduction in the conversion price from $12.25 to $3.25 per Clearwater Class A Partnership unit, and a restriction on redemption until June 30, 2011.
The Class D Partnership units are convertible and redeemable at any time at into Class A units at a price of $5.90 per unit and are due on March 31, 2014.

The Class E and Class D Partnership units exist under agreements whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the respective Convertible Debentures of the Fund and in a manner that ensures that the distributions on the Class E and Class D units, respectively, will be able to fund the ongoing interest payments on the Convertible Debentures.

The Fund analyses the carrying value of its investment in Clearwater by considering whether there has been a loss in value that is other than a temporary decline. In considering whether there has been a loss in value that is considered to be other than temporary, the Fund considers the significance and duration of the decline in fair value as compared to its carrying value in assessing whether an other than temporary decline has occurred. During 2010 and 2009 the Fund recognized $nil and $15,681, respectively, in other than temporary impairments in its investment in Clearwater. Any subsequent increases in the fair value of the investment in Clearwater will only be recognized when realized.

4. CONVERTIBLE DEBENTURES

The $45 million (2009 - $45 million) of 7% convertible unsecured subordinated 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. On November 12, 2010 the holders approved a maturity date extension to December 31, 2013 with amendments including an increase in interest rates from 7% to 10.5%, a reduced conversion price from $12.25 to $3.25 per Fund Unit, and redemption restricted until June 30, 2011. The debentures continue to pay interest semi-annually in arrears on June 30 and December 31. On and after June 30, 2011, the debentures may be redeemed at the option of the Fund at a price equal to their principal amount plus accrued interest. As the terms of the Class E Units are significantly different from the Class C Units, the transaction was accounted for as an extinguishment of the Class C Units. The conversion option related to the Class C Units was recorded as contributed surplus and on the issuance of the Class E Units, $43,035 was allocated to the debt component and $1,965 was allocated to the conversion option

The $44.4 million of 7.25% convertible unsecured subordinated debentures are due March 31, 2014 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 $5.90 per trust unit. The debentures pay interest semi-annually in arrears on March 31 and September 30. 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.

The estimated fair value of the Fund’s convertible debentures at December 31, 2010 was $81,582 (2009 - $71,663) based on the quoted market value of the debentures Clr.db.b and Clr.db.a on the Toronto Stock Exchange.

5. TRUST UNITS AND SPECIAL TRUST UNITS

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

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

	Units	Special Trust Units	Total $ (in 000's)
Balance December 31, 2009	27,745,695	23,381,217	283,839
Extinguishment of Class C units	-	-	(793)
Conversion option Class E units	-	-	1,965
Balance at December 31, 2010	27,745,695	23,381,217	285,011

As at December 31, 2010 and 2009 there were in total 51,126,912 units outstanding

6. INCOME TAXES

The Fund has net deductible temporary differences of approximately $ 91.1 million for which a future tax asset has not been recognized. Included in these deductible temporary differences are non-capital income tax losses of approximately $52 million available to reduce taxable income of the Fund. These losses will expire in years from 2026 to 2030 and the Fund has taken a full valuation allowance against them therefore their benefit is not recorded in the financial statements.

7. EARNINGS PER UNIT

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

Year Ended December 31	2010	2009
Basic		
Net loss	(4,397)	(1,964)
Weighted average number of units	27,746	27,746
Loss per unit	(0.16)	(0.07)

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, 2010 and 2009.

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's total capital structure is as follows:

Year ended December 31	2010	2009
Equity - Trust units (see note 6)	$ 285,011	$ 283,839
Convertible debentures (note 4)	86,640	88,253
Contributed surplus	9,738	8,945
Deficit	(326,127)	(321,730)
	$ 55,262	$ 59,307

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INDEPENDENT AUDITORS' REPORT

TO THE UNITHOLDERS OF CLEARWATER SEAFOODS LIMITED PARTNERSHIP

We have audited the accompanying consolidated financial statements of Clearwater Seafoods Limited Partnership, which comprise the balance sheets as at December 31, 2010 and December 31, 2009, the consolidated statements of operations and deficit, comprehensive income (loss) and accumulated other comprehensive loss, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Clearwater Seafoods Limited Partnership as at December 31, 2010 and December 31, 2009, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Halifax, Canada
March 29, 2011

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 three non-management directors. The Committee meets periodically with management and the auditors to satisfy itself that management's responsibilities are properly discharged, to review the consolidated financial statements and to recommend approval of the consolidated financial statements to the Board.

KPMG LLP, the independent auditors appointed by the trustees, have audited the Partnerships'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 29, 2011

Ian D Smith

Ian Smith
Chief Executive Officer

R D Wight

Robert Wight
Vice-President, Finance and Chief Financial Officer

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

Consolidated Balance Sheets
(In thousands of Canadian dollars)

	December 31, 2010	December 31, 2009
		(Recast - note 2)
Assets		
Current Assets		
Cash	$ 5,271	$ 8,832
Accounts receivable	39,209	29,489
Inventories	47,517	56,051
Prepaids and other	4,446	4,148
	96,443	98,520
Other long-term assets (note 4)	9,390	11,991
Property, plant and equipment (note 5)	108,316	113,965
Licences (note 6)	104,032	106,571
Goodwill	7,043	7,043
	$ 325,224	$ 338,090
Liabilities and Unitholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 33,507	$ 31,630
Income taxes payable	2,435	468
Current portion of long-term debt (note 9)	5,671	59,906
Derivative financial instruments (note 7 (a))	9,845	11,242
	51,458	103,246
Long-term debt (note 9)	199,727	154,211
Future income taxes (note 13)	3,571	4,143
Other long-term liabilities (note 8)	27,523	27,741
Minority interest	3,713	3,623
Unitholders' Equity		
Partnership units (note 11)	165,942	164,770
Deficit	(124,558)	(117,069)
Contributed surplus	2,609	1,816
Accumulated other comprehensive loss	(4,761)	(4,391)
	39,232	45,126
	$ 325,224	$ 338,090

Subsequent event (note 9)
Basis of Presentation (Note 1)

See accompanying notes to consolidated financial statements

Approved by the Board of CS ManPar Inc.:

John Risley
Director

Colin MacDonald
Chairman

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

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

Year Ended December 31		2010		2009 Recast (note2)
Sales	$	291,116	$	284,066
Cost of goods sold		234,854		240,215
		56,262		43,851
Administration and selling		26,883		25,724
Gain on disposal of property, plant, equipment and quota		(1,868)		(9,277)
Other expense (income) (note 12)		4,941		2,710
Foreign exchange and derivative contracts (note 7(b))		2,992		(30,642)
Interest on long-term debt and bank charges		23,965		25,342
Depreciation and amortization		690		236
Reduction in foreign currency translation account		1,066		703
		58,669		14,796
Earnings (loss) before income taxes and minority interest		(2,407)		29,055
Income taxes (note 13)		3,378		1,868
Earnings (loss) before minority interest		(5,785)		27,187
Minority interest		1,704		1,039
Net earnings (loss)	$	(7,489)	$	26,148
Deficit at beginning of year		(117,069)		(143,217)
Deficit end of year	$	(124,558)	$	(117,069)
Basic and diluted earnings (loss) per unit (note 8)	$	(0.15)	$	0.51

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)

Year ended December 31		2010		2009 Recast (note2)
Comprehensive Income (loss)				
Net earnings (loss)	$	(7,489)	$	26,148
Other comprehensive income, unrealized gains and losses on translating financial statements of self-sustaining foreign operations, net of tax		1,436		3,494
Comprehensive income (loss)	$	(6,053)	$	29,642
Accumulated other comprehensive loss				
Balance beginning of period	$	(4,391)	$	(1,600)
Reduction in cumulative foreign currency translation account		1,066		703
Unrealized gain (loss) on translation of self-sustaining foreign operation		(1,436)		(3,494)
Balance end of year	$	(4,761)	$	(4,391)

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

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

Year Ended December 31	2010	2009 Recast (note2)
Cash flows from (used in) operating activities		
Net earnings (loss)	$ (7,489)	$ 26,148
Items not involving cash:		
Depreciation and amortization	13,827	14,929
Unrealized foreign exchange on long term debt	870	(9,429)
Accretion of deferred finance costs	5,726	4,544
Future income tax expense (recovery)	(488)	(191)
Minority interest	1,704	1,039
Reduction in foreign currency translation account	1,066	703
Unrealized (gain) loss on derivative contracts	1,475	(23,054)
Unrealized gain on currency and interest rate swap contracts	(1,419)	(12,512)
Write down on other assets	950	1,273
Gain on disposal of property, plant and equipment and quota	(1,868)	(9,277)
	14,354	(5,827)
Change in non-cash operating working capital	1,597	9,755
	15,951	3,928
Cash flows from (used in) financing activities		
Reduction of long-term debt and swap contracts	(58,347)	(121,999)
Proceeds from long-term debt	44,809	99,582
Other	(1,671)	(1,309)
	(15,209)	(23,726)
Cash flows from (used in) investing activities		
Purchase of property, plant, equipment, licences and other	(9,418)	(4,452)
Proceeds on disposal of property, plant, equipment, quota and other	3,247	16,597
Other	1,868	971
	(4,303)	13,116
(Decrease) increase in cash	(3,561)	(6,682)
Cash - beginning of year	8,832	15,514
Cash - end of year	$ 5,271	$ 8,832
Supplementary cash flow information		
Interest paid	$ 24,896	$ 23,277
Income taxes paid	$ 1,759	$ 1,885

See accompanying notes to consolidated financial statements

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

1. BASIS OF PRESENTATION

Clearwater Seafoods Limited Partnership ("Clearwater") is a limited partnership that acquired the seafood business of Clearwater Fine Foods Incorporated ("CFFI") on July 30, 2002. As CFFI maintained the right to nominate the majority of the board of directors both before and after the acquisition of its seafood business by Clearwater the acquisition was accounted for using the book values of the assets and liabilities as recorded by CFFI.

2. CORRECTION OF PRIOR PERIOD IMMATERIAL ERRORS

Certain comparative figures have been recast in the current year to reflect prior period immaterial errors.

(a) In the first quarter of 2010 Clearwater determined that a license and the related future income tax liability attributed to a foreign subsidiary should have been denominated in the foreign subsidiary's functional currency and re-translated into Canadian dollars at each balance sheet date with the translation adjustment flowing through accumulated other comprehensive income. An immaterial error was also noted in the determination of the reduction in the accumulated other comprehensive loss. The comparative figures for 2009 have been recast for these prior period immaterial errors, with, the changes summarized in the table below (in 000's of Canadian dollars).

	Amount prior to recast	Adjustment for translation	Amount per Annual Financial Statements
Consolidated Balance Sheet at December 31, 2009			
Licenses	112,287	(5,716)	106,571
Future Income Taxes	5,420	(1,277)	4,143
Ending Deficit	(106,415)	(10,654)	(117,069)
Accumulated other comprehensive income	(10,606)	6,215	(4,391)
Consolidated statement of operations and deficit, for December 31, 2009			
Reduction in foreign currency translation account	1,008	(305)	703
Net earnings (loss)	25,843	305	26,148
Opening Deficit	(132,258)	(10,959)	(143,217)
Ending Deficit	(106,415)	(10,654)	(117,069)
Earnings per unit	0.51	-	0.51
Consolidated statement of comprehensive income, for December 31, 2009			
Other comprehensive income, net of tax, unrealized gains and losses on translating financial statements of self-sustaining foreign operations	1,514	1,980	3,494
Comprehensive income (loss)	27,357	2,285	29,642
Consolidated statement of accumulated other comprehensive income (loss), for December 31, 2009			
Opening accumulated other comprehensive loss	(10,100)	8,500	(1,600)
Unrealized gain (loss) on translation of self-sustaining foreign operations	(1,514)	(1,980)	(3,494)
Ending accumulated other comprehensive loss	(10,606)	6,215	(4,391)
Consoliated statement of cash flows, for December 31, 2009			
Net earnings (loss)	25,843	305	26,148
Reduction in foreign currency translation account	1,008	(305)	703

3. 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) Principles of Consolidation

The accompanying financial statements consolidate 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. All significant intercompany balances and transactions have been eliminated upon consolidation.

b) Inventories

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 2010, inventory costs of $210,277 (2009 – $214,950) were recognized in cost of sales. Clearwater incurred $615 (2009 - $462) in inventory write-downs, which is included in cost of goods sold.

c) Property, plant and equipment

Property, plant and equipment is stated at cost less government assistance received. Additions are depreciated commencing in the month they are put into use. Refits are capitalized when incurred and amortized over the period between scheduled refits. Construction in progress assets are capitalized during the construction period and depreciation commences when the asset is available for use. Depreciation is provided on a straight-line basis to depreciate the cost of these assets over their estimated useful lives. Estimated useful lives used are the following:

Buildings and wharves	10 to 40 Years
Equipment	3 to 17 Years
Vessels	10 to 20 Years
Refits	1 to 4 Years

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. There was no interest capitalized in 2010 or 2009.

d) Impairment of long-lived assets

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

e) Licences

Licences and fishing rights 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 may 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. No material impairments to licenses were recognized during 2010 or 2009.

Fishing rights have definite lives and are amortized over the life of the agreement unless events or changes in circumstances indicate that the asset may be impaired.

f) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the net assets acquired, based on their fair values. Goodwill is allocated to Clearwater's reporting units that are expected to benefit from the acquisition synergies.

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. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of earnings before extraordinary items and discontinued operations unless the impairment loss is associated with the discontinued operations in which case it will be presented on a net of tax basis within the results of such discontinued operations

For the fiscal year ended December 31, 2010 and December 31, 2009 no impairment losses were recorded.

g) Class E Partnership Units and Class D Partnership Units

Class D and E 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 are offset with the related debt and interest on the debt is calculated by applying an effective interest rate of approximately 12.63% on the Class E units, and 8.81% on the Class D units, to the outstanding debt component. The difference between actual cash payments and interest expense is added to the debt component.

h) Translation of foreign currencies

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

To the extent that there is a reduction in the net investment of a self-sustaining foreign operation, a portion of the cumulative translation component related to the self-sustaining foreign operation is recognized in the consolidated statement of operations and deficit during the period of the net reduction.

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.

i) 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

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 fair value and subsequently measured at amortized cost, 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. Clearwater capitalizes and amortizes costs relating to the arrangement of new debt facilities and nets the amounts against long term debt. Costs related to annual renewals, standby fees and any other annual charges are expensed as incurred.

All derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value unless exempted from derivative treatment as a normal purchase and sale. All changes in fair value are recorded in earnings for the years ended December 31, 2010 and 2009.

The risks associated with the Company's financial instruments and policies for managing these risks are detailed in Note 7.

j) Income taxes

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

k) Revenue recognition

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

l) Use of estimates

The preparation of the financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions that Clearwater may undertake in the future. These estimates 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.

m) Fair Value Hierarchy

In June 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures", to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements.

Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

n) Unit based compensation and other unit based payments.

Clearwater issues unit-based awards to certain employees. The cost of cash-settled unit based transactions is measured as the fair value at the grant date, and expensed over the vesting period with the recognition of a corresponding liability. The liability is measured at each reporting date at intrinsic value with changes in intrinsic value recognized in income.

o) Conversion to International Financial Reporting Standards – January 1, 2011

The Canadian Accounting Standards Board confirmed that January 1, 2011 is the changeover date for publicly accountable enterprises to use IFRS. This transition date will require the restatement of amounts reported by the Company for the year ended December 31, 2010, in order to provide comparative information under IFRS for 2011 interim and annual reports. The Company will prepare its first consolidated financial statements in accordance with IFRS for the quarter ending March 31, 2011.

4. OTHER LONG TERM ASSETS

In (000's)	December 31 2010	December 31 2009
Cash on deposit	$ 1,917	$ 3,762
Advances to fishermen	2,547	3,305
Advances to minority interest shareholder	2,343	2,947
Assets held for sale	1,500	1,500
Future tax asset	221	460
Other	862	17
	$ 9,390	$ 11,991

Cash on deposit of $1,917 in 2010 (2009 - $3,762) relates to funds, denominated in ISK, including Canadian $867 of funds on Deposit with Glitnir (refer to Note 19 for further details). A write down of $1,056 (2009 - $nil) was included in other expense during the year based upon the current valuation of the funds. While the assumptions reflect management's best estimates for the valuation of the cash on deposit, they are subject to the measurement uncertainty.

Advances to fisherman include amounts advanced to various fishermen and are payable from proceeds of the related catches. The advances bear interest at prime plus 3%, are due on demand, and are secured by an assignment of catch, a marine mortgage on the vessels, related equipment and licenses. Advances are included in long term receivables as repayments are received over a period greater than one year.

Advances to minority interest shareholder include funds that are advanced and repaid as dividends are paid. The funds are non-interest bearing with no set repayment terms.

Assets held for sale include surplus processing equipment.

5. PROPERTY, PLANT AND EQUIPMENT

December 31, 2010	Cost	Accumulated depreciation	Net
Land and land improvements	$ 2,870	$ 977	$ 1,893
Buildings and wharves	64,598	53,874	10,724
Equipment	72,762	66,383	6,379
Vessels and vessel refits	170,274	80,330	89,944
Construction in progress	2,567	-	2,567
	313,071	201,564	111,507
Less: Deferred government assistance	(9,655)	(6,464)	(3,191)
	$ 303,416	$ 195,100	$ 108,316

December 31, 2009	Cost	Accumulated depreciation	Net
Land and land improvements	$ 2,936	$ 967	$ 1,969
Buildings and wharves	64,993	52,324	12,669
Equipment	72,908	65,668	7,240
Vessels and vessel refits	167,065	72,422	94,643
Construction in progress	1,067	-	1,067
	308,969	191,381	117,588
Less: Deferred government assistance	(9,798)	(6,175)	(3,623)
	$ 299,171	$ 185,206	$ 113,965

In 2010 $13,137 (2009 - $14,693) of depreciation expense was classified as cost of goods sold. Total depreciation expense of property, plant and equipment for 2010 was $13,827 (2009 - $14,929).

For 2010 there were no material impairment losses recorded related to fixed assets. In 2009 an impairment loss of $1.5 million was recorded related to surplus equipment.

6. LICENCES

	Gross carrying amount	Accumulated amortization	Net
2010	$ 125,183	$ 21,151	$ 104,032
2009	127,288	20,717	106,571

In 2010 Clearwater disposed of fishing quotas with a net book value of $1,002 for proceeds of $2,212 resulting in a gain of $1,968. In 2009 Clearwater disposed of fishing quotas with a net book value of $7,120 for proceeds of $15,281 which resulted in a gain of $8,161. There were no additions to licenses during 2010 or 2009.

7. FINANCIAL INSTRUMENTS

a) Forward exchange contracts, interest rate swaps and cross currency swaps have been used in the past by Clearwater in the management of its foreign currency and interest rate exposures.

At December 31, 2010, Clearwater had the following outstanding forward contracts:

Currency	Notional Amount (in 000's)	Average Contract Exchange Rate	Maturity	Fair Value Asset (Liability)
December 31, 2010				
Euro	Sell forwards 7,500	1.3298	2011	3
Yen	Sell forwards 410,000	0.0122	2011	(24)
				(21)

As at December 31, 2009 Clearwater did not have any forward exchange contracts outstanding and the interest rate and cross currency swap contracts with Glitnir Banki are subject to dispute (Refer to note 19).

The above foreign exchange contracts were included in the balance sheet at their fair value as shown at December 31, 2010.

Summary of net liability position for derivative contracts

		December 31 2010		December 31 2009
Contracts with Glitnir Banki hf (note 19)	$	9,824	$	11,242
Forward Contracts		21		-
Net liability position	$	9,845	$	11,242

b) Foreign exchange and derivative contract gains and losses

In (000's) Year ended December 31		2010		2009
Realized loss (gain)				
Foreign exchange and other derivatives	$	(218)	$	8,659
Working capital		2,284		5,695
		2,066		14,354
Unrealized (gain) loss				
Foreign exchange on long term debt		870		(9,429)
Mark-to-market on foreign exchange contracts		1,475		(23,055)
Mark-to-market on interest and currency swaps		(1,419)		(12,512)
		926		(44,996)
Total (gain) loss	$	2,992	$	(30,642)

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 financial instruments but does not anticipate non-performance of any of the counter parties as Clearwater only deals with highly rated customers other than as disclosed within note 19.

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 bad debt losses have been minimal. Concentration of credit risk with respect to accounts receivable is limited through diversification of the customer base. Clearwater has approximately 1,000 customers worldwide with no individual customer representing more than 6% of sales. 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, 2010, Clearwater's trade accounts receivable aging based on the invoice due date is as follows: 98.1% 0-30 days, 0.4% 31-60 days, and 1.5% over 60 days. As at December 31, 2009, Clearwater's trade accounts receivable aging based on the invoice due date is as follows: 97.2% 0-30 days, 0.2% 31-60 days, and 2.6% over 60 days.

The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts of $521 (2009 - $715). Clearwater reviews accounts past due on a regular basis and provides an allowance on a specific account basis. There are no impaired receivables that have not been provided for in the allowance for doubtful accounts. 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:

		2010		2009
Opening Balance	$	715		770
Additional allowance		603		639
Allowance released		(627)		(399)
Bad debts written off		(103)		(251)
Revaluation		(7)		7
Translation		(60)		(51)
Closing Balance	$	521	$	715

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. Over 80% of Clearwater's sales are in United States dollars and other currencies, whereas the majority of expenses and cash disbursements 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, 2010 and December 31, 2009 Clearwater's balance sheet exposure to foreign currency was as follows (as converted to Canadian dollars):

December 31		2010		2009
Cash	$	3,736	$	6,292
Accounts receivable		27,564		18,680
Other accounts receivable		4,132		5,897
Property, plant and equipment		7,232		5,548
Accounts receivable long-term		4,191		2,538
Accounts payable and accrued liabilities		(10,484)		(13,793)
Long-term debt		(63,625)		(69,683)
Net balance sheet exposure	$	(27,254)	$	(44,521)

The components of this net exposure by currency are as follows (in local currency '000's) at December 31, 2010:

	GBP	USD	Yen	Euros	ISK	DKK	Argentine Peso
Cash	111	771	401	73	-	14,684	3
Accounts receivable	849	10,234	122,152	10,340	-	4,022	25
Other accounts receivable	11	651	-	1,740	-	-	4,705
Property, plant and equipment	6	155	-	1	-	-	29,157
Accounts receivable long-term	-	-	-	24	256,571	-	7,983
Accounts payable and accrued liabilities	(165)	(1,304)	-	(709)	(144,089)	(607)	(27,341)
Long-term debt	-	(24,600)	(101,162)	-	(4,260,302)	(5,483)	-
Net balance sheet exposure	812	(14,093)	21,391	11,469	(4,147,820)	12,616	14,532

The components of this net exposure by currency are as follows (in local currency '000's) at December 31, 2009:

	GBP	USD	Yen	Euros	ISK	DKK	Argentine Peso
Cash	115	705	1,984	624	-	19,396	1,681
Accounts receivable	1,388	7,244	32,131	5,455	-	703	36
Other accounts receivable	25	564	-	371	450,005	4	3,396
Property, plant and equipment	12	192	-	2	-	-	19,212
Accounts receivable long-term	-	-	-	-	-	-	9,165
Accounts payable and accrued liabilities	(386)	(1,632)	(134)	(827)	(136,906)	(1,705)	(31,377)
Long-term debt	-	(26,901)	(117,878)	-	(4,648,750)	(6,645)	-
Net balance sheet exposure	1,154	(19,828)	(83,897)	5,625	(4,335,651)	11,753	2,113

The above items are included in the balance sheet at their carrying values which are materially equal to fair values other than for long-term debt. The valuation of long-term debt was conducted using both a discounted cash flow approach and a review of current market values for the convertible debentures. At December 31, the estimated fair value of Clearwater's foreign currency denominated debt was $64,648 (2009 - $72,340) and the carrying value was $65,248 (2009 - $72,340).

A 10% increase in the exchange rates relative to the Canadian dollar (i.e. increase is when GBP moves from 1.55 to 1.71) would result in the following increase (decrease) to net earnings and net equity (in thousands):

	2010	2009
• GBP	126	195
• USD	(1,402)	(2,075)
• Yen	26	(94)
• Euros	1,528	849
• ISK	(3,596)	(3,625)
• DKK	225	237
• Argentine Peso	352	75

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 fluctuate due to changes in market interest rates. Clearwater manages its interest rate risk exposure by using a mix of fixed and variable 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, 2010, based on fair values, approximately 61.4% of the $201,160 (2009 - $201,884) of Clearwater's debt was fixed rate debt with a weighted average interest rate of 9.21%. 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.

A 1% change in interest rates for variable rate borrowings would result in $788 increase (or decrease) in cash flow interest rate risk.

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 note 19 for additional information on how Clearwater addresses liquidity risk.

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

g) Fair Value Hierarchy

Assets and liabilities carried at fair value must be classified using a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The table below sets out fair value measurements of financial instruments using the fair value hierarchy as described in Note 2(m) for December 31, 2010:

	Level 1	Level 2	Level 3
Liabilities:			
Financial instruments			9,845

The table below sets out fair value measurements of financial instruments using the fair value hierarchy as described for December 31, 2009:

	Level 1	Level 2	Level 3
Liabilities:			
Financial instruments			11,242

There were no transfers between levels during the year ended December 31, 2010 or December 31, 2009. The change in the fair value measurement on the financial instruments of $1,397 was is included unrealized foreign exchange, refer to Note 7(b). Of the financial instruments included in Level 3, forward currency contracts with a fair value of $4,556 have matured the fair value has been calculated using the spot rate on the maturity date. For the remaining $5,289, the fair value is highly sensitive to Icelandic foreign exchange rates and CPI. No sensitivity analysis has been performed on these financial instruments as the counterparty is Glitner (refer to note 19).

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, 2011	$ 5,671	$ 18,574	$ 2,176	$ -	$ 26,421
2012	79,022	14,399	1,941	-	95,362
2013	73,514	7,801	1,037	-	82,352
2014	42,911	-	816	-	43,727
2015	434	-	199	-	633
> 2016	3,846	21		3,040	6,907
Total	$ 205,398	$ 40,795	$ 6,169	$ 3,040	$ 255,402

Amounts due in years 2012 and 2013 are high as amortizing and non-amortizing term credit facilities and bonds payable are scheduled for repayment in those years (refer to Note 9). 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 long term debt, interest and operating leases are amounts that Clearwater is committed directly and indirectly through its proportionate share of joint ventures, for various licenses 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 of an officer of Clearwater over a period of years ending in 2014 for vehicle leases, which aggregate approximately $217 (2009 - $133).

8. OTHER LONG-TERM LIABILITIES

In 000's	2010	2009
Deferred gain on fishing rights (note 15)	8,903	10,057
Due to joint venture partner (note 15)	3,040	3,201
Glitnir notes payable (note 19)	15,580	14,483
	27,523	27,741

9. LONG-TERM DEBT

In (000's)	December 31 2010	December 31 2009
Revolving Loan, due in 2012 (a)	$ 25,798	$ 26,873
Term loans, due in 2012 (b)		
Facility A	33,864	37,935
Facility B	16,404	16,051
Class E Partnership Units (2009 - Class C Units), due in 2013 (c)	42,544	44,338
Class D Partnership Units, due in 2014 (c)	42,458	41,967
Bond payable (d)	36,937	38,864
Marine mortgage, due in 2017 (e)	3,135	4,004
Term loan, due in 2091 (f)	3,500	3,500
Other loans	758	585
	205,398	214,117
Less current portion	(5,671)	(59,906)
	$ 199,727	$ 154,211

(a) Revolving term loan based on 85% of eligible receivables and 75% of eligible inventory to a maximum of $60 million, denominated in both Canadian of $3,472 at December 31, 2010 ($571 CAD at December 31, 2009) and United States dollars of $24,658 at December 31, 2010 ($27,476 USD at December 31, 2009) less deferred financing charges of $1,456, bearing interest at Bank Prime plus 2.5% that is convertible to short term 3 month interest rates at BA plus 4.5% for Canadian currency debt and Libor plus 4.5% for US currency debt at the request of Clearwater. Any outstanding balances due are on June 12, 2012 and secured by a priority charge on accounts receivable, cash and cash equivalents subject to certain limitations, and inventory, a third charge on the collateral of the amortizing term loan and a third charge on collateral of the non-amortizing term loan (respectively Term facility A & B in (b)).

(b) Term loans (consisting of facility A and B) issued by a syndicate of lenders, both facilities bear interest at Bank Prime plus 6% convertible to BA rate plus 7% at the request of Clearwater. Interest payments are made quarterly for fixed rates and monthly for short term variable interest rates. The effective interest rates (cash interest plus amortization of deferred financing charges) at December 31, 2010 were 14.35% for Facility A and 11.98% for Facility B. Facility A, in the amount of $35.9 million is due in 6 consecutive quarterly payments of $1,328 with a final payment due on June 17, 2012 of $27,891 and is secured by a priority charge on Marine Vessels, and all other assets except for that collateral attributed to the Revolving Loan in (a) above and Clearwater's investment in Glacier Pesquara S.A., and a second charge on the collateral of facility B and a third charge on the collateral of the revolving term loan. Facility B, in the amount of $17 million is due in full on June 17, 2012 and is secured by priority charges over licenses and quotas as well as Clearwater's investment in Glaciar Pesquera S.A. and a secondary charge over the collateral of facility A and a third charge on the collateral of the new revolving term loan.

(c) The $45 million (net of deferred financing charges and conversion option - $42.5 million) of Class E units (2009 – Class C units) bear interest at 10.5%, mature on December 31, 2013 and are redeemable and retractable at a price of $3.25 per Fund unit. On November 12, 2010 the holders approved a maturity date extension to December 31, 2013 with amendments including an increase in interest rates from 7% to 10.5%, a reduced conversion price from $12.25 to $3.25 per Fund Unit, and redemption restricted until June 30, 2011. Due to the changes in the conversion price, the 3,673,470 Class C units have been replaced by 13,846,152 Class E units. As the terms of the Class E Units are significantly different from the Class C Units, the transaction was accounted for as an extinguishment of the Class C Units. The conversion option related to the Class C Units was recorded as contributed surplus and on the issuance of the Class E Units, $43,035 was allocated to the debt component and $1,965 was allocated to the conversion option

The $44.4 million (net of deferred financing charges and conversion option - $42.5 million) of Class D units bear interest at 7.25%, mature on March 2014 and are redeemable and retractable at a price of $5.90 per Fund unit. The 7,523,559 Class D units were issued concurrently with the issue by the Fund of Convertible Debentures and are held by the Fund through CSHT.

Both the Class D and Class E units continue to 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 units will be able to fund the ongoing interest payments on the convertible debentures.

The Class D and Class E 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% and 12.63% to the outstanding debt component, for Class D and Class E units, respectively. The difference between actual cash payments, which will approximate 7.27% and 10.52% and interest expense, is added to the debt component of the units for Class D and Class E units, respectively.

The convertible debentures issued by the Fund are unsecured and subordinated. 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.

(d) Bonds payable in the principal amount of ISK 4.4 billion (2009 – ISK 4.8 billion) with a coupon of 11% adjusted for changes in the Icelandic consumer price index (CPI) mature in January 2012 and August 2013. The total bond payable of $38,186 (2009 - $40,008) includes accrued interest of $1,249 (2009 - $1,144) that is included in current liabilities as the amount is paid annually.

During the year, Clearwater partially settled the bonds that were due to mature in September 2010, and extended the original maturity date to December 15, 2010, and subsequently extended further to January 15, 2012.

Subsequent to year end, on February 4, 2011, through refinancing the senior debt facilities, Clearwater repaid both the 2012 and the 2013 ISK bonds payable.

e) Marine mortgage payable in the principal amount of CDN $ 1,705,072 (December 31, 2009 - $ 2,480,673), DKK 10,218,338 (December 31, 2009 - DKK 12,305,444) and YEN 188,525,199 (December 31, 2009 - 218,292,336) bearing interest at UNIBOR plus 1% payable semi-annually, 53.66 % of which represents Clearwater's proportionate share. Principal payments are required annually with CDN $775,601, DKK 2,087,106 and YEN 29,767,137 due in 2011 -2012, CDN $153,870 due in 2013, DKK 2,087,106 and YEN 29,767,137 due in 2013-2014, DKK 1,869,914 due in 2015, YEN 29,767,137 due in 2015-2016 and YEN 9,922,377 due in 2017, 53.66 % 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 over certain fishing licences.

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

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

2011	$5,671
2012	79,022
2013	73,514
2014	42,911
2015	434

The estimated fair value of long term debt at December 31, 2010 was $201,160 (December 31, 2009 - $201,884).

On February 4, 2011 Clearwater completed a refinancing of its senior debt facilities increasing its' Senior Term Credit Facility from Canadian $51.5 million to Canadian $70 million, extending the maturity date of its existing Asset Backed Revolving Loan and creating a new US $45 million Second Lien Senior Credit Facility. The proceeds of this refinancing were used to repay and cancel the entire ISK bond payable and provide working capital for ongoing corporate needs.

The new debt and expanded/extended debt facilities consist of the following:

- Second Lien loan - US $45 million, non-amortizing with a maturity of February 2016. Bearing interest payable monthly at an annual rate of 12%. The loan is secured by a third charge (after term and revolving debt facilities) on accounts receivable, cash and cash equivalents subject to certain limitations, inventory, marine vessels, licenses and quotas as well as Clearwater's investments in certain subsidiaries.

- Term debt – Canadian $70 million, repayable in quarterly installments of $875,000 in 2011 and $1.75 million thereafter with the balance of $45.5 million due at maturity in February 2015. Bearing interest payable monthly at an annual rate of bank prime plus 4.5%. The loan is secured by a second charge on accounts receivable, cash and cash equivalents subject to certain limitations, and inventory as well as a first charge on marine vessels, licenses and quotas as well as Clearwater's investments in certain subsidiaries.

- Revolving debt – This facility provides for up to $50 million of revolving debt facilities based on 85% of eligible receivables and 70% of eligible inventories. Bearing interest on Canadian balances at a Canadian short-term index margin plus 2.5% convertible into 3 month rates at BA plus 4%. For US balances the interest rate is a US index margin plus 3% convertible into 3 month rates at Libor plus 4%. The loan is secured by a first charge on accounts receivable, cash and cash equivalents subject to certain limitations, and inventory as well as a second charge on marine vessels, licenses and quotas as well as Clearwater's investments in certain subsidiaries.

10. SHARED-BASED COMPENSATION

Clearwater operates a unit-based compensation plan under which it receives services from employees as consideration for cash payments.

The plan is a phantom stock plan and provides for the granting of unit appreciation rights ("UARs") and other cash-based awards to certain employees. UARs provide the holder with the opportunity to receive a cash payment equal to the fair market value of the Clearwater Seafood Income Fund's units less the grant price. UARs vest over a three year period and have no expiry. Compensation expense is recognized based on the intrinsic value of the awards that are expected to vest and remain outstanding at the end of the reporting period.

Clearwater issued its first awards in May 2010.

The movement in the number of awards outstanding and their related weighted average exercise prices are as follows:

	2010
Awards outstanding in thousands:	
Outstanding at January 1, 2009, December 31, 2009 and January 1, 2010	-
Granted	705
Exercised	-
Forfeited	-
Expired	-
Outstanding at December 31, 2010	705
Exercisable at January 1, 2009, December 31, 2009 and January 1, 2010	-
Granted	255
Exercised	-
Forfeited	-
Expired	-
Exercisable at December 31, 2010	255

Share-based compensation expense included in the income statement for the year ended December 31, 2010 was $404,000 (December 31, 2009 - $nil).

The Company recorded a liability for cash-settled share incentive awards of $404,000 at December 31, 2010 (2009 - nil).

The following table summarizes additional information relating to the awards outstanding at December 31, 2010:

Exercise price	Number outstanding	Number exercisable
0.01	255,000	255,000
0.80	250,000	-
1.00	200,000	-
	705,000	255,000

11. 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, Class D and Class E 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.

	Class A Units	Class B Units	$ (in 000's)
Class A and Class B units	27,745,695	23,381,217	162,517
Conversion option on Class D and C units	-	-	2,253
Balance December 31, 2009	27,745,695	23,381,217	164,770
Extinguishment of Class C units	-	-	(793)
Conversion option on Class E unit	-	-	1,965
Balance December 31, 2010	27,745,695	23,381,217	165,942

At December 31, 2010 and 2009 there were in total 51,126,912 units outstanding.

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 net assets of $180,533,000, being $87,195,000, was debited to partnership units.

12. OTHER EXPENSE (INCOME)

Other expense (income) detail
In 000's

Year ended December 31		2010		2009
Refinancing and restructuring expenses	$	4,843	$	4,400
Insurance and legal claims/settlements		-		(1,441)
Quota rental and royalties		(1,222)		(547)
Research and development expense		1,624		1,432
Write down of other assets		950		1,273
Other		(1,254)		(2,407)
	$	4,941	$	2,710

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.

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.

	2010	2009
Future income tax asset		
Loss carry-forwards and future deductible expenses of foreign subsidiaries, included in other long-term assets	221	17
Future income tax liabilities		
Licences	3,417	3,664
Property, plant and equipment	154	455
Other	-	24
	3,571	4,143

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.

	2010	2009
Deductible temporary differences:		
Licences	$ 14,136	$ 15,870
Financing fees	1,694	-
Foreign exchange contracts	21	-
Other	-	-
	$ 15,851	$ 15,870
Taxable temporary differences:		
Property, plant and equipment	2,095	4,162
Inventory	3,617	4,253
Other	833	936
Net deductible temporary differences	$ 9,306	$ 6,519

b) Income tax expense

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

		2010		2009
Current	$	3,866	$	2,059
Future (recovery)		(488)		(191)
	$	3,378	$	1,868

The provision for income taxes in the consolidated statement of operations represents an effective tax rate different from the Canadian statutory rate of 34.0% (2009 – 35.0%). The differences are as follows:

		2010 Amount	%		2009 Amount	%
Income tax expense computed at statutory rates	$	(818)	34.0%	$	10,063	35.0%
Income of the partnership distributed directly to unitholders		2,671	-111.0%		(2,571)	-8.6%
Income of foreign subsidiary not subject to tax		(1,979)	82.2%		(1,683)	-5.6%
Valuation allowance on losses		1,543	-64.1%		(2,785)	-9.3%
Other tax differences		1,961	-81.5%		(1,156)	-3.8%
	$	3,378	-140.4%	$	1,868	7.7%

14. EARNINGS (LOSS) PER UNIT

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

Year ended December 31		2010		2009
Basic				
Net earnings (loss)	$	(7,489)	$	26,148
Weighted average number of units outstanding		51,127		51,127
Earnings (loss) per unit	$	(0.15)	$	0.51

The effect of potential dilutive securities, being the Class E 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 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 for the rights to fish shrimp and turbot. 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 53.66% from April 1, 2008 onwards.

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

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

	2010	2009
Due to joint venure partner	3,040	3,201
Deferred gain	8,903	10,057
	11,943	13,258

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 $3,377 (2009 - $2,133). The amortization in 2010 of the gain of $1,126 (2009 - $1,219) is included in depreciation and amortization expense.

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

	2010	2009
Current assets	$ 11,768	$ 12,404
Property, plant, equipment and other long-term assets	32,145	36,855
Current liabilities	3,456	3,645
Long-term liabilities	2,520	3,376

c) Proportionate share of sales, expenses and earnings before taxes

December 31	2010	2009
Sales	$ 28,374	$ 26,333
Expenses	24,780	23,765
Earnings before taxes	3,594	2,568

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:

	2010	2009
Accounts receivable from joint venture partner	$ 22	$ 65
Accounts payable to joint venture partner	50	210
Due to joint venture partner, long-term	3,014	3,201

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

December 31	2010	2009
Commissions charged to joint ventures	$ 2,802	$ 2,265
Interest charged to joint ventures	89	198

As at December 31, 2010 Clearwater was contingently liable for the obligations of the joint venture partners in the amount of $3,135 (December 31, 2009 - $3,411), 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 $6,954 (December 31, 2009 - $8,819).

The following is a summary of the cash flows from operating, financing and investing for the year ended:

	2010	2009
Cash flow (used in) from operating activities	6,578	5,101
Cash flow (used in) from financing activities	(8,042)	(854)
Cash flow (used in) from investing activities	(26)	(1,657)

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) Sales by product category

Year ended December 31		2010		2009
Scallops	$	112,499	$	116,362
Lobster		61,261		65,234
Clams		60,122		49,305
Coldwater shrimp		35,553		33,125
Ground fish and other		8,024		8,116
Crab		13,657		11,924
	$	291,116	$	284,066

c) Sales by geographic region

Year ended December 31		2010		2009
United States		59,277	$	66,848
Europe				
France		52,816		51,903
Belgium		8,286		3,799
UK		16,127		19,498
Other *		34,087		26,916
Asia				
Japan		31,188		25,343
China		22,212		22,390
Hong Kong		9,678		8,079
Other		14,076		12,810
Canada		41,717		44,713
Other		1,652		1,767
	$	291,116	$	284,066

* All other countries were less than 5% of total sales

d) Geographic information

		December 31 2010		December 31 2009
Property, plant, equipment, licences and goodwill				
Canada	$	204,435	$	213,203
Argentina		14,790		14,148
Other		166		228
	$	219,391	$	227,579

17. RELATED PARTY TRANSACTIONS

Clearwater had the following transactions and balances with CFFI, the controlling shareholder of Clearwater, during 2010 and 2009.

Year ended December 31 In 000's		2010		2009
Transactions				
Charged to (by) CFFI for rent and other services (net)	$	(318)	$	183
Balances				
Due from CFFI	$	1,700	$	1,400

In addition Clearwater was charged approximately $122 for vehicle leases in 2010 (2009 - $133) and approximately $176 for other services in 2010 (2009 - $141) by companies controlled by a relative of an officer of Clearwater. There was also a management fee charged to a joint venture partner in 2010 of $357 (2009 – $353).

At December 31, 2010 Clearwater had a long-term receivable of $2,343 (2009 - $2,947), included in other long term assets, for advances on dividends made to a minority shareholder in a subsidiary (refer to note 4).

These transactions 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 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 risk and refinancing risk as appropriate.

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.

The capital structure is as follows:

In (000's of Canadian dollars)	December 31 2010	December 31 2009
a. Equity – Partnership units	$ 165,942	$ 164,770
b. Convertible debt, Class E units, due in 2013	42,544	44,338
c. Convertible debt, Class D units, due in 2014	42,458	41,967
d. Non-amortizing debt		
Bond payable, due in 2010	6,635	10,519
Bond payable, due in 2013	30,302	28,345
Term debt, due in 2012	16,404	16,051
Term loan, due in 2091	3,500	3,500
	56,841	58,415
Amortizing debt		
Revolving debt, due in 2012	25,798	26,873
Term debt, due in 2012	33,864	37,935
Marine mortgage	3,135	4,004
Other loans	758	585
	63,555	69,397
Deficit	(124,558)	(117,069)
Contributed surplus	2,609	1,816
	$ 249,391	$ 263,634

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 (refer to note 7).

During the course of refinancing the debt facilities that matured in June 2009, Clearwater and Glitnir Banki hf reached an agreement, in the second quarter of 2009, to resolve issues concerning any potential liability associated with foreign exchange derivative contracts entered into with Glitnir. Under the agreement all outstanding derivative contracts were closed, to remove any uncertainty going forward, and the potential liability under these contracts was capped at $13.97 million.

In November 2009 Clearwater commenced litigation on its position that these contracts are null and void. If Clearwater is successful, there is a minimum settlement of $2.9 million represented by a note secured by a subordinated charge on all of Clearwater's assets. The note is due September 15, 2012. To the extent Clearwater is not successful in its position Clearwater will become liable for the difference between the final amount due, subject to the $13.97 million cap, less the $2.9 million minimum, under a second secured note due the later of September 15th, 2012 and 30 days after the final court ruling. Both notes will bear interest at Libor plus 7% until such time as they are settled. Interest is accrued annually and will be payable upon maturity of the notes. Both notes are subject to a subordination agreement with the senior lenders. As of

December 31, 2010 Clearwater has included in other long term liabilities an estimated $15.6 million (2009 - $14.5 million) liability associated with these contracts, including accrued interest pending completion of expected legal proceedings against Glitnir (refer to note 8).

In addition, Clearwater has a number of interest rate and cross currency swap contracts with Glitnir. Clearwater has consulted with external legal counsel and has received advice that these contracts may become declared null and void. These contracts would allow Clearwater to receive a net of 1.2 billion ISK and pay $25 million Canadian, US $9.7 million, 3 million Pounds Sterling and Euro 2.5 million. The terms of the swap agreements also economically hedge the changes in the Icelandic Consumer Price Index ("CPI"). As of December 31, 2010 Clearwater has included in derivative financial instruments an estimated $9.8 million (2009 - $11.2 million) liability associated with these contracts pending completion of expected legal proceedings with Glitnir (refer to note 7(a)).

The total liability associated with these items of $25.4 million ($15.6 million for the notes plus $9.8 million for interest rate and cross currency swap contracts) was included in current and other long-term liabilities as of December 31, 2010. As of December 31, 2009 the total liability associated with these items of $25.7 million ($14.5 million for the notes plus $11.2 million for interest rate and cross currency swap contracts) was included in current and other long-term liabilities (Refer to notes 7(a) and 8).

Clearwater also has approximately Canadian $1.9 million recorded as a cash deposit with Glitnir for the purpose of settling a similar amount of ISK denominated bonds. This amount is included in other long term assets (refer to note 4). Clearwater believes it will receive the full value of this deposit through the settlement of the issues with Glitnir.

In November 2009, Clearwater commenced litigation with Glitnir in relation to outstanding issues including cash held on deposit at Glitnir, damages related to the financing term sheet for the failed privatization in October 2008, foreign exchange forwards and options and cross currency and interest rate swaps.

While the assumptions reflect management's best estimates, they are subject to the measurement uncertainty associated with the specifics of the contracts, the inactive market for these contracts and the status of ongoing negotiations with Glitnir. As a result, material revisions could be required to these estimates in future periods.

20. CONTINGENCIES

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.

21. COMPARATIVE FIGURES

Certain 2009 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2010.

Quarterly and unit information

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

	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	77,824	85,417	65,215	62,660	68,394	74,483	70,176	71,013
Net earnings (loss)	1,028	2,204	(4,474)	(6,247)	(2,426)	684	11,290	16,600
Per unit data								
Basic net earnings (loss)	0.02	0.04	(0.09)	(0.12)	(0.05)	0.01	0.22	0.32

Trading information, Clearwater Seafoods Income Fund, symbol CLR.UN

	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Trading price range of units (board lots)								
High	1.28	0.98	1.13	1.03	1.09	1.26	1.30	0.89
Low	0.76	0.80	0.80	0.80	0.75	0.93	0.67	0.41
Close	1.02	0.82	0.87	0.84	0.92	1.05	1.00	0.65
Tranding volumes (000's)								
Total	1,767	394	751	695	1,342	1,247	1,302	1,513
Average daily	30	7	13	12	25	23	19	17
Units outstanding at end of quarter								
Units	28,245,695	28,245,695	28,245,695	28,245,695	27,745,695	27,745,695	27,745,695	27,745,695
Special	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217
Total	51,626,912	51,626,912	51,626,912	51,626,912	51,126,912	51,126,912	51,126,912	51,126,912

Selected Annual Information

	2010	2009	2008	2007	2006
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Sales	$ 291,116	$ 284,066	$ 301,204	$ 302,681	$ 315,736
Cost of goods sold	234,854	240,215	261,443	232,584	228,423
Gross profit	56,262	43,851	39,761	70,097	87,313
Administration and selling	26,883	25,724	25,926	37,818	38,245
Gain on disposals and other income	3,073	(6,567)	8,858	(8,333)	(3,710)
Foreign exchange loss (income)	2,992	(30,642)	80,210	(18,633)	9,990
Interest on long-term debt and bank charges	23,965	25,342	19,113	16,745	14,063
Depreciation and amortization	690	236	586	14,406	14,766
Reduction in foreign currency translation account	1,066	703	-	2,644	2,369
	58,669	14,796	134,693	44,647	75,723
Earnings before the undernoted	(2,407)	29,055	(94,932)	25,450	11,590
Income taxes	3,378	1,868	4,595	365	4,123
Earnings before minority interest	(5,785)	27,187	(99,527)	25,085	7,467
Minority interest	1,704	1,039	2,878	4,134	5,633
Net earnings	$ (7,489)	$ 26,148	$ (102,405)	$ 20,951	$ 1,834

CORPORATE INFORMATION

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Bernard Wilson
Former Vice Chairman, PricewaterhouseCoopers

Harold Giles
Independent Consultant

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

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OFFICERS OF CS MANPAR INC.

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Eric R. Roe
Chief Operations Officer

Michael D. Pittman
Vice-President, Fleet

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

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