

CLEARWATER SEAFOODS INCOME FUND

ANNUAL INFORMATION FORM

March 29, 2011

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CLEARWATER SEAFOODS INCOME FUND

The Fund

Clearwater Seafoods Income Fund (the “**Fund**”) is an unincorporated open-ended trust established under the laws of the Province of Ontario pursuant to a declaration of trust dated June 5, 2002, as amended (the “**Declaration of Trust**”). The Fund is administered by its trustees (the “**Trustees**”) and by Clearwater Seafoods Limited Partnership (“**Clearwater**”) pursuant to an administration agreement entered into by the Fund and Clearwater, among others, in July 2002 (the “**Administration Agreement**”). The principal and head office of the Fund is located at 757 Bedford Highway, Bedford, Nova Scotia B4A 3Z7.

The Fund holds an approximate 54.27% interest in Clearwater, which carries on the seafood business that was carried on by Clearwater Fine Foods Incorporated (“**CFFI**”) and its subsidiaries and joint ventures (“**Clearwater**”) immediately prior to July 2002, the date of completion of the Fund’s initial public offering.

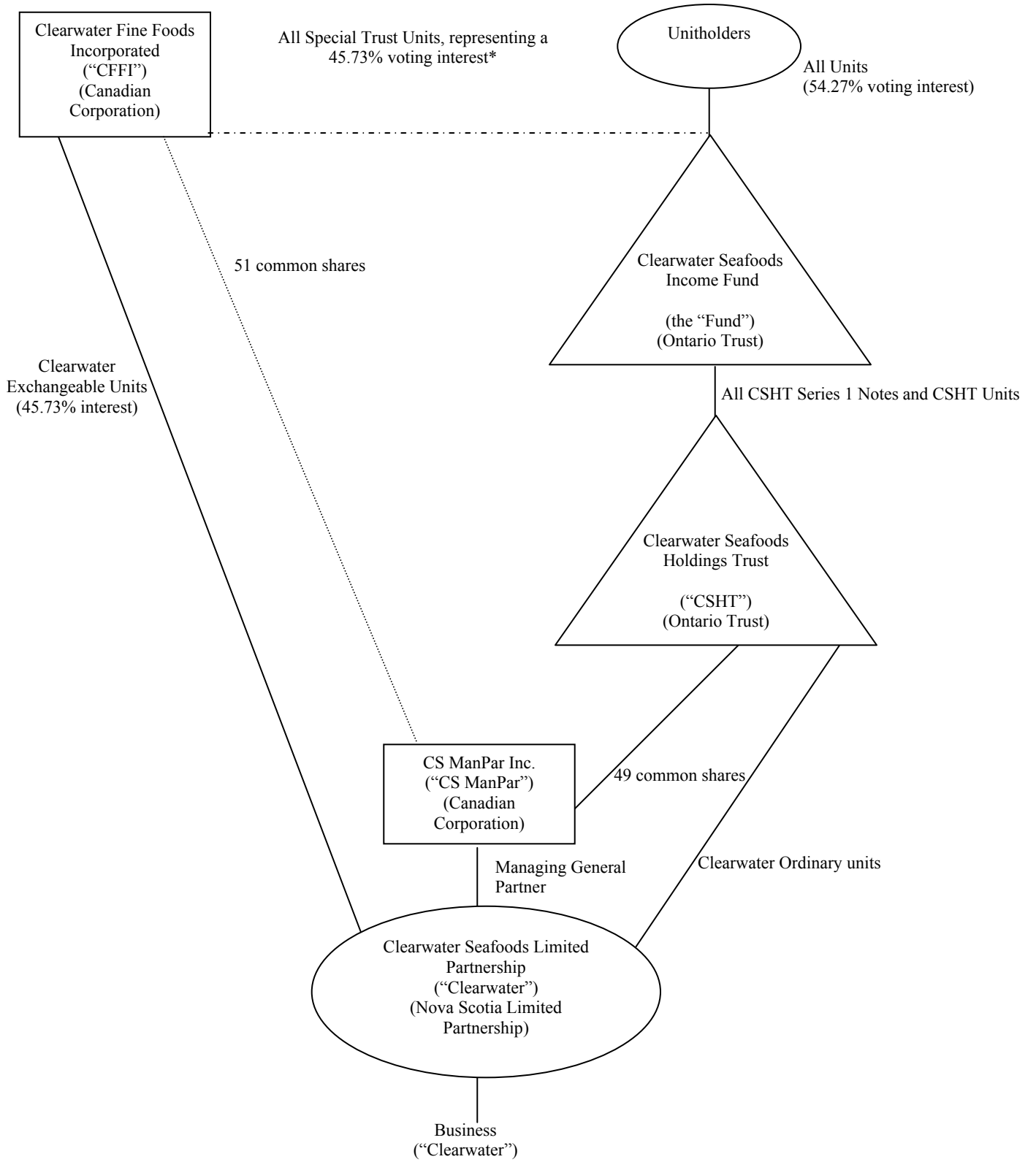
Clearwater Seafoods Holdings Trust

Clearwater Seafoods Holdings Trust (“**CSHT**”) is an unincorporated open-ended trust established pursuant to a declaration of trust dated July 17, 2002, as amended, and governed by the laws of the Province of Ontario. CSHT is wholly owned by the Fund and is the vehicle through which it holds its investment in Clearwater.

Clearwater

Clearwater is a limited partnership established under the laws of the Province of Nova Scotia to carry on, directly or indirectly, the business of, and the ownership, operation and lease of assets and property in connection with, the harvesting, processing, distribution and marketing of seafood, including the Clearwater business, and such other businesses as the directors of CS ManPar Inc. (“**CS ManPar**”), the managing general partner of Clearwater, may determine, and all activities ancillary and incidental thereto. The general partners of Clearwater are CS ManPar, which is the managing general partner, and CFFI.

Structure of the Fund



* CFFI owns 48.23% of the Fund on a fully diluted basis through its ownership of 23,381,217 Special Trust Units and 1,275,205 Units.

ADMINISTRATION AGREEMENT

In July 2002, Clearwater Seafoods Income Fund (“the **Fund**”), Clearwater Seafoods Holding Trust (“**CSHT**”) and Clearwater Seafoods Limited Partnership (“**Clearwater**”) entered into the Administration Agreement. Under the terms of the Administration Agreement, Clearwater agreed to provide (for no additional consideration, other than payment to Clearwater of out-of-pocket expenses for provision of such services), administrative and support services to the Fund and CSHT, including (without limitation) those necessary to: (i) ensure compliance by the Fund with continuous disclosure obligations under applicable securities legislation; (ii) provide investor relation services; (iii) provide or cause to be provided to Unitholders all information with respect to income taxes; (iv) call and hold meetings of Unitholders and holders of Special Trust Units and distribute required materials, including notices of meetings and information circulars, in respect of all such meetings; (v) assist the Trustees in calculating distributions to Unitholders; (vi) attend to all administrative and other matters arising in connection with any redemption of Units, units of CSHT (“**CSHT Units**”) and CSHT series 1 notes (“**CSHT Series 1 Notes**”); and (vii) ensure compliance with the Fund’s limitations on non-resident ownership. No amounts were charged for out-of-pocket expenses in 2002 through to 2010.

GENERAL DEVELOPMENT OF THE FUND AND CLEARWATER

Prior to July 2002, when the Fund completed its initial public offering (the “**Closing**”), it did not hold any material assets. The proceeds of the Fund’s initial public offering (together with the proceeds from exercise of the over-allotment option granted in connection therewith), net of underwriting and other costs, were used to purchase, indirectly, an approximate 49.9% interest in Clearwater.

Set forth below are material transactions that have taken place over the past three years:

- In March 2007, 7,372,881 and in April 2007 an additional 769,831 Class D Limited Partnership Units (“Class D units”) were issued by Clearwater (indirectly) to the Fund concurrently with the issue by the Fund of \$48 million of Convertible Debentures due March 31, 2014. The Class D units are non-voting and redeemable and retractable at a price of \$5.90 per Unit, subject to certain conditions. These Units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the Convertible Debentures of the Fund and in a manner that ensures that the distributions on the Class D units will be able to (indirectly) fund the ongoing interest payments on the Convertible Debentures.
- During 2007, the Fund repurchased and redeemed \$2 million of its 7% Convertible Debentures due in 2010 and approximately \$3.7 million of its 7.25% Convertible Debentures due in 2014. This repurchase at the Fund level was accompanied by a similar repurchase of Class C and Class D Limited Partnership units by Clearwater respectively.
- In January 2007, the Fund received approval for a normal course issuer bid which enabled it to purchase up to 2.5 million trust units until January 2008. During 2007, 1,162,100 units were repurchased at a cost of \$5.6 million. During 2008 500,000 units were repurchased at a cost of \$2.3 million.
- On November 12, 2010 Clearwater received Debentureholder approval to amend the terms of the 7% convertible debentures as follows: the term was extended from December 31, 2010 to December 31, 2013, 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 Class C units were renamed as Class E units. As a result of the change in the conversion price there are now 13,846,153 Class E units outstanding.

- As of December 31, 2010 there remain outstanding 27,745,695 Units, 23,381,217 Special Trust Units, \$45,000,000 of 10.5% Convertible Debentures due in 2013 and \$44,398,000 7.25% Convertible Debentures due in 2014.

The Fund does not have the right to nominate the majority of the Board of Directors of Clearwater, so it does not consolidate the results of Clearwater's operations, but accounts for the investment using the equity method.

BUSINESS OF CLEARWATER

Clearwater is recognized for its consistent quality, wide diversity and reliable delivery of premium seafood including scallops, lobster, clams, coldwater shrimp, crab and groundfish.

Clearwater harvests, processes and sells approximately 66 million pounds of seafood annually. Its operations consist primarily of:

- harvesting premium shellfish in the offshore fisheries off the coasts of Atlantic Canada and Argentina;
- processing shellfish on board state-of-the-art factory vessels or in modern shore-based processing plants in Atlantic Canada; and
- marketing and distributing premium shellfish to approximately 1,000 customers in North America, Europe and Asia.

Clearwater was established in 1976. Since then, it has developed new fisheries, acquired other seafood enterprises and formed strategic alliances to build a profitable international seafood enterprise. Today, Clearwater's unparalleled access to a diverse variety of premium shellfish provides it with a secure and stable source of revenues. In addition, Clearwater's investments in its operations and focus on innovation have allowed it to develop an efficient infrastructure.

Clearwater currently has operations in Canada, the United States, Europe, Asia and Argentina, employing approximately 1,200 people worldwide as of December 31, 2010. It currently operates 10 factory vessels ranging in size up to 235 feet. Clearwater's factory vessels are able to harvest, process and freeze product while at sea, which results in higher quality and, as a result, higher prices for its seafood compared to seafood, which is processed and frozen on land. Clearwater also operates six modern shore-based processing plants and two distribution facilities, allowing Clearwater to effectively service its international customer base in North America which represents 35% of sales (40% of sales in 2009), Europe 38% of sales (36% of sales in 2009) and Asia 27% of sales (24% of sales in 2009).

Clearwater's Corporate Strategy

Since its inception in 1976, Clearwater has grown to become a leader in the global seafood industry. It has accumulated a large portfolio of licences and quotas to harvest a diverse range of shellfish and operates modern, state-of-the-art vessels and processing facilities.

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 long term. 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.

Products

Clearwater harvests and processes five premium shellfish species (including: scallops both Canadian and Argentine, lobster, clams, coldwater shrimp and crab) and groundfish. It is the largest holder of quotas (or rights with respect thereto) in Canada for each of these shellfish species, except crab. The harvesting and processing systems are unique to each product and are the responsibility of distinct business units. All of the products are marketed and distributed by a coordinated sales department.

Scallops

In 2010, Clearwater had scallop sales of approximately \$112.5 million.

Canada

Clearwater holds quotas, directly and indirectly, for 49% of the total allowable catch in the Atlantic Canada offshore sea scallop fishery.

Many species of scallops are caught around the world. Those caught off the east coasts of Canada and the United States, *placopectan magellanicus*, are the largest single source of their particular size range, which is larger and premium priced compared to smaller, competing species.

The harvesting part of Clearwater's sea scallop business is operated from the South Shore of Nova Scotia. In the fall of 2002, Clearwater started a renewal program for its sea scallop fleet by building two, state-of-the-art vessels at an aggregate cost of \$26 million (the Atlantic Leader which was delivered in June 2002 and the Atlantic Guardian which was delivered in February 2003). These two vessels contain facilities on board that permit the sea scallops to be harvested, processed and frozen while at sea. In August 2004 Clearwater acquired two additional vessels, which were converted to factory freezer scallop vessels in 2005. The total cost to acquire and convert the vessels, including owner-supplied materials and related costs, was approximately \$21 million and these vessels entered the fishery in late 2005. The investment in these vessels completed Clearwater's vision to convert its scallop fleet to factory vessels. These vessels have provided incremental contributions by enabling Clearwater to produce a higher quality frozen-at-sea scallop that sells for a premium in the market. In addition, the vessels have enabled Clearwater to increase the efficiency of its harvesting operations by reducing the number of vessels employed, thus lowering its costs.

In May 2003, Clearwater completed the High Liner Transaction, acquiring certain scallop licences and quotas that increased Clearwater's ownership in total allowable catch ("TAC") of sea scallops in Atlantic Canada from 36% to the current level.

Sea scallops are processed and packaged at Clearwater's modern facility located in Lockeport, Nova Scotia. Major investments in the latest processing technologies at this facility reduced production costs over the past number of years and virtually eliminated "broken" sea scallops during the production process, thereby increasing yields over the same period. Sophisticated, automated grading machines enable Clearwater to offer customers more consistent and precise size grading. This size grading permits Clearwater to obtain greater value for its catch through improved handling processes that significantly reduce operating costs.

The market for Canadian sea scallops has been diversified into Europe and Asia from a primarily North American market prior to 1987.

Innovations introduced by Clearwater, bottom imaging technology and vessel tracking systems, have provided the industry and the Department of Fisheries and Oceans (the "DFO") with the ability to better understand the resource and have permitted Clearwater to harvest its quota more efficiently. An example is the ability to identify particular beds of sea scallops and to target its harvesting operations more specifically. This technology also permits identification of areas where the sea scallops are not at full maturity so as to allow operators to defer harvesting in those areas until maturity is reached.

Argentina

Participation in the Argentine scallop fishery, which has been operating since 1996, is limited to four licences that are currently held by two companies. Clearwater, through its 80% owned subsidiary, owns two of the four outstanding licences and operates two vessels. Similar to Canada, Argentina annually establishes a total allowable catch on a geographic basis. The Argentine authorities have demonstrated a keen interest in prudent, scientifically-guided management principles and have introduced a Canadian-type regulatory regime designed to ensure the fishing effort is closely matched with sustainable catch levels. Clearwater is actively engaged in research activity with INIDEP, the Argentine scientific authority, in carrying out research designed to determine biomass, growth rates and other resource parameters.

Argentine scallops are much smaller than Canadian sea scallops and, as a result, are processed mechanically on board harvesting vessels. As this species of scallop had prior to 1996 not been caught and processed, much of the equipment now utilized on board Clearwater's vessels was designed and manufactured on a custom basis. Although there were significant start-up costs and effort associated with the development of this capability, Clearwater believes it has now developed leading-edge technology.

The factory vessels remain at sea for several weeks at a time. The Argentine scallops harvested are removed from the shell using sophisticated on-board processing techniques developed by Clearwater. Argentine scallops are graded, frozen and packaged on board the vessels. On landing in Argentina, the frozen product is loaded into containers ready for export either directly to the European market, which applies to the majority of the Argentine scallops, or, to Clearwater's plant in Lockeport, Nova Scotia where the product is generally repackaged for sale in North America. After landing their product, the vessels are re-fuelled, the crew is changed and the vessel is typically back at sea within 36 hours.

The primary market for Clearwater's Argentine scallops is France and other European countries. These small size scallops have found a ready market in the recipe dish processing sector and a robust market in France has been developed. However, Clearwater has also developed a market in North America for this product. Management believes there is a growing interest in the value-added segment as the food industry commits to finding new ways to make seafood more convenient for the consumer. This trend should support growing demand for the quality product produced by Clearwater's frozen-at-sea processing methods.

In December 2006, Clearwater's Argentine subsidiary company, Glaciar Pesquera SA was awarded the privilege to display the blue eco-label from the Marine Stewardship Council (MSC) on its Argentinean scallop products. The Argentine scallop fishery is the first scallop fishery in the world to receive this rigorous independent certification. The MSC certification comes with the privilege to display the blue eco-label on scallop products from this fishery. MSC certified products have a growing audience in North America and European markets as a result of the increased interest in products from well-managed and sustainable fishery efforts. The logo is evidence that the fishery meets the strict environmental standards set by the MSC and the product originates from a sustainable and well-managed fishing resource.

Lobster

There are only eight Canadian offshore lobster fishing licenses, all of which are held by Clearwater. In addition, in 2010, Clearwater purchased approximately 6.3 million pounds of lobster from independent inshore harvesters. Clearwater's inshore purchases represented approximately 5.0% of the total Canadian inshore catch. In 2010, Clearwater had lobster sales, including its raw lobster product of \$61 million.

The term "lobster" is used liberally to describe many varieties of the shellfish, some with two claws, some with none. *Homarus Americanus*, one of the two clawed varieties, with average weights in excess of one pound when caught are found only on the Northeast coasts of the United States and of Eastern Canada. In 2009 Catch volumes in Canada were approximately 57,000 metric tonnes and they were approximately 45,000 metric tonnes in the Northeast United States. Collectively these catches represent the largest source of any of the internationally available lobster species.

In July 2004, Clearwater completed construction of a new \$4 million lobster processing facility. This investment has enabled Clearwater to produce a new premium quality raw lobster product. This raw lobster meat product complements our quality live lobster offering and leverages our international reputation for lobster through the addition of a value-added product.

Clearwater is now using a non-invasive scanning device derived from a medical diagnostics technology when purchasing and grading incoming lobster shipments and identifying the highest quality lobsters from each shipment. The device, which was more than 15 years in the making, can determine meat content and blood protein concentration in each of the approximately 8 million pounds of lobsters purchased and harvested each year. The measurements can be made on more than 100 individual lobsters every minute and determines lobster quality and health. To the consumer this translates into a superior eating experience with fully meated lobsters 100% of the time.

Clearwater operates two long-term storage facilities, or dryland pounds. These innovative facilities allow Clearwater to store up to 2.5 million pounds of lobsters in a live and healthy condition for periods up to six months. Long-term storage techniques are important as the fishery only produces an excellent quality product during the late fall and early spring. These facilities gather lobster from Clearwater's own fleet of lobster vessels and the network of inshore fishermen from whom Clearwater purchases product. On arrival at the facilities, lobsters are graded for their biological ability to withstand extended storage and are sized, sorted, stored and inventoried accordingly. These unique facilities permit Clearwater to provide its customers with a consistent quality product year round and have allowed it to be a pioneer in the development of new markets for Canadian lobster around the world. From the two facilities, lobsters are sent to packing and distribution facilities.

Virtually all of Clearwater's live lobster is shipped live to its customers by air or other overnight carriers. Clearwater's major lobster customers represent large distributors, grocery and restaurant chains and seafood specialty outlets in North America, Europe and Asia. The proximity of the facilities to the

Halifax airport provides Clearwater with the ability to ensure maximum quality to its international customers. .

Clearwater works closely with the DFO and conducts ongoing sampling and monitoring programs, which provide it with the information necessary to make informed resource management decisions. In the offshore lobster industry, important stock indices such as catch per trap haul, male/female ratios and size distribution point to a stable, well managed fishery. Like the offshore sea scallop fishery, ocean floor mapping contributes to an understanding of the lobster resource and its habitat. This knowledge is improving management practices and reducing operating costs through increased harvesting efficiency. The DFO does not manage lobster on the basis of biomass. Rather, the health of the resource is assessed on the basis of catch per trap haul, size data and sex ratios.

Lobsters harvested in the offshore fishery are on average significantly larger than lobsters caught by inshore fishermen. Clearwater's year round access to these large size lobsters, combined with its expertise in live lobster storage, handling and distribution, have led to the development of lucrative niche markets where customers require large size lobsters for special menu applications.

In 2008 and 2009 Clearwater invested \$7.5 million in the conversion of a vessel for the lobster fleet. The new vessel is larger, safer and has a more stable platform and is capable of operating 24 hours a day fishing in all types of weather. This conversion included the addition of an on-board temperature controlled storage facility; a conveyor and weighing/grading system similar to Clearwater's shore plants that minimizes handling in all areas of the operation; a semi-automatic trap handling system and a more automated unloading system to ensure fast discharge and proper handling which minimizes damage and stress. This vessel lowers the average age of the lobster fleet, improves operating efficiency and reliability of fishing efforts, significantly lowers fuel consumption and permits greater stability in crewing. As a result, Clearwater retired 3 vessels in the first quarter of 2009 leaving it with a fleet of 2 vessels

Clams

There are three offshore Arctic surf clam fishing licences, issued in the Canadian fishery, all of which are held by Clearwater, thereby providing Clearwater with a quota equal to 100% of the TAC. Clearwater's licences also permit it to land northern propeller clams and Greenland cockles taken as a by-catch during the harvesting operations for Arctic surf clams. Clearwater was a pioneer in the development of this fishery, which began in 1986. In 2010, Clearwater had clams sales of \$56 million.

Clearwater's on-shore facilities include a plant in Grand Bank, Newfoundland that is the primary facility for the grading and packaging of whole clams. Clearwater outsources the production of other products to manufacturers in China and the United States.

Clearwater operates this fishery with two offshore harvesting/processing vessels. Arctic surf clams are harvested through a dredging process and once on-board, the surf clams are immediately removed from the shell, blanched and frozen. The product from these vessels is landed at Clearwater's shore-based facilities in Grand Bank, Newfoundland where the product may be custom cut, graded and repackaged. Much of the equipment in use in this plant has been designed by Clearwater specifically to promote the efficient handling and processing of Arctic surf clams. This clam species is distinct from its American counterpart in that it turns a bright red when cooked. The cosmetic value of this colour change and its superior taste and quality makes the product ideal for the Japanese, Chinese and American markets. These markets value the frozen product, primarily used for sushi, at significantly higher prices than the value attributed to clams packaged in cans. In recent years Clearwater has developed marketing initiatives with the intent to increase Arctic surf clam sales outside of Japan, thereby providing greater market diversification.

As Clearwater was the pioneer of this fishery and now is the controlling license holder, the database of scientific information regarding this resource has become its responsibility to develop. These clams are a slow growth species, taking 10 to 12 years to reach commercial size. Sustainable management practices are therefore crucial to a stable fishery. Clearwater regularly conducts research cruises over the two fishing banks, in part, to assess biomass.

Until 2001, little attention was paid to the commercial prospects for the by-catch of northern propeller clams and Greenland cockles. Clearwater has expanded the offshore clam fishery beyond Arctic surf clams to include northern propeller clams and Greenland cockles, both of which are suitable for use in chowders, as well as in other applications. Product and market development work for them continues.

Coldwater Shrimp

Clearwater holds and has rights to, through its 53.66% ownership in a joint venture, 24.83% of the TAC in the offshore coldwater shrimp fishery in Atlantic Canada. This combined with purchases of inshore shrimp, resulted in sales of \$36 million in 2010.

Coldwater shrimp has been harvested by two factory freezer trawlers, the Ocean Prawns and the Atlantic Enterprise (the vessels are owned by a joint venture partnership in which Clearwater has a 53.66% interest).

Effective April 1, 2008, Clearwater renewed and expanded its joint venture agreement for its shrimp harvesting operations. The key terms of this agreement included an extension of the joint venture for a further 10 years, the contribution by the other partner of the factory vessel Ocean Prawns and the contribution by both partners of rights to fish shrimp and turbot fishing quotas. Each partner's ownership percentage in the joint venture was adjusted to reflect the contribution of the vessel and use of quotas such that Clearwater's share of the joint venture earnings have increased from 50% to 53.66% from April 1, 2008 onwards. This joint venture has enabled Clearwater and its partner to combine shrimp harvesting assets and related shrimp and turbot quotas into a larger operating entity that has created efficiencies and improved profits for the business with significantly less capital employed.

In the past, the coldwater shrimp harvested in this Canadian offshore coldwater shrimp fishery was mostly sold into the Japanese market in raw format and into the European market as a cooked product, both of which are produced at sea on board the vessels that harvest the coldwater shrimp. However, in the last number of years, markets in China and Russia have opened and now represent a significant portion of the sales of this product.

In addition to its offshore coldwater shrimp harvesting business, Clearwater is a 75% partner in a coldwater shrimp processing plant in St. Anthony, Newfoundland. This plant commenced operations in 1999 and produces cooked and peeled coldwater shrimp and has a capacity to process 22 million pounds of coldwater shrimp annually. Leading retailers in the United Kingdom and North America, as well as the Danish brining industry have approved the facility. The United Kingdom and Denmark represent a significant percentage of the market for cooked and peeled coldwater shrimp.

Coldwater shrimp biomass is at levels never before observed. Clearwater's investment in FAS vessel technology positions it to take advantage of this resource by being a low cost producer and by having the processing flexibility to produce in high volumes to meet the requirements of different markets.

In September 2008, the Canadian northern prawn fishery was awarded the privilege to display the blue eco-label from the Marine Stewardship Council (MSC). The MSC certification comes with the privilege to display the blue eco-label on scallop products from this fishery. MSC certified products have a growing audience in North America and European markets as a result of the increased interest in products

from well-managed and sustainable fishery efforts. The logo is evidence that the fishery meets the strict environmental standards set by the MSC and the product originates from a sustainable and well-managed fishing resource.

Groundfish and other

Clearwater has licenses to harvest turbot in Atlantic Canada. In 2010, sales were \$6.9 million. Although certain of the groundfish stocks continue to be the subject of moratoria, there are a number of viable stocks in some areas of Atlantic Canada, specifically the ones Clearwater harvests. In May 2003, Clearwater completed the High Liner Transaction pursuant to which Clearwater acquired certain groundfish licenses and quotas in respect of pollock, redfish, flounder, haddock and cod from High Liner. Clearwater leased these quotas in the past to third parties for a royalty. Clearwater viewed these quotas as non-core, and has sold the majority of them off and will continue to sell the rest as the opportunity for return from quota sales is greater than leasing them out.

Clearwater's crab processing facilities are located in Glace Bay, Nova Scotia and St. Anthony, Newfoundland and Labrador. These plants operate on a seasonal basis when producing crab. In 2010 Crab sales totaled \$13.7 million.

Facilities and Capital Expenditures

Clearwater directly and through its subsidiaries currently operates 10 factory vessels and six shore-based processing plants. With the exception of two harvesting vessels with processing capabilities engaged in the Argentine scallop fishery, these vessels and plants are all based in Atlantic Canada.

Clearwater maintains the largest fleet of factory freezer vessels in Canada. The condition and operating capability of these vessels is paramount for Clearwater successfully operating in its fisheries. During the past five years, Clearwater has invested approximately \$31.7 million on its fleet, its onshore processing facilities and licences. Clearwater typically replaces vessels early due to the 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 the historic capital expenditures and harvesting license investments (in thousands of dollars) for the past five years:

	2010	2009	2008	2007	2006	TOTAL
Return on Investment						
Vessels	\$ 717	\$ 1,200	\$ 22,200	\$ 7,600	\$ -	\$ 31,717
Plants and other	477	-	4,300	-	-	4,777
Licenses		-	10,000	5,300	-	15,300
Maintenance capital	8,100	3,300	7,000	3,500	1,900	23,800
	<u>\$ 9,294</u>	<u>\$ 4,500</u>	<u>\$ 43,500</u>	<u>\$ 16,400</u>	<u>\$ 1,900</u>	<u>\$ 75,594</u>

The amounts capitalized related to the clam vessel, the Atlantic Seahunter, that had capsized prior to Clearwater taking delivery were removed from the chart above. This vessel capsized in Taiwan prior to Clearwater taking possession in the third quarter of 2007. The result of the incident was a complete loss of the vessel for which Clearwater recovered the total cost invested through a claim filed with the shipyard. The capital expenditure amounts excluded from the table above include \$3.7 million in 2007, and \$18.7 million in 2006.

In addition to the amounts capitalized annually, Clearwater historically has spent and expensed an average of \$14.7 million a year over the past five years on the maintenance of its fleet and processing

plants. This reflects Clearwater's commitment to ensuring that its assets are kept in top condition enabling it to harvest and process its allowable catch efficiently and have additional processing capacity for selective procurement when required.

Vessel investments significantly impact the amount spent annually on capital expenditures. 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.

In 2009 capital expenditures were minimal as the majority of Clearwater's larger projects were largely completed in 2008. During 2009, Clearwater refitted 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 (2008 - \$6.2 million). In addition Clearwater completed a conversion of a shrimp vessel, through a 53.66% owned joint venture, incurring costs in 2009 of \$1.6 million (2008 - \$6.2 million). As a result of the relatively high debt and leverage levels, Clearwater has restricted our capital expenditures to core projects.

In 2008 Clearwater invested \$6.2 million to complete the conversion of a vessel for its clam fishery, and invested \$6.2 million in the conversion of a vessel for its lobster fishery. In 2008 Clearwater also invested approximately \$10 million relating to 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 most costly of Clearwater's vessels are the factory freezers, of which it has 10. 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.

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

- Two have been used to harvest shrimp and are on average 17 years old. These vessels provided incremental returns due to greater harvesting efficiencies and lower fuel costs. At the end of 2007, one of these vessels, the Arctic Endurance, was removed from the shrimp business to be converted to a clam vessel. In 2008 Clearwater, through its shrimp fishing joint venture, added a 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, lower costs and a new higher quality product, frozen-at-sea scallops.
- Two of Clearwater's vessels 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 of Clearwater's vessels are used to harvest clams and are on average 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.

Capital expenditures were \$9.3 million for the year ended December 31, 2010.

Harvesting

The following table sets forth the harvesting vessels utilized in Clearwater's harvesting operations, which include ten factory vessels and its other vessels.

Vessel	Principal Products
Atlantic Leader, Atlantic Guardian, Atlantic Protector ⁽¹⁾ , Atlantic Preserver, Cachalot ⁽²⁾ , Chockle Cap ⁽²⁾ , Freedom 99 ⁽²⁾ , E.E. Pierce,	sea scallops
Atlantic Prospect, Randell Dominaux (formerly know as the Nanuk)	lobster
Atlantic Surf I ⁽³⁾ , Atlantic Surf III ⁽³⁾	Argentine scallops
Ocean Concord, Arctic Endurance	Arctic surf clams
Atlantic Enterprise ⁽⁴⁾ , Ocean Prawns ⁽⁴⁾	coldwater shrimp
Tenacity	NA, research vessel

Notes

- (1) Co-owned, Clearwater has a 60% interest
- (2) Owned by a joint venture in which Clearwater has a 50% interest.
- (3) Owned by a subsidiary in which Clearwater has an 80% interest.
- (4) Owned by a joint venture partnership in which Clearwater has a 53.66% interest.

Processing

The following table sets forth the location and principal products of Clearwater's processing operations:

Location	Principal Products
Arichat, Nova Scotia ⁽¹⁾	lobster
Clark's Harbour, Nova Scotia ⁽¹⁾	lobster
Glace Bay, Nova Scotia ⁽¹⁾	snow crab
Grand Bank, Newfoundland	clams
Lockeport, Nova Scotia	sea scallop, processed lobster
St. Anthony, Newfoundland ⁽²⁾	coldwater shrimp, crab
Ushuaia, Argentina (under construction)	scallops

Notes

- (1) These facilities operate on a seasonal basis.
- (2) The plant at St. Anthony, Newfoundland is operated by a partnership, which is 75% owned by Clearwater.

Clearwater also owns its head office building located at 757 Bedford Highway, Bedford, Nova Scotia.

Sales, Marketing and Distribution Systems

Clearwater's strategy has always been to sell its products to a broad range of customers, customer types and geographic markets. This strategy has been complemented by a clear objective to deal as far into the distribution chain as possible and to avoid dependence on any one or group of customers. Clearwater relies on its own sales force dedicated to selling only its products. This has required the creation and maintenance of an internal sales and service support function and the operation of sales offices in all its important markets. These offices are staffed by a multilingual sales group able to do business in the language of the customer. Clearwater has focused its business on developing long-term partnerships with its customers rather than transactional relationships. The food industry has been characterized by significant consolidation at all levels, in retail and food service distribution, in the growth of corporate and theme restaurant chains and in the institutional catering business. This consolidating customer base is demanding a reduction in the number of suppliers with whom it does business and is focused on those relationships, which provide stability, breadth and depth of product offerings in their respective categories. More and more it is becoming important to demonstrate leadership and investment in a respective field in order to build and maintain profitable and growing relationships with the preferred customer base.

It is these drivers which have led Clearwater to focus on ensuring that it has the capability to offer year-round supply in an industry characterized by seasonal features, the ability to offer stable pricing in an industry in which price cycles can be measured in days and a commitment to consistency of quality in an industry where fragmentation often leads to the anonymity of supply sources and irregular quality and product specifications.

Examples of Clearwater's leading role in developing new customer relationships include:

- the first Canadian seafood company to guarantee year-round delivery of quality live lobster to the European and Asian markets;
- the first Canadian seafood company to open a sales office in China, where it now has three;
- the first Canadian seafood company to open and operate an overnight live and perishable distribution facility;
- the first Canadian seafood company to offer customer education programs in the form of the Lobster, Shrimp and Scallop Universities; and
- the first company in the world to obtain Marine Stewardship Council (MSC) certification for a scallop fishery (for the Argentine scallop fishery). Clearwater has since obtained MSC certification for its Canadian scallop fishery, offshore Canadian lobster and shrimp.

Clearwater operates its own freight-forwarding department with in-house logistics expertise in both air and ocean freight distribution and is among the largest users of refrigerated containers in Atlantic Canada. Clearwater believes that this in-house logistics capability (which removes the need to deal with transportation brokers, like many of its competitors) provides the high level of service demanded by its sophisticated customers.

Customers

Clearwater's customer base is diversified, both in terms of geographic markets and types of customer. Clearwater sells premium seafood products to retail chains, food distributors and corporate restaurants. No one customer of Clearwater represents in excess of 6% of its revenues. Clearwater also sells its products to a broad geographic market, including North America, Europe, China, Japan and other parts of Asia. This diversification mitigates the effects on Clearwater of adverse market conditions or low prices

in any particular segment of the seafood industry at a given time, thereby stabilizing Clearwater's revenues.

Research and Development

Clearwater has been a pioneer in the development of new markets for its premium seafood products. Clearwater's commitment to continuously introducing technological improvements has permitted it to improve product quality, reduce costs and enhance stewardship of the seafood resources that it harvests. These initiatives have secured Clearwater's reputation as a market leader and innovator. Clearwater shares its research and development with the DFO and other industry participants in order to assist in building sustainable resource management regimes.

Clearwater's innovations in technology have allowed it to develop major new businesses around several previously unexploited species, such as Arctic surf clams and Argentine scallops, and Clearwater's history of developing new fisheries is continuing.

Clearwater took the lead in bringing other offshore sea scallop companies together with the Canadian Hydrographic Service in a partnership that has produced accurate, three-dimensional maps of much of Canada's offshore sea scallop grounds. By integrating sophisticated multibeam sonar and data processing technology pioneered in Atlantic Canada, Clearwater's fishing captains now use electronic charts detailing seabed habitat, topography and sediment type. "Seeing" the ocean floor and mapping the specific habitat preferred by sea scallops, enables Clearwater's captains to be more efficient in catching its quota. The quality of the DFO's scientific advice on sustainable catch levels is also being significantly enhanced through the use of ocean floor maps during research surveys of the resource. Clearwater's management believes that the introduction of this new technology will also result in a higher average total allowable catch in the future.

Clearwater's technology has also provided it with the ability to deliver a better quality product in a more timely way to its customers around the world. As an example, Clearwater has been a leader in research and development of measures and systems to manage and reduce one of the single largest expenses in the lobster industry, mortality before delivery. Clearwater has developed and is the only company in Atlantic Canada to use an on-land "dryland pound" system to store lobster. The dryland pound keeps the lobster in premium condition for as long as six months, by simulating the lobster's natural wintering hibernation state, resulting in significantly lower mortality rates than traditional holding systems such as holding tanks, tidal pounds, or crates. Clearwater's lobster biologists also add value throughout the supply chain and have designed a unique "Lobster University" program to educate staff, fishermen, shippers and customers on proper handling, husbandry and storage techniques for lobster.

Clearwater is committed to developing improvements to enhance the sustainability of seafood resources, the quality of our products and the efficiency of our processes.

Competitive Conditions

All segments of the food supply industry are highly competitive. The primary seafood industry is highly fragmented representing minor share positions typically targeting price-conscious consumers. Although Clearwater has a number of competitors in each of its product categories, few of Clearwater's direct competitors offer the diversity of high quality seafood offered by Clearwater. Clearwater's diversity of its product mix mitigates the effects of fluctuations in the prices for any particular product at a given time, thereby stabilizing Clearwater's revenues in its customers currencies.

Human Resources

Clearwater employed approximately 1,200 individuals as of December 31, 2010. The number of employees fluctuates throughout the year based on raw material availability and other seasonal factors.

Clearwater has four collective agreements covering approximately 500 employees. The plant workers in Glace Bay, Nova Scotia are represented by the Canadian Auto Workers Union. The three year collective agreement with this plant expires on October 31, 2013. The plant workers in the two Newfoundland plants are represented by the Fish, Food and Allied Workers Union. The two year agreement for the plant in Grand Bank, Newfoundland expires on June 30, 2013. The three year agreement with plant workers in St. Anthony, Newfoundland expires on December 31, 2011. Clearwater also has a 5-year collective agreement with the crew of its Canadian factory sea scallop vessels which expires on May 31, 2013.

INDUSTRY

Consumption of Seafood

Although the size of the consumer food industry has been relatively stable for the last several years, an increasing awareness of the health benefits of seafood has fuelled an expansion of the worldwide consumption of seafood as an alternative to other protein sources, such as beef, chicken and pork.

Purchasers of seafood (such as retailers, food distributors and corporate restaurants) will pay a premium to a supplier of seafood that can provide consistent quality, wide diversity and reliable delivery of seafood, together with value-added education and marketing of “easy to prepare” seafood. In fact, growth in the consumption rates of seafood is, in part, attributable to the recent commitment in the retail food industry to offer seafood in a more convenient form. Clearwater is well positioned to take advantage of this opportunity because of its premium quality, wide diversity and year-round delivery capability, as well as its value-added educational programs, such as its “Lobster University”.

There are no dominant suppliers or purchasers in the seafood industry, but there is a growing trend towards consolidation. Clearwater, which is able to supply a large, diverse range of quality seafood, is well positioned to capitalize on the opportunities resulting from the consolidation of the purchasers of seafood (e.g., retailers, food distributors and corporate restaurants).

Harvesting of Seafood

The Atlantic Canada seafood harvesting industry, where Clearwater primarily operates, is one of the largest sources of premium shellfish in the world. The industry consists of two distinctive segments — the seasonal inshore fishery and the year-round offshore fishery.

The inshore (or smaller vessel) fishery is comprised of thousands of independent fishermen. The interest of these fishermen are generally restricted to operating their own, relatively small fishing boats, harvesting one or two species of seafood in waters that are relatively close to the shore, and selling their harvest to seafood processors based in Atlantic Canada. The inshore fishery segment of the industry is highly fragmented across all species.

The offshore (or larger vessel) fishery, in which Clearwater operates, is comprised of a relatively small number of vertically integrated seafood enterprises. These enterprises generally operate large fishing vessels, harvest a variety of species of seafood in waters that are further from shore, process the seafood onboard the fishing vessels or at shore-based processing plants, and sell the products (directly or through distributors) in the international market. The enterprises also generally purchase product from inshore fishermen for processing and sale. Over the last number of years, there has been significant consolidation

in the Atlantic Canadian fishing industry, as enterprises have grown organically and through acquisitions to become more efficient and competitive participants in the global seafood industry. Clearwater has been a leading participant in this consolidation and is now the largest harvester in Canada of sea scallops, lobster, Arctic surf clams and coldwater shrimp.

The Atlantic Canada offshore fishery is regulated by the Government of Canada through the DFO. The regulatory environment in Canada and other mature fisheries, such as those in Norway, Iceland, Argentina and New Zealand, are highly sophisticated, emphasizing sustainability of the resource as the priority. There are three primary aspects to regulation: licensing, total allowable catch and quotas.

Licensing — In order to harvest any species of seafood in the Atlantic Canada offshore fishery, an enterprise must hold a licence to harvest that species. The DFO strictly controls the number of licensed enterprises in the fishery, rarely granting new licences unless and until increases in the stock of a particular species evidences significant and sustainable growth.

Total Allowable Catch (TAC) — In order to ensure that the seafood stocks in Atlantic Canada are not over harvested, the DFO (in consultation with industry working groups) establishes on an annual basis the total allowable catch (by ocean region) of each species of seafood. This amount represents the maximum amount of the species that can be harvested by all enterprises participating in the fishery for that species. As described in greater detail below, shellfish resources have generally been increasing and, therefore, total allowable catches have generally been increasing over time.

Quotas and Enterprise Allocations — In order to increase the efficiency of the offshore fishery and permit industry consolidation, the DFO regulates the harvesting by holders of offshore licences by way of a quota and Enterprise Allocation system. Under this system, each enterprise is permitted to harvest a specified and tradable percentage of the total allowable catch of a particular species in specific offshore areas. As such, the enterprises are not competing with one another in the harvest of seafood and are at liberty to harvest their quotas in a rational and efficient manner. Enterprise Allocations can be transferred, traded and sold, thereby providing an important opportunity for rationalization within the industry.

Supply of Seafood Resources

Canada is considered a global leader in the management of its fisheries. Clearwater has worked with the DFO and other industry players to build sustainable resource management regimes. In many instances, Clearwater has been the primary proponent of the adoption of these practices. Examples of the practices of Clearwater and the DFO to ensure sustainable resources include:

- ongoing joint investment in the DFO scientific research programs to ensure all fisheries are guided by the best possible scientific advice;
- regulated minimum size restriction in the sea scallop, lobster and crab fisheries so as to allow an opportunity for reproduction and growth to optimum size and value;
- closed fishing areas to protect concentrations of juvenile shellfish from premature harvest;
- continued modification and refinement of fishing gear to allow the release of juvenile shellfish and non-target species; and
- a male only retention rule in the snow crab fishery so as to protect the female stock.

As a result of the work done by the industry and the DFO in this area, total allowable catch levels of shellfish resources have been generally stable to increasing in Atlantic Canada.

Regulation

Licences

In Canada, the harvesting of seafood in the waters off Atlantic Canada is primarily regulated by the DFO through the Fisheries Act (Canada) and the Atlantic Fishery Regulations (1985) made under that act. These regulations provide for the registration of vessels and enterprises and for the issuance of licences to catch specified species of seafood. The licences set out conditions for harvesting that may include the species which may be caught, the type and quantity of gear to be used, the waters in which harvesting is permitted, the period during which harvesting is permitted, the vessel which may be used and the persons permitted to operate the vessel. The DFO grants renewable licences to participants in the various fisheries. In the Canadian offshore fishery, the licences permit the holder to catch a prescribed percentage of the TAC for the relevant fishing area. See “Industry — Harvesting of Seafood”.

The harvesting of scallops in Argentina is regulated by the National Federal Fishery Law (1998) and Resolution 150/96 of the Secretary of Agriculture, Livestock, Fishery and Food. These laws provide for the registration of vessels and enterprises and for the issuance of licences to catch specified species of seafood. The licences set out conditions for harvesting that may include the species which may be caught, the type and quantity of gear to be used, the waters in which harvesting is permitted, the period during which harvesting is permitted, the vessel which may be used and the persons permitted to operate the vessel.

Vessels

All vessels operated in connection with Clearwater’s harvesting operations are registered with, and subject to, inspection by Transport Canada or the Argentine Coast Guard.

Processing

All fish processing plants conducting business throughout Canada require a combination of provincial and federal licences to operate. The requirement to obtain and maintain a food processing licence principally relates to food safety and labeling. All fish processing plants are required to implement an approved quality management plan, or QMP, which is approved by the Canadian Food Inspection Agency (CFIA) covering the regulatory and safety aspects of food processing. Clearwater also maintains hazard analysis and critical control point (HACCP) quality management programs which focus on preventing hazards that could cause food-borne illnesses by applying science-based controls, from raw materials to finished products. See “Risk Factors - The Business and the Industry — Food Processing Risks”.

Environmental, Health and Safety Regulation

The harvesting, processing and transportation of seafood, seafood products and by-products and the operation of vessel discharge and maintenance facilities have been and are subject to extensive and increasingly stringent federal, provincial, municipal and local statutes, regulations and by-laws, permitting and other requirements with respect to workers’ health and safety and environmental matters in Canada.

Environmental legislation, orders, permits, approvals, common law and other requirements impose obligations relating to, among other things: the release of substances into the natural environment; the production, processing, preparation, handling, storage, transportation, disposal, and management of substances (including liquid and solid, non-hazardous wastes and hazardous materials); and the prevention and remediation of environmental impacts such as the contamination of soil and water

(including groundwater). See “Risk Factors—The Business and Industry—Environmental, Health and Safety Regulation”.

INFORMATION CONCERNING THE FUND

The following is a summary of the material attributes and characteristics of the Units and certain provisions of the Declaration of Trust, which does not purport to be complete. Reference is made to the Declaration of Trust for a complete description of the Units and the full text of its provisions.

Activities of the Fund

The Declaration of Trust provides that the Fund is a limited purpose trust and its activities are restricted to:

- (a) acquiring, investing in, holding, transferring, disposing of and otherwise dealing with interests in corporations, partnerships, trusts and other persons involved, directly or indirectly, in the harvesting, processing, distribution and marketing of seafood and such other investments as the Trustees may determine;
- (b) guaranteeing (as guarantor, surety or co-principal obligor) the payment of any indebtedness, liability or obligation of Clearwater, or any of its affiliates, or any affiliate of the Fund and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering any of its assets as security for such guarantee;
- (c) temporarily holding cash and other short-term investments in connection with and for the purposes of the Fund’s activities, including paying expenses of the Fund, paying amounts payable by the Fund in connection with the redemption or repurchase of any Units and making distributions to Unitholders;
- (d) issuing Units, Special Trust Units and other securities of the Fund (including securities convertible or exchangeable for Units, Special Trust Units or other securities of the Fund) including, for the purposes of: (i) obtaining funds to conduct the activities described in paragraph (a) above, including raising funds for further acquisitions; (ii) implementing unitholder rights plans or incentive option or other compensation plans, if any, established by the Fund; (iii) making non-cash distributions to Unitholders as contemplated by the Declaration of Trust, including pursuant to distribution reinvestment plans, if any, established by the Fund; and (iv) upon the exercise of the right of exchange held by holders of Clearwater Exchangeable Units pursuant to the Exchange Agreement (as defined herein);
- (e) issuing debt securities or otherwise borrowing and mortgaging, pledging, charging and granting a security interest in or otherwise encumbering any of its assets as security;
- (f) repurchasing or redeeming Units or other securities of the Fund;
- (g) satisfying the obligations, liabilities or indebtedness of the Fund; and
- (h) undertaking such other activities, or taking such actions, including investing in securities, related to or in connection with the foregoing, or as permitted by the Declaration of Trust and as shall be approved by the Trustees from time to time,

provided that the Fund shall not undertake any activity, take any action, or make any investment which would result in the Fund not being considered a “mutual fund trust” for purposes of the *Income Tax Act* (Canada) (the “**Tax Act**”).

Units and Special Trust Units

An unlimited number of Units and an unlimited number of Special Trust Units are issuable pursuant to the Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net income, net realized capital gains or other amounts, and in the net assets of the Fund in the event of termination or winding-up of the Fund. All Units are of the same class with equal rights and privileges. Except as set out under “Redemption at the Option of Unitholders” below, the Units have no conversion, retraction, redemption or pre-emptive rights.

The Special Trust Units are to be used solely for providing voting rights to persons holding Clearwater Exchangeable Units or other securities that are, directly or indirectly, exchangeable for Units and that, by their terms have voting rights of the Fund. Special Trust Units were issued in conjunction with, and are not transferable separately from, the Clearwater Exchangeable Units to which they relate. Each Special Trust Unit will entitle the holder thereof to a number of votes at any meeting of Unitholders and holders of Special Trust Units equal to the number of Units which may be obtained upon the exchange of the Clearwater Exchangeable Units to which the Special Trust Units relate (except for Clearwater Exchangeable Units which have previously been exchanged pursuant to the Exchange Agreement (as defined herein)), but will not otherwise entitle the holder to any rights with respect to the Fund’s property or income. See “Clearwater Exchangeable Units”.

On January 24, 2007, the Fund received approval for a normal course issuer bid which enabled it to purchase up to 2.5 million outstanding trust units (the “Units”), which amount represented less than 10% of the public float during a one year period. During 2007, 1,162,100 units were repurchased and cancelled at a cost of \$5.6 million. In 2008, 500,000 units were repurchased and cancelled. Currently there are 27,745,695 Trust units outstanding.

Convertible Debentures

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 u. The principal amount outstanding, for the amended **Class E** debentures as at December 31, 2010 was \$45 million (2009 - \$45 million).

In 2007, the Fund completed an offering for \$48 million of 7.25% convertible unsecured subordinated debentures, which are due March 31, 2014. The convertible debentures are convertible at any time up to maturity at the option of the holder into trust units of the Fund at a conversion price of \$5.90 per trust unit. The debentures pay interest semi-annually in arrears on March 31 and September 30. The debentures are not redeemable before March 31, 2010. On and after March 31, 2010, but before March 31, 2012, the debentures may be redeemed at the option of the Fund provided that the market price of the trust units is not less than 125% of the conversion price. On and after March 31, 2012, the debentures

may be redeemed at the option of the Fund at a price equal to their principal amount plus accrued interest. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering that number of trust units equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash. The convertible debentures are classified in accordance with their component parts: the value ascribed to the holder's option to convert to units has been classified as equity and the remaining portion of the convertible debenture has been classified as debt. In 2007 Clearwater repurchased \$3.6 million of the Class D units leaving \$44.4 million outstanding at December 31, 2008 and 2009.

Issuance of Units

The Declaration of Trust provides that the Units or rights to acquire Units may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Trustees determine, including pursuant to any unitholder rights plan or any incentive option or other compensation plan established by the Fund. Units may be issued in satisfaction of any non-cash distribution of the Fund to Unitholders on a pro rata basis. The Declaration of Trust also provides that immediately after any pro rata distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution. In this case, each certificate representing a number of Units prior to the non-cash distribution is deemed to represent the same number of Units after the non-cash distribution and the consolidation. However, if amounts so distributed represent income, then non-resident holders will be subject to withholding tax thereon and the consolidation will not result in those non-resident unitholders holding the same number of units. Such non-resident unitholders will be required to surrender the certificate (if any) representing their original units in exchange for a certificate representing their post-consolidation units.

Trustees

The Fund has a minimum of three and a maximum of nine Trustees. The Trustees supervise the activities and manage the affairs of the Fund.

Trustees are appointed at each annual meeting of Unitholders and holders of Special Trust Units to hold office for a term expiring at the close of the next annual meeting or until their successors are elected or appointed. All of the Trustees proposed for election must be unrelated to CFFI (as such term is defined by the Ontario Securities Commission ("OSC")). The Declaration of Trust prohibits a non-resident of Canada (as that term is defined in the Tax Act) from acting as a Trustee.

The Declaration of Trust provides that, subject to its terms and conditions, the Trustees have full, absolute and exclusive power, control and authority over the trust assets and over the affairs of the Fund to the same extent as if the Trustees were the sole and absolute legal and beneficial owners of the trust assets and will supervise the investments and manage the affairs of the Fund. The Trustees are responsible for, among other things:

- acting for, voting on behalf of and representing the Fund as a unitholder and note holder of CSHT and a shareholder of CS ManPar;
- maintaining records and providing reports to Unitholders;
- supervising the activities and managing the affairs of the Fund;
- ensuring the ownership restrictions in the Declaration of Trust are met; and
- effecting payments of distributions from the Fund to Unitholders.

The Trustees have the right to approve the adoption of a unitholder rights plan from time to time if the Trustees determine in good faith that the action is appropriate. Any such unitholder rights plan will be effective as of the date of its adoption by the Trustees but will terminate six months from the date of its adoption if not ratified and confirmed by the Unitholders in accordance with the Declaration of Trust.

Any one or more of the Trustees may resign upon 30 days' written notice to the Fund and may be removed by a resolution passed by a majority of the Unitholders and holders of Special Trust Units, and the vacancy created by the removal or resignation must be filled at the same meeting, failing which it may be filled by the former Trustee or the remaining Trustees.

A quorum of Trustees, being the greater of two Trustees or a majority of the Trustees then holding office, may fill a vacancy in the Trustees, except a vacancy resulting from an increase in the number of Trustees (other than as noted below) or from a failure of the Unitholders and holders of Special Trust Units to elect the required number of Trustees. In the absence of a quorum of Trustees, or if the vacancy has arisen from a failure of the Unitholders and holders of Special Trust Units to elect the required number of Trustees, the Trustees will promptly call a special meeting of Unitholders and holders of Special Trust Units to fill the vacancy. If the Trustees fail to call that meeting or if there are not Trustees then in office, any Unitholder or holder of a Special Trust Unit may call the meeting. The Trustees may, between annual meetings of Unitholders and holders of Special Trust Units, appoint one or more additional Trustees to serve until the next annual meeting of Unitholders and holders of Special Trust Units, but the number of additional Trustees may not exceed one-third of the number of Trustees who held office at the expiration of the immediately preceding annual meeting of Unitholders and holders of Special Trust Units.

The Declaration of Trust provides that the Trustees must act honestly and in good faith with a view to the best interests of the Fund and in connection with that duty must exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Declaration of Trust provides that each Trustee is entitled to indemnification from the Fund in respect of the exercise of the Trustee's powers and the discharge of the Trustee's duties, provided that the Trustee acted honestly and in good faith with a view to the best interests of the Unitholders. In addition, in certain circumstances, limitations on indemnification similar to those under the *Business Corporations Act* (Ontario) apply.

Except as expressly prohibited by law, the Trustees may grant or delegate certain of the authority of the Trustees to effect the actual administration of the duties of the Trustees under the Declaration of Trust. The Trustees may grant broad discretion to a third party to administer and manage the day-to-day operations of the Fund, and to make executive decisions that conform to the general policies and general principles set forth in the Declaration of Trust or are otherwise established by the Trustees from time to time, including pursuant to the Administration Agreement.

Cash Distributions

The Fund was set up to make monthly cash distributions, based upon cash receipts of the Fund in respect of such month, after satisfaction of administrative and other expenses (including reasonable reserves for such expenses), any debt service obligations (principal and interest) and any amounts payable by the Fund in connection with any cash redemptions or repurchases of Units. The Fund may make additional distributions in excess of the monthly distributions during the year in the discretion of the Trustees. All of the Partnership's distributions are at the discretion of the Trustees and are subject to certain conditions imposed by lending agreements. Any amounts of net income and net capital gains of the Fund for a taxation year not otherwise distributed during the year and that would otherwise result in the Fund being liable to tax will be payable on December 31 of that year.

Any income of the Fund which is applied to any cash redemptions of Units or is otherwise unavailable for cash distribution will, to the extent necessary to ensure that the Fund does not have an income tax liability under Part I of the Tax Act, be distributed to Unitholders in the form of additional Units. Such additional Units will be issued pursuant to applicable exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

Holders of Units who are non-residents of Canada are required to pay all withholding taxes payable in respect of any distributions of income by the Fund, whether such distributions are in the form of cash or additional Units. Non-residents should consult their own tax advisors regarding the tax consequences of investing in the Units. No distributions were paid in 2009 or 2010 and Clearwater is unlikely to pay distributions over the next several years due to restrictions in lending agreements.

Redemption at the Option of Unitholders

General

Units are redeemable at any time on demand by the holders thereof upon delivery to the Fund of a duly completed and properly executed notice requesting redemption in a form reasonably acceptable to the Trustees, together with written instructions as to the number of Units to be redeemed. As the Units will be issued in book entry form, a Unitholder who wishes to exercise the redemption right will be required to obtain a redemption notice form from the Unitholder's investment dealer who will be required to deliver the completed redemption notice form to the Fund at its head office and to Canadian Depository for Securities Limited. Upon receipt of the redemption notice by the Fund, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Unit (the "**Redemption Price**") equal to the lesser of:

- 90% of the "market price" on the principal market on which the Units are quoted for trading during the ten trading day period ending immediately prior to the date on which the Units were tendered for redemption (the "**Redemption Date**"); and
- 100% of the "closing market price" on the principal market on which the Units are quoted for trading on the Redemption Date.

For the purposes of this calculation, "market price" will be an amount equal to the weighted average of the closing price of the Units for each of the trading days on which there was a closing price; provided that if the applicable exchange or market does not provide a closing price, but only provides the highest and lowest prices of the Units traded on a particular day, the "market price" will be an amount equal to the weighted average of the highest and lowest prices for each of the trading days on which there was a trade; and provided further that if there was trading on the applicable exchange or market for fewer than five of the ten trading days, the "market price" will be the weighted average of the following prices established for each of the ten trading days: the average of the last bid and last asking prices of the Units for each day there was no trading; the closing price of the Units for each day that there was trading if the exchange or market provides a closing price; and the average of the highest and lowest prices of the Units for each day that there was trading if the market provides only the highest and lowest prices of Units traded on a particular day. The "closing market price" will be an amount equal to the closing price of the Units if there was a trade on the date and the exchange or market provides a closing price; an amount equal to the average of the highest and lowest prices of the Units if there was trading and the exchange or other market provides only the highest and lowest prices of Units traded on a particular day; or the average of the last bid and last asking prices of the Units if there was no trading on that date.

If the Units are not listed on a public market, the Redemption Price will be the net asset value of the Units, which shall be determined by the Trustees in their sole discretion.

The aggregate Redemption Price payable by the Fund in respect of any Units surrendered for redemption during any month shall be satisfied by way of a cash payment by the Fund within 30 days after the end of the calendar month in which the Units were tendered for redemption, provided that the entitlement of the Unitholders to receive cash upon the redemption of their Units is subject to the limitations that: (i) the total amount payable in cash by the Fund in respect of such Units and all other Units tendered for redemption in the same calendar month shall not exceed \$50,000 (provided that such limitation may be waived at the discretion of the Trustees in respect of all Units to be redeemed); (ii) at the time such Units are tendered for redemption, the outstanding Units shall be listed for trading on The Toronto Stock Exchange or traded or quoted on any other stock exchange or market which the Trustees consider, in their sole discretion, provides representative fair market value prices for the Units; (iii) the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the date that the Units are tendered for redemption or for more than five trading days during the ten day trading period prior to the date on which the Units are tendered for redemption; and (iv) the redemption of the Units will not result in the de-listing of the Units on the principal stock exchange on which the Units are listed.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the foregoing limitation, then the Redemption Price for such Units shall, subject to any applicable regulatory approvals, be paid and satisfied by way of a distribution in specie of assets held by the Fund. Where the Fund makes a distribution in specie of securities of CSHT on the redemption of Units to a Unitholder, the Fund currently intends to designate to that Unitholder any capital gain realized by the Fund as a result of the distribution of those securities to the Unitholder. In such circumstances, CSHT Units and CSHT Series 1 Notes of a value equal to the Redemption Price (as determined by the Trustee in their sole discretion) will be redeemed by CSHT in consideration of series 2 notes of CSHT (the “**CSHT Series 2 Notes**”) prescribed by the note indenture between CSHT and Computershare Trust Company of Canada (the “**CSHT Note Indenture**”) with an aggregate principal amount equal to the Redemption Price. The said CSHT Series 2 Notes will then be distributed in satisfaction of the Redemption Price. No CSHT Series 2 Notes will be distributed in integral multiples of less than \$100 and, where the number of amount of CSHT Series 2 Notes to be received by a Unitholder includes a multiple less than \$100, such number shall be rounded to the next lowest integral of \$100.

This redemption right is not the primary mechanism for Unitholders to dispose of their Units. Assets of the Fund which may be distributed in specie to Unitholders in connection with a redemption will not be listed on any exchange and no market is expected to develop in such assets of the Fund. Fund assets so distributed may be subject to resale restrictions under applicable securities laws. Assets of the Fund so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans.

CSHT Units

CSHT Units are not and are not intended to be issued or held by any person other than the Fund (until such time as a Unitholder redeems Units of the Fund) and, as such, registration of interests in, and transfer of, the CSHT Units are not to be made through the book-entry system administered by The Canadian Depository for Securities Limited. Rather, holders of CSHT Units will be entitled to receive certificates therefore.

CSHT’s declaration of trust provides that CSHT will make monthly cash distributions to holders of record of CSHT Units on the last business day of each month. Such distributions will be paid within 15 days following each month end and are intended to be received by the Fund prior to its related distributions to Unitholders. The CSHT Trustee has adopted a policy to distribute all of CSHT’s available cash, subject to applicable law, to holders of CSHT Units by way of monthly cash distributions, after satisfaction of administrative and other expenses (including reasonable reserves for such expenses), any debt service

obligations (principal and interest) and any amounts payable in connection with any cash redemptions or repurchases of CSHT Units and CSHT Series 1 Notes.

CSHT may make additional distributions in excess of the monthly distributions during the year as may be determined in the sole discretion of the CSHT Trustee. Any income of CSHT which is unavailable for cash distribution will, to the extent necessary to ensure that the Trust does not have any income tax liability under Part I of the Tax Act, be distributed to unitholders in the form of additional CSHT Units and/or CSHT Series 1 Notes. Such additional Units will be issued pursuant to applicable exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

CSHT Notes

The following is a summary of the material attributes and characteristics of the CSHT Series 1 Notes and CSHT Series 2 Notes, which does not purport to be complete. Reference is made to the CSHT Note Indenture for a complete description of the CSHT Series 1 Notes and CSHT Series 2 Notes and the full text of its provisions.

CSHT Series 1 Notes and CSHT Series 2 Notes are issuable in Canadian currency. CSHT Series 1 Notes and CSHT Series 2 Notes are issuable in denominations of \$100.00 and integral multiples of \$100.00. No fractional CSHT Series 1 Notes or CSHT Series 2 Notes may be distributed and where the number of CSHT Series 1 Notes or CSHT Series 2 Notes to be received by a note holder includes a fraction, such number shall be rounded to the next lowest whole number.

CSHT Series 2 Notes have been reserved by CSHT to be issued exclusively to holders of CSHT Units and CSHT Series 1 Notes as full or partial payment of the redemption price thereof as the CSHT Trustees may decide or, in certain circumstances, be obliged to issue.

Interest and Maturity

The CSHT Series 1 Notes issued upon completion of the initial public offering to the Fund are repayable upon the earlier of (i) demand by the holder, and (ii) on the 25th anniversary of the closing of the initial public offering, and bear interest at the rate of 5.0% per annum payable monthly within 15 days of the end of each calendar month in respect of which such interest has accrued. Each CSHT Series 2 Note will mature on the 25th anniversary of the closing of the initial public offering and bear interest at a market rate to be determined by the CSHT Trustees at the time of issuance thereof, payable within 15 days of the end of each calendar month in respect of which such interest has accrued. As a result of the suspension of distributions by Clearwater, interest has not been paid on the notes for those months in which it did not receive a distribution.

Payment Upon Maturity

On maturity, CSHT will repay the CSHT Series 1 Notes and CSHT Series 2 Notes by paying to the trustee under the CSHT Note Indenture, in cash, an amount equal to the principal amount of the outstanding CSHT Series 1 Notes and CSHT Series 2 Notes that have then matured, together with accrued and unpaid interest thereon.

Redemption

The CSHT Series 1 Notes and CSHT Series 2 Notes are redeemable (at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, payable in cash) at the option of CSHT prior to maturity.

Subordination

Payment of the principal amount and interest on the CSHT Series 1 Notes and CSHT Series 2 Notes is subordinated in right of payment to the prior payment in full of the principal of and accrued and unpaid interest on, and all other amounts owing in respect of, all senior indebtedness which is defined in the CSHT Note Indenture as all indebtedness, liabilities and obligations of CSHT which, by the terms of the instrument creating or evidencing same, will be expressed to rank in right of payment in priority to the indebtedness evidenced by the CSHT Note Indenture. The CSHT Note Indenture provides that upon any distribution of the assets of CSHT in the event of any dissolution, liquidation, reorganization or similar proceedings relevant to CSHT, the holders of all such senior indebtedness will be entitled to receive payment in full before the holders of the CSHT Series 1 Notes and CSHT Series 2 Notes are entitled to receive any payment.

The CSHT Series 1 Notes and CSHT Series 2 Notes are unsecured debt obligations of CSHT.

Default

The CSHT Note Indenture provides that any of the following shall constitute an event of default:

- default in payment of the principal of the CSHT Series 1 Notes or CSHT Series 2 Notes when the same becomes due and payable and the continuation of such default for a period of ten business days;
- default in payment of any interest due on any CSHT Series 1 Notes or CSHT Series 2 Notes and continuation of such default for a period of ten business days;
- default in the observance or performance of any other covenant or condition of the CSHT Note Indenture and continuance of such default for a period of 30 days after written notice has been given by the trustee specifying such default and requiring CSHT to rectify same; and
- certain events of dissolution, liquidation, reorganization or other similar proceedings relative to CSHT.

The provisions governing an event of default under the CSHT Note Indenture and remedies available there under do not provide protection to the holders of CSHT Series 1 Notes or CSHT Series 2 Notes that would be comparable to the provisions generally found in debt securities issued to the public.

Repurchase of Units

The Fund is allowed, from time to time, to purchase Units for cancellation in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such purchases will constitute an “issuer bid” under Canadian securities legislation and must be conducted in accordance with the applicable requirements thereof.

Meetings of Unitholders

The Declaration of Trust provides that there shall be an annual meeting of Unitholders and holders of Special Trust Units for the purpose of: (i) the election or removal of the Trustees; (ii) the appointment or removal of auditors of the Fund for the ensuing year; (iii) any other matter which requires a resolution of Unitholders and holders of Special Trust Units; and (iv) transacting such other business as the Trustees may determine or as may be properly brought before the meeting.

The Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders and holders of Special Trust Units.

Limitation on Non-Resident Ownership

In order for the Fund to maintain its status as a “mutual fund trust” under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act. Accordingly, the Declaration of Trust provides that at no time may non-residents of Canada be the beneficial owners of either more than 49% of the Units or more than 49% of the Units and the Special Trust Units, collectively, then outstanding. The Trustees may require declarations as to the jurisdictions in which beneficial owners of Units or Special Trust Units are resident. If the Trustees become aware that the beneficial owners of either at least 49% of the Units or at least 49% of the Units and the Special Trust Units, collectively, then outstanding are, or may be, non-residents or that such a situation is imminent, the transfer agent or registrar shall make a public announcement thereof and shall not accept a subscription for Units from or issue or register a transfer of Units or Special Trust Units to a person unless the person provides a declaration that he or she is not a non-resident. If, notwithstanding the foregoing, the Trustees determine that 49% or more of the Units or more than 49% of the Units and Special Trust Units are held by non-residents, the Trustees may send a notice to non-resident holders of Units and/or Special Trust Units, chosen in inverse order to the order of acquisition or registration or in such manner as the Trustees may consider equitable and practicable, requiring them to sell their Units or Special Trust Units or a portion thereof within a specified period of not less than 60 days. If the persons receiving such notice have not sold the specified number of Units or Special Trust Units or provided the Trustees with satisfactory evidence that they are not non-residents within such period, the Trustees may, on behalf of such persons, sell such Units or Special Trust Units and, in the interim, shall suspend the voting and distribution rights (if any) attached to such Units or Special Trust Units. Upon such sale, the affected holders shall cease to be holders of the Units or Special Trust Units, as applicable, and their rights shall be limited to receiving the net proceeds of such sale that, in the case of the Special Trust Units, may be nil. The Trustees shall have no liability for the amount received provided that they act in good faith.

Amendments to the Declaration of Trust

The Declaration of Trust may be amended or altered from time to time by special resolution of the Unitholders and holders of Special Trust Units, requiring 66²/₃% of votes cast (a “**Special Resolution**”).

The Trustees may, without the approval of the Unitholders and holders of Special Trust Units, make certain amendments to the Declaration of Trust, including amendments:

- for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Trustees or the Fund;
- which, in the opinion of the Trustees, after consulting with legal counsel, provide additional protection or benefits for Unitholders and/or holders of Special Trust Units;
- to remove any conflicts or inconsistencies in the Declaration of Trust or to make minor corrections which, in the opinion of the Trustees, are necessary or desirable and not prejudicial to the Unitholders and holders of Special Trust Units; and
- which, in the opinion of the Trustees, are necessary or desirable as a result of changes in Canadian taxation laws.

Exercise of Certain Voting Rights Attached to the Securities of CSHT, CS ManPar and Clearwater

The Declaration of Trust provides that the Fund will not vote securities held by it of CSHT and CS ManPar, nor will it permit CSHT or CS ManPar to vote their securities of Clearwater, to authorize, among other things,

- any sale, lease or other disposition of all or substantially all of the assets of CSHT or Clearwater, except in conjunction with an internal reorganization or bona fide pledges or mortgages in the ordinary course of business or in connection with permitted guarantees;
- any amalgamation, arrangement or other merger or combination of CSHT, CS ManPar or Clearwater with any other entity, except in conjunction with an internal reorganization or the acquisition by Clearwater of the securities or assets of another entity;
- any material amendment to the CSHT Note Indenture, other than in contemplation of an issuance of CSHT Series 1 Notes or CSHT Series 2 Notes;
- the winding-up or dissolution of CSHT, CS ManPar or Clearwater prior to the end of the term of the Fund, except in connection with an internal reorganization; or
- any material amendment to the CSHT Trust Indenture, the limited partnership agreement of Clearwater or the articles of CS ManPar in a manner which may be prejudicial to the Fund,

without the authorization of the Unitholders and holders of Special Trust Units by Special Resolution.

Term of the Fund

The Fund has been established for a term to continue until 21 years after the death of the last surviving issue of Her Majesty, Queen Elizabeth II, alive on June 5, 2002. The termination of the Fund may also be required by Special Resolution. On a date selected by the Trustees, which is not more than two years prior to the expiry of the term of the Fund, the Trustees are obligated to commence to wind-up the affairs of the Fund so that it will terminate on the expiration of the term.

The Declaration of Trust provides that, upon being required to commence to wind up the affairs of the Fund, the Trustees will give notice thereof to the Unitholders and holders of Special Trust Units, which notice shall designate the time or times at which Unitholders shall surrender their Units for cancellation and the date at which the register of Units will be closed. Two years prior to the expiry of the term of the Fund or following a resolution to terminate the Fund, the Trustees shall proceed to wind up the affairs of the Fund as soon as may be reasonably practicable and for such purpose shall, subject to any direction to the contrary in respect of a termination authorized by a resolution of the Unitholders, fulfill or discharge the contracts of the Fund, perform or cause the auditor to perform any final audit of the Fund assets, collect its assets, sell, convey, assign, exchange, transfer or otherwise dispose of all or any part of the remaining Fund assets, to one or more persons in one transaction or a series of transactions at public or private sale for consideration which may consist in whole or in part of cash, securities or other property of any kind, discharge or pay its liabilities, and do all other acts appropriate to liquidate the Fund. After paying, retiring, discharging or making provision for the payment, retirement or discharge of all known liabilities and obligations of the Fund and providing for indemnity against any other outstanding liabilities and obligations, the Trustees shall distribute the remaining part of the proceeds of the sale of the assets together with any cash forming part of the assets of the Fund among the Unitholders in accordance with their pro rata interests. If the Trustees are unable to sell all or any of the assets which comprise part of the Fund by the date set for termination, the Trustees may distribute the remaining assets in specie directly to the Unitholders in accordance with their pro rata interests, subject to obtaining all required regulatory approvals. The Trustees shall have no liability for the amount received provided that they act in good faith.

Take-over Bids

The Declaration of Trust provides that if a non-exempt take-over bid from a person acting at arm's length to holders of Clearwater Exchangeable Units is made for the Units and a contemporaneous identical offer is not made for the Clearwater Exchangeable Units (in terms of price, timing, proportion of securities sought to be acquired and conditions, provided that the offer for the Clearwater Exchangeable Units may be conditional on Units being taken up and paid for under the take-over bid), then provided not less than 25% of the Units (other than Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken-up and paid for pursuant to the non-exempt bid from and after the date of first take-up of Units under the said take-over bid in excess of the foregoing threshold, the Clearwater Exchangeable Units will be exchangeable at an exchange ratio equal to 110% of the exchange ratio previously in effect, such that, based on the current one-to-one exchange ratio, on exchange the holder of Clearwater Exchangeable Units will receive 1.1 Units for each Clearwater Exchangeable Unit. Notwithstanding any adjustment on completion of an exclusionary offer as described above, the voting rights attaching to the Special Trust Units will not be similarly adjusted, and the distribution rights will also not be adjusted until the exchange right is actually exercised.

The Declaration of Trust also contains provisions to the effect that if a take-over bid is made and not less than 90% of the aggregate of the Units (other than Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders who did not accept the take-over bid on the same terms on which the offeror acquired Units from Unitholders who accepted the take-over bid.

Information and Reports

In accordance with and subject to applicable securities laws, the Fund will furnish to Unitholders and holders of Special Trust Units such consolidated financial statements of the Fund (including quarterly and annual consolidated financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of tax returns under the Tax Act and equivalent provincial legislation. Prior to each meeting of Unitholders and holders of Special Trust Units, the Trustees will provide the Unitholders and holders of Special Trust Units (along with notice of such meeting) with all such information as is required by applicable law and the Declaration of Trust to be provided to such holders. CSHT and Clearwater will undertake to the Fund and the securities regulatory authorities to provide the Fund with (i) a report of any material change that occurs in the affairs of CSHT or Clearwater in form and content that they would file with applicable regulatory authorities were they reporting issuers (or equivalent); and (ii) all financial statements that it would be required to file with applicable regulatory authorities if it were a reporting issuer (or equivalent) under applicable securities laws. All such reports and statements will be provided to the Fund in a timely manner so as to permit the Fund to comply with the continuous disclosure requirements relating to reports of material changes in its affairs and the delivery of financial statements as required under applicable securities laws.

Clearwater Exchangeable Units

Clearwater issued Clearwater Exchangeable Units to CFFI in partial consideration for Clearwater's acquisition of the Clearwater business. The Clearwater Exchangeable Units, together with the Special Trust Units, except as otherwise noted, have economic and voting rights equivalent in all material respects to the Units. The Clearwater Exchangeable Units have the following attributes:

- (i) the Clearwater Exchangeable Units are exchangeable, directly or indirectly, on a one-for-one basis (subject to customary anti-dilution provisions and as provided under "Information Concerning the Fund – Take-Over Bids") for Units of the Fund at the option of the holder;

- (ii) each Clearwater Exchangeable Unit entitles the holder thereof to receive distributions from Clearwater, where practicable, pro rata with distributions made to holders of Clearwater ordinary units; and
- (iii) each Clearwater Exchangeable Unit shall be accompanied by a Special Trust Unit of the Fund which entitles the holder thereof to receive notice of, to attend and to vote at all meetings of Unitholders (except in respect of Clearwater Exchangeable Units previously exchanged pursuant to the Exchange Agreement).

In the event that Clearwater makes a distribution to its unitholders, it distributes to limited partners (listed on the record) holding Clearwater ordinary units and to the general partners (listed on the record) holding Clearwater Exchangeable Units on the last day of each month. Distributions are made within 15 days of the end of each month. Distributions on the Clearwater ordinary units are intended to be received by CSHT prior to its related distributions to the Fund. Clearwater may, in addition, make a distribution at any other time.

Distributable cash represents, in general, all of Clearwater's cash, after:

- satisfaction of its debt service obligations (principal and interest);
- satisfaction of administrative and other expense obligations;
- satisfaction of capital expenditures as considered appropriate by the board of directors of CS ManPar from time to time; and
- retaining reasonable reserves for administrative and other expense obligations and reasonable reserves for working capital and capital expenditures as may be considered appropriate by the board of directors of CS ManPar.

Exchange Agreement

On completion of the Fund's initial public offering, the Fund, CSHT, Clearwater and CFFI entered into an exchange agreement (the "**Exchange Agreement**").

The Exchange Agreement granted to CFFI (and to any subsequent holder of Clearwater Exchangeable Units) the right to exchange each Clearwater Exchangeable Unit not then subject to subordination for Units on a one-for-one basis (subject to customary anti-dilution provisions and as provided under "Information Concerning the Fund — Take-over Bids").

The rights of exchange under the Exchange Agreement may be assigned in whole or in part, as applicable, by CFFI (and any subsequent holder of Clearwater Exchangeable Units) in connection with a transfer of the Clearwater Exchangeable Units.

RISK FACTORS

Risks Relating to Our Business

We rely on licenses, quotas, and other approvals from the governments of Canada and Argentina to harvest our seafood products, and the revocation or nonrenewal of one or more of our licenses by these governments could have a material adverse effect on our business.

Our business is dependent on permission to harvest seafood in fisheries in Canada and Argentina. We rely on fishing licenses renewable annually by the DFO and fishing licenses renewable every two years by the ASALFF. The licenses are subject to certain restrictions and conditions, which may include the

species which may be caught, the type and quantity of equipment to be used, the waters in which harvesting is permitted, the period during which harvesting is permitted, the vessel which may be used, the registration of vessels and the persons permitted to operate the vessel. We are also allocated quotas of the annual TAC set by the DFO and the Argentine regulators, respectively, for the species of seafood we harvest. It is possible that the DFO or other regulatory agencies could take the position that we have exceeded or otherwise violated our licenses or quotas. If we were found to have violated the applicable restrictions or conditions it could result in revocation of the licenses or quotas or the imposition of significant fines. A decision by either the Canadian or Argentine regulators not to renew a license, to revoke a license or to materially alter either the terms of a license or our allocated quotas would reduce our ability to harvest the seafood products we sell and would have a material adverse effect on our business.

A material change in the population and biomass of scallop, lobster, clam, or coldwater shrimp stocks in the fisheries in which we operate would materially and adversely affect our business.

Our sales and income are dependent on our allocated quotas of the annual TAC for the species of seafood we harvest. The annual TAC is generally related to the health of the stock of the particular species as measured by a scientific survey of the resource. The population and biomass of shellfish stocks are subject to natural fluctuations which are beyond our control and which may be exacerbated by factors such as water temperatures, feed in the water, the presence of predators, disease, disruption in the food chain, reproductive problems or other biological issues. We are unable to predict the timing and extent of fluctuations in the population and biomass of the shellfish stocks we harvest and process, and we therefore may not be able to engage in effective measures to alleviate the adverse effects of these fluctuations. In addition, the population models utilized by scientists evaluating the fisheries in which we operate are constantly evolving. Certain changes in the population models could negatively impact future biomass estimates. Any material reduction in the population and biomass or TAC of the stocks from which we source seafood would materially and adversely affect our business. Any material increase in the population and biomass or TAC could dramatically reduce the market price of any of our products.

Canadian and Argentine regulatory agencies set the annual TAC for the species we harvest in consultation with industry advisory committees that include our competitors, whose interests may be different than ours.

The governments of Canada and Argentina set the annual TAC for each species by reviewing scientific studies of the resource and then consulting with key industry stakeholders including us and our competitors to determine agreed acceptable catch levels. The potentially differing interests of our competitors may result in conflicting opinions on how to manage the resource, including the establishment of TACs and other management measures potentially limiting our ability to grow, to fully capitalize on our investments in harvesting capacity, or to achieve targeted yields from the resource, which may adversely affect our financial condition and results of operations.

Our financial results are subject to volatility as a result of foreign exchange rate fluctuations.

We are a seller of shellfish to a global market, with sales in the United States, Europe, Asia and Canada. Approximately 80% of our sales are in U.S. dollars, European Euros, Japanese yen and other currencies, whereas the majority of our expenses are in Canadian dollars. As a result, fluctuations in the foreign exchange rates of these currencies can have a material impact on our financial results. 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.

As of March 29, 2011 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 Canadian \$233 million annually, so it is targeting a maximum annual hedge position of approximately Canadian \$175 million sold forward. 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.

A foreign exchange hedging program provides short-term risk management for foreign exchange risk. Further strengthening of the Canadian dollar relative to the currencies of our sales markets will result in lower sales prices and receipts when converted into Canadian dollars and will have an adverse impact on our profitability to the extent we are not able to adjust prices and costs to offset this risk.

The sales volume and prices of our products are subject to volatility as a result of global economic conditions.

The sales volume and prices of our products are subject to fluctuations as a result of changes in global demand for such products. For example the global recession that began in 2008 continued through 2009, and its delayed impact on the food industry in the latter half of the year resulted in volume sales decrease in our major species and an overall 5.7% drop in sales dollars in 2009..

The volatility of input prices related to harvesting and processing seafood and risks related to our suppliers could adversely affect our operating costs.

We use fuel, electricity, air and ocean freight and other materials in the production, packaging and distribution of our products. Fuel is a significant component of the costs of our products. 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. We also purchase significant quantities of lobster, crab and inshore shrimp for processing and resale. Significant increases in fuel prices, freight prices, the prices of inshore lobster, crab or shrimp we purchase, or other input prices, to the extent not offset by increases in the selling prices of our products, would reduce our profitability.

In addition, the inability of any of our suppliers to satisfy our requirements for fuel, electricity, air and ocean freight or other materials, or our requirements for inshore lobster, crab or shrimp, may have an adverse effect on our financial condition and results of operation.

The segments of the seafood industry in which we operate are competitive, and our inability to compete successfully could adversely affect our business, results of operations and financial condition.

The seafood industry is highly competitive in all of the markets in which we operate. Some of our competitors have more significant operations within the marketplace, a greater diversification of product lines and greater economic resources than we do and are well-established as suppliers to the markets we serve. They 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 we do. Other competitors may have more advantageous pricing margins than we do. There can be no assurance that we will be able to compete successfully against our current or future competitors or that competition will not affect our financial condition and results of operations. In addition, production and distribution of

substitute products for any of our major species could have a significant adverse impact on our profitability. Increased competition as to any of our products could result in price reduction, reduced margins and loss of market share, which could negatively affect our profitability.

Increased consolidation among our customer base may result in a loss of customers to our competitors.

Our customers, such as grocery retailers, food processors and restaurant chains, have consolidated in recent years, and consolidation is expected to continue in our sales markets. These consolidations have produced large, sophisticated customers with increased buying power who are more capable of operating with reduced inventories, opposing price increases, and demanding lower pricing and increased promotional programs. Further consolidation among our customer base may result in a loss of customers to our competitors, who may have advantageous pre-existing relationships with key consolidators or who may be able to supply similar products on more favorable terms. The loss of significant customers due to such consolidation could have a material adverse effect on our financial condition and results of operation.

Our harvesting operations are subject to seasonal variations that could have a material adverse effect on our business, financial condition or results of operations.

The fisheries in which we operate—the Atlantic Canada offshore fishery and the Argentine scallop fishery—are subject to adverse weather conditions, and poor weather and fewer fishing days in the first quarter of the year affect catch rates and vessel results. This seasonality affects our working capital as inventory reaches peak levels in the early summer. If we are not able to adequately finance our working capital requirements, there may be a material adverse effect on our financial condition and results of operations.

All of our business activities are subject to a variety of natural risks, which could have a material adverse effect on our business, financial condition or results of operations.

The fisheries in which we operate can be characterized by extreme sea conditions. Additionally, we purchase seafood from fishermen who harvest from inshore fisheries in Atlantic Canada. Unusual weather conditions in these fisheries could materially and adversely affect the quality and quantity of the products we produce and distribute.

Our vessels are expensive assets that are subject to substantial risks of serious damage or destruction from adverse weather conditions and other natural risks. The sinking or destruction of, or substantial damage to, any of our vessels would entail significant costs to us, including the loss of production while the vessel was being replaced or repaired. Our insurance coverage may prove to be inadequate or may not continue to be available to us and we do not have business interruption insurance on our vessels as it is not generally available in our industry. The sinking or destruction of, or substantial damage to, any of our vessels could have a material adverse effect on our business, financial condition or results of operations.

Our Argentine and other international operations are subject to economic and political risks, which could materially and adversely affect our business.

Our Argentine and other foreign operations and investments are subject to numerous risks, including fluctuations in foreign currency, exchange rates and controls, expropriation of our assets, nationalization, renegotiation, forced divestiture, modification or nullification of our contracts and changes in Argentine or other foreign laws or other regulatory policies of foreign governments and having to submit to the jurisdiction of a foreign court or arbitration panel or having to enforce the judgment of a foreign court or arbitration panel against a sovereign nation within its own territory. For example, the Government of Argentina devalued the Argentine Peso in early 2002 and forced the conversion of all foreign currency bank deposits and many other foreign currency denominated contracts into Argentine Pesos. The Argentine Government also imposed temporary restrictions on the ability of companies to transfer and

retain cash outside of Argentina. Our operations in Argentina and elsewhere may be negatively affected by both foreign exchange and expropriation losses as well as the increased cost and risks of doing business in developing markets. No assurance can be given that our operations will not be adversely impacted as a result of existing or future legislation.

We may be forced to pay substantial sums in connection with litigation regarding certain foreign exchange derivative contracts and interest rate and cross currency swap contracts to which we are a party.

We may be forced to pay \$25.4 million or more under certain foreign exchange contracts and interest rate and cross currency swap contracts with Glitnir, which are the subject of litigation initiated by us. An adverse ruling in this matter could have a material adverse effect on our business, results of operation or financial condition.

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. 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 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 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.

A portion of our business is operated by subsidiaries not wholly-owned by us and certain joint ventures, and the actions of our business partners may affect our financial condition or results of operations.

We rely on our business partners in certain subsidiaries and joint ventures material to our operations, including our 80%-owned subsidiary operating the Argentine scallop business, our 75%-owned subsidiary operating a coldwater shrimp processing plant, a company in which we have a 50% interest holding licenses and quotas to harvest Canadian sea scallops and a shrimp harvesting joint venture in which we have a 50% voting interest. If one of these investors or partners were to default on its obligations relating to a subsidiary or joint venture or if such an investor or partner were to take steps to delay or prevent the entity from distributing all of its available cash, there may be a material adverse effect on our financial condition and results of operations.

We produce and distribute food products that are both susceptible to contamination and perishable and, as a result, we face the risk of exposure to product liability claims, loss of product and damage to our reputation.

As part of seafood processing, foreign objects may enter into some of our products. Additionally, our seafood products are vulnerable to contamination by disease-producing organisms or pathogens. Shipments of products that contained foreign objects or were so contaminated could lead to an increased risk of exposure to product liability claims, product recalls, adverse public relations and increased scrutiny by international, federal and local regulatory agencies. If a product liability claim were successful, our insurance might not be adequate to cover all the liabilities we would incur, and we might not be able to continue to maintain such insurance, or obtain comparable insurance at a reasonable cost, if at all. If we did not have adequate insurance or contractual indemnification available, product liability claims relating to defective products could significantly increase our operating costs. In addition, even if a product liability claim was not successful or was not fully pursued, the negative publicity surrounding any such assertion could harm our reputation with our customers.

Outbreaks of disease can significantly affect production, the supply of raw materials, demand for our products and our business.

Events beyond our control, such as the outbreak of disease, could adversely affect the quality and quantity of our live lobsters reaching our customers and significantly restrict our ability to conduct our operations. Furthermore, an outbreak of disease could result in governmental restrictions on the import and export of our live lobsters or other products to or from our suppliers, facilities or customers. This could result in the cancellation of orders by our customers and create adverse publicity that may have a material adverse effect on our ability to market our products successfully and on our business, reputation and prospects.

If we are unable to retain qualified senior executives, our growth might be hindered, which could impede our ability to run our business and potentially reduce our sales and profitability.

Our success depends in part on our ability to attract, hire, train and retain qualified managerial personnel. We face competition for these types of personnel from other seafood processing companies. We may be unsuccessful in attracting and retaining the required personnel to conduct and expand our operations successfully. Our success also depends in part on the continued service of our senior management team. Key personnel may leave us and compete against us. The loss of members of our senior management team or the inability to recruit qualified personnel could impair our ability to execute our business plan and growth strategy and may have a material adverse effect on our financial condition and results of operations.

Our operations are labour intensive, and disruptions in labour supply, including organized work stoppages or our failure to attract and retain qualified employees, may adversely affect us.

The segments of the harvesting and processing industry in which we compete are labour intensive and require an adequate supply of qualified production workers willing to work in rough weather and potentially dangerous operating conditions at sea. A substantial portion of our employees are represented by unions, and any failure to renew or extend the labour agreements to which we are subject could result in work stoppages or other disruptions that may affect our ability to harvest or process seafood products. Additionally, some of our operations have from time to time experienced a high rate of employee turnover and could experience high turnover in the future. Labour shortages, the inability to hire or retain qualified employees or increased labour costs could have a material adverse effect on our ability to control expenses and efficiently conduct our operations. We may not be able to continue to hire and retain the sufficiently skilled labour force necessary to operate efficiently and to support our operating strategies, or we may not continue to experience favorable labour relations. In addition, our labour expenses could increase as a result of a continuing shortage in the supply of personnel. Changes in applicable local and federal laws and regulations could increase labour costs, which could have a material adverse effect on our business, results of operations and financial condition.

Our lack of long-term customer agreements or our inability to satisfy supply guarantees may lead to the sudden loss of significant customers, which would have a material adverse effect on our business.

We typically do not have written agreements with our customers. Accordingly, a customer may decide to terminate its relationship with us on relatively short notice. Additionally, we guarantee supply to some of our customers, and if we are unable to satisfy these guarantees, we may lose their business. The loss of significant customers may have a material adverse effect on our financial condition and results of operations.

Because we distribute a significant amount of our products and receive supplies and other provisions using maritime and air carriers, certain adverse conditions affecting these carriers and terminals at which they transfer cargo could have a material adverse effect on our business, financial condition or results of operations.

Our distribution and purchase channels depend on the services of maritime and air carriers who load and unload our products, supplies and other provisions at terminals in Canada, the United States, Europe, Asia and other regions. A strike, work slow down, unfavorable weather conditions, changes in shipping routes or other factors adversely affecting such carriers or terminals could delay the delivery of our products and supplies. If this were to occur, it would negatively affect our sales and profitability.

Risks Relating to Our Industry and Its Regulation

The repeal of, or adverse amendments to, the Canadian Fisheries Act or the National Federal Fishery Law (1998) of Argentina, or material adverse changes to related industry regulations would likely impair our profitability.

The Canadian Fisheries Act and the National Federal Fishery Law (1998) of Argentina (along with their related regulations) restrict the harvesting of seafood in the waters off Atlantic Canada and Argentina, respectively, by providing for the registration of vessels, the issuance of licenses to catch specified species of seafood and the allocation to each license of a specified percentage of the TAC for the species to which the license applies. We and our joint ventures currently hold significant percentages of the TAC for the species we harvest, including 49% of the TAC in the Atlantic Canada offshore sea scallop fishery and 100% of the TAC in the Atlantic Canada offshore Arctic surf clam fishery. In the event that either of these Acts or their related regulations were repealed or modified to permit the issuance of additional licenses or the operation of additional vessels in the fisheries in which we operate, we could be subject to

new competition that could adversely affect our profitability. In addition, our harvesting rights and profitability would be adversely affected if either of these Acts or their related regulations were repealed or modified in a manner that decreases the percentage of the TAC allocated to the licenses we hold, either directly or indirectly. A repeal or modification of these Acts, their related regulations or other industry regulations could result from changes in the political environment, a significant increase or decrease in the population or biomass of the species we harvest or other factors, all of which are difficult to predict and are beyond our control. Any such change or repeal could have an adverse effect on our existing harvesting rights, which would have a negative impact on our results of operations and financial condition.

If we and members of our crew fail to comply with applicable regulations, our vessels may become subject to liens, foreclosure risks and various penalties and our fishing rights could be revoked.

Our industry is subject to highly complex statutes, rules and regulations. For example, we are subject to limitations on the type and amount of seafood we may harvest, as well as restrictions as to where we may harvest within our fisheries. If we or members of our crew violate maritime law or otherwise become subject to civil and criminal fines, penalties and sanctions, our vessels could be subject to forfeiture and our fishing rights could be revoked. The violations that could give rise to these consequences include operating a vessel with expired or invalid vessel documentation or in violation of trading restrictions, violating international fishing treaties or fisheries laws or regulations, submitting false reports to a governmental agency or interfering with a fisheries observer. Because our vessels' harvesting and processing activities take place at sea, outside the day-to-day supervision of senior management, members of the crews of our vessels may have been guilty of infractions or violations that could subject them or us to significant penalties, which could have a material and adverse effect on our results of operations and financial condition.

In addition, our vessels may become subject to liens imposed by operation of maritime law in the ordinary course of business. These include liens for unpaid crew wages, liens for damages arising from maritime torts, liens for various services provided to the vessel and liens arising out of the operation, maintenance and repair of the vessel. The holders of these liens may have the right to foreclose on the vessel if the circumstances giving rise to the liens are not adequately addressed.

Regulations related to our by-catch could limit the volume of seafood we catch, impose substantial costs on our operations and reduce our operational flexibility.

The DFO and ASALFF may impose various operational requirements aimed at limiting our ability to discard unwanted species, or by-catch. Regulation regarding by-catch is from time to time debated in various forums, and is the subject of public campaigns by environmental groups. Any significant change in the by-catch rules imposed by DFO or ASALFF could materially limit the volume of fish we catch and seafood product that we produce, increase our costs or decrease the flexibility of our fishing operations.

Our food processing operations are subject to international, federal and local regulation, and the failure of our plants to meet current or future control standards may result in plant shutdowns that materially affect our financial condition and results of operations.

Our food processing operations are subject to international, federal, provincial and local food processing controls and may be impacted by consumer product liability claims, product tampering, and the implementation of new governmental statutes, regulations, guidelines, licensing rules and policies. A determination by applicable regulatory authorities that any of our plants are not in compliance with any such controls in any material respect may allow regulators to shut down plant operations and may have a material adverse effect on our 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 our financial condition and results of operations.

Our plants are required to have licenses under the Fish Inspection Act of Newfoundland and the Fisheries and Coastal Resources Act in Nova Scotia. Licenses must be renewed annually. In Newfoundland, a Fish Processing Licensing Policy (2005) establishes a License Review Board that makes recommendations to the Minister regarding licensing applications and sets out licensing criteria including minimum processing thresholds for maintenance of a Fish Processing License. In Nova Scotia, the Nova Scotia Fish Processors and Fish Buyer License Policy (2004) applies to our plants. Changes to the applicable regulations or policy that results in the revocation or nonrenewal of one or more of our licenses by these governments would reduce our ability to process seafood and would have a material adverse effect on our business.

Our at-sea harvesting and processing operations are subject to regulatory control and political pressure from interest groups that may seek to materially limit our ability to harvest seafood.

Under the Canadian Fisheries Act and other relevant statutes and regulations, various regulatory agencies, including the DFO are endowed with the power to control our harvest of seafood in the fisheries in Atlantic Canada. These regulators may decrease or eliminate our allocation of the seafood supply as a result of political pressure from a broad spectrum of lobbying interests, including other industry participants (harvesters or processors of these or other species) looking to increase their access to the resource or limit impacts on other species or environmental protection groups focused on the protection of the environment and marine life.

The laws and rules that govern the highly-regulated fishing industry could change in a manner that would have a negative impact on our operations, including a significant reduction in the TAC and our allocation thereof. In addition, protests and other similar acts of politically-motivated third party groups could cause substantial disruptions to the ability of our vessels to engage in harvesting activities. These factors are beyond our control and may affect a substantial portion of our harvesting and processing operations in any year, including a potential reduction in the TAC which could have a material adverse effect on our business, results of operations or financial condition.

If we fail to comply with applicable health and safety regulations, we may be subject to significant liability or imposed fines and penalties that could materially affect our business.

Our past and present business operations, including the harvesting, processing and transportation of seafood, have been and are subject to extensive and increasingly stringent federal, provincial and local statutes, regulations and by-laws and other requirements with respect to workers' health and safety in Canada, the United States and elsewhere. In Nova Scotia, the principal workers' health and safety legislation is the Occupational Health and Safety Act (Nova Scotia). Similarly in Newfoundland, employers and employees are subject to the Occupational Health and Safety Act (Newfound and Labrador). Workers' health and safety on Canadian vessels is governed by the Canadian Department of Transportation pursuant to the Canada Shipping Act. In the United States, workplace health and safety standards are governed by the federal Occupational Safety and Health Act and comparable state statutes that regulate the protection of the health and safety of workers. In Argentina, workplace health and safety standards are governed by the Work Risks Regulation #24557 and the Labour Risks Insurance law. We provide accident risk work insurance for our Argentine crews and office staff as required by law.

Compliance with all such laws and future changes to them is material to our business. We have incurred and will continue to incur significant capital and operating expenditures to comply with such laws. As a result of our operations, we may occasionally be subject to orders, investigations, inquiries or other proceedings relating to health and safety matters, including issues of compliance with legislation, permits and other requirements. Changes or additions to such regulatory matters, or more rigorous enforcement, could result in additional material expenditures. Furthermore, no assurance can be given that additional workers' health and safety issues relating to presently known matters or to other matters will not require currently unanticipated liability or expenditures for investigation, assessment or remediation, or result in fines or other penalties.

We may incur material costs associated with compliance with environmental regulations.

We are subject to foreign, federal, provincial, state and local environmental regulations, including those governing discharges to water, the management, treatment, storage and disposal of hazardous substances, and the remediation of contamination. As a result of such regulation, our operation, ownership, management and control of property carries an inherent risk of environmental liability, including with respect to the harvesting and processing of seafood, the disposal of waste and the ownership, management, control or use of vessels, transport vehicles and real estate. If we do not fully comply with environmental regulations, or if a release of hazardous substances occurs or has occurred at or from one of our facilities or vessels, we may be subject to potential civil or criminal actions, compliance orders, fines and other penalties and could be held liable for the cost of remediation. For example, an accident involving one of our vessels or the future discovery of contamination of property underlying or in the vicinity of our present or former properties or manufacturing facilities could result in significant fines and penalties and remediation costs. If we are subject to these penalties or costs, we may not be covered by insurance, or any insurance coverage that we do have may not cover the entire cost. Compliance with environmental regulations could require us to make material capital expenditures and could have a material adverse effect on our results of operations and financial condition.

Efforts to protect endangered species may significantly restrict our ability to access our primary fisheries and sales.

There is a risk that access to certain areas of the primary fisheries in which we operate could be restricted due to constraints imposed by governmental authorities in response to the listing of endangered species, for purposes of the Species at Risk Act. The Committee on the Status of Endangered Species in Canada may issue various biological opinions as to status of various species. These opinions, if accepted by the Government of Canada, would lead to the legal listing of a species and regulation under the Species at Risk Act and may impose additional regulatory measures to protect the species. These restrictions could have an impact on our fishing operations, profitability and sales which may be material to our business.

If we do not comply with rules regulating foreign ownership and control of fishing vessels, we could lose our eligibility to participate in the fisheries in which we operate.

The DFO Commercial Licensing Policy requires that fishing licenses and vessels engaged in fisheries be owned by entities that are at least 51% Canadian citizen owned and controlled. If we do not comply with these rules and regulations, we could lose our eligibility to harvest certain species, which would have a material adverse effect on our business, financial condition or results of operations.

We rely on our Argentine minority partner in our Argentine scallop subsidiary for its operational expertise and local experience. We have no control over our Argentine minority partner and if such partner was unable to operate our Argentine subsidiary we may be unable to operate in Argentina until we found a new Argentine minority partner. There is no assurance that a new minority partner would have the same level of expertise or that their interests would align with ours.

The Structure of the Fund

Dependence on Clearwater

The Fund is a limited purpose trust, which is entirely dependent on the business of Clearwater through its ownership of Clearwater through CSHT. The cash distributions to the Unitholders are dependent on the ability of Clearwater to pay distributions. The ability of Clearwater to pay distributions is subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of Clearwater. The ability of Clearwater to pay distributions or make other payments is also dependent upon

the ability of Clearwater's subsidiaries to pay distributions or make other payments or advances to Clearwater.

Leverage

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

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

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

Cash Distributions Are Not Guaranteed and Will Fluctuate with Clearwater's Performance

Although the Fund intends to distribute the interest and other income earned by the Fund less amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by Clearwater and paid to the Fund. The actual amount distributed in respect of the Units will depend upon numerous factors, including profitability, fluctuations in working capital, the sustainability of margins, capital expenditures and subject to certain conditions imposed by lending agreements. For Canadian income tax purposes, distributions to Unitholders shall consist of a combination of return of capital, dividend income and other income. However, there can be no assurance regarding the relative make-up of such distributions.

Nature of Units

Securities such as the Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in the business of Clearwater and should not be viewed by investors as shares or debt of Clearwater. As holders of Units, Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The Units represent a fractional interest in the Fund. The Fund's primary asset is its interest in CSHT. The price per Unit is a function of anticipated distributable income.

Distribution of Securities on Redemption or Termination of the Fund

Upon a redemption of Units or termination of the Fund, the Trustees may distribute CSHT Units, CSHT Series 1 Notes and CSHT Series 2 Notes, as the case may be, directly to the Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for the CSHT Units, CSHT Series 1 Notes or CSHT Series 2 Notes. In addition, the CSHT Units, CSHT Series 1 Notes and CSHT Series 2 Notes are not freely tradable and are not currently listed on any stock exchange. Securities so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, depending upon the circumstances at the time.

Reliance on Partners in Certain Subsidiaries and Joint Ventures

A portion of the business of Clearwater is now being carried on by subsidiaries and joint ventures of Clearwater, which in some cases are not wholly-owned by Clearwater. The actions of the other investors or partners in these subsidiaries and joint ventures may adversely impact on Clearwater and, therefore, indirectly on the Fund. For instance, if one of these investors or partners were to default on its obligations relating to a subsidiary or joint venture or if such an investor or partner were to take steps to delay or prevent the entity from distributing all of its available cash, there may be a material adverse effect on Clearwater's financial condition and results of operations or its ability to distribute all available cash, which, in turn, would affect the Fund's ability to pay distributions.

Potential Dilution

The Declaration of Trust authorizes the Fund to issue an unlimited number of Units for such consideration and on such terms and conditions as shall be established by the Trustees without the approval of Unitholders. Additional Units may also be issued pursuant to the Exchange Agreement. The issuance of additional Units may dilute a Unitholder's investment in the Fund and reduce distributable cash per Unit. See "Information Concerning the Fund — Units".

Restrictions on Potential Growth

The payout by Clearwater of substantially all of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of such funds could limit the future growth of Clearwater and the related cash flow to the Fund.

Unitholder Liability

The Declaration of Trust provides that no Unitholder will be subject to any liability whatsoever to any person in connection with a holding of Units. However, there remains a risk, which is considered by the Fund to be remote in the circumstances, that a Unitholder could be personally liable despite such statement in the Declaration of Trust for the obligations of the Fund to the extent that claims are not satisfied out of the assets of the Fund. It is intended that the affairs of the Fund will be conducted to seek to minimize such risk wherever possible.

In December 2004, a new statute, the *Trust Beneficiary's Liability Act* (Ontario), was enacted to create a statutory limitation on the liability of Unitholders of Ontario income trusts such as the Fund. The legislation provides that a Unitholder will not, as beneficiary, be liable for any act, default, obligation or liability of the trust or any of its trustees after the legislation comes into force. However, this legislation does not address potential liabilities arising before the date the legislation came into force. In addition, this legislation has not been judicially considered and it is possible that reliance on the legislation by a Unitholder could be successfully challenged on jurisdictional or other grounds.

Undiversified and Illiquid Holding in CSHT

The Fund's holding of CSHT Units and CSHT Series 1 Notes is undiversified, and such securities are illiquid, as they are not currently, nor are they expected to be, listed or quoted on any stock exchange or other market.

Income Tax Matters

On June 22, 2007, Bill C-52, which significantly modifies the income tax rules applicable to certain publicly listed trusts and partnerships, received Royal Assent. In particular, certain income of (and distributions made by) these entities will be taxed in a manner similar to income earned by (and distributions made by) a corporation. These rules were effective for the 2007 taxation year with respect to trusts which commenced public trading after October 31, 2006. For trusts which were publicly traded or listed prior to November 1, 2006, the application of the rules will be delayed to the earlier of (i) the trust's 2011 taxation year and (ii) a taxation year of the trust in which the trust exceeds normal growth as determined by reference to the normal growth guidelines, as amended from time to time, unless that excess arose as a result of a prescribed transaction.

On December 15, 2006, the Department of Finance (Canada) released guidance for income trusts and other flow-through entities that qualify for the four-year transitional relief. The guidance establishes objective tests with respect to how much an income trust is permitted to grow without jeopardizing its transitional relief. In general, the Fund will be permitted to issue new equity in each of the next three years equal to the greater of \$50 million and a certain percentage of the Fund's market capitalization as of the end of trading on October 31, 2006. This latter amount is cumulative to the extent it is not used in a given year and, accordingly, the Fund will be permitted to issue new equity during the transitional period at least equal to its October 31, 2006 market capitalization (subject to the applicable annual limits). Market capitalization, for these purposes, is to be measured in terms of the value of the Fund's issued and outstanding publicly-traded units. If these limits are exceeded, the Fund may lose its transitional relief and thereby become immediately subject to the new rules.

On December 20, 2007, the Department of Finance (Canada) announced technical amendments to clarify certain aspects of the new rules (which, as discussed above, will be effective on January 1, 2011, subject to compliance with the normal growth guidelines). One of the amendments, which has since been enacted as law, is intended to exempt from the new rules a subsidiary partnership that (i) is not publicly traded, and (ii) is wholly-owned by a publicly traded trust or partnership, a taxable Canadian corporation or a combination of these entities.

The new rules (including the guidance released on December 15, 2006) may adversely affect the marketability of the Fund's units and the ability of the Fund to undertake financings and acquisitions, and, at such time as the new rules apply to the Fund, the distributable cash of the Fund may be materially reduced.

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.

Further, interest on the CSHT Series 1 Notes accrues at the Fund level for income tax purposes whether or not actually paid. The Declaration of Trust provides that an amount equal to the taxable income of the Fund will be distributed each year to Unitholders in order to reduce the Fund's taxable income to zero. Where in a particular year, the Fund does not have sufficient available cash to distribute such an amount to Unitholders (for instance, where interest payments on the CSHT Series 1 Notes are due but not paid in whole or in part) the Declaration of Trust provides that additional Units must be distributed to Unitholders in lieu of cash distributions. Unitholders will generally be required to include an amount equal to the fair market value of those Units in their taxable income, notwithstanding that they do not directly receive a cash distribution.

In addition, the agreements under which CFFI transferred the Clearwater business provided that elections would be made under the Tax Act to transfer the transferred assets on a fully or partially tax-deferred basis, as may be determined by CFFI. The adjusted cost to Clearwater of the assets so transferred where such elections were made may be less than fair market value, such that Clearwater may realize a gain for tax purposes on the future disposition of those assets.

Investment Eligibility

There can be no assurance that the Units will continue to be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered retirement income funds, registered education savings plans and registered disability savings plans under the Tax Act. Adverse tax consequences may arise under the Tax Act on the acquisition or holding of non-qualified or ineligible investments.

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF THE FUND AND 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%
	<u>27,745,695</u>		

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 u. The principal amount outstanding, for the amended Class E debentures as at December 31, 2010 was \$45 million (2009 - \$45 million).

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

of the 2007 series convertible debentures. The principal outstanding as at December 31, 2009 of the 2007 series convertible debentures was \$44.4 million (2008 – \$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.

Clearwater did not hold any material assets until July 2002, when it acquired the seafood business from CFFI.

On February 4, 2011 Clearwater successfully completed a refinancing of its senior debt facilities increasing its' Senior Term Credit Facility ("**Senior Notes**") 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.

The following table includes consolidated financial information of the Fund and Clearwater (in thousands of Canadian dollars, except per Unit amounts) for fiscal years 2008, 2009 and 2010:

	Fund			Clearwater ⁽¹⁾		
	2010	2009	2008	2010	2009	2008
Sales	\$ -	\$ -	\$ -	\$ 291,116	284,066	\$301,204
Equity in earnings of Clearwater	(4,063)	14,026	(55,667)	-	-	-
Net Earnings	(4,397)	(1,964)	(255,858)	(7,489)	26,148	(102,405)
Net Earnings per Unit (basic and fully diluted)	(0.16)	(0.07)	(9.22)	(0.15)	0.51	(2.00)
Long-Term Debt	86,640	88,253	87,927	205,398	214,117	241,285
Unitholders' Equity (Deficit)	(31,378)	(28,946)	(27,674)	39,232	45,126	22,952
Total Assets	56,054	\$60,088	61,034	\$325,224	\$338,090	\$394,120

Note:

(1)As CFFI controlled the business both before and after the initial public offering, the acquisition was accounted for by Clearwater using the book values of the assets and liabilities as recorded by CFFI.

More detailed financial information is set out in the audited annual financial statements, and the related notes thereto included in the Annual Report, as at and for the year ended December 31, 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reference is made to Management's Discussion and Analysis of Financial Conditions and Results from Operations for the years ended December 31, 2010 and 2009 included in the 2010 and 2009 Annual Reports, which is incorporated herein by reference.

SELECTED FINANCIAL INFORMATION OF CLEARWATER

The financial information below is presented in thousands of dollars:

	2010	2009	2008
Sales	\$291,116	\$284,066	\$301,204
Cost of goods sold	234,854	240,215	261,443
Gross Profit ⁽¹⁾	56,262	43,851	39,761
Gross Profit (%)	19.3%	15.4%	13.2%
Administration and selling	26,883	25,724	25,926
Other income, gain on disposal and other, net	3,073	(6,567)	8,858
Foreign exchange (income) loss	2,992	(30,642)	80,210
Bank interest and charges	719	627	838
Interest on long-term debt	23,246	24,715	18,275
Depreciation and amortization	690	236	586
Reduction in foreign currency translation account	1,066	703	-
	58,669	14,796	134,693
Earnings (loss) before the undernoted	(2,407)	29,055	(94,932)
Income Taxes	3,378	1,868	4,595
Earnings (loss) before minority interest	(5,785)	27,187	(99,527)
Minority interest	1,704	1,039	2,878
Net earnings (loss)	\$(7,489)	\$26,148	\$(102,405)

Note:

- (1) Gross Profit is not a recognized measure under Canadian GAAP. Gross Profit should not be construed as an alternative to net earnings as determined in accordance with GAAP as an indicator of Clearwater's profitability. Clearwater's method of calculating Gross Profit may differ from other companies and, accordingly, Gross Profit may not be comparable to measures used by other companies.

DISTRIBUTIONS

Distributions paid for 2007 were \$0.60 per unit.

In January 2008, Clearwater suspended distributions to unit holders and has not resumed payment as of March 2011.

All of the Partnership's distributions are at the discretion of the Trustees and are subject to certain conditions imposed by lending agreements.

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

PRINCIPAL UNITHOLDERS

To the knowledge of the Trustees and the directors and senior officers of CS ManPar, the only person(s) or companies that beneficially owns, directly or indirectly, or exercises control or direction over, in excess of 10% of the Units (on a fully diluted basis) are as follows:

Name	Number of Units and Special Trust Units Owned	Percentage of Units and Special Trust Units Owned
Clearwater Fine Foods Incorporated ⁽¹⁾	24,656,422	48.23%

Note:

- (1) CFFI holds 1,275,205 Units as well as an additional 23,381,217 Special Trust Units. Each Special Trust Unit was issued concurrently with the issuance of an Exchangeable Unit, which, subject to certain restrictions, will be exchangeable for Units on a one-for-one basis, subject to adjustment in certain circumstances. Upon exchange of the Exchangeable Units for Units of the Fund, the associated Special Trust Unit shall be cancelled.

Other than as set out above, to the knowledge of the Trustees and the directors and senior officers of CS ManPar, the number of Units owned collectively by the Trustees and the directors and officers of CS ManPar and their respective subsidiaries is approximately 11.0% of the Units on a fully-diluted basis, excluding those Units and Special Trust Units held by CFFI over which Messrs. MacDonald and Risley may be said to have control or direction or to beneficially own, as described below.

MARKET FOR SECURITIES

The outstanding Units of the Fund are listed for trading on The Toronto Stock Exchange under the symbol CLR.UN and the convertible debentures trade under the symbols CLR.DB.A and CLR.DB.B.

The monthly volume of trading and price ranges of the Units on the TSX over fiscal 2010 are set forth in the following table:

Period	High	Low	Volume
2010	\$	\$	
January.....	0.95	0.82	232,700
February.....	1.03	0.85	112,500
March.....	0.90	0.80	350,479
April.....	0.97	0.80	257,900
May.....	1.13	0.83	345,400
June.....	0.97	0.84	147,544
July.....	0.98	0.83	140,105
August.....	0.90	0.81	118,700
September.....	0.85	0.80	135,414
October.....	0.89	0.76	264,955
November.....	1.28	0.81	909,248
December.....	1.23	1.00	392,371

TRUSTEES, DIRECTORS AND MANAGEMENT

Trustees and Directors

The names, municipalities of residence, principal occupations and current holdings of the persons who are Trustees and directors of CS ManPar are set out below:

Thomas D. Traves , 62 Nova Scotia, Canada Units: 7,500 ⁽¹⁾	Dr. Traves is the Chairman and a Trustee of the Fund, as well as a director of CS ManPar. His principal occupation is that of President and Vice-Chancellor of Dalhousie University.
Bernard R. Wilson , 68 Ontario Units: 4,500 ⁽¹⁾	Mr. Wilson was Vice Chairman of PricewaterhouseCoopers from 2001 to June 30, 2005. Mr. Wilson is a Trustee of the Fund and a director of CS ManPar.
Harold Giles , 70 Ontario, Canada Units: 700 ⁽¹⁾	Harold Giles is a former senior executive with General Electric and Bell. Since retiring he has provided operations and leadership consulting to Corporations in Canada and in Europe and to not for profit organizations. Mr. Giles is a Trustee of the Fund and a director of CS ManPar.
Colin E. MacDonald , 62 Nova Scotia, Canada Units and Special Trust Units: 24,762,422 ⁽²⁾⁽³⁾	Mr. MacDonald is a director of CS ManPar. Mr. MacDonald's principal occupation is that of Chairman was formerly the Chairman and Chief Executive Officer of CS ManPar.
John C. Risley , 62 Nova Scotia, Canada Units and Special Trust Units: 24,656,422 ⁽³⁾	Mr. Risley is the President of Clearwater Find Foods Incorporated.
Brendan Paddick , 47 Grand Bahama Island, Bahamas Units: 90,000 ⁽¹⁾	Mr. Paddick is a director of CS ManPar. His principal occupation is that of Chief Executive Officer of Columbus International Inc.
Mickey MacDonald , 58 Nova Scotia, Canada Units: 4,997,060 (4)	Mr. MacDonald is President of Micco Companies (residential land development and automotive leasing). Mr. MacDonald is a director of CS ManPar.
Stan Spavold , 51 Nova Scotia, Canada Units: 26,500 (1)	Mr. Spavold is the Executive Vice President of Clearwater Fine Foods Incorporated. Mr. Spavold is a director of CS ManPar.

Notes:

- (1) The information as to Units and Special Trust Units beneficially owned, directly or indirectly, including by associates or affiliates, not being within the knowledge of the Fund, has been furnished by the respective trustees and directors.
- (2) Colin MacDonald controls 106,000 Units directly and indirectly.
- (3) CFFI holds 1,275,205 Units as well as an additional 23,381,217 Special Trust Units. Each Special Trust Unit was issued concurrently with the issuance of Clearwater Exchangeable Units which are exchangeable for Units on a one-for-one basis, subject to customary anti-dilution protections and as provided under "Information Concerning the Fund – Takeover Bids". Messrs. MacDonald and Risley beneficially own, and exercise control or direction over such Units as the sole directors and shareholders of CFFI.
- (4) Mickey MacDonald holds 33,206 Units directly and 4,960,854 Units indirectly. He also hold 229,000 of the 7% Convertible Debentures due in 2010 and 430,000 of the 7.25% Convertible Debentures due in 2014.

Compensation for the Trustees is \$30,000 per Trustee per year (plus an additional \$25,000 for the Chair of the Trustees and an additional \$3,000 for the chair of each committee) and \$1,500 per meeting per Trustee for attending meetings of the board of Trustees. Compensation for the directors of CS ManPar, other than directors who also serve as Trustees or as management of CS ManPar, is \$30,000 per director per year and \$1,500 per meeting per director for attending meetings of the board of directors and committee meetings of the board of directors. All Trustees and directors are reimbursed for out-of-pocket expenses for attending meetings and participate in the insurance and indemnification arrangements described below.

Governance

The board of trustees of the Fund is responsible for supervising the activities and managing the investments and affairs of the Fund. The board reviews, discusses and approves various matters related to the Fund's investments and affairs, strategic direction and organizational structure to ensure that the best interests of the Fund are being served. The board is assisted in its supervision and management by the standing committees of the board of CS ManPar, who report to the board on matters falling within the purview of their mandate.

The Trustees are directly responsible for adopting and periodically reviewing and updating the Fund's written corporate disclosure policy. This policy, among other things:

- articulates the legal obligations of the Fund, its affiliates and their respective trustees, directors, officers and employees with respect to confidential corporate information;
- identifies spokespersons of the Fund who are the only persons authorized to communicate with third parties such as analysts, media and investors;
- provides guidelines on the disclosure of forward-looking information;
- requires advance review by the Trustees of any disclosure of financial information to ensure the information is not material, and ensures that selective disclosure of material information is not permitted, and that when it occurs, a news release is issued immediately; and
- establishes "black-out" periods immediately prior to and following the disclosure of quarterly and annual financial results and immediately prior to the disclosure of certain material changes during which the Fund, its affiliates and their respective trustees, directors, officers and employees may not purchase or sell units of the Fund.

Insiders of the Fund are required to file insider reports in compliance with applicable securities laws. For these purposes, insiders of the Fund include, amongst others, the directors and senior officers of CS ManPar. Each of these individuals has provided an undertaking to the securities regulatory authorities to file insider reports in compliance with applicable securities laws. Holders of partnership interests in Clearwater who are insiders of the Fund are also required to file insider reports in respect of their interests in Clearwater and Units.

The Audit Committee is comprised of Bernard Wilson (Chair), Brendan Paddick and Stan Spavold. The Corporate Governance and Compensation Committee is currently comprised of Thomas Traves, Harold Giles, Mickey MacDonald and Stan Spavold.

The Trustees from time to time meet separately and, at other times, as part of the Board and committees thereof. The Trustees consider their major responsibility to be protecting the interests of the unitholders and, in particular, protecting the public unitholders in all respects. This can relate to monitoring distributions, monitoring and approving, and otherwise, any non-arm's length transactions, etc.

The Trustees, Tom Traves, Bernie Wilson and Harold Giles, are all considered independent. In addition, Brendan Paddick is considered to be independent. The Directors who are not considered independent include Colin MacDonald, John Risley, Mickey MacDonald and Stan Spavold.

Governance of CS ManPar

The board of CS ManPar is typically fixed at seven individuals however in 2009 both the Trustees and Directors agreed to increase this to eight, three of whom have been appointed by the Fund and five of

whom have been appointed by CFFI. Pursuant to a shareholders' agreement, CFFI will continue to have the right to appoint directors of CS ManPar on the following basis:

- so long as CFFI holds or controls at least 45% of the Units (on a fully diluted basis), it is entitled to appoint four of the seven directors;
- so long as CFFI holds or controls at least 33% of the Units (on a fully diluted basis) but less than 45% of such Units, it is entitled to appoint three directors;
- so long as CFFI holds or controls at least 20% of the Units (on a fully diluted basis) but less than 33% of such Units, it is entitled to appoint two directors; and
- once CFFI holds or controls less than 20% of the Units (on a fully diluted basis), it does not have the right to appoint any directors.

The directors of CS ManPar that are not appointed by CFFI will be appointed by the Fund. So long as CFFI holds or controls at least 20% of the Units (on a fully diluted basis), the size of the board of CS ManPar will remain fixed at seven unless both the Fund and CFFI agree to a change in the size of the board.

The Fund's current appointees to the board of directors of CS ManPar are the Trustees and CFFI's appointees to the board of directors of CS ManPar are Messrs. Colin E. MacDonald, John C. Risley, Brendan Paddick, Mickey MacDonald and Stan Spavold.

Management of the Business

The following sets out, for each of the executive officers of CS ManPar (the "**Executive Officers**"), the person's name, position with CS ManPar and the current holdings of Units.

IAN SMITH , 47 Halifax, Nova Scotia Units: Nil	Mr. Smith is Chief Executive Officer of CS ManPar.
ERIC R. ROE , 49 Halifax, Nova Scotia Units: 70,000	Mr. Roe is Chief Operating Officer of CS ManPar.
ROBERT D. WIGHT , 55 Halifax, Nova Scotia Units: 210,000	Mr. Wight is Vice President, Finance and Chief Financial Officer of CS ManPar.
MICHAEL PITTMAN , 63 Halifax, Nova Scotia Units: 12,000	Mr. Pittman is Vice-President, Fleet of CS ManPar.

Notes:

- (1) See "Trustees, Directors and Management — Trustees and Directors".

Committees of the Board of Directors

The board of directors of CS ManPar has a Corporate Governance and Compensation Committee and an Audit Committee.

Corporate Governance and Compensation Committee

The Corporate Governance and Compensation Committee, which is comprised of Messrs. Giles, MacDonald and Spavold. The committee reviews and makes recommendations to the board concerning the appointment of officers of CS ManPar and the hiring, compensation, benefits and termination of senior executive officers and all other key employees of CS ManPar. The committee annually reviews the chief executive officer's goals and objectives for the upcoming year and provides an appraisal of the chief executive officer's performance. The committee administers and makes recommendations regarding the operation of the long-term incentive plan. The committee is also responsible for developing CS ManPar's approach to corporate governance issues, advising the board in filling vacancies on the board and periodically reviewing the composition and effectiveness of the board and the contribution of individual directors.

Audit Committee

The purpose of the Audit Committee, which is comprised of Messrs. Wilson, Spavold and Paddick, is to assist the board in fulfilling its responsibilities of oversight and supervision of the:

- accounting and financial reporting practices and procedures of Clearwater and its subsidiaries;
- adequacy of internal accounting controls and procedures of Clearwater and its subsidiaries; and
- quality and integrity of financial statements of Clearwater.

In addition, this committee is responsible for directing the examination into specific areas by the auditors of Clearwater. A copy of the Audit Committee's charter is attached hereto as Schedule "A".

In addition to each member's general business experience, the education and experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the Audit Committee are set forth below. Each of the Audit Committee Members is literate and both Bernard Wilson and Brendan Paddick are considered to be independent. The following is a brief summary of the education or experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the Audit Committee, including any education or experience that has provided the member financial literacy, that is, an understanding of the accounting principles used by Clearwater to prepare its annual and interim financial statements:

Audit Committee Members and Relevant Education and Experience

Bernard R. Wilson (Chair): Mr. Wilson was Vice Chairman of PricewaterhouseCoopers from 2001 to June 30, 2005. Mr. Wilson serves on the boards of Consolidated Thompson Iron Mines Limited, Crowflight Minerals Inc. and Goldengate Group, has a Fellowship from the Canadian Institute of Chartered Accountants and graduated with a Bachelor of Commerce from St. Francis Xavier University and a post-graduate study at Harvard University. Mr. Wilson is also Chairman of the Founders Board of the Institute of Corporate Directors in Canada.

Brendan Paddick: Mr. Paddick is the Chief Executive Officer of Columbus Communications Inc. since September 2004. He was the Chief Executive Officer of Persona Inc. and Persona Communications Inc. from 1992 to 2004. Mr. Paddick graduated with a Bachelor of Commerce and Master of Business Administration from Memorial University of Newfoundland and is a graduate of the Advanced Management Program at Harvard University.

Stan Spavold: Mr. Spavold is the Executive Vice President of Clearwater Fine Foods Incorporated. Mr Spavold has his Bcom (Honours) from Dalhousie University. He received his CA designation in 1983. After 8 years in public accounting with KPMG, Stan joined McCain Foods Limited and enjoyed increasing responsibility and was appointed Vice President Finance in 1998. He joined Clearwater in 2002. Stan currently sits as Director and member of the Audit Committee of Highliner Seafoods. He is also past board member and Chair of the Audit Committees of General DonLee Income Fund, Royal Host Real Estate Trust and Halterm Income Fund. He is currently a Govenor of Dalhousie University and Chairs their investment committee. Stan is currently the Chair of Ocean Nutrition (Canada) and a member of the Board of Columbus International Inc (both private companies).

Auditors' Fees

KPMG LLP has served as our auditor since the date of completion of our initial public offering.

The table below provides disclosure of the services provided and fees billed by the Fund's external auditor over the two most recently completed fiscal years, dividing the services into the three categories of work performed:

Type of Work	Fees – Fiscal 2010	Fees – Fiscal 2009
Audit services	\$366,954	\$457,486
Tax services	69,606	84,319
All other fees	226,914	51,987
Total	663,473	\$593,792

Audit Services

Audit services relate to professional services rendered by the auditors for the audit of the Fund and CS ManPar's annual financial statements as well as services provided in connection with statutory and regulatory filings, prospectuses, periodic reports and other documents filed with securities regulatory bodies or other documents issued in connection with securities offerings.

Tax Services

Tax fees were paid for the review of tax returns, the review of proposed reorganizations of certain subsidiaries, assistance with review of foreign tax filings and assistance in completing routine tax schedules and calculations.

All Other Fees

Fees disclosed in the table above under the item "all other fees" were paid for services other than the audit fees, audit-related fees and tax fees described above. These services consisted of assistance with filings of foreign subsidiaries and completion of reports associated with security over foreign assets required as part of our banking arrangements.

Any non-audit services to be provided by the external auditors are required to be reviewed and approved in advance by the Chair of the Audit Committee. In addition, on a quarterly basis all fees paid to the external auditors, audit and non-audit, are reviewed in detail by the Audit Committee.

NON-COMPETITION AGREEMENT

In July 2002, CFFI and the individuals controlling it, Messrs. John C. Risley and Colin E. MacDonald, together with any person or entity controlled by or related to any of them, (collectively, the "**Restricted**

Persons”) entered into a non-competition agreement (the “**Non-Competition Agreement**”) pursuant to which they covenanted not to compete with the business of Clearwater. The terms of this non-competition covenant are as follows.

- The term of the non-competition covenant is from July 31, 2002 until the first anniversary of the date that the Restricted Persons collectively hold less than 20% of the Units on a fully diluted basis.
- Subject to the next sentence, during the term of the non-competition covenant, the Restricted Persons may not engage in the harvesting or primary processing of seafood in Atlantic Canada or Argentina, either by establishing a new business or purchasing an existing business, without the prior written consent of the Trustees. If any of the Restricted Persons purchases a business that, as part of its operations, harvests or primary processes seafood in Atlantic Canada or Argentina, such a purchase shall not be regarded as a breach of the non-competition agreement provided that the harvesting and primary processing aspect of the business is disposed of within 18 months and, in connection with any such disposition, the Fund is provided with a right of first refusal to purchase the business on terms that are no less favorable to the Fund than the terms (if any) made available to a third party. The decision by the Fund as to whether to exercise the right of first refusal will be made by the unrelated Trustees and in compliance with all applicable securities laws, including, if applicable, the rules of certain securities regulators applicable to “related party transactions”.
- The Restricted Persons may not purchase, directly or indirectly, a business that primarily engages in the harvesting or primary processing of seafood outside of Atlantic Canada or Argentina without first providing the Fund with the opportunity to pursue the purchase of such business.
- Notwithstanding the foregoing, none of the following shall be regarded as a breach of the non-competition agreement or give rise to any rights in favor of the Fund: (i) the acquisition of less than 20% of the shares or ownership interest in any entity or partnership provided that the Fund shall have a right of first refusal in respect of the subsequent disposition of such an interest; (ii) CFFI increasing its interest in FPI Limited up to 49.9%; or (iii) the purchase of any business that, as part of its operations, derives less than \$20 million in annual revenues over the three year period prior to the acquisition date from harvesting or primary seafood processing activities.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our Units is Computershare Investor Services Inc. at its principal office in the City of Toronto.

MATERIAL CONTRACTS

The only material contracts entered into by any of the Fund or Clearwater during the past year or entered into prior to the most recently completed financial year but after January 1, 2002 and that is still in effect, other than in the ordinary course of business, are as follows:

- (a) the Declaration of Trust of the Fund, as amended;
- (b) the CSHT Note Indenture;
- (c) the CSHT Trust Indenture, as amended;

- (d) the Clearwater Partnership Agreement, as amended;
- (e) the Administration Agreement;
- (f) the trust indenture for the Convertible Debentures; as supplemented, and
- (g) lending agreements

LEGAL PROCEEDINGS

Prior to the receivership of Glitnir Banki hf (“Glitnir”) in 2008 Clearwater had derivative contracts with Glitnir including foreign exchange derivative contracts and cross currency and interest rate swaps. For the foreign exchange derivative contracts, Clearwater and Glitnir reached an agreement in 2009 whereby the potential liability under these contracts was capped at \$13.97 million, the minimum settlement was set at \$2.9 million and Clearwater agreed to commence litigation on its position that these contracts are null and void. Clearwater has accrued \$13.97 million plus interest as of December 31, 2010. For the cross currency and interest rate swap contracts, Clearwater has received external legal advice that these contracts may be declared null and void. In the fourth quarter of 2009 Clearwater commenced litigation with Glitnir with respect to these contracts and as well as for funds on deposit it has with Glitnir and damages related to financing that Glitnir was to provide for a privatization in 2008. Clearwater expects that this litigation could take some time to settle.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No trustee, director, executive officer or principal shareholder of the Fund, CS ManPar or Clearwater, or associate or affiliate of any of the foregoing, has any other material interest, direct or indirect, in any transaction which has materially affected Clearwater in the past three years (or in any transactions or proposed transaction which may materially affect Clearwater in the future), except as disclosed herein under “General Development of the Fund” or as disclosed in the Fund’s Management Information Circular relating to the annual meeting of unitholders of the Fund.

ADDITIONAL INFORMATION

Additional information, including trustees’, directors’ and officers’ remuneration and indebtedness and principal holders of securities of the Fund, is contained in the Fund’s Management Information Circular relating to the annual meeting of unitholders of the Fund. Additional financial information is contained in our financial statements and MD&A for the year ended December 31, 2010. Additional information relating to the Fund may also be found at www.sedar.com. Copies of all of these documents may be obtained upon request from the Chief Financial Officer of CS ManPar, 757 Bedford Highway, Bedford, Nova Scotia, B4A 3Z7.

Schedule “A”

Clearwater’s Audit Committee Charter

Audit Committee Charter

The Canadian Securities Administrators’ (CSA) multilateral instrument 52-110 has defined specific requirements for Audit Committees to meet. One of these requirements is that the company’s Audit Committee will have a written charter that sets out its mandate and responsibilities. It also requires the text of the charter to be included in the annual information form along with other specified information on the audit committee members.

Purpose:

The Audit Committee is ultimately responsible for the policies and practices relating to integrity of financial and regulatory reporting as well as internal controls to achieve the objectives of safeguarding of corporate assets; reliability of information; and compliance with policies and laws. The committee will also be responsible for identifying principal risks of the business and ensuring appropriate risk management techniques are in place.

The Audit Committee charges management with developing and implementing procedures to:

- ensure internal controls are appropriately designed, implemented and monitored
- ensure reporting and disclosure of required information is complete, accurate, and timely.

The Audit Committee will make recommendations to the Board of Directors regarding items relating to financial and regulatory reporting and the system of internal controls, following the execution of the committee’s responsibilities as described in the mandate

Composition of Committee:

The committee will be composed of 3 Directors from the Company’s Board of Directors.

All members of the committee will be financially literate as defined by applicable legislation. If a member upon appointment to the committee is not financially literate as required, the person will be provided a three month period in which to achieve the desired level of literacy.

Authority:

The Committee has the authority to engage independent counsel and other advisors as it deems necessary to carry out its duties and the Committee will set the compensation for such advisors.

The Committee has the authority to communicate directly with and to meet with and without management involvement, the external auditors. This extends to requiring the external auditor to report directly to the Audit Committee.

Responsibilities:

1. The Audit Committee will recommend to the Board of Directors;
 - (a) the external auditor to be nominated for purposes of preparing or issuing the auditor's report or performing other audit, review or attest services for the Company.
 - (b) the compensation of the external auditor.
2. The Audit Committee is directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing the Auditor's Report or performing other review or attest services for the Company, including the resolution of disagreements between management and the external auditor regarding financial reporting. The Audit Committee will also ensure that the external auditor is in good standing with the Canadian Public Accountability Board and will enquire if there are any sanctions imposed by the CPAB on the external auditor. The Audit Committee will also ensure that the external auditor meets the rotation requirements for partners and staff on the Company's audit.
3. The Audit Committee must pre-approve all non-audit services to be provided to the Company or its subsidiary entities by the Company's external auditor. The Audit Committee has delegated to the Chair or any member of the Committee the authority to pre-approve non-audit services, with such pre-approved services presented to the Audit Committee at the next scheduled Audit Committee meeting following such pre-approval.
4. The Audit Committee will review and discuss with management and the external auditors the annual audited financial statements, including discussion of material transactions with related parties, accounting policies, as well as the external auditors' written communications to the Committee and to management.
5. The Audit Committee reviews the Company's financial statements, MD&A as well as annual and interim earnings press releases and recommends such to the Board. This is prior to public disclosure of such information.
6. The Audit Committee ensures that adequate procedures are in place for the review of financial information extracted or derived from the Company's financial statements, contained in the Company's other public disclosures and must periodically assesses the adequacy of those procedures.

The Audit Committee establishes procedures for:

- (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
 - (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
7. The Audit Committee reviews and approves the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Company. The Committee will ensure that the policies prohibits hiring any partners, employees and former partners and employees of the present and former external auditor of the Company

until the passage of three years subsequent to the date of their last employment by the present or former external auditor of the company.

8. The Audit Committee will, with respect to ensuring the integrity of disclosure controls and internal controls over financial reporting, understand the process utilized by the Chief Executive Officer and the Chief Financial Officer to comply with Multilateral Instrument 52-109. This will also involve enquiry of the Chief Internal Auditor as to the internal auditors' assessment of internal controls, and assessing disagreements between management and the internal auditor regarding the state of internal controls.
9. The Audit Committee will undertake a process to identify the principal risks of the business and ensure appropriate risk management techniques are in place. This will involve enquiry of management regarding how risks are managed as well as receiving opinions from Internal Audit regarding the effectiveness of the risk mitigation strategies.

Reporting:

The reporting obligations of the Committee will include:

- Report to the Board on the proceedings of each Audit Committee meeting and on the Audit Committee's recommendations at the next regularly scheduled Board meeting.
- Review the disclosure required in the Company's Annual Information Form as Form 52-110FI.

Meetings:

The Committee will meet at least four times per year and at least once every fiscal quarter.

Notice of meetings shall be given to the external auditor of the Company, and meetings can be convened at the request of the external auditor.