Clearwater Seafoods Income Fund

DEDICATED TO SUSTAINABLE SEAFOOD EXCELLENCE

Innovation driving value

Second Quarter Report | 2005

Innovation

Driving Value

Letter to Unitholders

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

Contents

As previously forecast, the second quarter was a difficult one for Clearwater Seafoods Limited Partnership's ("Clearwater"). During the second quarter of 2005, Clearwater's sales were $70 million and net earnings were $1.4 million versus sales of $85 million and net earnings of $8.8 million in 2004. Distributable cash was $612,000 versus cash distributed of $9.1 million.

These results were below management's expectations as a result of the following:

- Lower earnings from the scallop business due to lower catch rates during the quarter, a lower total allowable catch ("TAC") and the previously announced delay in delivery of two new scallop vessels. A large portion of this shortfall is expected to be recovered in the last half of the year.
- Lower earnings from the clam business due to lower than expected volumes, one-time refit costs and the repositioning of its sales channels in China. This shortfall is not likely to be recovered in the last half of the year. However, all three vessels are now back in service.

While overall leverage remains high as a result of the disappointing results, Clearwater has recently rolled over its term credit facility until 2007 and is operating within the parameters of that agreement.

Management is confident that results will improve in the third and fourth quarters for a number of reasons as outlined below.

We are pleased to announce that we have brought into service two new factory freezer scallop vessels after an 11 month construction period. Both vessels have successfully completed their sea and fishing trials and have officially joined the fleet. The investment in these new vessels is an exciting way for Clearwater to further strengthen its position in the premium scallop business. We are now able to harvest the majority of our scallops in a frozen-at-sea ("FAS") format. This has a positive impact on margins as FAS scallops attract a premium as much as 10% higher than traditional frozen-on-land scallops. These vessels enable us to lower the cost of our harvesting operations by reducing the number of vessels employed while making redundant the costly shore-based support facilities that the old wet-fish fleet required. In addition, our new FAS scallops provide greater pricing power and we continue to have success in increasing prices with additional price increases implemented in July.

The previously announced new factory freezer clam vessel is scheduled for delivery in late 2006. This vessel is an exciting opportunity to extend Clearwater's clam business. Once operational, this new vessel is expected to generate a solid return on investment by enabling Clearwater to reduce harvesting costs, greatly improve the quality and range of products offered and increase our 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.

We are also pleased to announce that sales of our new premium quality raw lobster product have been strong and are on target to reach 3% of sales in 2005. In addition, the new technology we introduced in the live lobster business continues to show promise. This technology, combined with the technology used for the new raw lobster product, has allowed us to purchase and store lobster on a more selective basis and utilize the product we have more efficiently. This has increased margins in the lobster business.

While there have been a number of challenges this year, in particular in the clam business, our seafood business is healthy. With the last of the major refits for 2005 complete and the arrival of our two new FAS scallop vessels, our entire fleet is back to fishing and prices for our scallops remain strong. In particular, the strong premium we have been experiencing with our FAS scallops is expected to continue and provide a strong contribution to results in the last half of the year.

In the longer-term, the prospects for the business are positive with opportunities from further earnings growth from our recent investments in our scallops, clam and raw lobster species.

In July 2005, Mike Magnus, our Vice-President of Marketing and Sales left the company. We have begun a search for this position but in the interim, the CEO, Colin MacDonald will assume his immediate duties.

For an analysis of Clearwater and Clearwater Seafood Income Fund's (the "Fund") results for the quarter, please see the discussion and analysis included with this report.

Highlights

Clearwater

($000's except per unit amounts)	**13 weeks ended July 2, 2005**	13 weeks ended July 3, 2004	**26 weeks ended July 2, 2005**	26 weeks ended July 3, 2004
Sales	**$ 69,712**	$ 85,038	**$ 137,071**	$ 157,779
Net earnings	**$ 1,371**	$ 8,760	**$ 3,016**	$ 5,782
Basic and diluted net earnings per unit	**$ 0.03**	$ 0.17	**$ 0.06**	$ 0.11
Distributable cash [1]	**$ 612**	$ 11,728	**$ 7,541**	$ 23,691
Distributions paid or payable [2]	**$ 9,121**	$ 12,483	**$ 18,244**	$ 27,654
Weighted Average Units outstanding				
Limited Partnership Units	**52,788,843**	52,788,843	**52,788,843**	52,788,843
Fully Diluted	**56,870,476**	53,605,170	**56,870,476**	53,188,133

Highlights

The Fund

($000's except per unit amounts)	**13 weeks ended July 2, 2005**	13 weeks ended July 3, 2004	**26 weeks ended July 2, 2005**	26 weeks ended July 3, 2004
Net earnings	**$ 812**	$ 5,090	**$ 1,714**	$ 3,344
Basic and diluted net earnings per unit	**$ 0.03**	$ 0.17	**$ 0.06**	$ 0.11
Distributable cash [1]	**$ 6,176**	$ 8,451	**$ 12,352**	$ 16,902
Distributions paid or payable	**$ 6,176**	$ 8,451	**$ 12,352**	$ 16,902
Weighted Average Units outstanding				
Trust Units [3, 4]	**29,407,626**	29,407,626	**29,407,626**	29,407,626
Special Trust Units	**23,381,217**	23,381,217	**23,381,217**	23,381,217

1. Please refer to the Distributable cash definition in the MD&A for detailed reconciliations of these amounts. The Fund receives distributions from Clearwater and in turn distributes them to its unitholders. As such, distributable cash for the fund is equal to the distributions received and paid.

2. Distributions for the 26 week period ended July 3, 2004 include $2.7 million of distributions paid to 9,352,487 subordinated units in the first quarter of 2004.

3. Clearwater's Partnership Agreement provides that as long as Clearwater Fine Foods Incorporated ("CFFI") owns more 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. CFFI currently owns 46.38% and therefore the Fund does not currently have the right to nominate the majority of the board of directors. Therefore the Fund does not consolidate the results of Clearwater's operations but rather accounts for the investment using the equity method. Due to the limited amount of information that this would provide on the underlying operations of Clearwater, the financial highlights of Clearwater are also enclosed.

Sustainability is one of the keys to our success. As a business, this means investing in the people, technology, resource ownership and resource management practices to capitalize on the growing international demand for premium seafood. As an income trust, this means over the long-term ensuring sustainable cash flow and delivering stable distributions to our unitholders while continuing to keep the business on a sound financial footing.

Colin MacDonald
Chief Executive Officer
Clearwater Seafoods Limited Partnership
August 3, 2005

This Management's Discussion and Analysis ("MD&A") was prepared effective August 3, 2005.

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

This MD&A should be read in conjunction with the annual financial statements, the unaudited interim 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 .

EXPLANATION OF YEAR-TO-DATE RESULTS

Consolidated Operating Results for the twenty-six weeks comprising the year-to-date period, 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 disclosed below reflects the unaudited interim earnings of Clearwater for the 26-week periods ended July 2, 2005 and July 3, 2004.

	2005	2004
Sales	**$ 137,071**	$ 157,779
Costs of goods sold	**106,371**	117,453
Gross profit	**30,700**	40,326
	22.4%	25.6%
Administration and Selling	**17,366**	19,483
Gain on disposal of licenses and other	**(2,077)**	(42)
Other income	**(657)**	(2,803)
Foreign exchange loss (income)	**(3,190)**	1,098
Bank interest and charges	**345**	308
Interest on long-term debt	**5,741**	4,421
Depreciation and amortization	**7,618**	8,106
Reduction in foreign currency translation account	**526**	566
	25,672	31,137
Earnings before income taxes and minority interest	**5,028**	9,189
Income taxes	**805**	2,475
Earnings before minority interest	**4,223**	6,714
Minority interest	**1,207**	932
Net earnings	**$ 3,016**	$ 5,782

Contents

Net Earnings

Net earnings decreased by $2.8 million in 2005 due primarily to lower sales and gross profit, cash foreign exchange income and interest costs partially offset by lower non-cash foreign exchange losses, income taxes, administration and selling expenses as well as a gain on disposal of non-core licenses and other non-core assets.

	2005	2004	Change
Net earnings	**$ 3,016**	$ 5,782	$ (2,766)
Explanation of changes in earnings:			
Change in non-cash foreign exchange			8,600
Lower income taxes			1,670
Lower administration and selling expense			2,117
Higher gains on disposals of licenses and other			2,035
Lower gross profit			(9,626)
Decrease in cash foreign exchange income			(4,312)
Lower other income			(2,146)
Higher interest costs			(1,357)
All other			253
			$ (2,766)

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

	2005	2004	Change	%
Scallops	**$ 39,201**	$ 49,754	(10,553)	(21%)
Lobster	**33,194**	31,495	1,699	5%
Clams	**21,840**	27,685	(5,845)	(21%)
Groundfish and Other	**14,656**	23,288	(8,632)	(37%)
Cold Water Shrimp	**18,841**	15,218	3,623	24%
Crab	**4,770**	6,962	(2,192)	31%
Hedging Program	**4,569**	3,377	1,192	35%
	$ 137,071	$ 157,779	(20,708)	(13%)

Scallop sales were down due primarily to 30% lower volumes, offset partially by prices that were 12% higher. Volumes were lower due to a lower Canadian total allowable catch ("TAC"), a plan to fish less Canadian scallops in the first part of the year in anticipation of receiving the two new FAS scallop vessels which arrived later than expected and refits on the two Argentine vessels which took a few weeks longer than anticipated, as previously disclosed and resulted in delays in the timing of landings in the second quarter. With the arrival of the two new FAS vessels and the completion of the refits on the Argentine vessels the fleet is now fully operational. We expect to catch all our quota for 2005 but expect the final Canadian TAC for 2005 to be about 17% lower than our initial expectations for the year. This will result in 33% lower volumes of Canadian scallops for the year as a whole as compared to 2004. Prices of scallops have increased from 2004 continuing a trend we have seen since the second half of 2004 and we expect to see this trend continue in the latter part of the year as we harvest the majority of our scallops in the premium priced FAS format.

Lobster sales were up due primarily to increased sales of our new raw lobster product, which met our expectations for the quarter. Year-to-date sales volumes in total are flat due to the selective purchase of higher quality live lobster in the first quarter. In 2004 we introduced new technology that allows us to better sort and grade our live lobster. This technology, combined with the technology we use for the new raw lobster product, has allowed us to purchase on a more selective basis and utilize the product we have more efficiently. Year-to-date this has helped to more than double the margins on our lobster business.

Clam sales were down due primarily to 9% lower volumes and prices that were 14% lower, due primarily to mix of products sold and lower average prices in Canadian dollars when converted from U.S. dollars and Japanese Yen. Production volumes were lower and costs were higher due to higher than expected costs of completing vessel refits. In the first two quarters we completed scheduled refits of all three vessels. Second quarter volumes were 11% lower than 2004 because Clearwater switched from a single importer in the Chinese market and as a result the sales to this market were nominal in the second quarter while this was being implemented. We do not expect to recover these lost sales during the remainder of this year. We are currently in the process of reorganizing our clam business to take advantage of opportunities that will arise when the new vessel arrives in 2006. As a result we expect we may continue to see some short-term sales disruptions in this business. As previously disclosed in our first quarter report we are focused on increasing prices, reducing our costs and growing our volumes but expect results to come slowly in 2005.

Coldwater shrimp sales and margins were up primarily as a result of increasing our investment and thus fully consolidating in December 2004 a business that we previously only 50% proportionally consolidated. Had these sales been reflected in 2004 numbers sales would have largely been flat.

Groundfish and other sales are down due primarily to a previously announced and planned reduction in cod volumes. In 2004 Clearwater decreased production of individually quick frozen ("IQF") cod, a low margin product, due to increasing competition from Chinese processors.

In summary, year-do-date gross profit was lower by $9.6 million due primarily to the following:

- Lower earnings from the clam business due to lower than expected volumes, one-time refit costs and a temporary disruption with our main customer in China.
- Lower earnings from the scallop business due to lower catch rates, a lower total allowable catch ("TAC") and the previously announced delay in delivery of two new scallop vessels.
- The impact of foreign exchange, which reduced sales and margins by approximately $4 million in 2005 as illustrated below.

We received about 8 cents less for each U.S. dollar in 2005, which resulted in our receiving approximately $4 million less when converted to Canadian dollars.

	2005		2004	
Currency	**% sales**	**Rate**	% sales	Rate
US Dollars	**49.2%**	**1.316**	56.2%	1.394
Japanese Yen	**7.9%**	**0.012**	8.7%	0.013
Euros	**16.0%**	**1.578**	13.4%	1.633
UK Pounds	**5.3%**	**2.308**	4.5%	2.442
Canadian Dollar and other	**21.6%**		17.2%	
	100%		100%	

The impact of a weakening Yen, Euro and UK pound have reduced sales by a further $2 million.

The company maintains an active hedging program to provide a higher degree of certainty to future Canadian dollar cash flows. For the remainder of 2005 we have hedges in place of approximately US $48 million at an average rate of 1.30. In 2006 we have US $83 million at an average rate of 1.26 which represents about 70% of estimated annual US$ receipts.

Gain on disposal of licences and other includes a gain of approximately $2.5 million on the sale of non-core fishing quotas, partially offset by losses on the sales of other redundant assets.

Other income is down due in part to decreased royalties from the leasing of quotas to third parties.

Administration and selling costs were lower due to lower salaries and consulting fees offset partially by bad debt provisions of approximately $300,000. In 2004 Clearwater incurred consulting fees related to the development of sales support and manufacturing information systems,

Foreign exchange was $3.2 million of income in 2005 versus a loss of $1.1 million in 2004, an improvement of $4.3 million. In 2005 foreign exchange includes approximately $893,000 of unrealized exchange losses on both long-term debt and foreign exchange options versus $9.5 million of unrealized losses in 2004. From a cash perspective, the business generated $4.1 million of cash from foreign exchange management in 2005 versus $8.4 million in 2004.

	2005	2004
Unrealized exchange losses	**$ 893**	$ 9,493
Realized exchange gains	**(4,083)**	(8,395)
	$ (3,190)	$ 1,098

Bank interest and interest on long-term debt increased by $1.4 million due to higher average outstanding debt balances in 2005. Interest costs will increase going forward due to the increase in debt levels to finance the FAS scallop vessels. Until such time as construction is complete on the new clam vessel the related interest costs are being capitalized. The company uses derivatives to hedge exposure to increasing interest rates. As of July 2, 2005 the company has used hedges to fix substantially all its interest rate exposures.

Income taxes were $805,000 as compared to $2.5 million in 2004. In 2004 taxes included a one-time net tax expense of approximately $840,000 related to the planned reorganization of a subsidiary which has the effect of reducing the taxes paid by that subsidiary. We estimate that in 2005 annual cash taxes will approximate $2 million to $3 million.

DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

It is important to note when assessing quarterly results for 2005 that the business is seasonal in nature and as a result distributable cash levels are typically lower in the first half of the year and payout ratios exceed 100% for that period.

In the second quarter of 2005 Clearwater generated $612,000 of distributable cash (2004 - $11.7 million) and declared distributions of $9.1 million (2004 - $12.5 million). Year-to-date, Clearwater has generated $7.5 million of distributable cash (2004 - $23.7 million) and declared distributions of $18.2 million (2004 - $27.7 million). Please refer to the distributable cash reconciliation included in this document for detailed reconciliations of these amounts. Distributable cash levels are lower in 2005 due largely to lower sales and margins but also due to the fact that 2004 included an additional $3.8 million of cash foreign exchange income.

Distributions paid in 2005 were lower as in January 2005 Clearwater reduced distributions to its Class A and unsubordinated Class B Units to an annualized rate of 84 cents per unit and suspended distributions on its subordinated Class B Units. The Fund made an identical reduction in its distributions.

The distributable cash generated in the second quarter was below management's expectation. However, Clearwater still expects to deliver annualized distributions of 84 cents per unit to the unsubordinated unitholders in 2005. Clearwater expects that over time and after taking reasonable reserves, the amount available to be distributed will be equivalent to 85% of distributable cash. However, given the current year-to-date results, the amount distributed in 2005 will exceed 85%.

LIQUIDITY AND CAPITAL RESOURCES

As at July 2, 2005 the Fund owns 55.71% (December 31, 2004 - 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 July 2, 2005 the Fund and Clearwater had similar capital 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	$ 49,221,000	
Class C Partnership Units		$ 49,221,000

The **Special Trust Units** issued by the Fund were issued 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 is subordinated to the rights of the Class A units until December 31, 2005.

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 and 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.

The $50 million of **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, commencing December 31, 2004. 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.

In addition to the Convertible Debentures/Class C Partnership units, Clearwater has two additional primary debt facilities, approximately Canadian $81 million in **five and ten year notes** in Canadian and U.S. dollars from a group of institutional lenders and a $115 million **revolving term debt facility** from a syndicate of banks. The revolving term credit facility was renegotiated in 2005 and is now due in May 2007. In May 2006, at the request of Clearwater, the syndicate may extend the credit until May 2008. The facility has a balance outstanding of $46 million at July 2, 2005.

Clearwater's debt facilities contain various covenants. Clearwater is in compliance with all debt covenants. Clearwater's available credit is a function of its' earnings. The decline in earnings over the past two years has reduced the amount of available credit. Management believes earnings growth in the upcoming periods as well as persuing the sale of surplus assets will ensure its available credit will be sufficient to meet its cash requirements.

Cash flow generated by Clearwater along with its banking facilities is used to fund current operations, seasonal working capital demands as well as capital expenditures, other commitments and distributions to Unitholders. Due to the seasonality in Clearwater's business, sales and gross profit are typically higher in the second half of the calendar year than the first half of the year. Inventories 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. However, Clearwater has sufficient capital resources to meet all of its obligations and purchase the product required to meet its operating plans.

As previously announced 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 $45 million, of which $21 million has been spent to date. Clearwater expects the new vessel to arrive in late 2006 and begin harvesting in 2007. Once operational, this new vessel is expected to generate a solid return on investment by enabling Clearwater 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 on a per pound harvested basis. 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. The funds required to complete the clam vessel have been reserved from existing available debt facilities and contruction costs will be funded by drawing down on those debt facilities until such time as the vessel is complete.

Clearwater has taken delivery of two new **factory freezer scallop vessels**. The total final cost to acquire and convert the vessels, including owner supplied materials and related costs was $20 million. One of the vessels is a joint venture in which the other partner owns 40% of the vessel. Therefore, the total cost to Clearwater for its interest in the two vessels is approximately $16 million. These vessels provide a return on investment by enabling Clearwater to produce a higher quality frozen-at-sea scallop that sells for a premium in the market. In addition, the vessels will enable Clearwater to lower the costs of its harvesting operations by reducing the number of vessels employed, while making redundant the related on-shore support infrastructure.

Capital expenditures were $23.3 million for the year-do-date period (2004 - $6.3 million). Of this amount, $21.9 million (2004 - $5.3 million) was considered ROI (return on investment) capital and $1.4 million (2004 - $1 million) was maintenance capital. The ROI capital investments in 2005 included the investment in the new clam vessel, payments on the two new FAS scallop vessels and improvements to an existing clam vessel. The majority of the maintenance capital includes amounts spent on an existing clam vessel.

In total Clearwater plans to spend approximately $35 million on capital projects in 2005 with approximately $31 million to be spent on vessels (including the two FAS scallop vessels and the new clam boat), $1.5 million to be spent on new product and productivity improvements in the plants and approximately $2.5 million on maintenance capital expenditures. The decrease from the $40 million disclosed in the first quarter is due primarily to the timing of payments on the new clam vessel.

As a result of these capital expenditures we expect debt levels to increase over the next year and a half. Over the past six months funded debt has grown by $20 million from $169 million at December 31, 2004 to $189 million at July 2, 2005. Improvements in working capital and the sale of some non-core assets have partially offset the impact of these significant capital expenditures. We expect to continue to have higher leverage in the short-term but are targeting to reduce it over time.

EXPLANATION OF SECOND QUARTER RESULTS

Consolidated Operating Results for the thirteen weeks comprising the second 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 statement of earnings disclosed below reflects the unaudited interim earnings of Clearwater for the 13 week periods ended July 2, 2005 and July 3, 2004.

	2005	2004
Sales	**$ 69,712**	$ 85,038
Costs of goods sold	**55,160**	61,967
Gross profit	**14,552**	23,071
	20.9%	27.1%
Administration and Selling	**8,705**	9,950
Gain on disposal of licenses and other	**(2,068)**	(27)
Other income	**(258)**	(1,837)
Foreign exchange income	**(1,691)**	(2,277)
Bank interest and charges	**183**	162
Interest on long-term debt	**2,799**	2,326
Depreciation and amortization	**3,727**	4,025
Reduction in foreign currency translation account	**328**	566
	11,725	12,888
Earnings before income taxes and minority interest	**2,827**	10,183
Income taxes	**790**	890
Earnings before minority interest	**2,037**	9,293
Minority interest	**666**	533
Net earnings	**$ 1,371**	$ 8,760

Net Earnings

Net earnings decreased by $7.4 million in the second quarter of 2005 largely due to lower sales and gross profit in the scallop and clam businesses.

	2005	2004	Change
Net earnings	**$ 1,371**	$ 8,760	$ (7,389)
Explanation of changes in earnings:			
Higher gain on disposal of licenses and other			2,041
Lower administration and selling expense			1,245
Higher other income			462
Lower gross profit			(8,519)
Lower other income			(1,579)
Decrease in cash foreign exchange income			(565)
Higher interest costs			(494)
All other			20
			$ (7,389)

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

	2005	2004	Change	%
Scallops	**$ 19,646**	$ 25,751	(6,105)	(24%)
Lobster	**19,723**	17,195	2,528	15%
Clams	**10,969**	15,149	(4,180)	(28%)
Groundfish and Other	**5,858**	11,816	(5,958)	(50%)
Cold Water Shrimp	**8,353**	8,110	243	3%
Crab	**3,483**	4,970	(1,487)	(30%)
Hedging Program	**1,680**	2,047	(367)	(18%)
	$ 69,712	$ 85,038	(15,326)	(18%)

Scallop sales were down due primarily to 38% lower volumes, offset partially by prices that were 23% higher. Volumes were lower due to a lower Canadian total allowable catch ("TAC"), a plan to fish less Canadian scallops in the quarter in anticipation of receiving the two new FAS scallop vessels which arrived later than expected and refits on the two Argentine vessels which took a few weeks longer, as previously disclosed and resulted in delays in the timing of landings in the second quarter. With the arrival of the two new FAS vessels and the completion of the refits on the Argentine vessels the fleet is now fully operational. We expect to catch all our quota for 2005 but expect the final Canadian TAC for 2005 to be about 17% lower than our initial expectations for the year. This will result in 33% lower volumes of Canadian scallops for the year as a whole as compared to 2004. Prices of scallops have increased from 2004 continuing a trend we have seen since the second half of 2004 and we expect to see this trend continue in the latter part of the year as we harvest the majority of our scallops in the premium priced FAS format.

Lobster sales were up due primarily to increased sales of our new raw lobster product, which met our expectations for the quarter. However, margins were off due to higher purchase costs and 5% lower live lobster volumes. In 2004 we introduced new technology in the live lobster business which allows us to purchase and store lobster on a more selective basis and utilize the product we have more efficiently. This continues to show progress but margins were reduced in the quarter by a high cost of procured product and size mix of sales in the quarter.

Clam sales were down in the quarter due primarily to 11% lower volumes and prices that were 19% lower, due primarily to mix of products sold and lower average prices in Canadian dollars when converted from U.S. dollars and Japanese Yen. The largest impact on volumes related to Clearwater switching from a single importer in the Chinese market, which reduced quarterly sales by approximately $2 million. This caused second quarter sales to this market to be nominal while this transition was being implemented. We do not expect to recover these lost sales during the remainder of this year. We are currently in the process of reorganizing our clam business to take advantage of opportunities that will arise when the new vessel arrives in late 2006 and begins harvesting in 2007. As a result we expect we may continue to see some short-term sales disruptions in this business. As previously disclosed in our first quarter report we are focused on increasing prices, reducing our costs and growing our volumes but expect results to come slowly in 2005.

Groundfish and other sales are down due primarily to a previously announced and planned reduction in cod volumes. In 2004 Clearwater decreased production of individually quick frozen ("IQF") cod, a low margin product, due to increasing competition from Chinese processors.

Crab sales were down primarily due to lower volumes and lower prices of snow crab. Volumes were down due to lower TAC's in both Nova Scotia and Newfoundland and Labrador as well as supply

disruptions in Newfoundland and Labrador. This was partially offset by lower procurement costs.

In summary, gross profit for the quarter was lower by $8.5 million due primarily to the following:

- Lower earnings from the clam business due to lower than expected volumes, one-time refit costs and a temporary disruption with our main customer in China.
- Lower earnings from the scallop business due to lower catch rates during the quarter, a lower total allowable catch ("TAC") and the previously announced delay in delivery of two new scallop vessels.
- The impact of foreign exchange, which reduced sales and margins by approximately $2.9 million in the second quarter of 2005 as illustrated below.

We received about 11 cents less for each U.S. dollar in the second quarter of 2005, which resulted in our receiving approximately $2.9 million less when converted to Canadian dollars.

	2005		2004	
Currency	**% sales**	**Rate**	% sales	Rate
US Dollars	**49.2%**	**1.308**	56.5%	1.420
Japanese Yen	**8.4%**	**0.012**	9.0%	0.013
Euros	**14.2%**	**1.550**	13.3%	1.631
UK Pounds	**5.0%**	**2.301**	4.0%	2.452
Canadian Dollar and other	**23.2%**		17.2%	
	100%		100%	

The company maintains an active hedging program to provide a higher degree of certainty to future Canadian dollar cash flows. For the remainder of 2005 we have hedges in place of approximately US $48 million at an average rate of 1.30. In 2006 we have US $83 million at an average rate of 1.26 which represents about 70% of estimated annual US$ receipts.

Gain on disposal of licences and other includes a gain of approximately $2.5 million on the sale of non-core fishing quotas.

Other income is down due in part to decreased royalties from the leasing of quotas to third parties.

Administration and selling costs were lower in the current quarter due to lower salaries and consulting fees, primarily due to the fact that in 2004 Clearwater incurred consulting fees related to the development of sales support and manufacturing information systems, offset partially by bad debt provisions of approximately $300,000.

Foreign exchange income was $1.7 million in 2005 versus $2.3 million in 2004, a decrease of $586,000. From a cash perspective, the business generated $995,000 of cash from foreign exchange management in 2005 versus $1.6 million in 2004.

	2005	2004
Unrealized exchange gains	**$ (696)**	$ (717)
Realized exchange gains	**(995)**	(1,560)
	$ (1,691)	$ (2,277)

Bank interest and interest on long-term debt increased by $494,000 due to higher average outstanding debt balances in 2005. Interest costs will increase going forward due to the increase in debt levels to finance the FAS scallop vessels. Until such time as construction is complete on the new clam vessel the related interest costs are being capitalized.

OUTLOOK

Our two new FAS scallop vessels arrived later than originally expected and as a result did not have a material impact on the second quarter's results. In addition, on an annual basis we expect to sell approximately 33% lower volumes of Canadian scallops as compared to 2004 due to a lower TAC in 2005. However, the transition of the two new vessels is now complete and the impact of these vessels, along with planned higher prices for FAS scallops as well as expectations of continued strong catch rates are expected to provide a strong contribution to results in the last half of the year.

We expect to generate lower annual earnings from the clam business due to lower than expected volumes, one-time refit costs and the repositioning of our sales channels in China. We do not expect to recover this shortfall in the latter part of the year. We are also currently in the process of reorganizing this business to take advantage of opportunities that will arise when the new vessel arrives in late 2006 and begins harvesting in 2007. As a result we expect we may continue to see some short-term sales disruptions in this business. As previously disclosed in our first quarter report we are focused on increasing prices, reducing our costs and growing our volumes but expect results to come slowly in 2005.

The distributable cash generated in the second quarter was below management's expectation. However, Clearwater still expects to deliver annualized distributions of 84 cents per unit to the unsubordinated unitholders in 2005. Clearwater expects that over time and after taking reasonable reserves, the amount available to be distributed will be equivalent to 85% of distributable cash. However, given the current year-to-date results, the amount distributed in 2005 will exceed 85%.

The decline in earnings over the past two years has reduced the amount of available credit. Management believes earnings growth in the upcoming periods as well as persuing the sale of surplus assets will ensure its available credit will be sufficient to meet its cash requirements.

Our seafood business is healthy. There have been a number of challenges this year, in particular in the clam business. However, with the last of the major refits for 2005 complete and the arrival of our two new FAS scallop vessels our entire fleet is back to fishing and prices for our scallops remain strong. In particular, the strong premium we have been experiencing with our FAS scallops is expected to continue and provide a strong contribution to results in the last half of the year. Sales of our new premium quality raw lobster product have been strong and are on target to reach 3% of sales in 2005 and the new technology we introduced in the live lobster business continues to show promise.

The longer-term prospects for the business are positive with further growth anticipated from our investment in our clam and raw lobster species and the prospect of further efficiencies in our scallop fleet. Clearwater is also committed to reducing our harvesting and processing costs, in particular in our scallop, clam and lobster businesses, as well as our administration and selling costs.

SUMMARY OF QUARTERLY RESULTS

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

(In $000's except per unit amounts)

	First Quarter	**Second Quarter**	Third Quarter	Fourth Quarter
Fiscal 2005				
Sales	**$ 67,359**	**$ 69,712**	–	–
Net earnings	**1,645**	**1,371**	–	–
Basic earnings per unit	**0.03**	**0.03**	–	–
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
Fiscal 2003				
Sales	$ 75,079	$ 76,579	$ 96,514	$ 101,565
Net earnings	9,881	16,913	11,569	23,754
Basic earnings per unit	0.21	0.33	0.22	0.45

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 clearly illustrated in the results above.

Net earnings also reflect some growth in 2003 and 2004 but have been impacted by changes in foreign exchange rates, primarily the U.S. dollar. The impact of the foreign exchange rates is clearly seen in the volatility of earnings in the quarterly results.

For a more detailed analysis of each quarter results please refer to our quarterly reports and our annual report for 2004, which contains an analysis of the fourth quarter of 2004.

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. 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.

Reconciliation of Distributable Cash

(In $000's except per unit amounts)	**13 weeks ended July 2, 2005**	13 weeks ended July 3, 2004	26 weeks ended July 2, 2005	26 weeks ended July 3, 2004
Cash flow from operating activities	**$ (1,911)**	$ (17,410)	$ 17,578	$ 2,509
Add (deduct):				
Change in non-cash working capital [A]	**4,871**	30,583	(6,377)	17,439
Minority share EBITDA, int., taxes [B]	**(1,264)**	(753)	(1,674)	(1,196)
Proportionate maint. capital [C]	**(685)**	(719)	(1,596)	(1,105)
Taxes on reorganization [D]	**-**	-	-	6,002
Gain/loss on disposal property, plant & equipment/licences [E]	**(399)**	27	(390)	42
Distributable cash	**$ 612**	$ 11,728	$ 7,541	$ 23,691
Distributions [F]	**$ 9,121**	$ 12,483	$ 18,244	$ 27,654
Payout ratio	**1490%**	106%	242%	117%

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. During the first quarter of 2004 Clearwater invested $6 million in cash taxes in order to effect a reorganization of a subsidiary, which will have the impact of reducing cash taxes on that subsidiary in future years.

E. Gains and losses on property, plant and equipment are added back (deducted) as 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 quarter of 2005 a gain of $2.5 million was deducted from the calculation of distributable cash as it pertains to the sale of a licence that did not relate to the typical turnover of assets.

F. 2005 Distributions consist of monthly payments of 7 cents/unit (or 84 cents annualized) on 43,436,356 units (no payments were made on 9,352,487 subordinated units). 2004 distributions consist of monthly payments of 9.58 cents/unit (or $1.15 annualized) on 52,788,843 units (including payments made on 9,352,487 subordinated units).

Clearwater's business is seasonal in nature with the result being that lower amounts of distributable cash are generated in the first half of the year as compared to the latter half. As a result, Clearwater will typically use excess cash generated in the latter half of the year to fund a portion of the distributions paid in the earlier portion of the year. Clearwater funds a portion of the distributions paid in the first half of the year using an advance on its existing debt facilities and recovers those advances in the latter portion of the year.

Gross Profit

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

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 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.

Clearwater Seafoods Income Fund
Consolidated Balance Sheet

(In thousands of dollars)
(unaudited)

	July 2, 2005	December 31, 2004
ASSETS		
Current Assets		
Distribution and interest receivable from Clearwater Seafoods Limited Partnership	**$ 2,066**	$ 2,820
Investment in Clearwater Seafoods Limited Partnership (note 2)	**328,083**	338,672
	$ 330,149	$ 341,492
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities		
Distribution and interest payable	**$ 2,059**	$ 2,817
Convertible Debentures (note 3)	**49,221**	49,165
Unitholders' Equity		
Trust units (note 4)	**299,336**	299,336
Cumulative earnings	**68,591**	66,877
Cumulative distributions	**(89,058)**	(76,703)
	278,869	289,510
	$ 330,149	$ 341,492

See accompanying notes to consolidated financial statements

Clearwater Seafoods Income Fund
Consolidated Statements of Earnings and Cumulative Earnings

13 and 26 week periods ended July 2, 2005 and July 3, 2004

(In thousands of dollars)
(unaudited)

	13 weeks ended 2005	13 weeks ended 2004	26 weeks ended 2005	26 weeks ended 2004
Equity in earnings of Clearwater Seafoods Limited Partnership	**$ 839**	$ 5,094	**$ 1,766**	$ 3,348
Interest, net	**(27)**	(4)	**(52)**	(4)
Net earnings	**$ 812**	$ 5,090	**$ 1,714**	$ 3,344
Cumulative earnings at beginning of period	**67,779**	46,456	**66,877**	48,202
Cumulative earnings at end of period	**$ 68,591**	$ 51,546	**$ 68,591**	$ 51,546
Basic and diluted net earnings per trust unit	**$ 0.03**	$ 0.17	**$ 0.06**	$ 0.11

See accompanying notes to consolidated financial statements

Clearwater Seafoods Income Fund
Consolidated Statements of Cash Flows

13 and 26 week periods ended July 2, 2005 and July 3, 2004

(In thousands of dollars)
(unaudited)

	13 weeks ended 2005	13 weeks ended 2004	26 weeks ended 2005	26 weeks ended 2004
Cash flows from operating activities				
Net earnings	**$ 812**	$ 5,090	**$ 1,714**	$ 3,344
Items not involving cash				
Equity in earnings of Clearwater Seafoods Limited Partnership, net of cash distributions received of $ 6,179, 26 weeks - $12,355 (2004 – $ 8,451, 26 weeks - $16,902)	**5,340**	3,571	**10,589**	13,681
Other	**27**	(210)	**52**	(123)
	6,179	8,451	**12,355**	16,902
Cash flows used in financing activities				
Distributions to unitholders	**(6,179)**	(8,451)	**(12,355)**	(16,902)
Increase (decrease) in cash	**-**	-	**-**	-
Cash - beginning of period	**-**	-	**-**	-
Cash - end of period	**$ -**	$ -	**$ -**	$ -

See accompanying notes to consolidated financial statements

(Tabular amounts expressed in thousands of dollars)
(unaudited)

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").

The unaudited interim period consolidated financial statements have been prepared by the Fund in accordance with Canadian Generally Accepted Accounting Principles. The preparation of financial data is based on accounting policies and practices consistent with those used in the preparation of the audited annual consolidated financial statements. These unaudited interim period consolidated financial statements do not contain all the disclosures required in annual audited financial statements by Canadian Generally Accepted Accounting Principles, and accordingly should be read together with the audited annual consolidated financial statements and the accompanying notes included in the Fund's 2004 Annual Report.

These consolidated financial statements consolidate the accounts of the Fund and its subsidiary, Clearwater Seafoods Holdings Trust ("CSHT"). CSHT owns 55.71% (December 31, 2004 – 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.

2. INVESTMENT IN CLEARWATER SEAFOODS LIMITED PARTNERSHIP

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

	July 2, 2005	December 31, 2004
Investment in Class A Partnership units, at cost	**$ 298,454**	$ 298,454
Investment in Class C Partnership units	**50,000**	50,000
Add: Cumulative equity earnings	**68,687**	66,921
Less: Cumulative distributions received	**(89,058)**	(76,703)
	$ 328,083	$ 338,672

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 earnings in the quarter is $75,000, 26 weeks – $86,000 (2004 – income of $214,000, 26 weeks - $127,000) for amortization and other adjustments relating to purchase price discrepancies recognized by the Fund in accounting for its investment in Clearwater using the equity method.

3. 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.

4. 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. 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.

CSLP Exchangeable Units that are no longer subject to subordination may at any time thereafter at the option of the holder be exchanged on a one-for-one basis for units of the Fund. As at April 2, 2005 there are 9,352,487 CSLP Exchangeable Units that will remain subordinated until December 31, 2005.

CSLP Exchangeable Units that are subject to subordination as described above are not during such period of subordination exchangeable into units of the Fund and their entitlement to distributions from Clearwater in respect of any month during such period is subordinated until CSLP Ordinary Units and CSLP Exchangeable Units that at the time are not subject to subordination have received distributions of at least $0.0958 per unit in respect of such month.

	Units	Special Trust Units	$ (in 000's)
Balance, December 31, 2003	29,407,626	23,381,217	$ 298,454
Equity component convertible debentures (see note 3)			882
December 31, 2004, no change to July 2, 2005			$ 299,336

As at July 2, 2005 there were in total 52,788,843 units outstanding (December 31, 2004 – 52,788,843).

Clearwater Seafoods Limited Partnership
Consolidated Balance Sheet

(In thousands of dollars)
(unaudited)

	July 2, 2005	December 31, 2004
ASSETS		
Current Assets		
Accounts receivable	**$ 41,163**	$ 61,344
Inventories	**61,160**	45,661
Prepaids and other	**6,167**	4,744
	108,490	111,749
Other long-term assets	**11,932**	13,497
Property, plant and equipment	**155,327**	139,305
Licences	**104,848**	105,083
Goodwill	**10,378**	10,378
	$ 390,975	$ 380,012
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities		
Checks issued in excess of funds on deposit	**$ 1,642**	$ 572
Accounts payable and accrued liabilities	**46,499**	37,607
Distributions payable	**3,041**	5,817
Income taxes payable	**1,144**	3,234
Current portion of long-term debt (note 3)	**1,267**	1,206
	53,593	48,436
Long-term debt (note 3)	**188,160**	167,992
Future income taxes	**7,775**	7,693
Due to joint venture partner	**1,995**	1,995
Minority interest	**2,212**	1,874
Unitholders' Equity		
Partnership units (note 4)	**173,133**	173,133
Cumulative earnings	**133,029**	130,013
Cumulative distributions	**(153,498)**	(135,254)
Cumulative foreign currency translation account (note 5)	**(15,424)**	(15,870)
	137,240	152,022
	$ 390,975	$ 380,012

See accompanying notes to consolidated financial statements

Clearwater Seafoods Limited Partnership
Consolidated Statements of Earnings and Cumulative Earnings

13 and 26 week periods ended July 2, 2005 and July 3, 2004

(In thousands of dollars)
(unaudited)

	13 weeks ended		26 weeks ended	
	2005	2004	**2005**	2004
Sales	**$ 69,712**	$ 85,038	**$ 137,071**	$ 157,779
Cost of goods sold	**55,160**	61,967	**106,371**	117,453
Gross profit	**14,552**	23,071	**30,700**	40,326
Administration and selling	**8,705**	9,950	**17,366**	19,483
Gain on disposal of licenses and other	**(2,068)**	(27)	**(2,077)**	(42)
Other income	**(258)**	(1,837)	**(657)**	(2,803)
Foreign exchange income	**(1,691)**	(2,277)	**(3,190)**	1,098
Bank interest and charges	**183**	162	**345**	308
Interest on long-term debt	**2,799**	2,326	**5,741**	4,421
Depreciation and amortization	**3,727**	4,025	**7,618**	8,106
Reduction in foreign currency translation account (note 5)	**328**	566	**526**	566
	11,725	12,888	**25,672**	31,137
Earnings before the undernoted	**2,827**	10,183	**5,028**	9,189
Income taxes	**790**	890	**805**	2,475
Earnings before minority interest	**2,037**	9,293	**4,223**	6,714
Minority interest	**666**	533	**1,207**	932
Net earnings	**$ 1,371**	$ 8,760	**$ 3,016**	$ 5,782
Cumulative earnings at beginning of period	**131,658**	89,562	**130,013**	92,540
Cumulative earnings at end of period	**$ 133,029**	$ 98,322	**$ 133,029**	$ 98,322
Basic and diluted net earnings per unit	**$ 0.03**	$ 0.17	**$ 0.06**	$ 0.11

See accompanying notes to consolidated financial statements

Clearwater Seafoods Limited Partnership
Consolidated Statements of Cash Flows

13 and 26 week periods ended July 2, 2005 and July 3, 2004

(In thousands of dollars)
(unaudited)

	13 weeks ended 2005	13 weeks ended 2004	26 weeks ended 2005	26 weeks ended 2004
Cash flows from (used in) operating activities				
Net earnings	**$ 1,371**	$ 8,760	**$ 3,016**	$ 5,782
Items not involving cash				
Depreciation and amortization	**3,727**	4,025	**7,618**	8,106
Foreign exchange on long-term debt	**(607)**	307	**(97)**	138
Future income taxes (recovery)	**(368)**	33	**18**	(4,889)
Reduction in foreign currency translation account	**328**	566	**526**	566
Minority interest	**666**	533	**1,207**	932
Unrealized foreign exchange on currency option contracts	**(89)**	(1,024)	**990**	9,355
Gain on disposal of property, plant, equipment, licences and other	**(2,068)**	(27)	**(2,077)**	(42)
	2,960	13,173	**11,201**	19,948
Change in non-cash operating working capital	**(4,871)**	(30,583)	**6,377**	(17,439)
	(1,911)	(17,410)	**17,578**	2,509
Cash flows from financing activities				
Proceeds from long-term debt	**15,856**	49,198	**21,452**	49,420
Reduction of long-term debt	**(791)**	(13,562)	**(916)**	(13,752)
Distributions to minority partners	**-**	-	**(869)**	(874)
Issuance of units	**-**	882	**-**	882
Distributions to unitholders	**(9,121)**	(12,483)	**(18,244)**	(27,654)
Other	**(187)**	91	**(329)**	(217)
	5,757	24,126	**1,094**	7,805
Cash flows from (used in) investing activities				
Increase in other long-term assets	**(54)**	(4,300)	**543**	(3,711)
Purchase of property, plant, equipment, licences and other	**(8,317)**	(3,757)	**(23,290)**	(6,363)
Proceeds on the disposal of property, plant, equipment, licences and other	**2,721**	64	**3,005**	79
	(5,650)	(7,993)	**(19,742)**	(9,995)
Increase (decrease) in cash	**(1,804)**	(1,277)	**(1,070)**	319
Cash - beginning of period	**162**	2,160	**(572)**	564
Cash - end of period	**$ (1,642)**	$ 883	**$ (1,642)**	$ 883
Supplementary cash flow information				
Interest paid	**$ 4,219**	$ 4,060	**$ 5,750**	$ 4,898
Income taxes paid	**2,090**	1,560	**3,918**	2,857
Change in non-cash working capital consists of changes in the following accounts:				
Accounts receivable	**4,940**	(7,090)	**20,181**	6,492
Inventories	**(21,628)**	(23,425)	**(14,966)**	(22,201)
Foreign exchange on currency contracts	**89**	1,024	**(990)**	(9,355)
Prepaids and other	**(784)**	(2,031)	**(1,423)**	1,707
Accounts payable and accrued liabilities	**12,870**	1,641	**5,665**	1,578
Income taxes payable	**(358)**	(702)	**(2,090)**	4,340
	$ (4,871)	$ (30,583)	**$ 6,377**	$ (17,439)

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

(Tabular amounts expressed in thousands of dollars)
(unaudited)

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.

The unaudited interim period consolidated financial statements have been prepared by Clearwater in accordance with Canadian Generally Accepted Accounting Principles. The preparation of financial data is based on accounting policies and practices consistent with those used in the preparation of the audited annual consolidated financial statements. These unaudited interim period consolidated financial statements do not contain all the disclosures required in annual audited financial statements by Canadian Generally Accepted Accounting Principles, and accordingly should be read together with the audited annual consolidated financial statements and the accompanying notes included in Clearwater Seafoods Income Fund's (the "Fund") 2004 Annual Report.

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

2. SEASONALITY

Due to the seasonal nature of the business, gross profit is typically higher in the second half of the calendar year than the first half of the year.

3. LONG-TERM DEBT

	July 2, 2005	December 31, 2004
Notes payable (a)		
Canadian	**$ 63,000**	$ 63,000
United States dollars	**18,381**	18,030
Class C Partnership Units (b)	**49,221**	49,165
Term credit facility (c)		
Canadian	**29,329**	10,588
Pound Sterling	**6,557**	4,601
United States dollars	**6,127**	7,212
Euros	**3,694**	2,437
Marine mortgage, due in 2017 (d)		
Canadian	**2,792**	3,050
Danish Kroner	**1,909**	2,257
Yen	**1,769**	1,979
Term loan, due in 2091 (e)	**3,500**	3,500
Other loans	**3,148**	3,379
	189,427	169,198
Less current portion	**1,267**	1,206
	$ 188,160	$ 167,992

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

$43,000,000 Canadian Series A Notes bearing interest at 6.4% payable semi-annually, maturing December 8, 2008.

$15,000,000 U.S. dollar Series B Notes bearing interest at 5.65% payable semi-annually, maturing December 8, 2008.

$20,000,000 Canadian Series C Notes bearing interest at 7.23% payable semi-annually, maturing December 8, 2013.

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 c 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 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.

(c) Term credit facility, maturing in May 2007. In May 2006 the banking syndicate at the request of Clearwater may extend the credit for an additional two years until May 2008. The balance outstanding as at July 2, 2005 was CDN $ 29,329,000 (December 31, 2004 CDN $10,588,000), Pounds Sterling 3,000,000 (December 31, 2004 –2,000,000), United States dollars $5,000,000 (December 31, 2004 –$6,000,000) and Euros 2,500,000 (December 31, 2004 -1,500,000). 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.

(d) Marine mortgage payable in the principal amount of CDN $5,583,000 (December 31, 2004 - $6,100,000), DKK 19,262,000 (December 31, 2004– DKK 20,653,000) and YEN 317,516,000 (December 31, 2004 –337,361,000) 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 2006-2007, CDN $776,000, DKK 2,087,000 and YEN 29,767,000 due in 2008-2012, CDN $669,000 due in 2013, DKK 2,087,000 and YEN 29,767,000 due in 2013-2014, DKK 1,870,000 due in 2015, YEN 29,767,000 due in 2015-2016 and YEN 9,922,000 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.

Clearwater's debt facilities contain various covenants. Clearwater is in compliance with all debt covenants at July 2, 2005.

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

2005	$ 1,267
2006	46,813
2007	1,094
2008	62,627
2009	1,114

4. 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 is subordinated to the rights of holders of Class A units until December 31, 2005. Class B units that are subject to such subordination are 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 that are no longer subject to subordination may at any time thereafter 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.

Distributions on the Class C Partnership units take priority over the class A and B units and are included in interest expense.

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, 2003	29,407,626	23,381,217	$ 172,251
Equity component of class C units (see note 3 (b))			882
December 31, 2004, no change to July 2, 2005			$ 173,133

As at July 2, 2005 there were in total 52,788,843 units outstanding (December 31, 2004 - 52,788,843).

5. 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 July 2, 2005 is $15.4 million (December 31, 2004 - $15.9 million).

6. FINANCIAL INSTRUMENTS - HEDGING

Forward exchange contracts are used by Clearwater in the management of its foreign currency exposures. Clearwater manages its exposure to fluctuations in exchange rates on United States dollar, Japanese Yen and European Euro denominated revenues using forward exchange contracts.

At July 2, 2005 and December 31, 2004 Clearwater had outstanding 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				
July 2, 2005	**47,800**	**1.304**	**2005**	**4,197**
	60,000	**1.261**	**2006**	**2,792**
December 31, 2004	94,500	1.314	2005	8,783
	20,000	1.327	2006	1,988

Although Clearwater has no intention of settling these contracts, at July 2, 2005, if it settled these contracts it would have received a payment of $6,989,000 (December 31, 2004 - $10,771,000). Clearwater accounts for these contracts as fully effective hedges and no amount is included in the accounts until such time as the maturity of the hedge.

Clearwater has also entered into foreign currency options and expandable forward contracts as at July 2, 2005 and December 31, 2004 with estimated quoted market values as follows:

Currency	Notional Amount	Exchange Rate	Maturity	Fair Value Asset (liability)
United States dollar				
July 2, 2005	**140,000**	**1.190 – 1.328**	**2005**	**(1,725)**
	110,000	**1.203 – 1.255**	**2006**	**(2,089)**
	22,500 – 45,000	**1.229 – 1.271**	**2006**	**246**
December 31, 2004	240,000	1.190 – 1.383	2005	(2,867)
	22,500 – 45,000	1.229 – 1.271	2006	378
Japanese Yen				
July 2, 2005	**–**	**–**	**–**	**–**
December 31, 2004	1,000,000	0.1250	2005	(90)

Although Clearwater has no intention of settling these contracts prior to maturity, at July 2, 2005, if it settled these contracts it would have made a payment of $3,568,000 (December 31, 2004 - made a payment of $2,579,000). The above market values represent the potential net asset (liability) in the event the contracts were closed. The liability recorded is included in accounts payable and accrued liabilities.

7. 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

	13 weeks ended		26 weeks ended	
	2005	2004	**2005**	2004
Scallops	**$ 19,646**	$ 25,751	**$ 39,201**	$ 49,754
Lobster	**19,723**	17,195	**33,194**	31,495
Clam	**10,969**	15,149	**21,840**	27,685
Groundfish and other	**5,858**	11,816	**14,656**	23,288
Coldwater Shrimp	**8,353**	8,110	**18,841**	15,218
Crab	**3,483**	4,970	**4,770**	6,962
Hedging Program	**1,680**	2,047	**4,569**	3,377
	$ 69,712	$ 85,038	**$ 137,071**	$ 157,779

(c) Geographic Information

	13 weeks ended 2005	13 weeks ended 2004	26 weeks ended 2005	26 weeks ended 2004
Sales				
United States	**$ 24,856**	$ 30,699	**$ 44,218**	$ 55,103
Europe				
France	**8,238**	11,665	**18,315**	21,921
Denmark	**1,321**	4,240	**6,208**	7,920
UK	**4,431**	4,406	**8,899**	8,034
Other	**4,600**	4,464	**9,076**	7,797
Asia				
Japan	**8,056**	8,491	**13,777**	16,272
Other	**3,943**	7,035	**9,366**	15,108
Canada	**12,449**	11,666	**22,129**	21,563
Other, including hedging program	**1,818**	2,372	**5,083**	4,061
	$ 69,712	$ 85,038	**$ 137,071**	$ 157,779

	July 2, 2005	December 31, 2004
Property, plant, equipment, licences and goodwill		
Canada	**$ 251,509**	$ 235,141
Argentina	**18,285**	18,456
Other	**759**	1,169
	$ 270,553	$ 254,766

8. RELATED PARTY TRANSACTIONS

Clearwater had the following transactions and balances with CFFI during the second quarter and year-to-date periods of 2005 and 2004.

	13 weeks ended		26 weeks ended	
	2005	2004	**2005**	2004
Transactions				
Charge by CFFI for use of a corporate airplane	**$ 21**	$ 73	**$ 34**	$ 120
Charged to CFFI for rent and other services	**52**	65	**106**	130
Balances as of July 2, 2005 and December 31, 2004				
Receivable from CFFI	**–**	–	**102**	0
Distribution payable to CFFI	**–**	–	**982**	4,032

In addition Clearwater was charged approximately $61,000 for vehicle leases in the second quarter of 2005 (2004 - $45,000) and year-to-date $103,000 (2004 - $ 113,000) and approximately $10,000 for other services (2004 - $23,000) by companies controlled by a relative of an officer of Clearwater, year-to-date $29,000 (2004 - $31,000).

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

In addition, CFFI provides certain treasury functions at no charge to Clearwater.

Further information can be found in the disclosure documents filed by Clearwater Seafoods Income Fund with the securities regulatory authorities available at www.sedar.com or at its website (www.clearwater.ca).

For further information, please contact: Robert Wight, Chief Financial Officer, Clearwater at (902) 457-2369, or Tyrone Cotie, Director of Corporate Finance and Investor Relations, Clearwater, at (902) 457-8181.

Quarterly and Unit Information

The financial information disclosed below was derived from the unaudited interim earnings statements of Clearwater for periods from January 1, 2003 to December 31, 2004.

Clearwater Seafoods Limited Partnership

($000's except per unit amounts)	2005		2004				2003			
	Q2	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	**69,712**	**67,359**	98,845	88,835	85,038	72,741	101,565	96,514	76,579	75,079
Net earnings (loss)	**1,371**	**1,645**	16,553	15,138	8,760	(2,978)	23,754	11,569	16,913	9,881
Distributable cash	**612**	**6,929**	18,018	12,457	11,728	11,963	22,028	19,447	12,008	8,027
Distributions	**9,121**	**9,123**	14,139	12,482	12,483	15,171	15,171	15,009	14,545	13,778
Per unit data										
Basic and diluted net earnings (loss)	**0.03**	**0.03**	0.31	0.29	0.17	(0.06)	0.45	0.22	0.33	0.21

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

	2005		2004				2003			
	Q2	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Trading price range of units (board lots)										
High	**8.29**	**9.40**	10.13	11.97	12.48	12.95	12.41	13.15	12.55	11.28
Low	**6.21**	**7.92**	8.10	9.35	10.31	11.80	10.10	11.07	10.94	10.19
Close	**6.53**	**8.20**	8.78	9.65	11.41	12.40	12.00	11.78	12.35	11.15
Trading volumes (000's)										
Total	**4,338**	**7,142**	6,493	2,352	5,428	4,704	5,303	8,607	3,925	3,445
Average daily	**68**	**113**	105	37	87	71	83	137	60	54
Outstanding units 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	28,558,664	28,558,664
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	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	51,939,881	47,939,881

Corporate Information

Trustees of Clearwater Seafoods Income Fund

Purdy Crawford
Counsel, Osler, Hoskin and Harcourt LLP

James W. Gogan
President, High Street Investments Limited

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

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

Purdy Crawford
Counsel, Osler, Hoskin and Harcourt LLP
Chairman, Corporate Governance and Compensation Committee

James W. Gogan
President, High Street Investments Limited
Chairman, Audit Committee

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

George S. Armoyan
President and Chief Executive Officer,
Clarke Inc.

Hugh K. Smith
Vice-President, Municipal Group of Companies

John C. Risley
Chairman, CS ManPar Inc.

Colin E. MacDonald
Chief Executive Officer, CS ManPar Inc.

Officers of CS ManPar Inc.

John C. Risley
Chairman

Colin E. MacDonald
Chief Executive Officer

Eric R. Roe
Chief Operating Officer

J. Michael Magnus
Vice-President, Marketing and Sales

Michael D. Pittman
Vice-President, Fleet

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

Investor Relations

Tyrone D. Cotie, C.A.
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Auditors

KPMG LLP
Halifax, Nova Scotia

Units Listed

Toronto Stock Exchange
Unit symbol: **CLR.UN**

Convertible Debenture symbol: **CLR.DB**

Transfer Agent

Computershare Investor Services Inc.