Embracing change...

Clearwater

2006 ANNUAL REPORT

Clearwater Seafoods is a leader in the global seafood industry recognized for the consistent quality, wide diversity and reliable delivery of approximately 70 million pounds of premium seafood to more than 30 countries worldwide.

Harvesting

Profile

Clearwater operates the largest fleet of factory freezer vessels in Canada – 11 ships that harvest scallops, shrimp and clams. It also maintains a fleet of wet fish trawlers that harvest Clearwater's offshore lobster quota and other species. Clearwater has the ability to process and freeze virtually 100% of its scallops at sea.

Strategic outlook

We anticipate delivery of our new $50 million factory freezer clam vessel in mid 2007. After sea and fishing trials, the vessel will begin harvesting, increasing our catching and processing capacity at sea while reducing operating costs. We're also researching new high-pressure technologies for processing clams.

Processing

Profile

Clearwater has six processing and storage facilities in Atlantic Canada and uses contract processors in both the United States and China. These facilities are equipped with leading edge technology and, when combined with the FAS capability on our vessels, have reduced our processing costs and improved the quality and diversity of our products.

Strategic outlook

Along with the development of technology to process at sea, we're transforming our lobster business. During 2006, we continued to develop the production process for our raw lobster products. In the live lobster business, we're implementing new grading and sorting technology to provide customers with greater assurance of quality and value.

Sales, marketing & distribution

Profile

Clearwater has sales offices in Canada, the United States, the United Kingdom, China and Japan with distribution centers strategically located on four continents. The re-structuring of Clearwater's sales team has created a more efficient selling organization capable of expanding volumes in existing markets and tapping new opportunities.

Strategic outlook

We're using our traditional strongholds – such as Western Europe and Asia – as springboards for expansion into markets previously untapped by Clearwater, including the Middle East, Russia and Australia. In 2007, one of our major initiatives will be to enhance our marketing capabilities to support our sales team more effectively.

...to achieve sustainable growth

Since its founding in 1976, Clearwater has invested in science, people, technology, resource ownership and resource management to preserve and grow its seafood resource. This commitment has allowed it to remain a leader in the global seafood market.

Our results in 2006 reinforce our confidence that we can provide stakeholders with solid performance over the longer term. We remain committed to the four cornerstones of our growth strategy.

Letter to our Unitholders

The year 2006 was a solid year for Clearwater. We achieved a rebound in our operating and financial performance, which allowed us to reinstate distributions, and we continued to advance the strategies that we believe will drive stability and growth in the future.

There were three key performance drivers behind the substantial improvement in performance.

First, we experienced a very strong year in our scallop business. This was made possible by a combination of factors, including a higher total allowable catch (TAC), increased scallop catch rates and sizes, stronger market pricing, the efficiency of our new frozen at sea (FAS) vessels and the hard work of employees from the moment our vessels set out to sea to delivery of our catch to the market.

Second, in 2006 we operated without the vessel disruptions that challenged Clearwater in 2005. Our FAS scallop vessels harvested uninterrupted for the full year. These state-of-the-art vessels not only produce a superior product – the true driver of value in the market – they increased our harvesting efficiency. This operating efficiency along with the uninterrupted harvest allowed us to increase volumes while reducing overall costs.

Third, the ongoing reorganization and strengthening of our sales team allowed us to expand our markets and cultivate stronger relationships with both existing and new customers. This is true in all our markets but had the most significant impact on sales of clams in Asia and scallops in Europe and in North America. In addition, our combined sales team drove continued growth in our exciting new raw lobster business across all markets.

Driving improved margins

As a result of our efforts, we increased our gross margin to 27.5% in 2006 from 22.9% in 2005 and our gross profit increased significantly in 2006, despite ongoing challenges created by fuel costs and exchange rates. Fluctuating foreign exchange rates had the effect of reducing 2006 sales by over $19 million compared to 2005.

Although we have not yet returned to historic levels of distributable cash, our strengthened results allowed us to reinstate distributions at $0.05 per unit per month effective July 2006. This payout rate balances our need to deliver value to unit-holders today while retaining sufficient cash to invest in continued growth tomorrow.

Our results in 2006 also reinforce our confidence that the changes we've initiated over the past few years will provide stakeholders with stability and growth over the longer term.

Milestones

1 1976: John Risley and Colin MacDonald establish Clearwater, starting the company with a pickup truck and a vision.

2 1979: Clearwater opens the world's first dry land lobster pound, making quality live lobster available worldwide year round.

3 July 2002: Clearwater Seafoods Income Fund established with the issue of 23 million units raising $233 million.

4 February 2003: Clearwater launches two state-of-the-art vessels capable of processing individually frozen-at-sea (FAS) scallops.

5 July 2004: Clearwater completes the construction of a $4 million processing facility to produce a new line of processed raw lobster products.

6 Clearwater anticipates delivery of its new $50 million factory freezer clam vessel mid 2007.

Financial highlights
(In thousands of dollars, except per unit amounts)

	2006	2005	Change
Sales	**$ 315,736**	$ 314,839	0%
Net earnings	**$ 1,463**	$ 19,873	–93%
Net earnings per unit	**$ 0.03**	$ 0.38	–92%
Distributable cash	**$ 42,351**	$ 27,205	56%
Distributions paid	**$ 15,837**	$ 27,366	–42%
Payout ratio	**37%**	101%	–63%
Capital expenditures	**$ 20,600**	$ 28,600	–28%
Effective exchange rate ($CDN/$US)	**$ 1.19**	$ 1.31	–9%

Those changes rest upon our commitment to the four cornerstones of our growth strategy:

- **Building on our global reach and breadth of market,**
- **Continued innovations in harvesting and processing technology to increase yields and efficiency while enhancing product value for our customers,**
- **Expanding access to a diversity of species, and**
- **Employing science and responsible harvesting practices to sustain our resources.**

Expanding our global reach

Over the past few years we've focused on transforming our operations. With our capital investment program nearing completion, we shifted our focus to strengthening our go-to-market strategy and expanding our global reach. Over the past year we made several strategic changes:

- **In 2006, Vice President Sales North America Rick Betz created a stronger, better managed sales organization** in the North American market place while increasing our margins on all species.
- **In Europe, Vice President European Sales Bernard Leger expanded our presence in Spain, Germany and Belgium and expanded into markets previously untapped by Clearwater** – the Middle East, Russia and Eastern Europe – generating both increased margins and higher volumes.
- **Asian Sales Vice President Paul Broderick established our first sales office in Tokyo, Japan.** Although Clearwater has been selling seafood to Japan since 1980, we have traditionally serviced the market from Canada. This office has already allowed us to improve customer service, increase market penetration and realized improved margins and volumes.
- **In addition, we have reorganized and reinforced our sales effort in China** to tap the significant growth opportunities that we believe exist in the world's most populous country.
- **Finally we've initiated a program to explore the potential of regions where we do not market our products today,** including Brazil, Chile and Australia. The prospects look very promising.

In 2006 we not only increased our sales presence in our markets, we took measures to ensure our sales efforts are better managed, more disciplined and better equipped to grow volume, drive financial performance and capture new market opportunities. In 2007, one of our major initiatives will be enhancing our marketing capabilities to support our sales team more effectively.

Investing in our future growth

We anticipate delivery of our new $50 million factory freezer clam vessel by mid 2007. Although the full impact of its capabilities will not be felt until 2008, the vessel will increase our catching processing capacity while reducing operating costs. The sophisticated energy management system will improve fuel efficiency while the advanced on-board processing systems will give us the ability to produce a wider variety of higher quality products.

During 2006, in our efforts to transform our raw frozen lobster business, we continued to develop our production process, introducing new formats, new uses for our product and more effective packaging and marketing. In the live lobster business, implementation of new grading and sorting technology has provided greater assurance of quality and value, improving our customers' value proposition and thus Clearwater's sales and margins.

We have also upgraded our information management processes, centralizing our accounting system under locally managed software capable of serving staff throughout our global locations. This reorganization of our information systems and processes has improved our ability to track and certify our financial and operating results, serve our customers better, provide internal management information and reduce costs.

Resource sustainability and corporate stewardship

Clearwater remains committed to nurturing the long-term sustainability of the resources we harvest and the environments in which they exist. In June, Clearwater became the exclusive supplier of raw and cooked frozen lobster products to the Whole Foods Market chain. Our two companies share many of the same values, including resource sustainability and respect for the product and the ecosystem while delivering the highest quality products to meet the discerning tastes of our customers.

During the year, we also took steps to minimize community disruption resulting from the closure of our clam processing facility in North Sydney. Clearwater assembled and joined a consortium of community and business leaders to find alternate opportunities for the plant. We are proud that we have been able to work with the business and professional leaders in the community to achieve a minimum of human cost to the closure and ensure a future for these assets.

During 2006, our Argentine subsidiary, Glaciar Pesquera, was again recognized for its program of social responsibility in its community when it was awarded three corporate social responsibility awards. It also celebrated as its fishery became the first scallop fishery in the world to receive the prestigious Marine Stewardship Council (MSC) certification, evidence of Clearwater's dedication to environmentally sound and responsible fishing practices.

Solid long term outlook

As we move into 2007, our outlook is shaped by concerns related to continued economic weakness in the U.S. and the potential impact on Canada and the global economy. We expect foreign exchange rates and volatile fuel prices to remain challenging, but we will continue to mitigate those challenges in a number of ways. In the short term that includes a hedging policy that protects our cash flow in Canadian dollars and continued investment in energy management systems for our vessels. Our longer term actions include investing in increased efficiency in our operations, higher yields from our harvesting activity and enhanced customer value in each of our products.

In the longer term we expect global demand for our products to continue to increase and believe that our strengthened organization is well equipped to capture these growth opportunities. Organic growth for Clearwater will be achieved through product innovations, particularly in lobster and clam, improved productivity, increased volumes and premium pricing for our frozen-at-sea products.

Acquisitive growth will come from expanding our access to additional quota of responsibly managed species as well as gaining greater access to the market.

The consequences of the October 31, 2006 Tax Fairness Plan announced by the federal government and subsequent announcements remain uncertain. Under the plan announced in October, the income tax rules applicable to publicly traded trusts and partnerships were to be significantly modified. As the situation evolves, we will explore all available options to mitigate the impact of the rules.

Our goals remain unchanged

Having completed our 30th year in business, our goals and ambitions remain largely unchanged. We will continue to build a business based on sustainability and integrity as we harvest and deliver the highest quality seafood products to our customers.

We will continue to be guided by our Trustees and Directors and we would like to thank them for guidance and stewardship throughout the year. We'd like to welcome Bernard Wilson, Brian Crowley and Brendan Paddick to the Clearwater board.

We would also like to express heartfelt gratitude for the hard work and dedication of every member of the Clearwater team as we execute our strategies to achieve our goals and provide sustained value for all stakeholders.

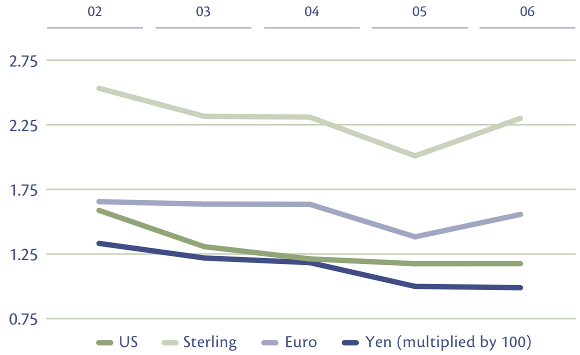
Finally, we offer our sincere gratitude to all our unit-holders for your commitment to our company, the confidence you bestow on us and your continued understanding and support. Together we have created a culture of excellence and responsibility, one in which we can all take great pride.

John C. Risley
Chairman
CS ManPar Inc.

Colin E. MacDonald
Chief Executive Officer
CS ManPar Inc.

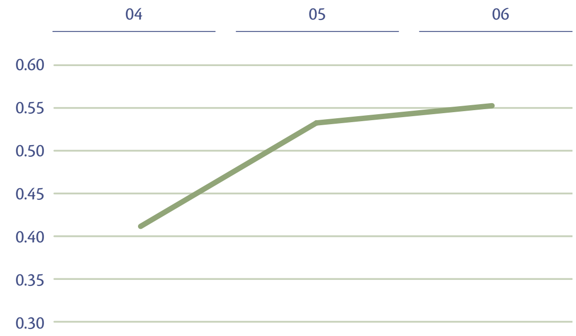
Factors that shaped 2006 business conditions

Exchange rates



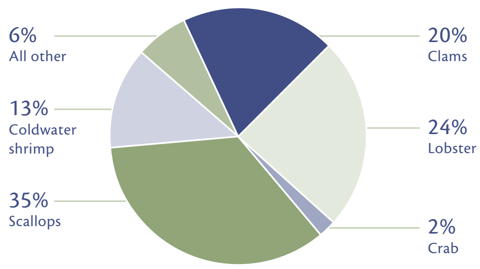
Approximately 80% of Clearwater's sales are to the United States, Europe and Asia. In 2006, the continued strengthening of the Canadian dollar against the currencies of major markets has had the effect of removing approximately $19 million from our revenue stream. While forward exchange contracts are used to manage exposure to fluctuations in the US dollar and Euro, these economic hedges are used primarily to establish a greater degree of certainty in Canadian dollar cash flows and do not offset the full effect of currency fluctuations.

Average fuel price



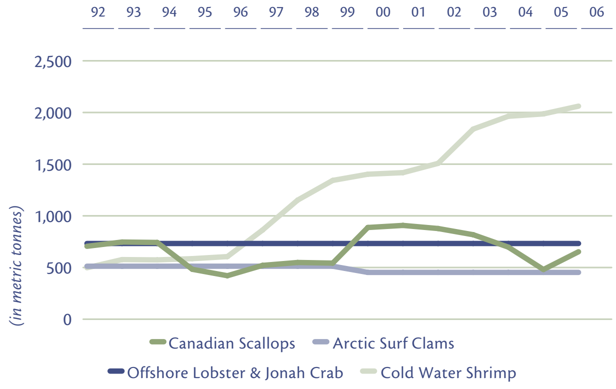
Clearwater used approximately 35 million litres of marine diesel fuel in 2006. A one-cent per litre increase in the price of a litre of fuel increases Clearwater's harvesting expenses by approximately $350,000. In 2006, the average price of fuel per litre increased approximately 4%. We believe fuel prices will remain relatively high in 2007 and have made investments in new vessel and fleet rationalizations in both our scallop and clam fleets that have and will continue to reduce future fuel consumption.

2006 Sales by species



Clearwater's improvement in gross profit in 2006 was a result of a sales mix shift towards more profitable vertically integrated products such as scallops, lobsters and clams.

Total allowable catch[1]



Clearwater owns a major share of the rights to the total allowable catch ("TAC") in each of the major species that we harvest in Canada. The TAC level will fluctuate from year to year, but overall volumes remain stable.

1 For purposes of presentation, the TAC for Cold Water Shrimp and Arctic Surf Clam should be multiplied by 100 and the TAC for Canadian scallops should be multiplied by 10 to calculate actual figures. The TAC for lobster and Jonah Crab are actual figures.

Thomas D. Traves

President and Vice-Chancellor, Dalhousie University

Dr. Traves has been involved with a number of boards of directors and is currently a member of Innovacorp, the Greater Halifax Partnership and Chairman-elect of the Association of Universities and Colleges of Canada.

- Chairman and Trustee, Clearwater Seafoods Income Fund
- Director of CS ManPar Inc. since 2002

Chairman's letter

After several years of substantial investments to transform our operations we are not only beginning to reap the rewards, we can now focus on steadily enhancing Clearwater's fundamental strength. That strength lies in the efficiency of our fleet and the character of our harvesting. With the arrival of our new factory vessel we will have transformed our fleet into one of the most efficient in the world.

We will not, however, relax our focus on the sustainability of our resource. Our Argentine subsidiary, Glaciar Pesquera, aptly demonstrates this commitment as it is the first scallop fishery in the world to receive the prestigious Marine Stewardship Council (MSC) certification. This award reflects our corporate-wide commitment to environmentally sound and responsible fishing practices.

In 2006, as in 2005, Glaciar was again honoured for its involvement in projects related to health, education and self-employment in Argentina. Glaciar has not only won international recognition and awards for these initiatives, it has enhanced our corporate culture and the commitment of our people to give back to our communities.

After the past few tumultuous years, we are focused on our business fundamentals and laying a foundation for solid long-term steady growth. In 2006, three areas especially claimed the Board's attention:

- **Re-establishing our financial strength and distributions to unitholders.** Clearwater has been through several challenging years that brought considerable change in our marketplace and to our company. After careful analysis of Clearwater's capital requirements, earnings, leverage and payout ratio, we decided to re-instate distributions to our unitholders in August 2006.
- **Tracking the progress of capital improvements,** particularly the construction of our $50 million factory vessel.
- **Developing our sales organization** to entrench our presence in our traditional markets and expand our global reach.

The Board also is diligent in ensuring effective corporate governance at Clearwater. The transition from a private company to a public company is well established and the Board is well aware of the full range of corporate governance issues before the public. We not only constantly review governance practices, we steadily introduce those that we believe will enhance oversight and management at this corporation. We are vigilant and will continue to review our governance practices every quarter and make adjustments as necessary.

I would like to welcome those directors who joined the board during the year. Bernard Wilson, Brian Crowley and Brendan Paddick bring a host of diverse skill sets to the board and will further strengthen our governance structure.

Clearwater is in a stable, sustainable operating and financial position as we enter 2007. I am confident that under the leadership of CEO Colin MacDonald and his management team Clearwater is well positioned for long-term growth.

Tom Traves

Thomas Traves
Chairman, Clearwater Seafoods Income Fund

Trustees and Directors

John C. Risley

Co-founder, Clearwater Seafoods Income Fund

Mr. Risley serves on the Boards of a number of public companies and is active with a number of charitable organizations. He was named an Officer of the Order of Canada in 1999.

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

Colin E. MacDonald

CEO and Co-founder, Clearwater Seafoods Income Fund

Mr. MacDonald has 30 years of experience in the seafood industry. He has served as President of the Canadian Lobster Producers Association and is a founding member of the Lobster Science Centre. Colin is Past Chair of the IWK Children's Hospital Foundation as well as serving with a number of other family and youth focused charitable organizations.

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

Hugh K. Smith

Vice President, Municipal Group of Companies

Mr. Smith provides counsel to Stewart McKelvey Stirling Scales, an Atlantic law firm and serves as a director for Clarke Inc., and Royal Host REIT.

- Director of CS ManPar Inc. since 2002
- Chairman, Corporate Governance and Compensation Committee

Brendan Paddick

CEO, Columbus Communications Inc.

Mr. Paddick was the CEO of Persona Inc. and Persona Communications Inc. from 1992 to 2004.

- Director of CS ManPar Inc. since 2006
- Member, Audit Committee

Bernard R. Wilson

Chairman, The Founders Board of the Institute of Corporate Directors in Canada

Mr. Wilson was Vice Chairman of PricewaterhouseCoopers from 2001 to June 30, 2005. He serves on the boards of Consolidated Thompson Iron Mines Limited, Crowflight Minerals Inc. and Goldengate Group.

- Chairman and Trustee, Clearwater Seafoods Income Fund
- Director of CS ManPar Inc. since 2006
- Member, Audit Committee
- Member, Corporate Governance and Compensation Committee

Brian Crowley

Founding President of the Atlantic Institute for Market Studies

Mr. Crowley is currently the Clifford Clark Visiting Economist with the federal Department of Finance.

- Trustee, Clearwater Seafoods Income Fund
- Director of CS ManPar Inc. since 2006
- Member, Corporate Governance and Compensation Committee
- Member, Audit Committee

Social responsibility

Sustainability is at the heart of every decision we make at Clearwater. Since our founding in 1976, we have invested in the science, people, technology, resource ownership and resource management to preserve and grow our seafood resource. This commitment has allowed us to remain a leader in the global seafood industry. As an income trust, sustainability takes on a broader meaning, but the same spirit guides us. Clearwater's commitment to sustainability encompasses our resources, our unitholders, our customers and our employees.

For more information on our policies, visit our website: www.clearwater.ca.

Management's discussion & analysis

2006 financial report

This Management's Discussion and Analysis ("MD&A") was prepared effective February 26, 2007.

The Audit Committee and the Board have reviewed and approved the contents of this MD&A as well as the related 2006 annual news release.

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

Clearwater has established and maintains disclosure controls and procedures, as defined under the rules adopted by the Ontario Securities Commission in multilateral instrument 52-109, over financial reporting. The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have evaluated the effectiveness of Clearwater's disclosure controls and procedures as of December 31, 2006, and have concluded that such procedures are adequate and effective to provide reasonable assurance that the material information relating to Clearwater and its consolidated subsidiaries would be made known to them by others within those entities to allow for accurate and complete disclosures in annual filings.

Management is also responsible for the design of internal controls over financial reporting (ICFR) within Clearwater in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Management's documentation and assessment of the design of Clearwater's ICFR was completed as of December 31, 2006 with a focus on processes and controls in areas identified as being "key risk areas". Management has evaluated the design of Clearwater's ICFR as of December 31, 2006 and believes the design to be sufficient to provide such reasonable assurance.

Management has evaluated whether there were any changes to Clearwater's ICFR during the year ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect its ICFR. During 2006, Clearwater consolidated a number of its divisions into a single general ledger and converted a number of subsidiaries to a similar reporting platform. During this process, Clearwater made a number of changes to its internal controls in order to reflect the new systems being used, particularly around purchases and payables and sales and receivables. Management believes these changes have improved what were already strong ICFRs.

Commentary regarding forward-looking statements

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

Overview of the Fund and Clearwater

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

The Fund commenced operations in July 2002 when it completed an initial public offering. The following table illustrates the additions to 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	49.9%
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%
No changes to December 31, 2006			

Our strategy continues to have a long-term focus, developing and maintaining the strong foundations Clearwater was built upon.

On June 15, 2004, the Fund completed an offering for $50 million of 7% convertible unsecured subordinated debentures, which are due December 31, 2010 and used the proceeds to purchase 4,081,633 Class C units issued by Clearwater. The convertible debentures pay interest semi-annually and are convertible at any time up to maturity at the option of the holder into trust units of the Fund at a conversion price of $12.25 per trust unit. The Clearwater Class C units are all held by the Fund and these units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the convertible debentures of the Fund.

As part of its strategy to reduce leverage levels, the Fund filed a normal course issuer bid by which it can acquire up to $5 million principal amount of convertible debentures in the 12-month period ending August 2007. This was accompanied by a similar agreement to repurchase Class C Partnership units by Clearwater. 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. Subsequent to year-end, an additional $1 million of Partnership units were repurchased and cancelled with proceeds used by the Fund to repurchase and cancel an equivalent amount of convertible debentures.

On January 24, 2007, the Fund received approval for a normal course issuer bid which will enable it to purchase, from time to time, up to 2.5 million outstanding trust units (the "Units"), which amount represents less than 10% of the public float. Any such purchases of Units would be made during the 12-month period commencing on January 24, 2007 and in accordance with the requirements of the TSX. The Units will be purchased by the Fund for cancellation and will be accompanied by a similar repurchase of units by Clearwater.

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

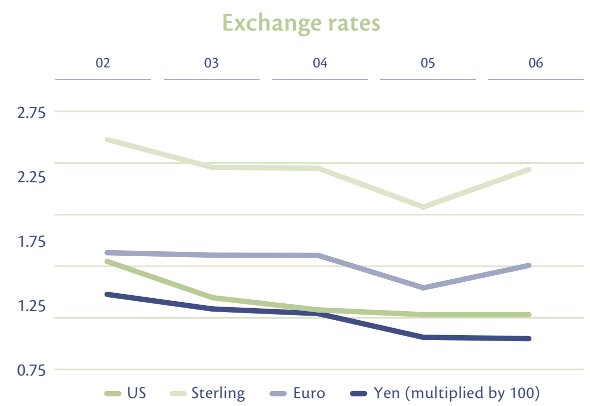
Overall performance of Clearwater Seafoods Limited Partnership

In fiscal 2006, sales and gross profit were $315.7 million and $86.7 million versus $314.8 million and $72.2 million in 2005, an improvement in gross profit of $14.5 million or 20%. The most significant factor contributing to the improvement in gross profit percentage in 2006 has been the sales mix, as more sales were in our more profitable species, such as scallops and clams. Scallop volumes, prices and margins were particularly strong in 2006. These improvements in gross margin came despite the negative impact of foreign exchange, which reduced sales and margins for the year by approximately $19 million.

Fourth quarter 2006 sales and gross profit were $84.1 million and $19.6 million respectively, compared to $84.2 million and $18.7 million in 2005. This improvement in gross profit came despite foreign exchange reducing sales and margins in the quarter by $2.5 million.

Net earnings for 2006 were $1.5 million versus $19.9 million in 2005. Excluding the impact of $23 million of non-cash foreign exchange losses in 2006 and $3.6 million of non-cash gains in 2005, net earnings improved from $16.3 million to $24.5 million, an improvement of 50% and were in line with the 56% improvement in distributable cash levels realized in 2006.

It is important to understand that Clearwater maintains an active currency management program to provide a degree of certainty to future Canadian dollar cash flows with respect to sales. In an environment where the Canadian dollar is weakening relative to currencies such as the U.S. dollar, European Euro, Pound Sterling and Japanese Yen, the exchange environment will serve to improve profits. In this environment with exchange rates moving in Clearwater's favor, the spot rate will be higher than the contracted rate in Clearwater's hedge agreements. As Clearwater records the change in the market value of these contracts as an adjustment to net earnings this can result in large non-cash losses or gains during periods of time when exchange rates are changing rapidly. During the fourth quarter of 2006, the Canadian dollar weakened significantly against the U.S. dollar, European Euro and Pound Sterling, the three currencies that account for the majority of Clearwater's sales and hedging activities.



In late 2006 the trend over the past few years of a strengthing Canadian dollar against the US dollar, Sterling, Euro and Yen reversed in Clearwater's favor.

The assumption implicit in marking foreign exchange option contracts to market is that the contracts will all be settled at a point in time in the future. However, for the majority of options, the possibility of the option being exercised does not exist until certain trigger prices have been reached. Once triggered, whether or not a contract will be called depends on whether spot rates are in excess of contract rates at the time of maturity. Over the past three years Clearwater has had a large number of contracts that have never been exercised. However, to the extent that contracts are exercised, it will serve to mute or delay the positive impact of an improving exchange rate environment on Clearwater's financial results.

Over the longer term, should the weakening of the Canadian dollar persist, it may benefit Clearwater as approximately 80% of its sales are denominated in foreign currencies. For example, in the future, if Clearwater were to receive the spot rates in effect at the end of 2006, excluding the impact of any outstanding derivative contracts and assuming the same level of sales, it would realize approximately $5 million more in gross profit and net earnings in the future as compared to 2006.

Distributable cash generated in 2006 increased to $42.4 million, $15.2 million or 56% greater than 2005. This increase was largely due to an improvement in gross profit of $14 million. Distributable cash generated in the fourth quarter of 2006 was $7.2 million versus $8 million in 2005. During 2006, Clearwater reinstated distributions at the rate of 60 cents per annum and as a result distributed $15.8 million during the year.

Excluding the impact of non-cash foreign exchange in 2006 and 2005 on net earnings, leverage decreased to 2.9 times debt to earnings before interest, tax, depreciation and amortization (EBITDA) as at December 31, 2006, down from 3.5 times as of December 31, 2005. As part of this strategy to reduce leverage levels, Clearwater Seafoods Income Fund (the "Fund") filed a normal course issuer bid by which it can acquire up to $5 million principal amount of convertible debentures in the 12-month period ending August 2007. During 2006, Clearwater repurchased and cancelled $3 million of the convertible debentures. An additional $1 million was repurchased in January 2007 bringing the total since August 2006 to $4 million.

On February 19, 2007, the Fund successfully entered into an agreement with a syndicate of underwriters to issue to the public on a bought-deal basis, convertible unsecured subordinated debentures for gross proceeds of $43,500,000 with attractive terms and conditions. In addition, the Fund has granted the syndicate an over-allotment option, exercisable for a period of 30 days following closing, to purchase an additional $6,525,000 of debentures which, if exercised, would increase the gross proceeds of the offering to $50,025,000. The debentures will be convertible into units of the Fund (the "Units") at the option of the holder at a conversion price of $5.90 per Unit. Closing of the offering is expected to occur on or about March 9, 2007, subject to satisfaction of customary conditions including receipt of all necessary regulatory approvals. The net proceeds of the offering will be used to further enhance Clearwater's capital structure and more importantly to provide the flexibility to allow Clearwater to pursue potential accretive acquisitions that will be a strategic fit with its plan for growth.

Clearwater had an exceptional year in 2006 primarily due to higher gross profit margins on scallops and clams.

These positive results more than offset the challenges faced including foreign exchange, high fuel costs and the continued reorganization of the clam business, all of which are expected to continue in 2007.

In 2007, Clearwater expects continued solid performance. However, there will be more variability in our earnings on a quarter by quarter basis, particularly in the first part of the year, as a result of changing our policy for refit expenses to one where we will expense refits as incurred rather than accruing them in advance. Despite these changes, the expense for the full year should be comparable to what has been expensed in the past.

The core business remains healthy and with the strength of our quota ownership, our significant investment in developing effective and efficient harvesting and production processes, and opportunities for acquisitions in a fragmented international seafood business, the outlook for 2007, as well as the longer-term, is positive. Our strategy continues to have a long-term focus, developing and maintaining the strong foundations Clearwater was built upon.

On October 31, 2006 the Department of Finance (Canada) announced the "Tax Fairness Plan" whereby the income tax rules applicable to publicly traded trusts and partnerships will be significantly modified. Key points for unitholders of the Fund to understand include:

- These proposals, if brought into legislation, would not be effective until the 2011 taxation year and therefore would not impact distributions from the Fund for another four years.
- Distributions from the Fund that are determined to be return of capital or dividends for tax purposes will not be impacted by this legislation. Remaining distributions will be taxed in the Fund in a manner similar to income earned by a corporation with the rate for 2011 set at 31.5%.
- Clearwater has a substantial tax base as a result of its investments. For example, over the past 5 years Clearwater has invested approximately $170 million in vessels, plants and licences.
- Clearwater derives a portion of its earnings from foreign operating subsidiaries. These earnings are received in Canada as tax-paid earnings and typically would be only subject to taxation at the unitholder level as dividends.
- The breakdown for Canadian residents of taxable income, interest and return of capital relating to cash distributions declared in the 2006 calendar year was 32% return of capital, which is non-taxable, and 68% other income, which is taxable.
- The Fund estimates that the breakdown for Canadian residents of taxable income, interest and return of capital relating to cash distributions declared in the 2007 calendar year will be approximately 25% return of capital, which is non-taxable, and 75% dividends, which are taxable. The taxation of these distributions would not be impacted by the new trust legislation, had it been effective in fiscal 2007.

For a history of the taxation of distributions from the Fund please refer to the Distributable Cash section of the Management's Discussion and Analysis included in the fourth quarter report of 2006.

The Fund is considering this announcement and the possible impact of the proposed rules on the Fund. The proposed rules 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 proposed rules apply to the Fund, the distributable cash of the Fund may be impacted. To the extent that it is possible to mitigate the impact of the rules, the Fund intends to explore all options available for doing so.

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 American 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.

Selected annual information

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

(In 000's except per unit amounts)	2006	2005	2004
Sales	**$ 315,736**	$ 314,839	$ 345,459
Net earnings	**1,463**	19,873	37,473
Basic net earnings per unit	**0.03**	0.38	0.71
Cash flow from operations before working capital investment	**51,078**	34,584	53,541
Total assets	**409,795**	390,662	380,012
Long-term debt	**190,260**	194,445	169,198
Cash distributions on unsubordinated units	**0.30**	0.63	1.15
Cash distributions on subordinated units	**–**	–	0.46

During 2006, Clearwater continued to be challenged by the impact of a strengthening Canadian dollar. Approximately 82% of Clearwater's 2006 sales were denominated in U.S. dollars, European Euro, Japanese Yen and Pound Sterling. The stronger Canadian dollar, after taking into account hedging, has had the effect of reducing sales dollars by an estimated $19 million in 2006.

The increase in total assets reflects continued investment in the business with progress payments on the new clam vessel in 2006 and an increase in inventory levels.

Long-term debt has remained consistent with the prior year as management manages debt levels and leverage to obtain optimum cash management based on planned investment and debt maturity.

Distributable cash generated in 2006 was $42.4 million ($27.2 million in 2005), which resulted in a payout ratio of 37.4% in 2006 (101% in 2005). It is Clearwater's current intention to maintain current distribution levels. Foreign exchange, vessel disruptions and market pricing will have an impact on the ability of the business to sustain these distribution levels.

Vision, core business and strategy

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

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

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

By adhering to the values and goals of each of these areas, Clearwater believes that it will realize its corporate vision and achieve strong sustainable financial results over the long-term.

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

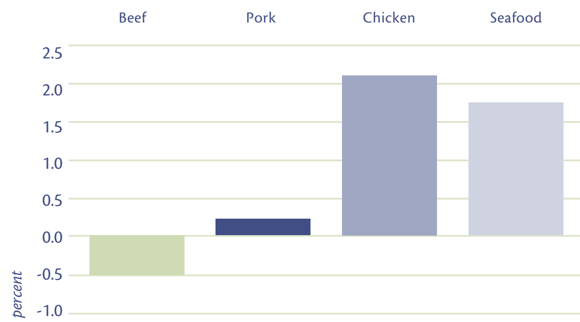
1. Innovation – Clearwater is a leader in developing and adopting technologies and practices that enhance both top and bottom line growth, while ensuring the sustainability of the resource base. Clearwater's efforts are directed at getting more from less.

2. Vertical Integration – By controlling the production process from harvesting to processing and from marketing to delivery, Clearwater provides quality and unsurpassed cost efficiencies to our customers.
3. Diversity of Species and Markets – Diversity has always been key to Clearwater's success. The diversity of its product offering and market positioning creates a natural hedge against downturns in any one species or market while enabling Clearwater to capitalize on the growing demand for premium seafood.

The key attributes of this strategy include:

- Resource ownership and management – Quota ownership is the cornerstone of Clearwater's business. From the beginning, Clearwater has invested in quota ownership to guarantee access to supply, as well as to create a defensible position in the market place. Clearwater's scale of resource ownership provides not only the security of supply, it also provides the scale needed to invest in leading edge science as well as innovative harvesting, processing and marketing efforts. Its strategy of resource ownership depends on ensuring sustainable harvesting through responsible resource management. Clearwater has been proactive in protecting key resources through investments in science and by actively co-managing these resources in partnership with the federal Department of Fisheries and Oceans.
- Market and customer focus – Clearwater prides itself on being a global company. As demand for premium shellfish has grown, Clearwater has developed a worldwide presence. Clearwater has three representative offices in China, two sales offices in the United States, one sales office in Canada, two sales offices in the United Kingdom and one representative office in Japan. In addition to Halifax, it maintains distribution facilities in London, England and Louisville, Kentucky. While continually seeking new business, Clearwater believes that its current customers represent its greatest growth prospects. Clearwater's success is based on relationships with leading retailers, food processors and restaurants that understand both the need and the demand for quality in today's increasingly sophisticated market. At the same time, Clearwater mitigates risk through diversification of its customer base.

Average Annual Growth in US per Capita Meat & Seafood Consumption, 2000-2004



Demand for seafood continues to increase as compared to other meat products as the health benefits associated with seafood consumption are being widely broadcast and consumer palates are becoming more sophisticated.

- Skilled and dedicated employees – Accomplishing Clearwater's goals depends on the skill and dedication of its employees. Clearwater's decentralized decision-making and personal accountability enhance performance, foster innovation, improve quality, increase yields and lower costs. Clearwater emphasizes customer service, quality and efficiency and invests in its 1,300 employees to further their training and create new opportunities for them to excel.

In addition, Clearwater intends to leverage the approximately $170 million that has been invested in the past five years in modernized vessels, its shore-based processing plants and licences. This contributes to increased yields, improved product quality, reduced costs, improved environmental responsiveness and strong stewardship of the resources that Clearwater harvests.

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

Key performance drivers

Clearwater's key performance drivers include:

- Quota ownership and the amounts harvested and procured;
- Markets for the various species of shellfish and the related customer relationships in those markets;
- Innovation and technology, including Clearwater's ability to leverage science and technology to create new products, increase quality and reduce costs.

Capability to deliver results

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

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

- The sea scallop resource and landings have been strong over the last number of years. Clearwater believes that this is a very well managed fishery.
- The Arctic Surf clam resource is stable. In addition, Clearwater is now harvesting and marketing a significant amount of the by-catch (i.e., Northern propeller clams and Greenland cockles) that is landed by the clam fleet.
- The Argentine scallop resource is strong due in part to rotational fishing efforts used to manage the resource, which ensure the resource has adequate time to regenerate.
- The coldwater shrimp resource remains strong and Clearwater expects that catch rates and landings will continue at or near recent levels.
- The lobster resource is considered strong and landings continue to be stable. In January 2007, Clearwater purchased an additional offshore lobster licence, which based on recent TAC levels, should provide a return on investment in the 15–20% range.

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

The condition and operating capability of these vessels is paramount for Clearwater to successfully operate in its fisheries. In the past five years, Clearwater has invested approximately $85 million on its fleet.

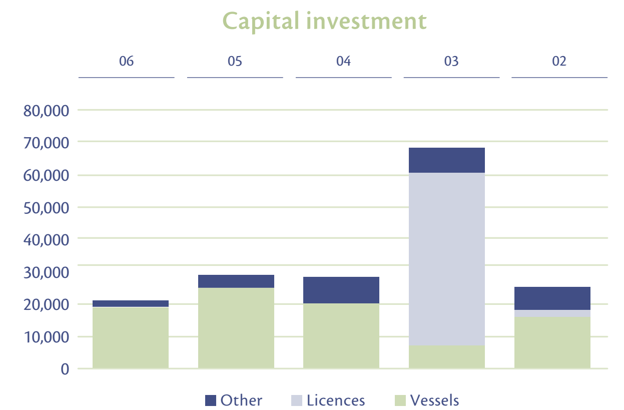
Clearwater typically replaces vessels as a result of its focus on innovation and the constant adoption of new and leading edge technology. These additional investments typically provide greater efficiencies, lower costs and, in some cases, new product forms.

The following schedule sets out our historic capital expenditures and harvesting licence investments for the past five years:

	2006	2005	2004	2003	2002	Total
Vessels	**$ 18,700**	$ 24,600	$ 19,700	$ 6,700	$ 15,600	$ 85,300
Plants and other	**–**	1,600	5,500	4,900	2,000	14,000
Licences	**–**	–	–	53,500	2,100	55,600
Maintenance capital	**1,900**	2,400	2,700	2,700	5,100	14,800
	$ 20,600	$ 28,600	$ 27,900	$ 67,800	$ 24,800	$ 169,700

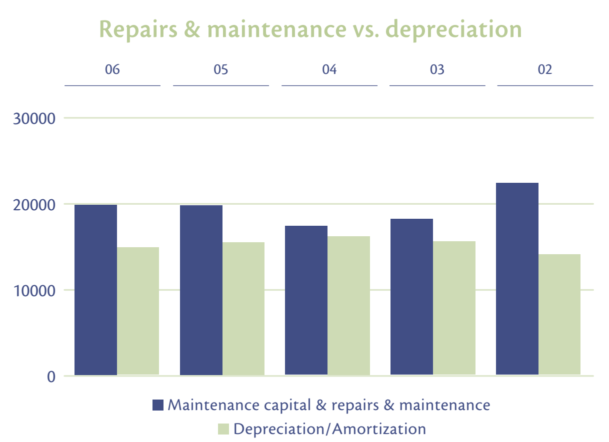
In addition to the amounts capitalized annually above, Clearwater historically has spent and expensed on average about $16.5 million a year on the maintenance of its fleet and processing plants. This reflects Clearwater's commitment to ensuring that the assets are kept in top condition enabling it to harvest and process its allowable catch efficiently and allow for the processing of additional capacity for selective procurement when required.

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



The majority of capital investment over the past five years has been in vessels and licences.

	2006	2005	2004	2003	2002	Total
Maintenance capital	$ **1,900**	$ 2,400	$ 2,700	$ 2,700	$ 5,100	$ 14,800
Repairs & maintenance	**18,000**	17,300	14,600	15,400	17,200	82,500
	$ **19,900**	$ 19,700	$ 17,300	$ 18,100	$ 22,300	$ 97,300
Depreciation/Amortization	$ **14,800**	$ 15,400	$ 16,100	$ 15,500	$ 14,000	$ 75,800



Clearwater invests substantial amounts on maintenance capital expenditures and repairs and maintenance, typically exceeding its annual depreciation expense, and is committed to ensuring its assets are kept in top condition.

Vessel investments significantly impact the amount spent annually on capital expenditures. In 2006, substantially all of Clearwater's expenditures related to the construction of a clam vessel, which it expects to take delivery of in 2007. In 2005, Clearwater completed two FAS scallop vessels that were started in 2004 and continued construction of the new clam vessel. In 2004, capital expenditures included progress payments on clam vessels, two FAS scallop vessels as well as the investment in a new processed lobster facility. In 2003, it acquired a significant amount of scallop and groundfish quotas and licences. In 2002, Clearwater completed expansions at several of its plants and accepted delivery of a FAS scallop vessel and a shrimp vessel.

The most costly of the vessels are the factory freezers of which Clearwater has eleven. These vessels are used in the harvesting of Canadian scallops, Argentine scallops, shrimp and clams. Other vessels typically do not cost as much to replace. For example, a lobster vessel would cost approximately $500,000 to $1 million dollars to replace, assuming replacement was with a used vessel.

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

Of the eleven factory vessels:

- Two are used to harvest shrimp and are 6 years old or less. These vessels provide incremental returns compared to the technology previously used due to greater harvesting efficiencies and lower fuel costs.
- Four are used to harvest Canadian sea scallops with two new in 2005 and two 4 years old or less. These vessels provide a return on investment well in excess of the cost of capital due to greater harvesting efficiencies compared to the technology previously used, lower costs and a new higher quality product, frozen-at-sea scallops.
- Two are used to harvest Argentine scallops with one expected to be replaced over the next 5 years and the second to be replaced in the next 10 years. Management estimates a new vessel would cost approximately $10 – $15 million. Management believes that there is opportunity to improve efficiency in this fishery through the investment in new technology as well as additional research.
- Three are used to harvest clams. Clearwater will replace two vessels with the new vessel currently under construction when it is operational and the third vessel has an estimated useful life of another 10 to 15 years. Management estimates it may cost on average $30 – $50 million, depending on the size of the vessel to be built, to replace a clam vessel. Management believes the new clam vessel will generate incremental earnings by increasing the harvesting capacity and improving the processing efficiency to improve yields.

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

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

Explanation of annual results

Consolidated Operating Results for the years ended December 31, 2006 and December 31, 2005 in thousands of Canadian dollars.

The results of operations of the Fund are entirely related to Clearwater's performance and therefore the commentary below is on the operations of Clearwater. The statement of earnings reflects the audited annual earnings of Clearwater for the years ended December 31, 2006 and December 31, 2005.

	2006	2005
Sales	**$ 315,736**	$ 314,839
Cost of goods sold	**229,064**	242,601
Gross profit	**86,672**	72,238
	27.5%	22.9%
Administration and selling	**38,245**	33,594
Loss (gain) on disposal and other, net	**2,143**	(4,102)
Other income	**(5,853)**	(1,660)
Foreign exchange and derivative loss (income)		
Realized	**(13,040)**	(8,114)
Unrealized	**23,030**	(3,598)
Bank interest and charges	**953**	786
Interest on long-term debt	**13,110**	12,450
Depreciation and amortization	**14,766**	15,400
Reduction in foreign currency translation account	**2,369**	1,236
	75,723	45,992
Earnings before income taxes and minority interest	**10,949**	26,246
Income taxes	**3,853**	2,975
Earnings before minority interest	**7,096**	23,271
Minority interest	**5,633**	3,398
Net earnings	**$ 1,463**	$ 19,873

Net earnings

Net earnings decreased by $18.4 million in 2006 primarily due to non-cash foreign exchange losses of $23 million, offset partially by higher gross profit.

	2006	2005	Change
Net earnings	**$ 1,463**	$ 19,873	$ (18,410)
Explanation of changes in earnings:			
Higher non-cash foreign exchange and derivative losses			(26,628)
Higher gross profit			14,434
Lower gains on disposal and other			(6,245)
Higher cash foreign exchange and derivative income			4,922
Higher administration and selling expense			(4,651)
Higher other income			4,193
Higher minority interest expense			(2,235)
Higher income tax expense			(878)
Higher interest expense			(827)
All other			(499)
			$ (18,410)

Net annual sales to customers by product category were as follows:

	2006	2005	Change	%
Scallops	**$ 110,139**	$ 98,571	$ 11,568	12%
Lobster	**76,236**	70,954	5,282	7%
Clams	**62,268**	49,242	13,026	26%
Coldwater shrimp	**40,406**	39,994	412	1%
Groundfish and other	**12,633**	29,934	(17,301)	(58%)
Crab	**7,025**	15,111	(8,086)	(54%)
Hedging program	**7,029**	11,033	(4,004)	(36%)
	$ 315,736	$ 314,839	$ 897	–%

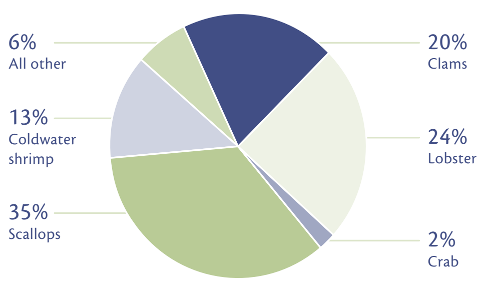
Scallops, which represent one of the more profitable species, have grown to represent 35% of annual sales compared to 31% of the comparative 2005 sales. 2006 has been a strong year for the scallop business with sales increases primarily due to 16% higher volumes. Despite the higher cost of fuel and vessel operational costs, strong catch rates driving higher volumes resulted in lower costs on a per pound basis.

Lobster sales increased compared to the prior year due to higher volumes. A combination of a new raw lobster product and the application of technology that provides an effective method to sort and grade live lobster, has allowed Clearwater to purchase live product on a more selective basis and utilize the product it has more efficiently. In January 2007, Clearwater purchased an additional offshore lobster licence, which based on recent TAC levels, should provide a return on investment in the 15-20% range.

Clam sales increased primarily due to higher volumes with stable selling prices in Canadian dollars. In 2005, there were significant disruptions and refit costs incurred in the clam business, as well as the repositioning of the sales channels away from a single importer in the Chinese market affecting volumes and costs. In 2004, Clearwater began a process of reorganizing its clam business to respond to the challenges of currency and to take advantage of opportunities that will arise when the new vessel arrives and is operational in 2007.

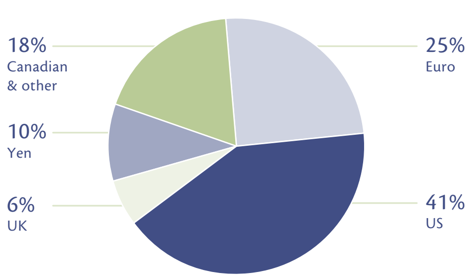
As a result, Clearwater may continue to see some short-term disruptions in this business. Clearwater is focused on increasing customer value to offset the impact of foreign exchange, reducing costs through harvesting and processing efficiencies and growing volumes. On December 5, 2006, one of Clearwater's clam vessels, the Atlantic Pursuit, ran into difficulties as she was riding out a winter storm on the Southeastern Grand Banks. The vessel was struck by a large wave that caused extensive damage. Clearwater's vessels are insured for such damage and the estimated amounts, as well as the estimated repair time to fix the vessel is currently being reviewed.

2006 sales by species



Clearwater has a diverse product offering with no one species representing more than 35% of 2006 sales.

2006 sales by currency



Clearwater is primarily an export company with the majority of its sales dollars denominated in foreign currencies.

Coldwater shrimp sales are consistent with the prior year as lower selling prices were offset by increased volumes.

Both groundfish and crab sales are lower in 2006 as Clearwater's plant in Glace Bay, Nova Scotia has not operated since March 2006. In the first quarter of 2006, Clearwater began negotiations on a new collective agreement with the Union at this plant and these negotiations are currently at a standstill. The disruption has impacted groundfish and crab sales in 2006, but did not have a material impact on earnings.

In summary, annual sales levels were relatively consistent with 2005, but with a higher mix of our more profitable products such as scallops and clams. 2006 gross profit was higher than in 2005 by $14.5 million, despite the weaker exchange rates and higher average fuel costs as explained below.

Foreign exchange reduced sales and margins by approximately $19.1 million in 2006. Clearwater received approximately 12 cents less for each U.S. dollar in 2006, which resulted in receiving approximately $13.3 million less when converted to Canadian dollars. In addition, exchange rates on Euros, Pounds Sterling and Yen were lower in 2006, which impacted sales and resulted in receiving approximately $5.8 million less when converted to Canadian dollars.

	2006		2005	
Currency	% sales	Rate	% sales	Rate
US Dollars	**41.5%**	**1.187**	46.5%	1.307
Euros	**24.7%**	**1.441**	19.1%	1.478
Japanese Yen	**9.6%**	**0.010**	8.2%	0.011
UK pounds	**5.9%**	**2.099**	5.0%	2.188
Canadian dollar and other	**18.3%**		21.2%	
	100.0%		100.0%	

Clearwater maintains an active currency management program to provide a degree of certainty to future Canadian dollar cash flows with respect to sales. As of December 31, 2006, the following economic hedges were in place:

Economic Hedge	Year scheduled to expire	Amount	Average rate	% of 2006 sales
US	2007	$41.5 million	1.13	38%
Euro	2007	€ 9.6 million	1.44	18%

Clearwater utilizes a number of financial instruments as part of its foreign exchange strategy. Please refer to the notes to the financial statements for a list of the contracts outstanding at year-end.

Due to the increasing complexity of applying the accounting standards, as well as the requirement to report the change in the mark-to-market as other comprehensive income once the Comprehensive Income accounting standard is adopted in 2007, as of April 1, 2006, Clearwater no longer designated contracts as hedges for accounting purposes. The hedge contracts in place at that point in time continue to be accounted for as hedges, but all contracts opened thereafter have been marked-to-market each reporting period and any gains or losses, both realized and unrealized, have been included in foreign exchange income. This has the impact of reducing sales and margins compared to the prior year, as gains or losses on derivative contracts are included below the gross profit line as opposed to being included in sales.

Administration and selling costs were $4.7 million higher in 2006 as Clearwater continued to invest in its people and developing markets for its products, particularly in Asia. It incurred higher professional and consulting fees and salary expense due to reinstating the annual management incentive plan.

Loss (gain) on disposal of licences and other is an expense in 2006 versus income in 2005. The 2006 figure includes a non-cash write down of the plant and related assets in North Sydney of approximately $2.2 million and a provision for the related exit costs of approximately $0.9 million. This loss is partially offset by a gain of approximately $1.2 million on the sale of non-core fishing quotas. In 2005, a gain of approximately $3.2 million on the sale of non-core properties in Lunenburg, Nova Scotia was recorded and the gain on sale of non-core fishing quotas was approximately $2.5 million. Also included in 2005 was an impairment loss of $1.6 million associated with the shrimp harvesting contracts in the Canadian FAS shrimp business unit.

	2006	2005
Write-down of plant and related exit costs	$ 3,056	$ –
Gain on sale of non-core fishing quotas	(1,254)	(2,468)
Provision for impairment of shrimp harvesting contract	–	1,636
Gain on sale of non-core properties	–	(3,158)
Other	341	(112)
	$ 2,143	$ (4,102)

Other income is $4.2 million higher in 2006 as it includes approximately $1.4 million in additional royalty income from rental of quota along with increased export rebates and investment income.

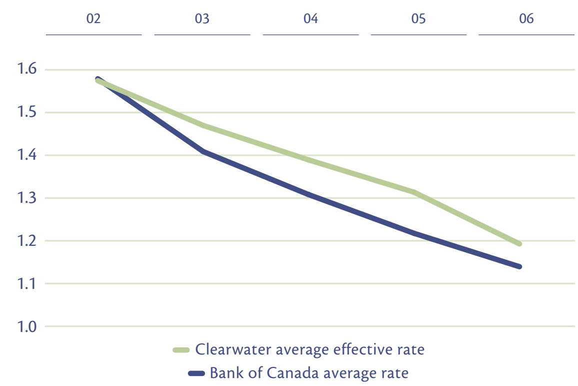
	2006	2005
Quota rental and royalties	$ 2,109	$ 705
Export rebate	1,687	1,009
Investment income	1,243	557
Other income (expense)	814	(611)
	$ 5,853	$ 1,660

Foreign exchange and derivative contracts resulted in a loss of $10 million in 2006 versus income of $11.7 million in 2005. In 2006, foreign exchange includes approximately $23 million of unrealized losses compared to $3.6 million of unrealized gains in 2005. From a cash perspective, the business generated $13 million of cash from foreign exchange management in 2006 versus $8.1 million in 2005. A significant portion of realized foreign exchange income relates to option income. Please refer to note 10 in the financial statements for a detailed listing of all derivatives and their fair values. As of December 31, 2006, if all derivative contracts were settled by Clearwater, for which there is no intention to do so, Clearwater would have made a payment of $21.8 million (at December 31, 2005, Clearwater would have received a payment of $7.5 million). Please refer to note 10, sections (a) and (c) in the financial statements for a detailed listing of outstanding contracts at year end.

It is important to understand Clearwater maintains an active currency management program to provide a degree of certainty to future Canadian dollar cash flows with respect to sales. In an environment where the Canadian dollar is weakening relative to currencies such as the U.S. dollar, European Euro, Pound Sterling and Japanese Yen, the exchange environment will serve to improve profits. In this environment with exchange rates moving in Clearwater's favor, the spot rate will be higher than the contracted rate in Clearwater's hedge agreements. As Clearwater records the change in the market value of these contracts as an adjustment to net earnings, this can result in large non-cash losses or gains during periods of time when exchange rates are changing rapidly. During the fourth quarter of 2006, the Canadian dollar weakened significantly against the U.S. dollar, European Euro and Pound Sterling, the three currencies that account for the majority of Clearwater's sales and hedging activities.

The assumption implicit in marking foreign exchange option contracts to market is that the contracts will all be settled at a point in time in the future. However, for the majority of options, the possibility of the option being exercised does not exist until certain trigger prices have been reached. Once triggered, whether or not a contract will be called depends on whether spot rates are in excess of contract rates at the time of maturity. Over the past number of years, Clearwater has had a large number of contracts that have never been exercised. However, to the extent that contracts are exercised, it will serve to mute or delay the positive impact of an improving exchange rate environment on Clearwater's financial results.

Impact of Hedging



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

Over the longer term, should the weakening of the Canadian dollar persist, it may benefit Clearwater as approximately 80% of its sales are denominated in foreign currencies. For example, in the future, if Clearwater were to receive the spot rates in effect at the end of 2006, excluding the impact of any outstanding hedge contracts and assuming the same level of sales, it would realize approximately $5 million more in gross profit and net earnings as compared to 2006.

Detailed schedule of foreign exchange and derivative contract income:

	2006	2005
Realized (gain) loss		
Foreign exchange cash option income	$ (14,834)	$ (7,796)
Other realized	1,794	(318)
	(13,040)	(8,114)
Unrealized loss (gain)		
Balance sheet translation	(4,886)	(737)
Mark-to-market on exchange option contracts	23,880	(2,881)
Mark-to-market on interest and currency swap contracts	4,036	20
	23,030	(3,598)
Total loss (gain)	$ 9,990	$ (11,712)

Bank interest and interest on long-term debt increased due to higher average interest charges on outstanding debt balances in 2006, in particular on the ISK denominated bonds. As explained in note 5 (c) of the financial statements these bonds have been swapped out, and as a result, foreign exchange and other derivative income includes offsetting expenses which effectively reduce the interest by 3-5 percentage points depending on the currency. As of December 31, 2006, Clearwater has used economic hedges to term out and fix substantially all its interest rate exposures. Included in interest expense in 2006 is $5 million of interest related to the impact of interest and inflation risks on the Iceland bonds. Interest exposure on these bonds has been hedged and the cash payment on the related swaps was $3.8 million.

Until such time as construction is complete on the new clam vessel the related interest costs are being capitalized. In 2006, $2.6 million of interest was capitalized (2005 – $1.4 million).

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

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

Income taxes have increased compared to the prior year due to higher earnings in taxable entities.

Liquidity and capital resources

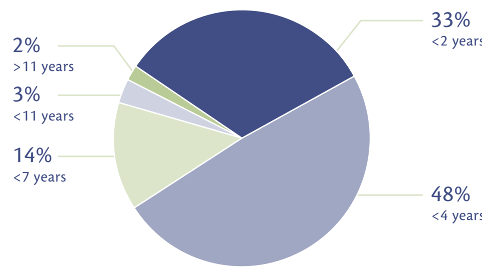
Earnings before interest, tax, depreciation and amortization (EBITDA) and leverage are not recognized measures under Canadian GAAP and therefore are unlikely to be comparable to similar measures presented by other companies. Management believes EBITDA and leverage to be useful terms when discussing liquidity. In addition, as EBITDA and leverage are measures frequently analyzed for public companies we have calculated the amount in order to assist readers in facilitating this review. EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of performance, as a measure of liquidity or as a measure of cash flows and management does not use this measure as a performance measure of earnings. Please refer to the section on definitions and reconciliations for calculation of the EBITDA and leverage referred to in this document.

Capital structure

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

Clearwater lowers its cost of capital through the use of leverage, in particular lower cost revolving and term debt. Clearwater maintains some flexibility in its capital structure as the amount of capital available to Clearwater can be impacted by known and unknown risks, uncertainties, and other factors outside management's control including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs, as well as capital expenditures and distributions paid. Clearwater maintains flexibility in its capital structure by regularly reviewing forecasts of future results and making any required changes on a timely basis. These changes can include repaying debt early or repurchasing units, issuing new debt or equity, extending the term of existing debt, selling assets to repay debt and if required, limiting distributions paid. Clearwater borrows in a basket of currencies such that, when combined with other foreign currency denominated assets and liabilities, the balance sheet impact is neutral. Refinancing risk is reduced by staggering the maturities of debt instruments and a policy whereby maturing debt agreements are revisited and updated or replaced as required well in advance of maturity dates. Management believes the available credit will be sufficient to meet its cash requirements.

Debt maturities



Clearwater maintains flexibility in its capital structure and reduces refinancing risk by staggering the maturities of its debt instruments.

As at December 31, 2006, the Fund owns 55.71% (December 31, 2005 – 55.71%) of the outstanding partnership units of Clearwater. However, as Clearwater Fine Foods Incorporated ("CFFI") has maintained the right to nominate the majority of the board of directors of Clearwater at the time of the initial investment by the Fund, the assets and liabilities at acquisition have been recorded using the book values as recorded by CFFI.

As at December 31, 2006, the Fund and Clearwater had similar equity/convertible debt structures as illustrated in the table below:

	Fund	Clearwater
Units		
Publicly Listed Trust Units	29,407,626	
Class A Partnership Units		29,407,626
Units Held solely by Clearwater Fine Foods Incorporated		
Special Trust Units	23,381,217	
Class B Partnership Units		23,381,217
	52,788,843	52,788,843
Convertible debentures/Class C Partnership Units		
Convertible debentures	$ 46,430,000	
Class C Partnership Units		$ 46,430,000

Clearwater also has other debt and as a result its total capital structure is as follows:

	2006	2005
Equity – Partnership units[A]	**$ 173,079**	$ 173,133
Convertible debt, Class C units, due in 2010[B]	**46,430**	49,280
Non-amortizing debt[C]		
Term notes, due in 2008 – 2013	**86,308**	86,296
Bond payable, due in 2010	**46,795**	46,873
Term loan, due in 2091	**3,500**	3,500
	136,603	136,669
Amortizing debt		
Marine mortgage	**5,584**	6,133
Other loans	**1,643**	2,363
	7,227	8,496
Total capital	**$ 363,339**	$ 367,578

A. Equity consists of Class A Limited Partnership units, Class B General Partnership units and Class C Partnership units (which are discussed in the following paragraph). Both Class A and Class B units are equally eligible for any distributions that are declared by Clearwater. The Class B Partnership units were issued concurrent with **Special Trust Units** that were issued by the Fund solely to provide voting rights to Clearwater Class B Partnership units held by CFFI. The right of 9,352,487 Class B Partnership units to receive distributions was subordinated to the rights of the Class A units until December 31, 2005.

B. Convertible debt – In June 2004, 4,081,633 **Class C units** were issued by Clearwater (indirectly) to the Fund concurrently with the issue by the Fund of $50 million of convertible debentures. The Class C units are non-voting, redeemable and retractable at a price of $12.25 per unit. These units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the convertible debentures of the Fund and in a manner that ensures that the distributions on the Class C units will be able to (indirectly) fund the ongoing interest payments on the convertible debentures. The Class C units are classified in accordance with their component parts: the value ascribed to the holder's option to convert to units, $882,000, has been classified as equity and the remaining portion of the units has been classified as debt. As noted previously, Clearwater has repurchased some of this debt such that at December 31, 2006, the face value of the debt outstanding was $47 million. The **convertible debentures** issued by the Fund are unsecured and subordinated, bear interest at 7%, and are due on December 31, 2010. They are convertible at any time up to maturity at the option of the holder into trust units of the Fund at a conversion price of $12.25 per trust unit. The debentures pay interest semi-annually in arrears on June 30 and December 31. The debentures are not redeemable before December 31, 2007. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering that number of trust units equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash.

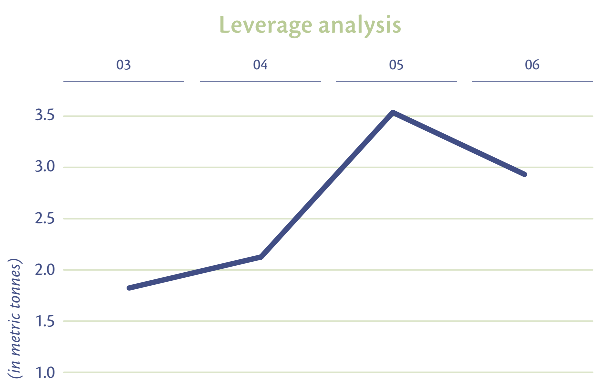
C. Non-amortizing debt – In addition to the convertible debentures/Class C Partnership units, Clearwater has three additional primary debt facilities. These facilities include approximately $86 million in **five and ten year notes** in Canadian and U.S. dollars from a syndicate of five institutional lenders, 2,460 million ISK (approximately Canadian $47 million including accrued interest) in **five-year bonds** and a $60 million **revolving term debt facility** from a syndicate of banks (which was not drawn upon at December 31, 2006 or December 31, 2005).

In September 2005, Clearwater obtained 2,460 million ISK from the Icelandic bond market. The bonds yield 6.7%, are adjusted for changes in the Iceland consumer price index (CPI), have a face value of 2,460 million ISK, mature in 2010, and are unsecured. These bonds have been fully swapped into Canadian, U.S., Euro and Pound Sterling debt with floating interest rates. The bonds are measured at fair value for changes in foreign exchange, interest rates and CPI valued using the effective interest rate method. The non-cash accrual for the interest and inflation adjustment are recorded using the effective interest rate method with the expense being recorded as interest expense on long-term debt on the income statement and as an increase to the value of the bond on the balance sheet. The cash interest paid along with the change in the mark-to-market value of the related swaps are classified as foreign exchange and derivative contracts on the income statement and as a net liability on the balance sheet. Please refer to note 5 of the financial statements on long-term debt and note 11 on financial instruments. The currency and inflation swap effectively hedge this liability from an economic perspective and move the liability from a fixed ISK debt to floating mixed currencies as mentioned above. As a result of these swap agreements; the estimated value of the debt is approximately $47 million as at December 31, 2006 (see Definitions and Reconciliations section).

During the third quarter of 2005, Clearwater added an additional lender to its syndicate of five and ten year notes and added an additional US $25 million of available credit under the notes of which US $5 million has been drawn down. The proceeds from these new facilities were used to reduce the amount outstanding under the revolving term debt facility. The US $20 million is available to be drawn at market rates until late 2007.

The revolving term debt facility is available to Clearwater until May 2008. This facility is renewable on an annual basis. During the first quarter of 2006, Clearwater determined it did not require access to the full facility and therefore reduced the amount available under the facility from $115 million to $60 million. As a result, Clearwater expects to realize lower standby fees going forward. The facility is part of a master netting agreement and was in a cash position of $8.9 million as at December 31, 2006.

As part of its strategy to reduce leverage levels, the Fund filed a normal course issuer bid by which it can acquire up to $5 million principal amount of convertible debentures in the 12-month period ending August 2007. This was accompanied by a similar agreement to repurchase Class C Partnership units by Clearwater. 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. Subsequent to year-end an additional $1 million of Partnership units were repurchased and cancelled with proceeds used by the Fund to repurchase and cancel an equivalent amount of convertible debentures.



In the past, Clearwater's leverage had been increasing as a result of higher debt levels and reduced earnings. In 2006, Clearwater was successful in reducing leverage levels due to higher earnings and retaining cash to reduce net debt levels. We will look to continue to reduce leverage levels in a measured manner over time.

Clearwater's intentions are to continue to monitor debt levels and seek to reduce leverage levels in a measured manner over time. Excluding the impact of non-cash foreign exchange in 2006 and 2005 on net earnings, leverage decreased to 2.9 times debt to earnings before interest, tax, depreciation and amortization (EBITDA) as at December 31, 2006, down from 3.5 times as of December 31, 2005.

On January 24, 2007, the Fund received approval for a normal course issuer bid which will enable it to purchase, from time to time, up to 2.5 million outstanding trust units (the "Units"), which amount represents less than 10% of the public float. Any such purchases of Units would be made during the 12-month period commencing on January 24, 2007, and in accordance with the requirements of the TSX. The Units will be purchased by the Fund for cancellation and will be accompanied by a similar repurchase of units by Clearwater. No previous purchase of Units has been made by the Fund. Purchases will be made at market prices through the facilities of the TSX. Purchases will be funded out of the Fund's available cash and through borrowings under its existing credit facility (subject to receiving the approval of its lenders).

The Board of Trustees of the Fund believes that, in view of the recent announcements concerning the tax treatment of income trusts, the market price of the Units may not adequately reflect the current value of, and prospects for, the Fund's underlying business. As a result, the Board of Trustees believes that the Units, from time to time, may represent an attractive opportunity to realize additional unitholder value and that the purchase of Units would be an appropriate and desirable use of the Fund's available resources.

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

On February 19, 2007, the Fund successfully entered into an agreement with a syndicate of underwriters to issue to the public on a bought-deal basis, convertible unsecured subordinated debentures for gross proceeds of $43,500,000 with attractive terms and conditions. In addition, the Fund has granted the syndicate an over-allotment option, exercisable for a period of 30 days following closing, to purchase an additional $6,525,000 of debentures which, if exercised, would increase the gross proceeds of the offering to $50,025,000. The debentures will be convertible into units of the Fund (the "Units") at the option of the holder at a conversion price of $5.90 per Unit. Closing of the offering is expected to occur on or about March 9, 2007, subject to satisfaction of customary conditions including receipt of all necessary regulatory approvals. The net proceeds of the offering will be used to further enhance Clearwater's capital structure and more importantly to provide the flexibility to allow Clearwater to pursue potential accretive acquisitions that will be a strategic fit with its plan for growth.

Cash flows

Summarized cash flow information

For the years ending December 31, 2006 and December 31, 2005. See the financial statements for more detail.

Year ended	2006	2005
Cash flow from operations (before change in working capital)	**$ 51,076**	$ 34,585
Investing, Financing, and other activities		
Distributions to unitholders	**(13,198)**	(27,365)
Capital expenditures (net of proceeds on sale)	**(18,748)**	(19,184)
Investment (reduction) in working capital	**(6,428)**	1,557
Other investing activities	**1,817**	(1,492)
Distributions to minority partners	**(6,125)**	(3,092)
Payment on interest rate swaps	**(4,043)**	(1,437)
Other	**1,263**	1,597
	(45,462)	(49,416)
Decrease (increase) in long term debt, net of cash	**$ 5,614**	$ (14,831)

During the year, funded debt (net of cash balances) has decreased by approximately $5.6 million. Solid operating cash flow net of distributions paid and capital expenditures are the significant reasons for the decrease in net long-term debt. Year-to-date capital expenditures have been fully funded by cash flows and, in addition, debt levels have been reduced by $4 million. This has resulted in leverage levels, excluding the impact of non-cash foreign exchange, improving from 3.5 times EBITDA at December 31, 2005 to 2.9 times as at December 31, 2006.

Cash flow generated by Clearwater's operations along with its banking facilities are used to fund current operations, seasonal working capital demands, capital expenditures, other commitments and distributions to unitholders. Inventories typically reach a seasonal peak in the summer due to better weather for harvesting, resulting in seasonal demands on working capital. These primarily relate to the segments of the business that purchase product from independent fishermen. These purchases cannot be controlled as efficiently as raw materials harvested by Clearwater's own fleet of vessels.

Capital expenditures

Capital expenditures were $20.6 million for the year (2005 – $28.6 million). Of this amount, $18.7 million (2005 – $26.2 million) was considered return on investment (ROI) capital and $1.9 million (2005 – $2.4 million) was maintenance capital. ROI and maintenance capital are tracked on a project-by-project basis with the only ROI project currently in process being the new clam vessel. Significant expenditures that are expected to have an average return in excess of average cost of capital are classified as ROI, and expenditures that have a return less than the cost of capital are classified as maintenance. Subsequent to year-end, Clearwater purchased some additional fishing licences and related vessels and property, which based on recent TAC levels, should provide a return on investment in the 15-20% range.

As previously reported, Clearwater is currently in the process of constructing a **new factory freezer clam vessel**. The total estimated cost of the vessel, including owner supplied materials and related costs, is expected to be approximately $50 million, of which $42.4 million has been spent to date. Clearwater expects the new vessel to be delivered and begin harvesting in the second half of 2007. Once operational, this new vessel is expected to reduce harvesting costs, greatly improve the quality and range of products offered, and increase its harvesting capacity. Two exciting and key innovations in this vessel, which support these goals, are its state of the art energy management system and its advanced on-board processing systems. The energy management system is expected to result in significantly reduced fuel consumption. The advanced on-board processing systems are expected to improve product quality and yield as well as provide the flexibility to produce a greater variety of products. Clearwater is reviewing a replacement for one of the vessels in Argentina that will occur over the next several years.

Commitments and other long-term obligations

In addition to capital expenditures and derivative contracts previously disclosed, as at December 31, 2006, Clearwater had commitments for long-term debt, operating leases and other long-term obligations, as follows:

Contractual obligations

Payments due by year	Long term debt	Operating leases	Other obligations	Total
< 1 year	868	4,462	–	5,330
< 2 years	61,664	4,199	–	65,863
< 3 years	1,108	3,201	–	4,309
< 4 years	94,160	2,694	–	96,854
< 5 years	868	2,603	–	3,471
> 5 years	31,592	5,525	2,280	39,397
Total	190,260	22,684	2,280	215,224

Further details on these obligations are disclosed in the notes to the annual consolidated financial statements. Amounts in years less than 2 and 4 are high as non-amortizing term credit facilities are scheduled for renegotiation.

In addition to the commitments noted above, Clearwater has commitments surrounding the construction of the new factory freezer clam vessel.

Distributable cash and cash distributions

Distributable cash is not a recognized measure under Canadian Generally Accepted Accounting Principles (GAAP) and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes that distributable cash can be a useful supplemental measure as it provides an indication of cash available for distribution. This provides guidance to readers seeking to assess the sustainability of distributions by comparing distributions paid to the amount of distributable cash. As distributable cash is a measure frequently analyzed for income trusts, we have calculated the amount in order to assist readers in facilitating this review. Distributable cash should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of performance, as a measure of liquidity or as a measure of cash flows and management does not use this measure as a performance measure of earnings. There are a number of factors that can influence distributable cash levels as outlined in the commentary regarding forward-looking statements and Risks and Uncertainties sections of this document.

On December 31, 2005, subordination on 9,352,487 units expired and as a result all units (52,788,843 units) now participate in distributions.

In the fourth quarter of 2006, Clearwater generated $7.2 million of distributable cash (2005 – $8 million) and declared distributions of $7.9 million (2005 – $nil).

In fiscal 2006, Clearwater generated $42.3 million of distributable cash compared to $27.2 million in 2005 and declared distributions of $15.8 million (2005 – $27.4 million). Please refer to the distributable cash reconciliation included in this document for detailed reconciliations of these amounts.

The most significant factor contributing to the increase in distributable cash in 2006 was the improved gross profit margins.

In August 2006, Clearwater reinstated distributions to unitholders on record as of August 31, 2006 at a rate of $0.05 per month; $0.60 when annualized. In making this decision, Clearwater considered the financial results, on-going capital expenditure requirements, leverage, expectations regarding future earnings and cash on hand, which has been reserved to complete funding of the vessel under construction. Future earnings can be impacted by a number of factors including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates and fuel costs.

- Current financial results – Earnings, excluding the impact of non-cash foreign exchange, have improved in 2006 compared to 2005 with the rolling four quarters EBITDA (excluding the impact of non-cash foreign exchange) and distributable cash as of the fourth quarter 2006 reaching $65 million and $42 million respectively as compared to $53 million and $27 million realized in 2005.
- Capital expenditures – Clearwater currently has two significant capital projects; the clam vessel it expects to have completed and operational in 2007 and an Argentine vessel it plans to construct for 2008. Clearwater has retained cash over the past quarters to reduce leverage and has sufficient cash to fully fund the balance to complete the new clam vessel. It intends to use some of the excess cash on its balance sheet going forward to complete the construction of the clam vessel. It plans to fully fund construction of a possible replacement for an Argentine vessel through cash reserves prior to delivery. The delivery of that vessel will result in a fleet of freezer processor vessels that has an average age of approximately 8 years with long remaining life spans. For greater details on Clearwater's strategy for capital replacement, a 5-year history of capital expenditures as well as information on Clearwater's strategy in maintaining its assets, please refer to the Capability to Deliver Results section of this document.
- Leverage – Leverage has decreased and now stands at 2.9 times EBITDA as compared to 3.5 times at December 31, 2005. Please see the Definitions and Reconciliations section at the end of this report for the calculation of leverage.
- Expectations regarding future earnings – Clearwater expects that despite the ongoing challenge of foreign exchange, the short-term negative impact of making continued improvements in the clam business and the potential for lower scallop volumes in 2007, a positive outlook for the business and fewer vessel disruptions should provide for stable distributions.

Clearwater has a large depreciable asset base and some of the business units are incorporated. The result has been that not all of our distributions are taxable to unitholders. The following table summarizes the history of the taxation of distributions.

Taxation year	Return of capital	Dividend income	Other income
2002	62%	4%	34%
2003	45%	20%	35%
2004	62%	3%	35%
2005	52%	–	48%
2006	32%	–	68%
2007 estimate	25%	75%	–

Explanation of fourth quarter results

Consolidated Operating Results for the thirteen weeks comprising the fourth quarter, in thousands of Canadian dollars.

The results of operations of the Fund are entirely related to Clearwater's performance and therefore the commentary below is on the operations of Clearwater. The statements of earnings reflect the unaudited interim earnings of Clearwater for the 13 week periods ended December 31, 2006 and December 31, 2005.

	2006	2005
Sales	**$ 84,136**	$ 84,220
Cost of goods sold	**64,519**	65,509
Gross profit	**19,617**	18,711
	23.3%	22.2%
Administration and selling	**10,915**	7,795
Loss (gain) on disposal and other, net	**(55)**	8
Other income	**(1,093)**	(711)
Foreign exchange and derivative expense (income)	**20,799**	(2,170)
Bank interest and charges	**257**	212
Interest on long-term debt	**3,222**	3,476
Depreciation and amortization	**3,568**	3,839
Reduction in foreign currency translation account	**672**	–
	38,285	12,449
Earnings (loss) before income taxes and minority interest	**(18,668)**	6,262
Income tax (recovery) expense	**(442)**	830
Earnings (loss) before minority interest	**(18,226)**	5,432
Minority interest	**904**	711
Net earnings (loss)	**$ (19,130)**	$ 4,721

Net earnings (loss)

Net earnings decreased by $23.9 million in the fourth quarter of 2006 primarily due to lower non-cash foreign exchange adjustments, offset partially by factors as outlined below:

	2006	2005	Change
Net earnings	**$ (19,130)**	$ 4,721	$ (23,851)
Explanation of changes in earnings:			
Lower non-cash foreign exchange income			(22,969)
Higher administration and selling expense			(3,120)
Lower income tax expense			1,272
Higher gross profit			906
All other			60
			$ (23,851)

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

	2006	2005	Change	%
Scallops	$ **26,558**	$ 28,097	$ (1,539)	(5%)
Lobster	**22,441**	19,621	2,820	15%
Clams	**16,301**	13,062	3,239	25%
Coldwater shrimp	**14,360**	9,800	4,560	47%
Groundfish and other	**1,845**	7,345	(5,500)	(75%)
Crab	**1,348**	2,582	(1,234)	(48%)
Hedging program	**1,283**	3,713	(2,430)	(65%)
	$ **84,136**	$ 84,220	$ (84)	–%

Scallop sales, which represent one of the more profitable species, were relatively consistent with 2005.

Lobster sales were higher when compared to the fourth quarter of 2005 primarily due to increased volumes. The application of technology that provides an effective method to sort and grade live lobster has allowed Clearwater to purchase live product on a more selective basis and utilize the product it has more efficiently.

Clam sales increased in the quarter compared to the fourth quarter in 2005 as a result of increased volumes with prices in Canadian dollars consistent with the prior year. Clearwater has been able to increase selling prices in part due to improving product value to the customer, which has offset the negative impact of lower exchange rates for U.S. dollars and Japanese Yen against the Canadian dollar. Higher volumes over the past year related to the fact that in 2005 there were significant disruptions and refit costs incurred in the clam business as well as the repositioning of the sales channels away from a single importer in the Chinese market. The business operated without these disruptions in 2006. In 2005, Clearwater began a process of reorganizing its clam business to respond to the challenges of currency and to take advantage of opportunities that will arise when the new vessel arrives and is operational in 2007. As a result Clearwater may continue to see some short-term disruptions in this business.

Coldwater shrimp sales are up 47% as a result of higher volumes offset by lower selling prices.

Both groundfish and crab sales are lower in the fourth quarter of 2006 as Clearwater's plant in Glace Bay, Nova Scotia has not operated since March 2006. In the first quarter of 2006, it began negotiations on a new collective agreement with the Union at this plant and these negotiations are currently at a standstill. The disruption has impacted groundfish and crab sales in 2006 but did not have a material impact on earnings.

In summary, sales levels were relatively consistent with 2005, but with a higher mix of more profitable products such as scallops and clams and 2006 gross profit was greater than in 2005 by $14.5 million, despite the weaker exchange rates and higher average fuel costs as explained below.

Foreign exchange reduced sales and margins by approximately $2.5 million in the fourth quarter of 2006.

	2006		2005	
Currency	% sales	Rate	% sales	Rate
US Dollars	**42.7%**	**1.175**	41.9%	1.309
Euros	**22.1%**	**1.485**	21.0%	1.389
Japanese Yen	**8.8%**	**0.009**	8.8%	0.010
UK pounds	**6.6%**	**2.189**	5.1%	2.044
Canadian dollar and other	**19.8%**		23.2%	
	100.0%		100.0%	

Clearwater maintains an active hedging program to provide a degree of certainty to future Canadian dollar cash flows. For additional detail please refer to the annual analysis as well as note 10 in the financial statements.

Foreign exchange and derivative contracts produced $20.8 million of losses in the fourth quarter of 2006 versus $2.2 million of income in 2005. From a cash perspective, the business generated $2.8 million of cash from foreign exchange management in the fourth quarter of 2006 versus $1.4 million in 2005.

	2006	2005
Realized (gain) loss		
Foreign exchange cash option income	$ (2,247)	$ (2,678)
Other realized	(549)	1,319
	(2,796)	(1,359)
Unrealized loss (gain)		
Balance sheet translation	2,525	270
Mark-to-market on option contracts	19,407	(1,261)
Mark-to-market on interest and currency swap contracts	1,663	180
	23,595	(811)
Total loss (gain)	$ 20,799	$ (2,170)

Outlook

Clearwater had an exceptional year in 2006 primarily due to higher gross profit margins on scallops and clams. These positive results more than offset the challenges faced including foreign exchange, high fuel costs and the continued reorganization of the clam business, all of which are expected to continue in 2007.

Distributable cash generated in 2006 has increased to $42.4 million, $15.2 million or 56% greater than 2005. This increase was largely due to an improvement in gross profit of $14 million. Clearwater is focused on maintaining stable distribution levels despite the ongoing challenge of foreign exchange, fuel costs and leverage and is looking forward to the arrival of the new clam vessel that will have been under construction for more than two years when it takes delivery in 2007.

It is important to understand that Clearwater maintains an active currency management program to provide a degree of certainty to future Canadian dollar cash flows with respect to sales. In an environment where the Canadian dollar is weakening relative to currencies such as the U.S. dollar, European Euro, Pound Sterling and Japanese Yen, the exchange environment will serve to improve profits. In this environment with exchange rates moving in Clearwater's favor, the spot rate will be higher than the contracted rate in Clearwater's hedge agreements. As Clearwater records the change in the market value of these contracts as an adjustment to net earnings this can result in large non-cash losses or gains during periods of time when exchange rates are changing rapidly. During 2006, the Canadian dollar weakened significantly against the U.S. dollar, European Euro and Pound Sterling, the three currencies that account for the majority of Clearwater's sales and hedging activities.

The assumption implicit in marking foreign exchange option contracts to market is that the contracts will all be settled at a point in time in the future. However, for the majority of the options, the possibility of the option being exercised does not exist until certain trigger prices have been reached. Once triggered, whether or not a contract will be called depends on whether spot rates are in excess of contract rates at the time of maturity. Over the past number of years, we have had a large number of contracts that have never been exercised. However, to the extent that contracts are exercised, it will serve to mute or delay the positive impact of an improving exchange rate environment on Clearwater's financial results.

Over the longer term, should the weakening of the Canadian dollar persist, it may benefit Clearwater as approximately 80% of its sales are denominated in foreign currencies. For example, in the future, if Clearwater were to receive the spot rates in effect at the end of 2006, excluding the impact of any outstanding hedge contracts and assuming the same level of sales, it would realize approximately $5 million more in gross profit and net earnings as compared to 2006.

Excluding the impact of non-cash foreign exchange in 2006 and 2005 on net earnings, leverage decreased to

2.9 times debt to earnings before interest, tax, depreciation and amortization (EBITDA) as at December 31, 2006, down from 3.5 times as of December 31, 2005. As part of this strategy to reduce leverage levels, Clearwater Seafoods Income Fund (the "Fund") filed a normal course issuer bid by which it can acquire up to $5 million principal amount of convertible debentures in the 12-month period ending August 2007. During 2006, Clearwater repurchased and cancelled $3 million of the convertible debentures. An additional $1 million were repurchased in January 2007 bringing the total repurchased and cancelled since August 2006 to $4 million.

On February 19, 2007, the Fund successfully entered into an agreement with a syndicate of underwriters to issue to the public on a bought-deal basis, convertible unsecured subordinated debentures for gross proceeds of $43,500,000 with attractive terms and conditions. In addition, the Fund has granted the syndicate an over-allotment option, exercisable for a period of 30 days following closing, to purchase an additional $6,525,000 of debentures which, if exercised, would increase the gross proceeds of the offering to $50,025,000. The debentures will be convertible into units of the Fund (the "Units") at the option of the holder at a conversion price of $5.90 per Unit. Closing of the offering is expected to occur on or about March 9, 2007, subject to satisfaction of customary conditions including receipt of all necessary regulatory approvals. The net proceeds of the offering will be used to further enhance Clearwater's capital structure and more importantly to provide the flexibility to allow Clearwater to pursue potential accretive acquisitions that will be a strategic fit with its plan for growth..

In 2007, Clearwater expects continued solid performance. However, there will be more variability in our earnings on a quarter by quarter basis, particularly in the first part of the year, as a result of changing our policy for refit expenses to one where we will expense refits as incurred rather than accruing them in advance. Despite these changes, the expense for the full year should be comparable to what has been expensed in the past.

The core business remains healthy and with the strength of Clearwater's quota ownership, its significant investment in developing effective and efficient harvesting and production processes, and opportunities for acquisitions in a fragmented international seafood business, the outlook for 2007, as well as the longer-term, is positive. Clearwater's strategy continues to have a long-term focus, developing and maintaining the strong foundations Clearwater was built upon.

Risks and uncertainties

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

Resource supply

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

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

Foreign exchange

In excess of 80% of Clearwater's sales are in United States dollars and other currencies, whereas the majority of expenses as well as all of the cash distributions payable by the Fund and Clearwater are in Canadian dollars. As a result, fluctuations may have a material impact on Clearwater's financial results and the amount of cash available for distribution to unitholders.

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

Clearwater's sales denominated in U.S. dollars were approximately 42% of annual sales in 2006. Based on 2006 sales and economic hedges in place on December 31, 2006, a one-cent change in the U.S. dollar as converted to Canadian dollars would result in a $1.1 million change in sales and gross profit. In addition, approximately 25% of 2006 annual sales were denominated in Euros. Based on 2006 sales and hedges in place on December 31, 2006, a one-cent change in the Euro as converted to Canadian dollars would result in a $0.5 million change in sales and gross profit. Also, 10% of 2006 annual sales were denominated in Japanese Yen. Based on 2006 annual sales, every one-twentieth of a cent change in the Yen as converted to Canadian dollars would result in a change of $1.5 million in sales and gross profit.

Food processing risks

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

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

Suppliers, customers and competition

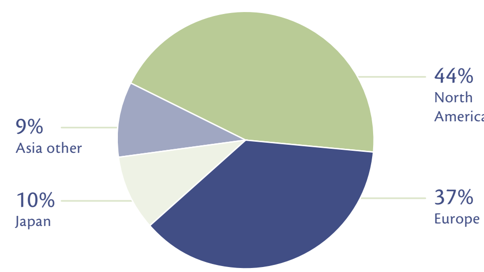
Consolidation among food distributors results in increased pressure on pricing and trade terms for food processors. Clearwater's operating costs may be negatively affected by increases in inputs, such as energy costs, raw material and commodity prices.

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

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

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

2006 sales by region



Clearwater's broad geographical presence allows us to distribute products to a wide range of markets and customers.

Input costs

Clearwater used approximately 35 million litres of marine fuel oil in 2006. A change of one cent in the price of marine fuel oil would result in a change of approximately $350,000 to annual harvesting expenses.

Transactions with related parties

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

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

	2006	2005
Commissions charged to joint ventures	**$ 1,625**	$ 1,959
Interest charged to joint ventures (paid to)	**(47)**	(16)

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

	2006	2005
Accounts receivable from joint venture partner	**$ 151**	$ 244
Accounts payable to joint venture partner	**438**	64
Due to joint venture partner	**2,280**	2,023

As at December 31, 2006, Clearwater was contingently liable for the obligations of the joint venture partners in the amount of $5.6 million (2005 – $6.1 million). However, the joint venture partner's share of the assets is available for the purpose of satisfying such obligations. The book value of these assets is $15.7 million (2005 – $15.5 million).

In addition to the transactions and balances associated with related parties disclosed above, Clearwater had the following transactions and balances with Clearwater Fine Foods Incorporated ("CFFI") during 2006 and 2005:

	2006	2005
Transactions		
Charged by CFFI for use of a corporate airplane	**$ 252**	$ 65
Charged to CFFI for rent and other services	**234**	280
Charged by CFFI for management fees	**200**	90
Balances		
Receivable from CFFI (payable to)	**(8)**	639
Distribution payable to CFFI	**1,169**	–

In addition, Clearwater was charged approximately $139,000 for vehicle leases in 2006 (2005 – $175,000) and approximately $81,000 for other services (2005 – $51,000) by companies controlled by a relative of an officer of Clearwater. The receivable balance in 2005 relates to payments Clearwater remitted on behalf of CFFI and subsequently recharged the amounts to CFFI for certain professional services.

These transactions are in the normal course of operations and have been recorded at fair market value.

Critical accounting policies

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

Impact of recently adopted accounting policies

Due to the increasing complexity of applying the accounting standards, as well as the requirement to adopt the Comprehensive Income accounting standard in the future, beginning the second quarter of 2006, Clearwater no longer designated contracts as hedges for accounting purposes. As a result, it recorded the fair value of these contracts as an asset ($1.9 million at April 1, 2006) with the offsetting gain deferred and amortized at that time. From that point forward these contracts were marked-to-market each reporting period and any gains or losses, both realized and unrealized, were included in foreign exchange income.

There have not been any other substantial changes to any of Clearwater's significant accounting policies in the past two years. During the course of the year, Clearwater reviewed all new accounting standards issued by the Canadian Institute of Chartered Accountants in order to determine the impact of the new standards, if any.

Impact of accounting policies to be adopted in the future

Financial instruments and comprehensive income

New standards will become effective for fiscal years beginning after October 1, 2006, or in Clearwater's case fiscal 2007, with respect to financial instruments and comprehensive income. As a result, Clearwater expects the following areas to be impacted in 2007:

- A "Statement of Comprehensive Income" will be included with the financial statements. This statement will include unrealized foreign exchange gains and losses related to a subsidiary company, which is a self-sustaining operation, and has been translated to Canadian dollars using the current rate method.
- Deferred financing costs, which approximated $2.8 million at December 31, 2006, will be netted against the related debt agreement and amortized using the effective interest method. This should not materially change reported

earnings as these charges were previously amortized over the term of the related debt.

- There will be some additional disclosures required relating to the comprehensive income and financial instruments as a result of the above changes.

Refit accruals

In September 2006, the Financial Accounting Standards Board in the United States issued FASB AUG AIR-1, Accounting for Planned Major Maintenance Activities. This standard, which is effective January 1, 2007, amends the guidance for planned major maintenance activities; specifically it precludes the use of the previously acceptable "accrue in advance" method, the method currently used by Clearwater.

In the absence of specific guidance in Canada on this topic, we believe it appropriate to follow FASB AUG AIR-1 and therefore will adopt this standard on January 1, 2007. As a result of adopting this standard, we will reduce refit accruals by $4.9 million, reduce future tax assets by $295,000 and reduce the deficit by $4.6 million.

As a result of changing this policy, there will be more variability in our earnings on a quarter by quarter basis, in particular in the first part of the year.

Income taxes at the trust level

Pursuant to the draft legislation announced on October 31, 2006, and issued on December 15, 2006, specified investment flow-throughs ("SIFTS") will be taxed, beginning in 2011, on distributions paid to unitholders. This tax will be at a total combined rate of 31.5%. In light of this new tax on income trusts, the Fund will be required to record any future income tax asset or liability on the temporary differences related to its investment in Clearwater. As the new legislation has not been substantively enacted as of the financial statement date, this future income tax has not been recorded by the Fund. Assuming the new law relating to SIFTS is passed and the Fund is required to pay tax on a portion of its distributions in 2011, the following temporary differences exist within the Fund as of December 31, 2006.

	Taxable temporary differences
Investment in Clearwater	10,445
Convertible debentures	570
Loss carry forwards	(7,746)
Total	3,269

Licences

One of the key pillars of Clearwater's business is resource ownership. Ownership of licences and quota (hereafter referred to as licences) ensure continued access to the underlying resource. Clearwater owns underlying licences for a significant portion of the products that it sells. The net book value of the licences as of December 31, 2006 was $102.7 million.

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

Estimating the net recoverable amount requires estimates of future cash flows, which are subject to management judgments concerning the health of the underlying resource, selling prices and operating costs. Should management determine that a licence for a specific species was either fully or partially impaired, the underlying book value of the licence would be written down or written off where appropriate. During 2005, a write down of $1.6 million for the impairment of shrimp harvesting contracts has been included in "gain on disposal and other, net" on the income statement for Clearwater Seafoods Limited Partnership. The value was adjusted based on declining margins associated with the shrimp harvesting contracts in the Canadian FAS shrimp business unit. A write down of $3.2 million was recorded in the Clearwater Seafoods Income Fund statements in 2005, also related to the shrimp harvesting contracts.

Property, plant and equipment

Clearwater's property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Clearwater believes the straight-line method is the most appropriate as Clearwater has historically spent significant amounts on the maintenance of its fleet and processing plants. Management determines the useful life based on prior experience with similar assets. However, the actual useful life of the assets may differ from management's original estimate due to factors such as technological obsolescence and maintenance activity. Clearwater reviews long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered to be impaired. An impairment loss is measured as the amount by which the carrying amount of the group of assets exceeds its fair value. No impairments have been recorded for the current year.

Derivative financial instruments

Forward exchange contracts, interest rate swaps and cross currency swaps are used by Clearwater in the management of its foreign currency and interest rate exposures. These securities are not accounted for as hedges and are recorded at estimated quoted market prices. For further information on these contracts please refer to the financial instruments section of this MD&A.

Financial instruments

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

Due to the increasing complexity of applying the accounting standards, as well as the requirement to adopt the Comprehensive Income accounting standard in 2007, beginning the second quarter of 2006, Clearwater no longer designated contracts as hedges for accounting purposes. As a result, it recorded the fair value of these contracts as an asset ($1.9 million at April 1, 2006) with the offsetting gain deferred and amortized. Since April 1, 2006, these contracts have been marked-to-market each reporting period and any gains or losses, both realized and unrealized, included in foreign exchange income.

Realized and unrealized foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to economically hedge anticipated U.S. dollar, European Euro, Pound Sterling and Japanese Yen denominated sales are recognized in the consolidated financial statements. At December 31, 2006, Clearwater had outstanding contracts for US $41.5 million (2005 – US $62 million) that expire in 2007. This represents approximately 38% of average 2006 annual sales as denominated in U.S. dollars. In addition, Clearwater has outstanding contracts for Euros € 9.6 million (2005 – € 12 million) that expire in 2007. Although Clearwater has no intention of settling these contracts, at December 31, 2006, Clearwater would have, if it settled these contracts, made a payment of $1.9 million (December 31, 2005 – received a payment of $7.9 million).

Clearwater also writes foreign currency options. Realized and unrealized gains and losses on these securities are included in earnings. At expiry of these contracts, Clearwater will either have no obligation or will be called to deliver foreign currency at a rate management deemed acceptable upon entering into these contracts. At December 31, 2006, Clearwater had outstanding contracts for U.S. $180 million (2005 – $230 million), 2,000,000,000 Yen (2005 – 1,000,000,000), Euros € 55 million (2005 – € 29 million) and Sterling 25.7 million (2005 – 5 million). The market value of these contracts at December 31, 2006 was a liability of $19.9 million (2005 – an asset of $0.3 million). This represents the potential net liability/asset in the event the contracts were closed. The liability recorded in 2006 is included in accounts payable and accrued liabilities and the asset recorded in 2005 is included in prepaids and other. For further details on these contracts please refer to the note to the Annual Financial Statements entitled "Financial Instruments".

Clearwater uses interest rate swaps to hedge its exposures to changes in interest rates. The interest rate swaps and the cross currency swaps are not accounted for as hedges and realized and unrealized gains and losses are included in earnings. While Clearwater has no intention of settling these contracts at December 31, 2006, if Clearwater had settled these contracts it would have been required to pay $4.6 million (2005 – $563,000). Prior to the third quarter, the interest rate swaps were accounted for as hedges.

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

Summary of quarterly results

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

(In 000's except per unit amounts)	First quarter	Second quarter	Third quarter	Fourth quarter
Fiscal 2006				
Sales	**$ 70,349**	**$ 81,312**	**$ 79,939**	**$ 84,136**
Net earnings (loss)	**979**	**11,507**	**8,106**	**(19,130)**
Basic earnings per unit	**0.02**	**0.22**	**0.15**	**0.03**
Fiscal 2005				
Sales	$ 67,359	$ 69,712	$ 93,548	$ 84,220
Net earnings	1,645	1,371	12,136	4,721
Basic earnings per unit	0.03	0.03	0.23	0.09
Fiscal 2004				
Sales	$ 72,741	$ 85,038	$ 88,835	$ 98,845
Net earnings (loss)	(2,978)	8,760	15,138	16,553
Basic earnings (loss) per unit	(0.06)	0.17	0.29	0.31

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

Net earnings also reflect some growth in 2004, 2005 and 2006 but have been impacted by changes in foreign exchange rates. The impact of the foreign exchange rates is clearly seen in the volatility of earnings in the quarterly results and in particular in the fourth quarter of 2006 which included large non-cash losses.

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

Definitions and reconciliations

Distributable Cash

Distributable cash is not a recognized measure under Canadian Generally Accepted Accounting Principles (GAAP) and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes that distributable cash is a useful supplemental measure as it provides an indication of cash available for distribution to readers seeking to assess the sustainability of distributions by comparing distributions paid to the amount of distributable cash. In addition, as distributable cash is a measure frequently analyzed for income trusts we have calculated the amount in order to assist readers in facilitating this review. Distributable cash should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of performance, as a measure of liquidity or as a measure of cash flows and management does not use this measure as a performance measure of earnings.

Reconciliation of distributable cash

($000's except per unit amounts)	13 weeks ended December 31, 2006	13 weeks ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005
Cash flow from operating activities	**$ 4,891**	$ 7,983	**$ 44,648**	$ 36,142
Add (deduct):				
Change in non-cash working capital[A]	**4,655**	1,466	**6,428**	(1,557)
Minority share EBITDA, int., taxes[B]	**(1,707)**	(706)	**(7,625)**	(3,680)
Proportionate maint. capital[C]	**(678)**	(227)	**(1,950)**	(2,454)
Gain (loss) on disposal P,P,E /licences[D]	**76**	(546)	**850**	(1,246)
Distributable cash	**$ 7,237**	$ 7,970	**$ 42,351**	$ 27,205
Distributions[E]	**$ 7,919**	$ –	**$ 15,837**	$ 27,367
Payout ratio	**109%**	–	**37%**	101%

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

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

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

D. Gains and losses on property, plant and equipment are added back (deducted) unless they are unusual, non-recurring transactions. During the course of operating the business, Clearwater will typically realize gains and losses from the turnover of assets, which occurs frequently due to Clearwater's focus on innovation. During the second and third quarters of 2006 gains of $1.2 million and losses of $3.1 million associated with exiting of a plant (2005 gains of $5.6 million) were excluded from the calculation of distributable cash as they pertained to the sale of assets that did not relate to the typical turnover of assets.

E. There were no distributions for the first or second quarter of 2006. Distributions paid in the first three quarters of 2005 consisted of payment of 21 cents/unit on 43,436,356 unsubordinated units (no payments were made on 9,352,487 subordinated units).

Clearwater's business is seasonal in nature with the result being lower amounts of distributable cash typically generated in the first half of the year.

Gross Profit

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

Earnings before interest, tax, depreciation and amortization (EBITDA)

Note: During the current quarter, non-cash foreign exchange losses and gains have been backed out of the calculation of EBITDA due to the significant unrealized loss in 2006.

Earnings before interest, tax, depreciation and amortization (EBITDA) is not a recognized measure under Canadian GAAP and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes EBITDA to be a useful term when discussing liquidity. In addition, as EBITDA is a measure frequently analyzed for public companies we have calculated the amount in order to assist readers in facilitating this review. EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of performance, as a measure of liquidity or as a measure of cash flows and management does not use this measure as a performance measure of earnings.

Reconciliation of the current quarter and preceding three quarters EBITDA

($000's)	December 31, 2006	December 31, 2005
Net earnings	**$ 1,463**	$ 19,873
Add:		
Minority interest	**5,633**	3,398
Income taxes	**3,853**	2,975
Reduction in foreign currency translation	**2,369**	1,236
Foreign exchange and derivative loss (income) unrealized	**23,030**	(3,598)
Depreciation and amortization	**14,766**	15,400
Interest on long term debt	**13,110**	12,450
Bank interest and charges	**953**	786
EBITDA	**$ 65,177**	$ 52,520

Leverage

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

Leverage is calculated by dividing the current and preceding three quarters EBITDA by the total debt on the balance sheet adjusted for cash reserves, cash and currency hedges for the Iceland debt for the period.

($000's)	December 31, 2006		December 31, 2005	
EBITDA		**$ 65,177**		$ 52,520
Total debt (per below)		**187,619**		183,601
Leverage		**2.9**		3.5
Debt per balance sheet		**190,260**		194,445
Adjust ISK denominated bond to swapped value:				
Less Iceland bond	**(46,795)**		(46,873)	
Estimated payment for Iceland bond	**47,004**	**209**	45,755	(1,118)
Reduce cash by unreserved cash				
Less cash balance	**(10,850)**		(9,726)	
Add cash reserve for new vessel	**8,000**	**(2,850)**	–	(9,726)
Net debt for leverage		**187,619**		183,601

Estimated payment for Iceland bond when considering currency swaps at December 31, 2006 and December 31, 2005:

Currency ($000's)	Amount	Current rate	Canadian $
December 31, 2006			
Canadian	**25,000**	**1.000**	**$ 25,000**
US	**9,708**	**1.165**	**11,313**
Euro	**2,500**	**1.538**	**3,844**
Sterling	**3,000**	**2.282**	**6,847**
			$ 47,004

Currency	Amount	Current rate	Canadian $
December 31, 2005			
Canadian	25,000	1.000	$ 25,000
US	9,708	1.163	11,290
Euro	2,500	1.381	3,453
Sterling	3,000	2.004	6,012
			$ 45,755

Earnings before non-cash foreign exchange

Earnings before non-cash foreign exchange is not a recognized measure under Canadian GAAP and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes that earnings before non-cash foreign exchange is a useful supplemental measure as it provides a calculation of earnings in the absence of significant non-cash foreign exchange adjustments. Earnings before non-cash foreign exchange should not be construed as an indicator of performance, as a measure of liquidity or as a measure of cash flows and management does not use this measure as a performance measure of earnings.

($000's)	December 31, 2006	December 31, 2005
Net earnings	**$ 1,463**	$ 19,873
Add:		
Foreign exchange and derivative loss (income) unrealized	**23,030**	(3,598)
Net earnings before non-cash foreign exchange	**$ 24,493**	$ 16,275

Management's statement of responsibility for financial reporting

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

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

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

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

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

Colin MacDonald
Chief Executive Officer

Robert Wight
Vice-President, Finance and Chief Financial Officer

February 26, 2007

Auditors' report
to the unitholders

We have audited the consolidated balance sheets of Clearwater Seafoods Income Fund as at December 31, 2006 and 2005 and the consolidated statements of earnings and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Halifax, Canada

February 9, 2007 except as to note 12 which is as of February 19, 2007

Financial statements

Consolidated balance sheets

(In thousands of dollars)

December 31	2006	2005
Assets		
Current Assets		
Distributions and interest receivable from Clearwater Seafoods Limited Partnership	**$ 1,486**	$ –
Investment in Clearwater Seafoods Limited Partnership (note 3)	**319,243**	329,271
	$ 320,729	$ 329,271
Liabilities and Unitholders' Equity		
Current Liabilities		
Distributions and interest payable	**$ 1,470**	$ –
Convertible debentures (note 4)	**46,430**	49,278
Unitholders' Equity		
Trust units (note 5)	**299,282**	299,336
Deficit	**(26,453)**	(19,343)
	272,829	279,993
	$ 320,729	$ 329,271

Subsequent event (note 12)

See accompanying notes to consolidated financial statements

Approved by the Board of Trustees:

Tom Traves

Bernard R Wilson

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

Consolidated statements of earnings and deficit

(In thousands of dollars)

Years ended December 31	2006	2005
Equity in net earnings of Clearwater Seafoods Limited Partnership	**$ 1,807**	$ 9,114
Interest income	**3,511**	3,510
Interest expense	**(3,605)**	(3,616)
Net earnings	**1,713**	9,008
Deficit at beginning of year	**(19,343)**	(9,826)
Distributions declared during the year	**(8,823)**	(18,525)
Deficit at end of year	**$ (26,453)**	$ (19,343)
Basic and diluted net earnings per trust unit	**$ 0.06**	$ 0.31

See accompanying notes to consolidated financial statements

Consolidated statements of cash flows

(In thousands of dollars)

For the years ended December 31	2006	2005
Cash flows from operating activities		
Net earnings	**$ 1,713**	$ 9,008
Items not involving cash		
Equity in net earnings of Clearwater Seafoods Limited Partnership, net of cash distributions received of $7,753 (2005 – $18,525)	**5,546**	9,411
Other	**944**	106
	7,353	18,525
Cash flows from (used in) financing activities		
Distributions to unitholders	**(7,353)**	(18,525)
Increase (decrease) in cash	**–**	–
Cash – beginning of year	**–**	–
Cash – end of year	**$ –**	$ –

See accompanying notes to consolidated financial statements

Notes to consolidated financial statements

(Tabular amounts expressed in thousands of dollars)

Note 1. Basis of presentation

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

These consolidated financial statements consolidate the accounts of the Fund and its subsidiary, Clearwater Seafoods Holdings Trust ("CSHT"). CSHT owns 55.71% (December 31, 2005 – 55.71%) of the units of Clearwater. However, as the Fund does not have the right to nominate the majority of the board of directors, it does not consolidate the results of Clearwater's operations but rather accounts for the investment using the equity method. Under this method, the cost of the investment is increased by the Fund's proportionate share of Clearwater's earnings and reduced by any distributions paid to the Fund by Clearwater and amortization of the purchase price discrepancy. Due to the limited amount of information that this provides on the underlying operations of Clearwater, the financial statements of Clearwater are also enclosed.

Note 2. Accounting policies

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

(a) Consolidation

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

(b) Intangible assets and goodwill

The excess of the Fund's cost of its investment in units of Clearwater has been allocated to licences with indefinite lives, licence agreements with finite lives, customer relationships and goodwill.

Licences have indefinite lives, are not amortized and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

Licence agreements are determined to have indefinite lives when the annual renewal fee is nominal (typically less than 1% of the estimated value of the licence), Clearwater has both the ability and intent to renew or extend the life of the licences and there has been a history of being able to obtain renewals from the government. Licence agreements that are determined to have finite lives are amortized over the term of the related agreement and tested for impairment if events or changes in circumstances indicate that the asset might be impaired.

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

Customer relationships are amortized over their useful lives as estimated based on customer turnover rates.

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the net assets acquired, based on their fair values. Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. When the fair value of goodwill is less than its carrying amount, the implied value of the reporting unit's goodwill is compared to the carrying value of goodwill and an impairment loss would be recognized in an amount equal to the excess in the statement of earnings.

(c) Convertible Debentures

Convertible debentures are classified in accordance with their component parts: the value ascribed to the holders' option to convert to units has been classified as equity and the remaining portion of the convertible debenture has been classified as debt. Interest on the debt is calculated by applying an interest rate of approximately 7.3% to the outstanding debt component. The difference between actual cash interest payments and interest expense is added to the debt component of the debentures.

(d) Income taxes

The Fund is a unit trust for income tax purposes. As such, the Fund is only taxable on any taxable income not allocated to the unitholders. As substantially all taxable income has been allocated to the unitholders, no provision for income taxes on earnings of the Fund has been made in these financial statements. Income tax liabilities relating to distributions of the Fund are the obligations of the unitholders.

Pursuant to the draft legislation announced on October 31, 2006 and issued on December 15, 2006 specified investment flow-throughs ("SIFTS") will be taxed, beginning in 2011, on distributions paid to unitholders. This tax will be at a total combined rate of 31.5 %. In light of this new tax on income trusts, the Fund will be required to record any future income tax asset or liability on the temporary differences related to its investment in Clearwater. As the new legislation has not been substantively enacted as of the financial statement date this future income tax has not been recorded in the Fund. Assuming the new law relating to SIFTs is passed and the Fund is required to pay tax on a portion of its distributions in 2011, a future income tax asset or liability would be recorded in respect of the following temporary differences existing within the Fund as of December 31, 2006.

	Taxable (deductible) temporary differences
Investment in Clearwater	$ 10,445
Convertible debentures	570
Loss carry forwards	(7,746)
Total	$ 3,269

(e) Financial instruments

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

(f) Use of estimates

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

Note 3. Investment in Clearwater Seafoods Limited Partnership

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

	2006	2005
Investment in Class A Partnership units, at cost	**$ 298,454**	$ 298,454
Investment in Class C Partnership units	**47,000**	50,000
Add: Cumulative equity in earnings	**77,852**	76,045
Other	**(12)**	–
Less: Cumulative distributions received & receivable	**(104,051)**	(95,228)
	$ 319,243	$ 329,271

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

Included in equity in net earnings for the year is income of $1,019,000 (2005 – expense of $1,956,000). This amount included amortization and other adjustments relating to purchase price discrepancies recognized by the Fund in accounting for its investment in Clearwater using the equity method. Included in the expense for 2005 is a write down for the impairment of shrimp licences and harvesting contracts of $3,193,000. The write down was based on declining margins associated with shrimp licences and harvesting. This impairment was included in "equity in earnings of Clearwater Seafoods Limited Partnership".

Details of the allocation of the excess of the Fund's cost over the historical cost of the assets recorded by Clearwater at year-end are as follows:

	2006	2005
Intangible assets		
Licences – indefinite lives	**$ 189,260**	$ 189,260
Customer relationships and other	**518**	578
Goodwill	**14,240**	14,240
Long-term liabilities	**504**	606
Cumulative foreign currency translation account	**(6,254)**	(7,435)
	$ 198,268	$ 197,249

Note 4. Convertible debentures

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

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

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

The Fund filed a normal course issuer bid by which it can acquire up to $5 million principal amount of convertible debentures in the 12-month period commencing August 2006. Any repurchase at the Fund level would be accompanied by a similar repurchase of Class C Partnership units by Clearwater. 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. Subsequent to year-end, an additional $1 million of Partnership units were repurchased and cancelled with proceeds used by the Fund to repurchase and cancel an equivalent amount of convertible debentures.

The estimated fair value of the Fund's convertible debentures at December 31, 2006 was $45,590,000 based on the quoted market value of the debentures Clr.db on the Toronto Stock Exchange.

Note 5. Trust units and special trust units

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

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

	Units	Special trust units		Total $ (in 000's)
Balance December 31, 2004, no change to December 31, 2006	29,407,626	23,381,217	$	298,454
Equity component of Convertible Debentures				828
Balance December 31, 2006			$	299,282

As at December 31, 2006 and December 31, 2005 there were in total 52,788,843 units outstanding.

On January 24, 2007, the Fund received approval for a normal course issuer bid which will enable it to purchase, from time to time, up to 2.5 million outstanding trust units (the "Units"), which amount represents less than 10% of the public float. Any such purchases of Units would be made during the 12-month period commencing on January 24, 2007 and in accordance with the requirements of the TSX. Any Units purchased by the Fund will be cancelled and will be accompanied by a similar repurchase of units by Clearwater.

Note 6. Earnings per unit

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

	2006	2005
Basic		
Net earnings	**$ 1,713**	$ 9,008
Weighted average number of units outstanding	**29,408**	29,408
Earnings per unit	**$ 0.06**	$ 0.31

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

Note 7. Guarantees

The Fund guarantees Clearwater's term credit facility (see note 5(e) to Clearwater's financial statements). The guarantee is limited to the value of the convertible debentures and the value of the units held in Clearwater. As of December 31, 2006 and December 31, 2005 there was no balance outstanding on the term credit facility.

Note 8. 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 sole discretion of the Trustees. 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.

The Fund declared distributions in 2006 on a monthly basis with the current distribution set at a rate of $0.05 per month, $0.60 on an annualized basis (for total distributions when annualized of approximately $18 million). The amounts to be distributed are determined by the Board of Trustees subject to the criteria previously noted. The ability of the Fund to make distributions is dependent upon the amount of distributions received from Clearwater. Please refer to Note 15 of Clearwater's financial statements for more information on Clearwater's distribution policy.

	2006	2005
Distributions paid and payable	**8,823**	18,525
Per unsubordinated unit	**0.30**	0.63

In 2005, the Fund paid monthly distributions of $0.07 cents per unit to its unitholders from January to September. The Fund resumed paying distributions in July 2006 at a monthly rate of $0.05 cents per unit.

Note 9. Administration agreement

The Fund has an Administration Agreement with Clearwater. Under the terms of the agreement, Clearwater is responsible to provide administrative and support services to the Fund and is to provide these services for no additional consideration, other than payment of out-of-pocket expenses. There were no charges for out-of-pocket expenses for the years ended December 31, 2006 and 2005.

Note 10. Capital structure

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

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

The Fund's total capital structure is as follows:

	2006	2005
Equity – Partnership units (see note 5)	**$299,282**	$ 299,336
Convertible debentures, due in 2010 (see note 4)	**46,430**	49,278
Total capital	**$345,712**	$ 348,614

Note 11. Comparative figures

For presentation purposes, in the 2006 financial statements, Clearwater has combined cumulative earnings and cumulative distributions into one line item entitled deficit.

Note 12. Subsequent event

On February 19, 2007, the Fund and Clearwater announced that the Fund has entered into an agreement with a syndicate of underwriters to issue to the public on a bought-deal basis, convertible unsecured subordinated debentures for gross proceeds of $43,500,000 (the "Offering"). In addition, the Fund has granted the syndicate an over-allotment option, exercisable for a period of 30 days following closing, to purchase an additional $6,525,000 of debentures which, if exercised, would increase the gross proceeds of the offering to $50,025,000. The Debentures will be convertible into units of the Fund (the "Units") at the option of the holder at a conversion price of $5.90 per Unit. The Debentures will bear interest at a rate of 7.25% per annum, payable semi-annually in arrears on March 31 and September 30 of each year commencing on September 30, 2007. The Debentures will mature on March 31, 2014.

Management's statement of responsibility for financial reporting

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

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

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

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

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

Colin MacDonald
Chief Executive Officer

R D Wight

Robert Wight
Vice-President, Finance and Chief Financial Officer

February 26, 2007

Auditors' report to the unitholders

We have audited the consolidated balance sheets of Clearwater Seafoods Limited Partnership as at December 31, 2006 and 2005 and the consolidated statements of earnings and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Halifax, Canada

February 9, 2007 except as to note 19 which is as of February 19, 2007

Financial statements

Consolidated balance sheets

(In thousands of dollars)

December 31	2006	2005
Assets		
Current Assets		
Cash (note 5(f))	**$ 10,850**	$ 9,726
Accounts receivable	**59,388**	54,912
Inventories	**53,669**	43,419
Prepaids and other	**6,122**	6,458
	130,029	114,515
Other long-term assets	**9,858**	10,643
Property, plant and equipment (note 3)	**156,816**	151,945
Licences (note 4)	**102,714**	103,181
Goodwill	**10,378**	10,378
	$ 409,795	$ 390,662
Liabilities and Unitholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 64,864**	$ 36,597
Distributions payable	**2,639**	–
Income taxes payable	**5,481**	2,144
Current portion of long-term debt (note 5)	**868**	1,008
	73,852	39,749
Long-term debt (note 5)	**189,392**	193,437
Future income taxes (note 6)	**8,309**	7,958
Due to joint venture partner	**2,280**	2,023
Minority interest	**2,258**	2,181
Unitholders' Equity		
Partnership units (note 7)	**173,079**	173,133
Deficit	**(27,054)**	(12,734)
Cumulative foreign currency translation account (note 8)	**(12,321)**	(15,085)
	133,704	145,314
	$ 409,795	$ 390,662

Commitments and contingencies (note 12)
Subsequent event (note 19)

See accompanying notes to consolidated financial statements

Approved by the Board of CS ManPar Inc.:

John Risley
Chairman

Colin MacDonald
Chief Executive Officer

Consolidated statements of earnings and deficit

(In thousands of dollars)

Years ended December 31	2006	2005
Sales	**$ 315,736**	$ 314,839
Cost of goods sold	**229,064**	242,601
Gross profit	**86,672**	72,238
Administration and selling	**38,245**	33,594
Loss (gain) on disposal and other, net	**2,143**	(4,102)
Other income (note 13)	**(5,853)**	(1,660)
Foreign exchange and derivative income realized (note 9)	**(13,040)**	(8,114)
Foreign exchange and derivative loss (income) unrealized (note 9)	**23,030**	(3,598)
Bank interest and charges	**953**	786
Interest on long-term debt	**13,110**	12,450
Depreciation and amortization	**14,766**	15,400
Reduction in foreign currency translation account (note 8)	**2,369**	1,236
	75,723	45,992
Earnings before the undernoted	**10,949**	26,246
Income taxes (note 6)	**3,853**	2,975
Earnings before minority interest	**7,096**	23,271
Minority interest	**5,633**	3,398
Net earnings	**1,463**	19,873
Deficit at beginning of year	**$ (12,734)**	$ (5,241)
Distributions declared during the year	**(15,837)**	(27,366)
Adjustment for cancellation of Class C units	**54**	–
Deficit at end of year	**(27,054)**	(12,734)
Basic and diluted net earnings per unit (note 10)	**$ 0.03**	$ 0.38

See accompanying notes to consolidated financial statements

Consolidated statements of cash flows

(In thousands of dollars)

Years ended December 31	2006	2005
Cash flows from (used in) operating activities		
Net earnings	**$ 1,463**	$ 19,873
Items not involving cash		
Depreciation and amortization	**14,766**	15,400
Foreign exchange on long-term debt	**(4,886)**	(1,555)
Accrued interest on long term bonds payable	**4,983**	1,413
Future income taxes (recovery)	**(2,120)**	424
Reduction in foreign currency translation account	**2,369**	1,236
Minority interest	**5,633**	3,398
Unrealized loss (gains) exchange on currency option contracts	**23,880**	(2,881)
Unrealized losses on swap contracts	**4,036**	–
Loss (gain) on disposal and other, net	**954**	(2,723)
	51,078	34,585
Change in non-cash operating working capital	**(6,430)**	1,557
	44,648	36,142
Cash flows from (used in) financing activities		
Proceeds from long-term debt	**–**	52,112
Reduction of long-term debt and payments on swap contracts	**(5,509)**	(26,983)
Purchase of convertible debentures	**(3,024)**	–
Distributions to minority partners	**(6,125)**	(3,092)
Distributions to unitholders	**(13,198)**	(27,365)
Other	**1,263**	160
	(26,593)	(5,168)
Cash flows from (used in) investing activities		
Increase in other long-term assets and other	**1,817**	(1,492)
Purchase of property, plant and equipment, licences and other	**(20,647)**	(28,600)
Proceeds on disposal and other, net	**1,899**	9,416
	(16,931)	(20,676)
Increase in cash	**1,124**	10,298
Cash – beginning of year	**9,726**	(572)
Cash – end of year	**$ 10,850**	$ 9,726
Supplementary cash flow information		
Interest paid	**$ 14,412**	$ 12,097
Income taxes paid	**1,950**	6,032
Change in non-cash working capital consists of changes in the following accounts:		
Accounts receivable	**(4,476)**	6,130
Inventories	**(10,250)**	2,273
Foreign exchange on currency options contracts	**(23,880)**	2,881
Prepaids and other	**336**	(1,713)
Accounts payable and accrued liabilities	**28,503**	(6,923)
Income taxes payable	**3,337**	(1,091)
	$ (6,430)	$ 1,557

There were no material non-cash transactions during the year
See accompanying notes to consolidated financial statements

Notes to consolidated financial statements

(Tabular amounts expressed in thousands of dollars)

Note 1. Basis of presentation

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

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

Note 2. Accounting policies

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

(a) Consolidation

These consolidated financial statements include the accounts of Clearwater, its subsidiaries, variable interest entities and Clearwater's proportionate share of the assets, liabilities, revenues and expenses of joint ventures over which it exercises joint control. Clearwater has consolidated the results of the variable interest entities due to its level of influence and economic interest as a result of the related credit agreements.

(b) Inventories

Inventories, which consist primarily of finished goods, are valued at the lower of cost and net realizable value. Cost includes the cost of materials plus direct labour applied to the product and the applicable share of manufacturing overheads. Cost is determined using the weighted average method.

(c) Property, plant and equipment

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

Clearwater capitalizes interest on capital projects for which the total estimated cost is greater than $5 million and the period of construction is greater than 18 months. As a result of adopting this policy $2,604,000 of interest was capitalized in 2006 (2005 – $1,389,000).

(d) Impairment of long-lived assets

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

(e) Licences and licence agreements

Licences and licence agreements represent intangible assets acquired directly or in a business combination that meet the specified criteria for recognition, apart from goodwill, and are recorded at their fair value at the date of acquisition.

Licences have indefinite lives, are not amortized and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

Licence agreements are determined to have indefinite lives when the annual renewal fee is nominal (typically less than 1% of the estimated value of the licence), Clearwater has both the ability and intent to renew or extend the life of the licences and there has been a history of being able to obtain renewals from the government. Licence agreements are determined to have finite lives, are amortized over the term of the related agreement and tested for impairment if events or changes in circumstances indicate that the asset might be impaired.

The impairment test compares the carrying amount of the licences with their fair value and licence agreements with their net recoverable amount, and an impairment loss would be recognized in the statement of earnings for any excess of the carrying value over fair value.

(f) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the net assets acquired, based on their fair values.

Goodwill is not amortized and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. When the fair value of a reporting unit is less than its carrying amount, the implied value of the goodwill is compared to the carrying value of the goodwill and an impairment loss is recognized in the statement of earnings. For the fiscal years ended December 31, 2006 and December 31, 2005, no such impairment was recorded.

(g) Due to joint venture partner

The amount due to joint venture partner of $2,280,000 (2005 – $2,023,000) is a non-interest bearing capital advance that is repayable only upon dissolution of the joint venture partnership.

(h) Class C Partnership units

Class C Partnership units are classified in accordance with their component parts: the value ascribed to the debenture holders' option to convert to Class A Partnership units has been classified as equity and the remaining portion of the units has been classified as debt. Issue costs have been classified as deferred financing costs and are being amortized over the estimated term to maturity. Interest on the debt is calculated by applying an interest rate of approximately 7.4% to the outstanding debt component. The difference between actual cash payments and interest expense is added to the debt component.

(i) Translation of foreign currencies

The accounts of a subsidiary company, which is a self-sustaining operation, have been translated to Canadian dollars using the current rate method. Assets and liabilities are translated at the rate of exchange in effect at the balance sheet date and revenue and expense items are translated at the rates in effect on the dates of such transactions. Gains or losses arising from the translation of the financial statements of the self-sustaining foreign operation are deferred in a "cumulative translation account" in unitholders' equity. The cumulative translation account arises substantially from the translation of the vessels of the subsidiary located in Argentina.

Foreign monetary assets and liabilities of the Canadian operations and integrated foreign subsidiaries have been translated into Canadian dollars using the rate of exchange in effect at the balance sheet date and foreign non-monetary balances are translated at historical exchange rates. Exchange gains or losses arising from translation of these foreign monetary balances are reflected in the current period's earnings. Revenues and expenses are translated at rates in effect at the time of the transactions.

(j) Hedging and derivative financial instruments

Forward exchange contracts, interest rate swaps and cross currency swaps are used by Clearwater in the management of its foreign currency and interest rate exposures. Clearwater's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Prior to the second quarter of 2006, Clearwater accounted for certain of these contracts as hedges and certain of them as non-hedges.

Due to the increasing complexity of applying the accounting standards as well as the requirement to adopt the Comprehensive Income accounting standard in the future, beginning the second quarter of 2006, Clearwater no longer designated any contracts as hedges for accounting purposes. As a result, it recorded the fair value of these contracts as an asset ($1.9 million at April 1, 2006) with the offsetting gain deferred and amortized at that time. From that point forward, these contracts were marked-to-market each reporting period and any gains or losses, both realized and unrealized, were included in foreign exchange income.

Prior to the second quarter of 2006, Clearwater formally documented all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process included linking all derivatives to specific forecasted transactions. Clearwater also formally assessed at inception and on an ongoing basis, whether the derivatives that were used in hedging transactions were effective in offsetting changes in fair values or cash flows of hedged items.

To qualify for hedge accounting, the hedging relationship must be appropriately documented at the inception of the hedge and there must be reasonable assurance, both at the inception and throughout the term of the hedge, that the hedging relationship will be effective. Effectiveness requires a high correlation of changes in fair values or cash flows between the hedged item and the hedging item. All hedging instruments and relationships used by Clearwater as at December 31, 2005, met the criteria relating for hedge effectiveness.

Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments that were used to hedge anticipated U.S. dollar, Japanese Yen and European Euro denominated sales are recognized in the consolidated financial statements when the related transaction occurs. Realized and unrealized gains and losses on derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current, or non-current assets and liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

Foreign currency options, which mature over a short period of time, are stated at estimated quoted market prices. Realized and unrealized gains and losses on these securities are included in earnings. At expiry of these contracts, Clearwater will either have no obligation or will be called to deliver foreign currency at a rate management deemed acceptable upon entering into these contracts.

Clearwater enters into interest rate swaps and foreign currency swaps to hedge its exposures to reduce the impact of fluctuating interest rates and exchange rates on long term debt. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which payments are based. The swap agreements are accounted for as non-qualifying hedges and as such any realized and unrealized gain or loss is recognized in income.

(k) Income taxes

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

(l) Revenue recognition

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

(m) Refits

In September 2006, the Financial Accounting Standards Board in the United States issued FASB AUG AIR-1, Accounting for Planned Major Maintenance Activities. This standard, which is effective January 1, 2007, amends the guidance for planned major maintenance activities; specifically it precludes the use of the previously acceptable "accrue in advance" method, the method currently used by Clearwater.

In the absence of specific guidance in Canada on this topic we believe it appropriate to follow FASB AUG AIR-1 and therefore will adopt this standards on January 1, 2007.

As a result of adopting this standard, we will reduce refit accruals by $4.9 million, reduce future tax assets by $295,000 and reduce the deficit by $4.6 million.

(n) Use of estimates

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

Note 3. Property, plant and equipment

	Cost	Accumulated depreciation	2006 Net
Land and land improvements	**$ 3,143**	**$ 842**	**$ 2,301**
Buildings and wharves	**63,082**	**44,361**	**18,721**
Equipment	**72,440**	**62,213**	**10,227**
Vessels	**168,338**	**80,062**	**88,276**
Construction in progress	**45,696**	**–**	**45,696**
	352,699	**187,478**	**165,221**
Less: Deferred government assistance			**(8,405)**
	$ 352,699	**$ 187,478**	**$ 156,816**

	Cost	Accumulated depreciation	2005 Net
Land and land improvements	$ 3,684	$ 777	$ 2,907
Buildings and wharves	64,446	42,630	21,816
Equipment	77,328	62,768	14,560
Vessels	167,650	71,933	95,717
Construction in progress	27,079	–	27,079
	340,187	178,108	162,079
Less: Deferred government assistance			(10,134)
	$ 340,187	$ 178,108	$ 151,945

Note 4. Licences

	Gross carrying amount	Accumulated amortization	Net
2006	$ 122,557	$ 19,843	$ 102,714
2005	$ 123,009	$ 19,828	$ 103,181

During 2005, a provision for the impairment of shrimp harvesting contracts of $1,636,000 was taken. The provision was based on declining margins associated with shrimp harvesting contracts. This impairment is recorded in "gain on disposals and other, net".

Note 5. Long-term debt

	2006	2005
Notes payable[(a)]		
Canadian dollars	**$ 63,000**	$ 63,000
United States dollars	**23,308**	23,296
Class C Partnership Units[(b)]	**46,430**	49,280
Bond payable, including accrued interest[(c)]	**46,795**	46,873
Marine mortgage, due in 2017[(d)]	**5,584**	6,133
Term loan, due in 2091[(e)]	**3,500**	3,500
Other loans	**1,643**	2,363
	190,260	194,445
Less current portion	**868**	1,008
	$ 189,392	$ 193,437

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

- $43,000,000 Canadian Series A Notes issued in 2003, bearing interest at 6.4% payable semi-annually, maturing December 8, 2008.
- $15,000,000 U.S. dollar Series B Notes issued in 2003, bearing interest at 5.65% payable semi-annually, maturing December 8, 2008.
- $20,000,000 Canadian Series C Notes issued in 2003, bearing interest at 7.23% payable semi-annually, maturing December 8, 2013.
- $5,000,000 U.S. dollar Series D Notes issued in 2005, bearing interest at 6.12% payable semi- annually, maturing December 8, 2013. Clearwater has an additional $20,000,000 U.S. dollar available to draw on this facility until December 31, 2007.

The notes are secured by mortgages and charges on all of the present and future property and assets of Clearwater and certain of its wholly owned subsidiaries, the interests of the Fund in Clearwater Seafoods Holdings Trust ("CSHT") and all the issued shares of CS ManPar Inc., the general partner of Clearwater. The security arrangement is guaranteed by an inter-creditor agreement with the banking syndicate members participating in the term credit facility disclosed in section (f) of this note.

(b) In June 2004, 4,081,633 Class C units were issued concurrently with the issue by the Fund of $50 million of Convertible Debentures and are held by the Fund through CSHT. The Class C units are redeemable and retractable at a price of $12.25 per unit and are due December 31, 2010. These units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the Convertible Debentures of the Fund and in a manner that ensures that the distributions on the Class C units will be able to fund the ongoing interest payments on the Convertible Debentures. The Class C units are classified in accordance with their component parts: the value ascribed to the holders option to convert to Class A units has been classified as equity and the remaining portion of the units has been classified as debt. Interest on the debt is calculated by applying an interest rate of approximately 7.3% to the outstanding debt component. The difference between actual cash payments, which will approximate 7.02%, and interest expense is added to the debt component of the units.

The Fund filed a normal course issuer bid by which it can acquire up to $5 million principal amount of convertible debentures in the 12-month period commencing August 2006. Any repurchase at the Fund level would be accompanied by a similar repurchase of Class C Partnership units by Clearwater. 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. Subsequent to year-end, an additional $1 million of Partnership units were repurchased and cancelled with proceeds used by the Fund to repurchase and cancel an equivalent amount of convertible debentures.

(c) Senior unsecured bond in the amount of 2,460,000,000 ISK due September 27, 2010 at a fixed rate of 6.7% accrued annually and paid at maturity. Both the bond and the interest are adjusted for changes in the Icelandic Consumer Price Index (CPI). Clearwater has entered into a number of swap agreements to economically fix the currency and CPI exposure associated with the debt. There are also interest rate swap agreements in place.

Clearwater has no intention to unwind the swap agreements, however the agreements do not qualify for hedge accounting and therefore the gains and losses related to the fair value of these hedges are taken into income during the period.

The swap agreements have effectively resulted in the following:

- $25,000,000 Canadian dollar liability with an effective interest rate of 8.58%
- $5,000,000 U.S. dollar liability with an effective interest rate of 9.32%
- $4,707,502 U.S. dollar liability with an effective interest rate of 8.51%
- 3,000,000 Pound Sterling liability with an effective interest rate of 9.67%
- 2,500,000 Euro liability with an effective interest rate of 8.03%

The fair market value of the loan based on the spot rates as of December 31, 2006 is $47 million.

Interest expense on the bond is recorded using the effective interest rate method that takes into account estimated future Icelandic inflation rates. Interest accrued is $5 million for the year (2005 – $1.4 million) for total accrued interest of $6.4 million. As previously noted interest exposure on this bond has been hedged and the cash payment on the related swaps was $3.8 million (2005 – $nil).

	2006	2005
Face value of bond	**$ 40,369**	$ 45,461
Accrued interest	**6,426**	1,412
	$ 46,795	$ 46,873

Refer to note 11(c) for further information on the related swaps.

(d) Marine mortgage payable in the principal amount of CDN $4,549,000 (December 31, 2005 – $5,583,000), DKK 17,871,000 (December 31, 2005 – DKK 19,262,000) and YEN 297,671,000 (December 31, 2005 – 317,516,000) bearing interest at UNIBOR plus 1% payable semi-annually, 50% of which represents Clearwater's proportionate share. Principal payments are required annually with CDN $517,000, DKK 1,391,000 and YEN 19,845,000 due in 2007, CDN $776,000, DKK 2,087,000 and YEN 29,767,000 due in 2008-2012, CDN $152,000 due in 2013, DKK 2,087,000 and YEN 29,767,000 due in 2013-2014, DKK 1,871,000 due in 2015, YEN 29,767,000 due in 2015-2016 and YEN 9,923,000 due in 2017, 50% of which represents Clearwater's proportionate share. The loan matures in 2017 and is secured by a first mortgage over the related vessel and covenants concerning certain fishing licences.

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

(f) Term credit facility with available credit of up to $60 million (December 31, 2005 – $115 million), maturing in May 2008. In May 2007, the banking syndicate at the request of Clearwater may extend the credit for an additional two years until May 2009. This facility is part of a master netting agreement, and on December 31, 2006, was in a net cash position of CDN $8.9 million, (December 31, 2005 – CDN $7.9 million). The facility bears interest at rates ranging from prime plus 0.5 – 1.25% and Libor plus 1.5 – 2.25% and has no scheduled repayments. The facility is secured by mortgages and charges on all of the present and future property and assets of Clearwater and of certain of its wholly-owned subsidiaries, the interests of the Fund in CSHT, the interests of CSHT in Clearwater and all the issued shares of CS ManPar Inc., and is subject to the maintenance of certain financial covenants. As part of the master netting arrangement, bank account balances associated with the facility are netted with the term credit facility balance.

Clearwater's debt facilities contain various covenants. Clearwater is in compliance with all debt covenants at December 31, 2006.

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

2007	868
2008	61,664
2009	1,108
2010	94,160
2011	868

The estimated fair value of Clearwater's long-term debt at December 31, 2006 was not materially different from its carrying value. Fair value has been estimated based on discounting expected future cash flows at the discount rates which represent borrowing rates presently available to Clearwater for loans with similar terms and maturities.

Note 6. Income taxes

(a) Future tax liability

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

A provision for income taxes is recognized for Clearwater's corporate subsidiaries that are subject to tax. Significant temporary differences in Clearwater's corporate subsidiaries that would give rise to future income taxes are noted below.

	2006	2005
Future income tax asset		
Loss carry-forwards and future deductible expenses of foreign subsidiaries, included in other long-term assets	$ 3,141	$ 674
Future income tax liabilities		
Licences	5,159	5,329
Property, plant and equipment	3,150	2,629
	$ 8,309	$ 7,958

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

	2006	2005
Deductible temporary differences:		
Licences	**$ 23,187**	$ 30,676
Financing fees	**1,755**	5,740
Foreign exchange contracts	**12,501**	–
Other	**4,112**	175
	$ 41,555	$ 36,591
Taxable temporary differences:		
Accounts receivable	**$ –**	$ 5,234
Property, plant and equipment	**10,696**	14,723
Foreign exchange contracts	**–**	7,634
	$ 10,696	$ 27,591
Net deductible temporary differences	**$ 30,859**	$ 9,000

(b) Income tax expense

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

	2006	2005
Current	**$ 5,973**	$ 2,551
Future (recovery)	**(2,120)**	424
	$ 3,853	$ 2,975

The provision for income taxes in the consolidated statement of earnings represents an effective tax rate different from the Canadian statutory rate of 38.1% (2005 – 38.1%). The differences are as follows:

	2006		2005	
	Amount	%	Amount	%
Income tax expense computed at statutory rates	**$ 4,173**	**38.1**	$ 10,005	38.1
Income of the partnership distributed directly to unitholders	**4,078**	**37.3**	(4,898)	(18.7)
Income of foreign subsidiary not subject to tax	**(8,124)**	**(74.2)**	(3,418)	(13.0)
Other tax differences	**3,726**	**34.0**	1,286	4.9
	$ 3,853	**35.2**	$ 2,975	11.3

Note 7. Partnership units

Clearwater is authorized to issue an unlimited number of Class A limited partnership units, an unlimited number of Class B general partnership units, issuable in series, an unlimited number of Class C limited partnership units and an unlimited number of Class Y general partnership units, issuable in series. Each unit (other than the Class Y units) entitles the holder thereof to one vote, except in certain situations as described pursuant to the Limited Partnership Agreement governing Clearwater. Each issued Class B unit is accompanied by a Special Trust Unit issued by the Fund entitling the holder to receive notice of, to attend and to vote at meetings of unitholders of the Fund.

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

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

	Class A Units	Class B Units	$ (in 000's)
Balance December 31, 2004, no change to December 31, 2006	29,407,626	23,381,217	$ 172,251
Equity component of Class C Units			828
Balance December 31, 2006			$ 173,079

As at December 31, 2006 and December 31, 2005 there were in total 52,788,843 units outstanding.

On January 24, 2007, the Fund received approval for a normal course issuer bid which will enable it to purchase, from time to time, up to 2.5 million outstanding trust units (the "Units"), which amount represents less than 10% of the public float. Any such purchases of Units would be made during the 12-month period commencing on January 24, 2007 and in accordance with the requirements of the TSX. The Units will be purchased by the Fund for cancellation and will be accompanied by a similar repurchase of units by Clearwater.

Note 8. Cumulative foreign currency translation account

The reduction in the foreign currency translation account is a non-cash adjustment, which relates to the reduction of Clearwater's net investment in its 80% owned subsidiary in Argentina. The cumulative translation account largely arose because of the significant devaluation of the peso in Argentina versus the Canadian dollar in 2001. It is Clearwater's desire to continue to manage its exposure to Argentine pesos by repatriating its capital as quickly as possible while not impairing local operations. Dividends declared have resulted in a reduction in Clearwater's net investment in that subsidiary and accordingly, a proportionate share of the cumulative translation account has been recognized in earnings. Clearwater anticipates that continued repayments of its advances to and the payment of dividends from the subsidiary in Argentina may result in additional reduction of the cumulative translation account in the future. The cumulative translation account is included in the Unitholders Equity section of the balance sheet and the remaining balance at December 31, 2006 is $12,321,000 (December 31, 2005 – $15,085,000).

Note 9. Foreign exchange and derivative contracts

Foreign exchange and derivative contract detail:

	2006	2005
Realized (gain) loss		
Foreign exchange cash option income	$ (14,834)	$ (7,796)
Other	1,794	(318)
	$ (13,040)	$ (8,114)
Unrealized (gain) loss		
Foreign exchange on long-term debt	(4,886)	(737)
Mark-to-market on option contracts	23,880	(2,881)
Mark-to-market on interest and currency swaps	4,036	20
	23,030	(3,598)
Total loss (gain)	$ 9,990	$ (11,712)

Note 10. Earnings per unit

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

	2006	2005
Basic		
Net earnings	$ 1,463	$ 19,873
Average number of units outstanding	52,789	52,789
Earnings per unit	$ 0.03	$ 0.38

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

Note 11. Financial instruments

(a) In the ordinary course of business, Clearwater enters into derivative financial instruments to reduce underlying fair value and cash flow risks associated with foreign currency and interest rates.

At December 31, 2006 and December 31, 2005, Clearwater had outstanding forward contracts as follows (as converted to Canadian dollars at contracted rates):

Currency	Notional amount	Average exchange rate	Maturity	Fair value asset (liability)
United States dollar				
December 31, 2006	41,500	1.133	2007	(982)
December 31, 2005	62,000	1.257	2006	6,516
Euro				
December 31, 2006	9,550	1.442	2007	(913)
December 31, 2005	12,000	1.498	2006	1,334

At December 31, 2006 and December 31, 2005, Clearwater had outstanding foreign currency option and expandable forward contracts as follows (as converted to Canadian dollars at contracted rates):

Currency	Notional amount	Exchange range	Maturity	Fair value asset (liability)
United States dollar				
December 31, 2006	180,000	1.1003 – 1.252	2007	(5,345)
	500 – 72,000	1.131 – 1.202	2007	(1,931)
December 31, 2005	170,000	1.172 – 1.255	2006	(1,214)
	20,000	1.180 – 1.135	2007	161
	22,500 – 45,000	1.229 – 1.271	2006	1,951
	17,500 – 35,000	1.187 – 1.202	2007	315
Japanese Yen				
December 31, 2006	2,000,000	0.009 – 0.010	2007	(189)
December 31, 2005	1,000,000	0.01125	2006	(12)
Euro				
December 31, 2006	55,000	1.390 – 1.585	2007	(6,466)
December 31, 2005	29,000	1.215 – 1.478	2006	(741)
Sterling				
December 31, 2006	25,700	2.013 – 2.101	2007	(5,995)
December 31, 2005	5,000	2.020	2006	(157)

Although Clearwater has no intention of settling these contracts, at December 31, 2006, if it settled these contracts it would have made a payment of $21,821,000 (December 31, 2005 – $7,547,000). The liability or asset recorded is included in accounts payable and accrued liabilities or prepaids and other, as appropriate, and the resulting loss or gain is included in income.

(b) Credit risk

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

Clearwater has significant accounts receivable from customers operating in the United States, Europe and Asia. Clearwater has a policy of utilizing a combination of credit reporting agencies, credit insurance, letters of credit and secured forms of payment to mitigate customer specific credit risk and country specific credit risk.

(c) Interest rate risk and fair values

As indicated in the note entitled "Long-Term Debt", Clearwater uses cross currency and interest rate swaps to hedge its exposures to changes in foreign currencies and interest rates. The terms of the swap agreements related to the Icelandic bonds also effectively hedge the changes in the CPI. These agreements do not qualify for hedge accounting. Although Clearwater has no intention of settling these contracts prior to maturity, at December 31, 2006, if it settled these contracts it would have made a payment of $4,605,000 (December 31, 2005 – made a payment of $563,000). The liability is included in accounts payable and accrued liabilities and the resulting non-cash loss is included in income. See note 5(c) for additional information relating to the swaps.

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

(d) Commodity contracts

As of December 31, 2006, Clearwater had crude oil options for 25,000 barrels per month effective for the period to February 28, 2007 with a strike price of $68 US per barrel. Although Clearwater has no intention of settling these contracts prior to maturity, if it settled these contracts it would have made a payment of $533,000 (December 31, 2005 – $nil).

On January 19, 2007, Clearwater entered into a crude oil option for 13,000 barrels per month effective for the period from March 1, 2007 to August 31, 2007 with a strike price of $60 US per barrel.

Note 12. Commitments and contingencies

(a) Clearwater is committed directly, and through its proportionate share of its joint ventures, to various licence and lease agreements, the payments on which aggregate $22,682,000 as of December 31, 2006 ($23,967,000 as of December 31, 2005). These commitments require approximate minimum annual payments in each of the next five years as follows:

2007	4,462
2008	4,199
2009	3,201
2010	2,694
2011	2,603

Included in commitments are amounts to be paid to a company controlled by a relative of an officer of Clearwater over a period of years ending in 2008 for vehicle leases, which aggregate approximately $225,000 (2005 – $188,000).

(b) In addition to the commitments previously noted above, Clearwater has commitments for the construction of a vessel.

In July 2004, Clearwater entered into a contract to construct a new factory freezer clam vessel. The total estimated cost of the vessel, including owner supplied materials and related costs, is expected to be approximately $50 million, of which $42.4 million has been spent to date.

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

Note 13. Joint ventures

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

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

	2006	2005
Current assets	**$ 7,246**	$ 5,541
Property, plant, equipment and other long-term assets	**13,734**	14,580
Current liabilities	**2,961**	2,080
Long-term liabilities	**5,380**	6,008

(b) Proportionate share of sales, expense and earnings before taxes

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

December 31	2006	2005
Sales	**$ 9,450**	$ 9,655
Expenses	**8,509**	7,438
Earnings before taxes	**941**	2,217

(c) Balances, transactions and guarantees with joint venture partners

Clearwater receives and provides services to the joint ventures at amounts agreed between the parties. The following is a summary of the balances included in the financial statements as at December 31:

	2006	2005
Accounts receivable from joint venture partner	**$ 151**	$ 244
Accounts payable to joint venture partner	**438**	64
Due to joint venture partner, long term	**2,280**	2,023

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

December 31	2006	2005
Commissions charged to joint ventures	**$ 1,625**	$ 1,959
Interest charged to joint ventures (charged by)	**(47)**	(16)

As at December 31, 2006, Clearwater was contingently liable for the obligations of the joint venture partners in the amount of $5,586,000 (2005 – $6,133,000). However, the joint venture partners' share of the assets is available for the purpose of satisfying such obligations. The book value of these assets is $15,655,000 (2005 – $15,545,000).

Note 14. Other income

	2006	2005
Quota rental and royalties	**$ 2,109**	$ 705
Export rebate	**1,687**	1,009
Investment income	**1,243**	557
Other income/(expense)	**814**	(611)
	$ 5,853	$ 1,660

Note 15. Segmented information

(a) General information

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

(b) Net sales to customers by product category

	2006	2005
Scallops	**$110,139**	$ 98,571
Lobster	**76,236**	70,954
Clams	**62,268**	49,242
Cold water shrimp	**40,406**	39,994
Groundfish and other	**12,633**	29,934
Crab	**7,025**	15,111
Hedging program	**7,029**	11,033
	$315,736	$ 314,839

(c) Geographic information

	2006	2005
Sales		
United States	**$ 84,935**	$ 95,940
Europe		
France	**60,983**	51,545
Denmark	**24,189**	16,656
UK	**14,297**	19,630
Other	**17,798**	18,565
Asia		
Japan	**29,914**	31,531
Other	**29,497**	19,247
Canada	**45,653**	49,158
Other, including hedging program	**8,470**	12,567
	$315,736	$ 314,839

December 31	2006	2005
Property, plant, equipment, licences and goodwill		
Canada	**$251,282**	$ 246,503
Argentina	**18,024**	18,295
Other	**602**	706
	$269,908	$ 265,504

Note 16. Related party transactions

Clearwater had the following transactions and balances with CFFI during the years of 2006 and 2005.

	2006	2005
Transactions		
Charge by CFFI for use of a corporate airplane	**$ 252**	$ 65
Charged to CFFI for rent and other services	**234**	280
Charged by CFFI for management fees	**200**	90
Balances, as at December 31, 2006 and December 31, 2005		
Receivable from CFFI (payable to)	**$ (8)**	$ 639
Distribution payable to CFFI	**1,169**	–

In addition, Clearwater was charged approximately $139,000 for vehicle leases in 2006 (2005 – $175,000) and approximately $81,000 for other services (2005 – $51,000) by companies controlled by a relative of an officer of Clearwater. The receivable balance in 2005 relates to payments Clearwater remitted on behalf of CFFI and subsequently recharged the amounts to CFFI for certain professional services. The payable to CFFI relates to distributions on Class B units payable to CFFI, net of amounts owing from CFFI.

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

Note 17. Distributions

Clearwater declared distributions in 2006 on a monthly basis with the current distribution set at a rate of $0.05 per month, $0.60 on an annualized basis (for total distributions when annualized of approximately $31.7 million). In making decisions regarding distributions the board considers the financial results, on-going capital expenditure requirements, leverage and expectations regarding future earnings. Future earnings can be impacted by a number of factors including but not limited to, total allowable catch levels, selling prices, weather, exchange rates and fuel and other input costs. For additional information, please refer to the Distributable Cash, Liquidity and Capital Resources and Definitions and Reconciliations sections of the Management's Discussion and Analysis for 2006.

	2006	2005
Distributions declared	**15,837**	27,366
Per unsubordinated unit	**0.30**	0.63

In 2005, Clearwater paid monthly distributions of $0.07 cents per unit to its unsubordinated unitholders from January to September. On December 31, 2005 subordination on 9,352,487 units expired, as a result all units (52,788,843 units) now participate in distributions. Clearwater resumed paying distributions in July 2006 at a monthly rate of $0.05 cents per unit.

Note 18. Capital structure

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

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

Clearwater's total capital structure is as follows:

	2006	2005
Equity – Partnership units (note 7)	**$173,079**	$ 173,133
Convertible debt, Class C units, due in 2010 (note 5)	**46,430**	49,280
Non-amortizing debt (note 5)		
Term notes due in 2008 – 2013	**86,308**	86,296
Bond payable, due in 2010	**46,795**	46,873
Term loan, due in 2091	**3,500**	3,500
	136,603	136,669
Amortizing debt (note 5)		
Marine mortgage	**5,584**	6,133
Other loans	**1,643**	2,363
	7,227	8,496
Total capital	**$363,339**	$ 367,578

Note 19. Subsequent event

On February 19, 2007, the Fund and Clearwater announced that the Fund has entered into an agreement with a syndicate of underwriters to issue to the public on a bought-deal basis, convertible unsecured subordinated debentures for gross proceeds of $43,500,000 (the "Offering"). In addition, the Fund has granted the syndicate an over-allotment option, exercisable for a period of 30 days following closing, to purchase an additional $6,525,000 of debentures which, if exercised, would increase the gross proceeds of the offering to $50,025,000. The Debentures will be convertible into units of the Fund (the "Units") at the option of the holder at a conversion price of $5.90 per Unit. The Debentures will bear interest at a rate of 7.25% per annum, payable semi-annually in arrears on March 31 and September 30 of each year commencing on September 30, 2007. The Debentures will mature on March 31, 2014.

Note 20. Comparative figures

For presentation purposes, in the 2006 financial statements, Clearwater has combined cumulative earnings and cumulative distributions into one line item entitled deficit. Also, Clearwater has separated foreign exchange and derivative income into two line items entitled foreign exchange and derivative income realized and foreign exchange and derivative income unrealized.

Quarterly and unit information

The financial information disclosed below was derived from the unaudited interim earnings statements of Clearwater for periods from January 1, 2005 to December 31, 2006.

Clearwater Seafoods Limited Partnership

($000's except per unit amounts)	2006 Q4	2006 Q3	2006 Q2	2006 Q1	2005 Q4	2005 Q3	2005 Q2	2005 Q1
Sales	**84,136**	**79,939**	**81,312**	**70,349**	84,220	93,548	69,712	67,359
Net earnings (loss)	**(19,130)**	**8,106**	**11,507**	**979**	4,721	12,136	1,371	1,645
Distributable cash	**7,237**	**10,362**	**16,459**	**8,294**	7,970	11,694	612	6,929
Distributions	**7,919**	**7,918**	**–**	**–**	–	9,123	9,121	9,123
Per unit data								
Basic and diluted net earnings (loss)	**(0.36)**	**0.15**	**0.22**	**0.02**	0.09	0.23	0.03	0.03

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

	2006 Q4	2006 Q3	2006 Q2	2006 Q1	2005 Q4	2005 Q3	2005 Q2	2005 Q1
Trading price range of units (board lots)								
High	**5.36**	**5.58**	**4.50**	**4.20**	6.10	6.43	8.29	9.40
Low	**4.56**	**4.21**	**4.00**	**3.46**	2.25	5.65	6.21	7.92
Close	**4.97**	**5.33**	**4.32**	**4.05**	3.75	6.02	6.53	8.20
Trading volumes (000's)								
Total	**2,895**	**2,794**	**4,051**	**4,311**	11,243	11,641	4,338	7,142
Average daily	**47**	**45**	**64**	**67**	181	185	68	113
Units outstanding at end of quarter								
Units	**29,407,626**	**29,407,626**	**29,407,626**	**29,407,626**	29,407,626	29,407,626	29,407,626	29,407,626
Special	**23,381,217**	**23,381,217**	**23,381,217**	**23,381,217**	23,381,217	23,381,217	23,381,217	23,381,217
Total	**52,788,843**	**52,788,843**	**52,788,843**	**52,788,843**	52,788,843	52,788,843	52,788,843	52,788,843

Selected annual information

	2006 (Audited)	2005 (Audited)	2004 (Audited)	2003 (Audited)	Combined pro-forma 2002 (Unaudited)
Sales	**$ 315,736**	$ 314,839	$ 345,459	$ 349,737	$ 319,928
Cost of goods sold	**229,064**	242,601	253,322	252,111	232,383
Gross profit	**86,672**	72,238	92,137	97,626	87,545
Administration and selling	**38,245**	33,594	36,759	34,579	29,412
Gain on disposals and other income	**(3,710)**	(5,762)	(11,451)	(6,753)	(4,233)
Foreign exchange loss (income)	**9,990**	(11,712)	(7,482)	(21,443)	(179)
Bank interest and charges	**953**	786	659	921	2,445
Interest on long-term debt	**13,110**	12,450	10,490	6,138	13,072
Depreciation and amortization	**14,766**	15,400	16,145	15,540	14,003
Reduction in foreign currency translation account	**2,369**	1,236	3,006	1,443	0
	75,723	45,992	48,126	30,425	54,520
Earnings before the undernoted	**10,949**	26,246	44,011	67,201	33,025
Income taxes	**3,853**	2,975	4,276	2,338	2,036
Earnings before minority interest	**7,096**	23,271	39,735	64,863	30,989
Minority interest	**5,633**	3,398	2,262	2,746	1,456
Net earnings	**$ 1,463**	$19,873	$37,473	$62,117	$29,533

Glossary of terms

CFIA – means the Canadian Food Inspection Agency, the federal agency responsible for the regulation of food safety in Canada.

DFO – means the Department of Fisheries and Oceans (Canada), the federal regulatory agency that has jurisdiction over Canada's entire marine environment.

Enterprise allocation which is also sometimes referred to as a quota – means permission to catch a specified percentage of the total allowable catch of a particular species in a specific area that is allocated by the DFO to an offshore licence holder. The enterprise allocations of licence holders vary from one another. From year-to-year, the DFO may change the total allowable catch based on scientific advice but the enterprise allocation percentage allocated to an offshore licence holder generally remains the same unless a new licence is issued. New licences are rarely issued unless and until increases in the total allowable catch evidences significant and substantial growth. The enterprise allocation system promotes both greater efficiency in harvesting seafood and improved resource stewardship practices. Enterprise allocations can be transferred, traded and sold.

The transferability of enterprise allocations has encouraged industry consolidation.

FAS vessel – means a vessel on which processing into a frozen, market-ready form takes place.

Groundfish – means several fish species, including, haddock, cod, redfish, turbot and flounder.

HACCP – means Hazard Analysis Critical Control Point, which is an internationally recognized system for ensuring that food products are safe and wholesome to eat.

Harvesting – means the catching of seafood.

IQF – means individually quick frozen.

Landing(s) – means the weight, number or value of a species of seafood caught and delivered to a port.

Licence or fishing licence – means an instrument by which an applicable regulatory authority grants permission to a person or enterprise to harvest certain species of seafood, subject to the conditions attached to the licence.

Total allowable catch or TAC – means the total amount of a particular species in a specific area that is allowed to be harvested by all licence holders. The total allowable catch for each species in each area is set by the applicable regulatory authority on an annual basis based on scientific advice.

Corporate information

Trustees of Clearwater Seafoods Income Fund

Bernard Wilson
Former Vice Chairman, PricewaterhouseCoopers

Brian Crowley
Founding President, Atlantic Institute for Market Studies

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

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

Bernard Wilson
Former Vice Chairman, PricewaterhouseCoopers
Chairman, Audit Committee

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

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

Brian Crowley
Founding President, Atlantic Institute for Market Studies

Brendan Paddick
Chief Executive Officer, Columbus Communications Inc.

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Officers of CS ManPar Inc.

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Chief Operating Officer

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Toronto Stock Exchange
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Convertible Debenture symbol: CLR.DB

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Dedicated to sustainable seafood excellence

Clearwater remains dedicated to the sustainability of our resources. In 2006, we were particularly proud when our Argentine subsidiary Glaciar Pesquera won a Corporate Social Responsibility Award from the Chamber of Commerce and Industry of France in Argentina and a Corporate Citizenship Award from the American Chamber of Commerce in Argentina – both for the second year in a row. It also won a Social Entrepreneur Award in the health category, awarded by the Social Ecumenical Forum, an award it also won in 2005 for social promotion.

In December 2006, Glaciar Pesquera celebrated the recognition of their scallop fishery as being the first in the world to receive the prestigious Marine Stewardship Council (MSC) certification. Products from this fishery will now be differentiated in the marketplace by the prominent blue eco-label that has come to represent sustainability of fisheries. MSC certification is evidence of Clearwater's dedication to environmentally sound and responsible fishing practices. Major buyers such as Marks & Spencer, Wal-Mart, Costco and Wholefoods value the MSC Certification. These companies strive to partner with companies displaying strong corporate stewardship and ethical business practices.