CLEARWATER SEAFOODS INCOME FUND

2008 Second Quarter Report to Unitholders

Letter to Unitholders

- Sales and gross profit for the second quarter of 2008 were $69 million and $13 million versus $75 million and $16 million in 2007 (prior to adjustment in 2008 for new inventory standard)

- Year to date sales and gross profit were $126 million and $25 million versus $134 million and $28 million (prior to adjustment in 2008 for new inventory standard)

- Distributable cash relatively stable for the first half of 2008 versus 2007 being a shortfall of $6.4 million versus a shortfall of $5.3 million in 2007.

- Sea and fishing trials completed for newly converted clam vessel, positioning clam business for growth. Incurred $1.6 million of commissioning costs during the quarter.

- Negotiated renewed and expanded joint venture agreement for the shrimp business, securing continued partnership for the future.

- Acquires new lobster vessel, improved efficiencies to result

- Fund enters into transaction agreement

Today, Clearwater Seafoods Income Fund (the "Fund") reported second quarter 2008 results.

Sales and gross profit for the second quarter of 2008 were $69 million and $13 million versus $75 million and $16 million in 2007 (prior to the adjustment in 2008 for new inventory standard).

There were a number of significant events, positive and negative, that impacted the second quarter of 2008 as discussed below.

- Exchange - For the second quarter of 2008, sales and margins were negatively impacted by $2 million when current effective rates are compared to those of 2007.

  Fluctuating exchange rates also resulted in an increase of $2.4 million in realized foreign exchange expense compared to 2007. It is important to understand that more than 80% of Clearwater's sales are denominated in currencies other than the Canadian dollar, whereas the majority of its expenses are in Canadian dollars. As a result, foreign exchange fluctuations can have a material impact on Clearwater's financial results.

  The overall impact of exchange on cash earnings was $4.4 million versus 2007 ($2 million negative impact on sales and gross profit and $2.4 million reduction in realized exchange gains).

- Vessel commissioning and restructuring expenses – During the quarter Clearwater incurred approximately $1.6 million in commissioning its new clam vessel. In addition, Clearwater incurred approximately $700,000 in restructuring costs for its lobster business.

- Lobster margins – margins were impacted in 2008 by increased shore prices from the December 2007 lobster buy. However, lower shore prices and good quality in the spring of 2008 buy have resulted in a stronger inventory position at the end of the second quarter, which we will see the benefit from in the second half of the year.

- Administration and selling expense reductions - Clearwater achieved continued reductions in administrative and selling expenses in 2008. This relates mainly to lower spending on professional and consulting fees. The current year strategic review costs of approximately $130,000 are offset by lower professional and consulting costs for the first quarter of 2008. The prior year included costs of approximately $650,000 related to potential acquisitions and approximately $200,000 more in information technology consultation spending. The impact of the new inventory accounting standard resulted in an additional reduction of $2.3 million in selling and administrative costs in the current quarter as those costs were reclassified to cost of goods sold.

- Impact from the adoption of new inventories accounting standard - The adoption of a new inventory standard had the impact of increasing second quarter earnings by $1 million but it did not materially impact year-to-date results (see details at the end of this release).

The factors listed above led to lower distributable cash levels in the second quarter but on a year-to-date basis distributable cash levels are relatively consistent with 2007. Distributable cash for the first half of 2008 was a shortfall of $6.4 versus a shortfall of $5.3 million in 2007. Distributable cash for the second quarter of 2008 was a shortfall of $5 million versus $594,000 of distributable cash in 2007. On January 21, 2008, due to the 2007 financial results, the Trustees of the Fund announced the suspension of monthly distributions. Tom Traves, Chairman of the Trustees has stated "The Trustees will continue to monitor the distribution policy with distributions to be determined quarterly and paid in arrears after considering the traditional criteria in determining the distribution policy." The Trustees have decided it would be appropriate to not pay a distribution for the second quarter of 2008.

Strategic investments

In late April 2008, Clearwater took delivery of the vessel it had been converting over the past several months for its clam fishery. The vessel undertook sea trials and commissioning in the second quarter and commenced fishing in June. Management continues to believe there is strong potential for growth in the clam business and expects to begin to realize this potential in the latter part of the year. This new vessel combined with the ocean bottom mapping technology will enable the clam business to realize significant improvements for 2008 and beyond.

Clearwater has also renewed and expanded its joint venture agreement for its shrimp harvesting operations effective April 1, 2008. The key terms of this new agreement include an extension of the partnership for a further 10 years, the contribution by our partner of the factory vessel Ocean Prawns and the contribution by both parties of rights to fish shrimp and turbot fishing quotas. Each partner's equity interests in the partnership were adjusted to reflect the contribution of the vessel and use of quotas such that Clearwater's share of the partnership earnings have increased from 50% to 54% from April 1, 2008 onwards. This joint venture will enable Clearwater and its partner to combine shrimp harvesting assets and related shrimp and turbot quotas into a larger operating entity that is expected to create efficiencies and improved profits for the business in the future.

Finally, subsequent to quarter-end Clearwater purchased a vessel for conversion for the lobster fleet. The total expected cost, including conversion costs is approximately $5.7 million. This vessel will lower the average age of the lobster fleet, improve operating efficiency and reliability of fishing efforts, significantly lower fuel consumption and result in greater stability in crewing. As a result, Clearwater expects to retire 3 of the 4 existing lobster vessels in the latter part of the year. We expect to realize increased returns from this vessel due to lower fleet management costs and lower mortality from improved handling.

The overall impact of these investments is to increase our harvesting capacity while reducing our expected operating costs through employing more efficient vessels and reducing the size of our fleet.

Strategic Review

On August 14, 2008 Clearwater Seafoods Income Fund announced that it had entered into an acquisition agreement with CS Acquisition Limited Partnership ("CS Acquisition"), a partnership consortium led by Clearwater Fine Foods Incorporated ("CFFI"), the controlling unitholder of Clearwater Seafoods Limited Partnership.

Under the terms of the Agreement, CS Acquisition will acquire all of the assets of the Fund, which will result in the Fund's unitholders receiving $4.50 per unit and the holders of convertible debentures receiving 101% of the par value of debentures plus accrued interest.

Based on the recommendation of its Special Committee, the Board of Trustees has unanimously resolved to recommend that unitholders approve the transaction. The Fund will issue a management information circular which will contain its recommendation to unitholders together with the formal valuation and fairness opinion.

This offer effectively results in CS Acquisition Limited Partnership acquiring all of the Fund's investment in Clearwater. Concurrent with this transaction, Clearwater will reorganize it current capital structure, which will effectively result in the replacement of existing debt facilities with new debt facilities and the consolidation of its partnership units.

For further details of this proposed transaction please see the news release on this topic issued On August 14, 2008 by Clearwater.

Summary

From an operational perspective, the clam business operated without any significant interruptions during the year-to-date period although we did incur significant expenses commissioning our new clam vessel.

Lobster margins were impacted in 2008 by increased shore prices from the December 2007 lobster buy. However, lower shore prices and good quality in the spring of 2008 buy have resulted in a stronger inventory position at the end of the second quarter, which we will see the benefit from in the second half of the year. In addition, we incurred approximately $700,000 in restructuring expenses for our lobster business during the quarter to position it for greater profits in the future.

Administrative and selling expenses continue to be lower than 2007.

The only earnings in the frozen at sea shrimp business resulted from the one vessel in our joint venture. We successfully brought our new shrimp vessel on-stream in the second quarter and renewed and expanded the joint venture agreement for the shrimp harvesting operations effective April 1, 2008.

In summary, margins were impacted by commissioning costs, foreign exchange and lower lobster margins. However, a fully commissioned clam fleet and a new shrimp joint venture will provide the opportunity to increase our harvest and sales volumes going forward.

Outlook

Colin MacDonald, Clearwater's CEO stated "We hold significant quotas in our key species, we have leading edge, innovative harvesting and processing technologies and we are vertically integrated. Our business strategies to deliver long-term value are sound. We have an outstanding and dedicated workforce, excellent quota positioning, and global customer relationships that span decades and we look forward to building on these strengths for the balance of 2008 and going forward."

Colin MacDonald
Chief Executive Officer
Clearwater Seafoods Limited Partnership
August 14, 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared effective August 14, 2008.

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

This MD&A should be read in conjunction with the interim and 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 over financial reporting, as defined under the rules adopted by the Ontario Securities Commission in multilateral instrument 52-109. The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have evaluated the design and effectiveness of Clearwater's disclosure controls and procedures as of June 28, 2008 and have concluded that such procedures are adequate and effective to provide reasonable assurance that the material information relating to Clearwater and its consolidated subsidiaries would be made known to them by others within those entities to allow for accurate and complete disclosures in interim filings.

Management has determined there were no changes to Clearwater's ICFR during the second quarter of 2008 that have materially affected, or were reasonably likely to materially affect its ICFR.

COMMENTARY REGARDING FORWARD-LOOKING STATEMENTS

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

MATERIAL SUBSEQUENT EVENT

On August 14, 2008 Clearwater Seafoods Income Fund announced that it had entered into an acquisition agreement with CS Acquisition Limited Partnership ("CS Acquisition"), a partnership consortium led by Clearwater Fine Foods Incorporated ("CFFI"), the controlling unitholder of Clearwater Seafoods Limited Partnership.

Under the terms of the Agreement, CS Acquisition will acquire all of the assets of the Fund, which will result in the Fund's unitholders receiving $4.50 per unit and the holders of convertible debentures receiving 101% of the par value of debentures plus accrued interest.

Based on the recommendation of its Special Committee, the Board of Trustees has unanimously resolved to recommend that unitholders approve the transaction. The Fund will issue a management information circular which will contain its recommendation to unitholders together with the formal valuation and fairness opinion.

This offer effectively results in CS Acquisition Limited Partnership acquiring all of the Fund's investment in Clearwater. Concurrent with this transaction, Clearwater will reorganize it current capital structure, which will effectively result in the replacement of existing debt facilities with new debt facilities and the consolidation of its partnership units.

OVERVIEW OF THE FUND AND CLEARWATER

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

EXPLANATION OF YEAR TO DATE 2008 RESULTS

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

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

The following table illustrates the impact of the new standard on year-to-date amounts reported in the second quarter 2008 financial statements.

	Amount prior to application of new standard	Adjustment for new standard	Amount per financial statements
Cost of good sold	$ 101,180	$ 10,245	$ 111,425
Gross profit	25,168	(10,245)	14,923
Administration and selling	17,728	(4,943)	12,785
Depreciation and amortization	5,596	(5,231)	365
Net loss	$ (9,807)	$ (71)	$ (9,878)

Overview

The statements of earnings disclosed below reflect the unaudited year-to-date earnings of Clearwater for the 26-week periods ended June 28, 2008 and June 30, 2007.

(In 000's)	2008	2007
Sales	$ 126,348	$ 134,406
Cost of goods sold	111,425	106,553
	14,923	27,853
	11.8%	20.7%
Administration and selling	12,785	20,006
Gain on disposal of assets	(779)	(302)
Other income	(2,093)	(2,094)
Insurance claim	-	(3,918)
Foreign exchange and derivative contracts	3,684	(17,058)
Bank interest and charges	297	427
Interest on long-term debt	8,712	6,462
Depreciation and amortization	365	5,885
	22,971	9,408
(Loss) earnings before income taxes and minority interest	(8,048)	18,445
Income taxes	864	613
(Loss) earnings before minority interest	(8,912)	17,832
Minority interest	966	2,044
Net (loss) earnings	$ (9,878)	$ 15,788

Net (Loss) Earnings

Net earnings decreased by $26 million in 2008 compared to 2007, due primarily to the impact of a higher unrealized foreign exchange loss.

In (000's)	2008	2007	Change
Net (loss) earnings	$ (9,878)	$ 15,788	$ (25,666)

Explanation of changes in earnings:

Lower unrealized foreign exchange and derivative income	(24,688)
Lower gross profit (includes $10.2 million impact from new accounting standard)	(12,930)
Insurance claim in 2007, none in 2008	(3,918)
Higher interest on long term debt	(2,250)
Lower realized foreign exchange and derivative loss	3,946
Lower administration and selling costs (includes $4.9 million impact from new accounting standard)	7,221
Lower depreciation and amortization expense (includes $5.2 million impact from new accounting standard)	5,520
Lower minority interest expense	1,078
All other	355
	$ (25,666)

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

In (000's)	2008	2007	Change	%
Scallops	$ 50,324	$ 46,917	$ 3,407	7%
Lobster	30,986	35,308	(4,322)	(12%)
Clams	23,631	20,993	2,638	13%
Coldwater shrimp	15,072	22,663	(7,591)	(33%)
Ground fish and other	1,980	4,036	(2,056)	(51%)
Crab	4,355	4,635	(280)	(6%)
Hedging program	-	(146)	146	(100%)
	$ 126,348	$ 134,406	$ (8,058)	(6%)

The scallop fleet operated in the first six months of the year without any significant interruptions, which led to an increase in sales compared to the comparative period in 2007. In 2007 margins were impacted by refit costs of $1.9 million, versus $1.2 million in 2008, most of which was incurred in the second quarter of 2008. This resulted in higher operating costs and lower harvest volumes in the first six months of 2007. Our scallop fleet's operating costs have been increasing quarter over quarter in 2008 due mainly to higher fuel costs. Higher fuel costs have resulted in an increase to Canadian scallop harvest costs of approximately 34 cents a pound.

Lobster sales decreased compared to 2007 due to lower average sales prices. Our costs did not decrease on a similar scale. Margins were impacted in 2008 by increased shore prices from the December 2007 lobster buy. However, lower shore prices and good quality in the spring of 2008 buy have resulted in a stronger inventory position at the end of the second quarter, which we will see the benefit from in the second half of the year. Raw lobster product sales have continued to grow and volumes were up 13% year-to-date, a trend expected to continue. We continue to realize the benefits of our raw lobster product and the application of technology that provides a more effective method to sort and grade our live lobster. This, combined with lower shore prices and good quality has resulted in a better overall buy in the spring of 2008, from which we expect to see the benefit in the second half of the year.

Subsequent to quarter-end Clearwater purchased a vessel for conversion for the lobster fleet. The total expected cost, including conversion costs is approximately $5.7 million. This vessel will lower the average age of the lobster fleet to, improve operating efficiency and reliability of fishing efforts, significantly lower fuel consumption and result in greater stability in crewing. As a result, Clearwater expects to retire 3 of the 4 existing lobster vessels in the latter part of the year. This Conversion will include the addition of an on-board dryland pound capable of holding 80-90,000 pounds; a conveyor and weighing/grading systems similar to our shore plants that will minimize handling in all areas of the operation; a semi-automatic trap handling system and an automated unloading system to ensure fast discharge and proper handling which will minimize damage and stress. We expect to realize increased returns from this vessel due to lower fleet management costs (due to having fewer vessels) and lower mortality from the improved handling.

The clam fleet has operated without any significant interruptions in the first six months of 2008. Our newly converted vessel, the Arctic Endurance, successfully completed its sea and fishing trials during the second quarter and has begun to harvest product, which will be sold in the latter part of the year. This investment in new harvesting capacity will result in growth in clam sales volumes and greater harvesting efficiencies, which will serve to boost the profitability of the clam business. During the quarter we incurred approximately $1.6 million in costs to get the Endurance commissioned. Looking forward to the balance of this year we will have our other clam vessel on refit in July and as a result our third quarter landings will be lower but both landings and sales should pick up in the fourth quarter. We have realized higher average selling prices in the current quarter, which combined with lower operating costs and lower refit/commission expenses has led to improved profitability in the first six months of 2008 versus the comparative period in 2007.

Coldwater shrimp sales were significantly lower in the first six months of 2008 compared to the comparative period in 2007 however higher prices and lower costs offset the lower volumes. This is primarily due to lower harvest volumes as in the fourth quarter of 2007 the Arctic Endurance, a factory freezer shrimp vessel, was removed from the shrimp fleet to be converted to a clam vessel. In addition, the timing of landings in the second quarter led to lower sales in 2008. Clearwater has renewed and expanded its joint venture agreement for its shrimp harvesting operations effective April 1, 2008. The key terms of this new agreement include an extension of the partnership for a further 10 years, the contribution by our partner of the factory vessel Ocean Prawns and the contribution by both parties of rights to fish shrimp and turbot fishing quotas. Each partner's equity interests in the partnership were adjusted to reflect the contribution of the vessel and use of quotas such that Clearwater's share of the partnership earnings have increased from 50% to 54% from April 1, 2008 onwards. This joint venture will enable Clearwater and its partner to combine shrimp harvesting assets and related shrimp and turbot quotas into a larger operating entity that is expected to create efficiencies and improved profits for the business in the future.

Groundfish sales were impacted in 2008 by the removal of the Arctic Endurance from the fleet as this vessel also landed other species that were captured in the groundfish category in 2007 for which there were no sales so far for 2008.

Foreign exchange decreased the value of sales and margins by approximately $6.9 million year-to-date in 2008 compared to the rates received in 2007.

	2008		2007	
Currency	% sales	Rate	% sales	Rate
US Dollars	43.8%	1.010	47.2%	1.125
Euros	21.5%	1.532	15.0%	1.499
Japanese Yen	10.4%	0.010	9.4%	0.010
UK pounds	7.0%	1.986	7.0%	2.217
Canadian dollar and other	17.3%		21.4%	
	100.0%		100.0%	

In summary, sales for the year-to-date were slightly lower than the prior year due to lower lobster, shrimp and groundfish volumes, offset partially by higher scallop and clam sales. Gross profits were $12.9 million lower, as compared to 2007, primarily due to the impact of the new inventory standard, foreign exchange, higher fuel costs, vessel commissioning costs and lower lobster volumes and margins. Excluding the impact of $10.2 million on 2008 year-to-date earnings from this new standard, gross margins were $25.1 million in the first half of 2008 versus $27.9 million in the first half of 2007.

Fuel costs are higher as compared to 2007. Clearwater's factory freezer vessels used approximately 13 million litres of fuel in the first six months of 2008 and used approximately 29 million litres of marine diesel fuel during the 2007 year. Year-to-date higher fuel costs have impacted harvesting costs for our factory vessels by approximately $2.8 million. A one-cent per litre change in the price of fuel impacts harvesting costs by approximately $280,000 based on fiscal 2007 fuel purchases. In early August 2008 fuel prices per litre have declined but still remain above historic levels.

Administration and selling costs were impacted by the adoption of the new accounting standard for inventories. Excluding the impact of $4.9 million on 2008 year-to-date figures from this new standard, administrative and selling expenses were $17.7 million in 2008 versus $20 million in 2007 or approximately 11% lower. Management had previously stated that they anticipate a reduction in administration and selling costs due to process and system improvements with tighter control over spending. The majority of the savings in the first half of 2008 compared to 2007 was the result of $1 million less spending on professional and consulting fees. In the first half of 2007, approximately $600,000 of fees and costs was expensed related to possible acquisitions.

Other income in 2008 is higher than 2007 due to a higher level of investment income, as a result of higher average cash balances for the period, partially offset by lower amounts of export rebates as well as lower amounts of quota rental and royalties.

Other income detail:	2008	2007
Investment income	$ 1,342	$ 1,102
Export rebate	220	470
Other 531	522	
	$ 2,093	$ 2,094

Other expense in 2008 includes approximately $700,000 in restructuring costs related to our lobster business to position it for greater profits in the future.

The insurance claim received in 2007 related to one of Clearwater's clam vessels, the Atlantic Pursuit, which was damaged extensively on December 5, 2006 when it was struck by a large wave. This was an older vessel and scheduled to be retired from the fleet later in 2007, however, as a result of the damage incurred, was retired from service early. An agreement was reached with Clearwater's insurers during the first quarter of 2007, and as a result a gain of approximately $3.6 million was recorded. The vessel had a nominal book value and management has since disposed of the vessel.

Foreign exchange and derivative contracts resulted in a loss of $3.7 million year-to-date in 2008 as compared to a gain of $17.1 million in the comparative period for 2007. The majority of the variance relates to a reduction in unrealized gains of $24.7 million with $1.7 million in unrealized gains in 2008 versus unrealized gains of $26.4 million in 2007. Realized losses declined by $3.9 million to $5.4 million in 2008. Clearwater does not account for its foreign exchange contracts as accounting hedges, and therefore records the mark-to-market value of the contracts each quarter, recording the non-cash impacts of foreign exchange on the outstanding contracts as income or expense.

Please refer to note 3 in the financial statements for a detailed listing of outstanding contracts at the end of the second quarter of 2008 and their fair values. As of June 28, 2008, the mark-to-market valuation was a net liability of $17 million versus $12 million at December 31, 2007.

Over the longer term, the changing Canadian dollar will continue to impact Clearwater, as approximately 80% of our sales are denominated in foreign currencies.

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

Schedule of foreign exchange and derivative contract loss (gain) for the 26 weeks ended June 28, 2008 and June 30, 2007:

In (000's)	2008	2007
Realized loss		
Foreign exchange and derivatives	4,348	7,782
Other realized	1,067	1,579
	5,415	9,361
Unrealized (gain) loss		
Balance sheet translation	(8,336)	(697)
Mark-to-market on exchange derivative contracts	(20)	(20,971)
Mark-to-market on interest and		

currency swap contracts	6,625	(4,751)
	(1,731)	(26,419)
Total loss (gain)	$ 3,684	$ (17,058)

Bank interest and interest on long-term debt increased significantly due in part to the fact no interest was capitalized in 2008 versus $1.6 million that was capitalized in 2007. In addition, in 2008 there were higher average amounts of debt outstanding with higher interest rates on outstanding debt, mainly the Icelandic denominated bond. The increase in debt is mainly due to the convertible debentures that were issued at a 7.25% interest rate in March of 2007 effectively doubling the amount of convertible debt at the end of the first quarter of 2007.

Depreciation and amortization was impacted by the adoption of a new accounting standard for inventories. Excluding the impact of $5.2 million on 2008 second quarter figures from this new standard, depreciation and amortization expense was $5.6 million in the first half of 2008 versus $5.9 million in the first half of 2007.

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

LIQUIDITY AND CAPITAL RESOURCES

Earnings before interest, tax, depreciation and amortization ("EBITDA") and leverage are not recognized measures under Canadian Generally Accepted Accounting Principles ("GAAP") and therefore are unlikely to be comparable to similar measures presented by other companies. Management believes that in addition to net income and cash provided by operating activities, EBITDA is a useful supplemental measure from which to determine the Fund's ability to generate cash available for debt service, working capital, capital expenditures, income taxes and distributions. In addition, as EBITDA and leverage are measures frequently analyzed for public companies, we have calculated the amount in order to assist readers in this review. EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of performance, as a measure of liquidity, or as a measure of cash flows, and management does not use this measure as a performance measure of earnings. 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 classes of long-term debt. Clearwater's objective when managing its capital structure is to obtain the lowest cost of capital available, while maintaining flexibility and reducing exchange and refinancing risk as appropriate.

Management believes that the significant cash balances currently being carried and the available credit lines provided by its bank syndicate will be sufficient to meet Clearwater's cash requirements. We use leverage, in particular senior revolving and term debt, to lower our cost of capital. The amount of senior debt available to Clearwater is a function of earnings that can be impacted by known and unknown risks, uncertainties, and other factors outside management's control including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs. We maintain flexibility in our capital structure by regularly reviewing forecasts of future results and making any required changes on a timely basis. These changes can include early repayment of debt, repurchasing units, issuing new debt or equity, extending the term of existing debt, selling assets to repay debt and if required, limiting distributions paid. Refinancing risk is reduced by staggering the maturities of debt instruments and a policy whereby maturing debt agreements are revisited and updated or replaced as required in advance of maturity dates.

In 2008, $58.1 million of term notes are due (note 4 (a) to the financial statements), resulting in that debt classified as current. Management expects to refinance the debt during the next two quarters with such refinancing happening as part of the strategic transaction announced On August 14, 2008.

As at June 28, 2008, the Fund owns 54.27% (December 31, 2007 - 54.71%) of the outstanding partnership units of Clearwater. However, as Clearwater Fine Foods Incorporated ("CFFI") maintained the right to nominate the majority of the board of directors of Clearwater at the time of the initial investment by the Fund, the assets and liabilities at acquisition have been recorded using the book values as recorded by CFFI.

As at June 28, 2008, the Fund and Clearwater had similar equity/convertible debt structures as illustrated in the table below:

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

As of August 14, 2008, there have been no changes to the number of units outstanding.

Clearwater also has other debt, and as a result its total capital structure is as follows as June 28, 2008 and December 31, 2007:

In (000's)	June 28 2008	December 31 2007
a. Equity – Partnership units	$ 164,770	$ 167,698
b. Convertible debt, Class C units, due in 2010	43,446	43,201
c. Convertible debt, Class D units, due in 2014	41,306	40,951
d. Non-amortizing debt		
Term notes due in 2008	58,053	57,641
Term notes due in 2013	24,747	24,629
Bond payable, due in 2010	45,213	51,392
Term loan, due in 2091	3,500	3,500
	131,513	137,162
Amortizing debt		
Marine mortgage	5,516	4,911
Other loans	1,082	1,339
	6,598	6,250
Deficit	(38,501)	(33,909)
	$ 349,132	$ 361,353

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

b. Convertible debt - In June 2004, 4,081,633 **Class C units** were issued by Clearwater (indirectly) to the Fund concurrently with the issue by the Fund of $50 million of convertible debentures ($45 million in principal outstanding as at December 31, 2007 and as at June 28, 2008 due to buybacks under a normal course issuer bid) The Class C units are non-voting, redeemable and retractable at a price of $12.25 per unit. These units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the convertible debentures of the Fund and in a manner that ensures that the distributions on the Class C units will be able to (indirectly) fund the ongoing interest payments on the convertible debentures. The Class C units are classified in accordance with their component parts: the value ascribed to the holders' option to convert to units, $882,000 on issuance, was classified as equity and the remaining portion of the units was classified as debt. As noted previously, Clearwater has repurchased some of this debt such that at June 28, 2008, the face value of the debt outstanding was $45 million, $43 million net of financing charges and option to convert (December 31, 2007 - $43 million, net of option to convert and financing charges). The **convertible debentures** issued by the Fund are unsecured and subordinated, bear interest at 7%, and are due on December 31, 2010. They are convertible at any time up to maturity, at the option of the holder into trust units of the Fund at a conversion price of $12.25 per trust unit. The debentures pay interest semi-annually in arrears on June 30 and December 31. 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. Convertible debt - In 2007 8,142,712 Class D units were issued for proceeds of $48 million. **Class D units** were issued by Clearwater (indirectly) to the Fund concurrently with the issue by the Fund of $48 million of convertible debentures, ($44 million in principal outstanding as at December 31, 2007 and as at June 28, 2008 due to buybacks under a normal course issuer bid). The Class D units are non-voting, redeemable and retractable at a price of $5.90 per unit. These units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the convertible debentures of the Fund and in a manner that ensures that the distributions on the Class D units will be able to (indirectly) fund the ongoing interest payments on the convertible debentures. The Class D units are classified in accordance with their component parts: the value ascribed to the holders' option to convert to units, $1,579,000, has been classified as equity and the remaining portion of the units has been classified as debt. The **convertible debentures** issued by the Fund are unsecured and subordinated, bear interest at 7.25%, and are due on March 31, 2014. They are convertible at any time up to maturity, at the option of the holder, into trust units of the Fund at a conversion price of $5.90 per trust unit. The debentures pay interest semi-annually in arrears on March 31 and September 30. The debentures are not redeemable before March 31, 2010. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering that number of trust units equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash.

d. Non-amortizing debt - In addition to the convertible debentures and Class C and D Partnership units, Clearwater has additional primary debt facilities. These facilities include approximately $82 million in **five and ten year notes** in Canadian and U.S. dollars from a syndicate of five institutional lenders due in 2008 and 2013 and 2,460 million ISK in **five-year bonds**. The 2,460 million ISK bonds yield 6.7%, are adjusted for changes in the Icelandic consumer price index (CPI), 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 bond is recorded in long-term debt at $30.5 million along with $6 million of accrued interest and $8.7 million of accrued CPI, both of which are completely offset by swap contracts. The mark-to-market adjustment related to the bond swaps as of June 28, 2008 is a liability of $360,000 (December 31, 2007 a liability of $216,000).

Clearwater has a $50 million **revolving term debt facility** from a syndicate of banks. This facility was not drawn upon at June 28, 2008. This facility, which matures and is renewable in May 2009, is part of a master netting agreement and was in a cash position of $23.6 million as at June 28, 2008.

As part of its strategy to manage its capital structure, the Fund filed a normal course issuer bid by which it could acquire up to $4.8 million principal amount of 2007 convertible debentures and $4.5 million principal amount of 2004 convertible debentures in the 12-month period ending August 2008. Under this normal course issuer bid, approximately of $3.7 million of the Class D units have been repurchased and cancelled, with the proceeds used to repurchase and cancel an equivalent amount of convertible debentures.

For 2007, the Fund repurchased and cancelled 1,162,100 units at a cost of approximately $5.6 million. The transactions resulted in decreasing the unit value outstanding by $11.8 million and increasing contributed surplus by $6.2 million. During the first quarter of 2008 the Fund repurchased and cancelled 500,000 units at a cost of approximately $2.3 million. The transaction resulted in decreasing the unit value outstanding by $5.1 million and increasing contributed surplus by $2.7 million. The normal course issuer bid for units has expired.

Clearwater is in compliance with all of the non-financial and financial covenants associated with its debt facilities. These covenants include, but are not limited to, leverage ratios against earnings (excluding most significant non-cash items and non-recurring items from earnings) and fixed charge ratios that can limit the amount of distributions paid. During the first quarter of 2008, the terms of the lending agreement were amended resulting in additional conditions on the amount of distributions that can be declared in 2008. In addition, the debt related to these facilities takes priority over the securities in Clearwater held by the Fund. When considering leverage, it has increased from the first quarter of 2008 and December 31, 2007 as debt levels have increased due to seasonal working capital requirements and capital expenditures. Clearwater will continue to monitor and manage debt levels based on business needs and opportunities.

Working capital and cash flows

As of June 28, 2008 there is a significant cash position on the balance sheet in the amount of $24 million. This cash balance is intended to be used to manage working capital needs and to reduce existing debt balances as appropriate.

The net investment in working capital, excluding derivative financial instruments, is lower than that at December 31, 2007, due to the lower amounts of cash partially offset by seasonally higher levels of inventories.

CASH FLOWS

Summarized cash flow information

For the 13 and 26 week periods ending June 28, 2008 and June 30, 2007. See statements of cash flows for more detail.

	13 weeks ended		26 weeks ended	
	2008	2007	2008	2007
Cash flow from operations (before change in working capital)	$ (2,529)	$2,012	$ (3,697)	$(1,605)
Investing, Financing, and change in non-cash operating working capital				
Change in non-cash operating working capital	(21,915)	(20,989)	(9,089)	(5,993)
Other investing activities	(2,557)	485	(2,905)	114
Capital expenditures (net of proceeds on sale)	(19,016)	(2,874)	(40,419)	(9,775)
Distributions to unitholders	-	(7,901)	(2,581)	(15,817)
Distributions to minority partners	(191)	(1,559)	(191)	(2,988)
Investment by minority partner	12,911	-	12,911	-
Repurchase of units	-	(879)	(2,337)	(2,088)
Other	1,696	(82)	1,543	1,213
	(29,072)	(33,799)	(43,068)	(35,334)
Increase in long-term debt, net of cash	$ (31,601)	$(31,787)	$ (46,765)	$ (36,939)

During the first half of 2008 funded debt (net of cash balances) has increased by approximately $46.8 million as capital expenditures were greater than amounts generated from earnings and improvements in working capital.

Cash flows generated by Clearwater along with its banking facilities are used to fund current operations, seasonal working capital demands, capital expenditures, and other commitments. Due to the seasonality in Clearwater's business, sales and gross profit are typically higher in the second half of the calendar year than in the first half of the year. Inventories reach a seasonal peak in the summer due to better weather for harvesting, resulting in seasonal demands on working capital.

CAPITAL EXPENDITURES

Capital expenditures were $42 million (2007 - $10.5 million) year-to-date. Of this amount, $40.5 million were considered to be return on investment (“ROI”) capital. ROI and maintenance capital are tracked on a project-by-project basis. The significant ROI projects for the quarter ended June 28, 2008 were the conversion of the shrimp vessel to a clam vessel, the purchase of turbot quota and the expansion of our plant in St. Anthony, Newfoundland. In addition, concurrent with the renegotiation of our shrimp joint venture, our partner contributed a vessel with a value of approximately $17 million with $3 million spent by the partnership to upgrade the vessel and licences with a value of approximately $7 million, of which $14.5 million represents our proportionate share. Significant expenditures that are expected to have an average return in excess of average cost of capital are classified as ROI, and expenditures that have less than the average cost of capital are classified as maintenance.

Clearwater in the process of completing a major refit on one of its vessels which will increase the life of the vessel and delay the need to replace it by at least two years. The total cost of this refit is estimated to be approximately $3.2 million of which $1.9 million is repair ($680,000 incurred to Q2 2008).

During the balance of the year, planned refits include completing the Argentine vessel and one clam vessel (estimated cost for the clam vessel refit is approximately $800,000). These refits are in the normal course of operations and will result in approximately 90 lost sea days.

Subsequent to quarter-end Clearwater signed an agreement to purchase a vessel for conversion for the lobster fleet. The total expected cost, including conversion costs is approximately $5.7 million. This vessel will provide us a more reliable fishing effort; significantly lower fuel consumption and result in greater stability in crewing. As a result, Clearwater expects to retire 3 of the 4 existing lobster vessels in the latter part of the year. This Conversion will include the addition of an on-board dryland pound capable of holding 80-90,000 pounds; a conveyor and weighing/grading systems similar to our shore plants that will minimize handling in all areas of the operation; a semi-automatic trap handling system and an automated unloading system to ensure fast discharge and proper handling which will minimize damage & stress. We expect to realize increased returns from this vessel due to lower fleet management costs (due to having fewer vessels) and lower mortality from the improved handling.

DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

(Please refer to the definitions and reconciliation section of the MD&A for the reconciliation between cash flows from operations to distributable cash.)

Distributable cash does not have any standardized meaning prescribed by Canadian GAAP and therefore is unlikely to be comparable to similar measures presented by other companies. 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 this review. However, 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. Management uses distributable cash as a measure of cash generated by Clearwater available for distribution to unit holders without eroding Clearwater's production capacity.

The first half of 2008 reflected a relatively stable level of distributable cash as compared to the comparable period in 2007. Vessel commissioning and refit costs in 2008 more than offset higher vessel disruption costs in 2007.

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

- Current financial results – The first half of 2008 had lower earnings and distributable cash levels as compared to the first half of 2007. Distributable cash was a shortfall of $6.4 million in the first half of 2008 versus a shortfall of $5.3 million in the first half of 2007. As of June 28, 2008, the rolling four-quarter EBITDA figures, excluding the impact of non-cash foreign exchange, improved compared to the annual 2007 results whereas distributable cash levels were lower by $1.2 million. The rolling four quarters' EBITDA and distributable cash being $42.4 million and $11.9 million respectively as of June 28, 2008, as compared to $37.4 million and $13.1 million for fiscal 2007.

- Capital expenditures - Clearwater recently completed its most significant capital project for 2008, the conversion of a vessel for its clam fleet. The vessel cost approximately $17.5 million and Clearwater took delivery of the vessel in April 2008. Clearwater is in the middle of a major refit to one of its Argentine vessels and has committed to spend approximately $5.7 million on a new lobster vessel.

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

- Expectations regarding future earnings – The latter half of 2008 has the potential to show improvement compared to 2007. Management believes that with the expansion of the clam fleet in 2008, and assuming exchange rates remain relatively constant throughout the year, Clearwater will continue to grow and to generate positive cash flows and increase profit margins. Management also anticipate that in 2008 Clearwater will experience a higher Canadian scallop total allowable catch and reduced overhead costs. Clearwater has experienced higher fuel costs in 2008 and should they continue at high levels it would have the effect of reducing management's expectations regarding the ability to show improvements in the latter part of the year as compared to 2007.

The Fund announced on January 21, 2008 that, having declared distributions of $0.60 per unit in 2007 and having distributed cash in excess of the amounts generated, it would suspend monthly cash distributions. The Trustees and Directors have also agreed that if Clearwater remains in its current structure, distributions will be determined quarterly and paid in arrears after considering the traditional criteria in determining the distribution policy. The Trustees have determined that no distributions will be paid for this quarter. This distribution policy change will not impact Clearwater's outstanding convertible debentures. Clearwater will continue to pay interest semi-annually on the convertible debentures at their regularly scheduled dates.

Clearwater has a large depreciable asset base and some of the business units are incorporated. As a result, some of our distributions are treated as return of capital for tax purposes and are not taxable to the unit holder and some are taxed as dividend income and are taxable to unit holders. The following table summarizes the history of the taxation of distributions.

Taxation year	Return of capital	Dividend income	Other income
2002 per $ of distribution	62%	4%	34%
2003 per $ of distribution	45%	20%	35%
2004 per $ of distribution	62%	3%	35%
2005 per $ of distribution	52%	-	48%
2006 per $ of distribution	32%	-	68%
2007 per $ of distribution	23%	76%	1%

Summary of distributable cash and other key figures:

($000's)	13 weeks ended June 28, 2008	26 weeks ended June 28, 2008	13 weeks ended June 30, 2007	26 weeks ended June 30, 2007
Cash flow from operations	$ (24,444)	$ (12,786)	$ (18,977)	$ (7,598)
Net earnings (loss)	11,491	(9,878)	12,120	15,788
Distributions declared	-	-	7,901	15,817
Distributable cash	(4,964)	(6,421)	594	(5,307)
(Shortfall) excess of distributable cash over distributions declared	(4,964)	(6,421)	(7,307)	(21,124)
(Shortfall) excess of cash flows from operating activities over distributions declared	(24,444)	(12,786)	(26,878)	(23,415)
(Shortfall) excess of net earnings (loss) over cash distributions declared	11,491	(9,878)	4,219	(29)

Distributions have been suspended effective January 2008. When considering Clearwater's ability to reinstate distributions, the Trustees will weigh considerations including, but not limited to, the current financial conditions, capital expenditures, leverage, covenants and expectations for future earnings.

In July 2007, the Canadian Institute of Chartered Accountants ("CICA") released guidance on the calculation and disclosure for distributable cash in which it requires a calculation of "Standardized Distributable Cash" and allows a calculation of "Adjusted Standardized Distributable Cash". Adjusted Standardized Distributable Cash is consistent with the calculation we have always provided and therefore for the purposes of our report we refer to it as "distributable cash".

EXPLANATION OF SECOND QUARTER 2008 RESULTS

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

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

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

	Amount prior to application of new standard	Adjustment for new standard	Amount per financial statements
Cost of good sold	$ 56,295	$ 4,301	$ 60,596
Gross profit	12,938	(4,301)	8,637
Administration and selling	9,037	(2,339)	6,698
Depreciation and amortization	2,840	(3,013)	(173)
Net income	$ 10,440	$ 1,051	$ 11,491

Overview

The statements of earnings disclosed below reflect the unaudited earnings of Clearwater for the 13-week periods ended June 28, 2008 and June 30, 2007.

(In 000's)	2008	2007
Sales	$ 69,233	$ 75,311
Cost of goods sold	60,596	59,268
	8,637	16,043
	12.5%	21.3%
Administration and selling	6,698	9,663
Gain on disposal of assets	(213)	(224)
Other income	(860)	(848)
Insurance claim	-	(366)
Foreign exchange and derivative contracts	(13,607)	(13,107)
Bank interest and charges	166	208
Interest on long-term debt	4,254	3,524
Depreciation and amortization	(173)	2,922
	(3,735)	1,772
Earnings before income taxes and minority interest	12,372	14,271
Income taxes	61	1,129
Earnings before minority interest	12,311	13,142
Minority interest	820	1,022
Net earnings	$ 11,491	$ 12,120

Net (Loss) Earnings

Net earnings decreased by $629,000 in 2008 compared to the second quarter of 2007, due primarily to the following:

In (000's)	2008	2007	Change
Net (loss) earnings	$ 11,491	$ 12,120	$ (629)

Explanation of changes in earnings:	
Lower gross profit, due primarily to $4.3 million impact from new accounting standard and higher vessel costs	(7,406)
Higher realized foreign exchange and derivative loss	(2,384)
Higher interest on long term debt	(730)
Lower depreciation and amortization expense (includes $3 million impact from new accounting standard)	3,095
Lower administration and selling costs (includes $2.3 million impact from new accounting standard)	2,965
Higher unrealized foreign exchange and derivative income	2,884
Lower tax expense	1,068
All other	(121)
	$ (629)

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

In (000's)	2008	2007	Change	%
Scallops	$ 25,959	$ 26,041	$ (82)	-%
Lobster	16,960	19,436	(2,476)	(13%)
Clams	12,134	11,276	858	8%
Coldwater shrimp	10,130	13,010	(2,880)	(22%)
Ground fish and other	492	1,785	(1,293)	(72%)
Crab	3,558	3,763	(205)	(5%)
	$ 69,233	$ 75,311	$ (6,078)	(8%)

Scallop sales in the second quarter of 2008 were relatively consistent with 2007 as lower average prices were offset by higher volumes. One of our Argentine vessels was on scheduled refit and as a result we expensed approximately $680,000 during the quarter versus $140,000 expensed in 2007. Our scallop fleet's operating costs were higher in the current quarter due mainly to higher fuel costs.

Lobster sales decreased compared to 2007 as lower average sales prices were partially offset by higher volumes. Our costs did not decrease on a similar scale. We purchase approximately 80% of our live lobsters and higher shore prices in late 2007 resulted in us carrying a higher cost of inventory into 2008 than we would have liked given softer market conditions for the live product. Raw lobster product sales have continued to grow and volumes were up 13% in the quarter, a trend expected to continue. We continue to realize the benefits of our raw lobster product and the application of technology that provides a more effective method to sort and grade our live lobster. This, combined with lower shore prices and good quality has resulted in a better overall buy in the spring of 2008, from which we expect to see the benefit in the second half of the year.

Subsequent to quarter-end Clearwater purchased a vessel for conversion for the lobster fleet. The total expected cost, including conversion costs is approximately $5.7 million. This vessel will lower the average age of the lobster fleet to, improve operating efficiency and reliability of fishing efforts, significantly lower fuel consumption and result in greater stability in crewing. As a result, Clearwater expects to retire 3 of the 4 existing lobster vessels in the latter part of the year. This Conversion will include the addition of an on-board dryland pound capable of holding 80-90,000 pounds; a conveyor and weighing/grading systems similar to our shore plants that will minimize handling in all areas of the operation; a semi-automatic trap handling system and an automated unloading system to ensure fast discharge and proper handling which will minimize damage and stress. We expect to realize increased returns from this vessel due to lower fleet management costs (due to having fewer vessels) and lower mortality from the improved handling.

The clam fleet operated with only one vessel for almost all of the second quarter of 2008. Our newly converted vessel, The Arctic Endurance, successfully completed its sea and fishing trials during the quarter and has begun to harvest product, which will be sold in the latter part of the year. This investment in new harvesting capacity will result in growth in clam sales volumes and greater harvesting efficiencies, which will serve to boost the profitability of the clam business. During the quarter we incurred approximately $1.6 million in costs to get the Endurance commissioned. Looking forward to the balance of this year we will have our other clam vessel on refit in July and as a result our third quarter landings will be lower but both landings and sales should pick up in the fourth quarter. We have realized higher average selling prices in the current quarter, which has partially offset costs, due mainly to higher fuel prices.

Coldwater shrimp sales were lower in the second quarter of 2008 compared to the prior year due primarily to the less harvesting capacity. However higher prices and lower costs offset the lower volumes. As previously noted, the Arctic Endurance, a former shrimp vessel, was removed from the fleet and converted to a clam vessel, resulting in lower shrimp landings in the quarter. Clearwater has renewed and expanded its joint venture agreement for its shrimp harvesting operations effective April 1, 2008. The key terms of this new agreement include an extension of the partnership for a further 10 years, the contribution by our partner of the factory vessel Ocean Prawns and the contribution by both parties of rights to fish shrimp and turbot fishing quotas. Each partner’s equity interests in the partnership were adjusted to reflect the contribution of the vessel and use of quotas such that Clearwater’s share of the partnership earnings have increased from 50% to 54% from April 1, 2008 onwards. This joint venture will enable Clearwater and its partner to combine shrimp harvesting assets and related shrimp and turbot quotas into a larger operating entity that is expected to create efficiencies and improved profits for the business in the future.

Groundfish sales were lower in the quarter as we have decided to lease out certain of our groundfish quotas for a royalty rather than fish them. As a result we are in the process of selling our two long liners. Groundfish sales were also lower as we also changed our fishing plans to accommodate refit schedules and as a result we will harvest and sell more turbot in the latter part of this year.

Foreign exchange decreased the value of sales and margins by approximately $2.0 million in the second quarter of 2008 compared to the rates received in the second quarter of 2007.

	2008		2007	
Currency	% sales	Rate	% sales	Rate
US Dollars	45.9%	1.014	48.0%	1.097
Euros	21.1%	1.553	14.9%	1.469
Japanese Yen	9.4%	0.010	8.6%	0.009
UK pounds	6.6%	1.988	7.0%	2.169
Canadian dollar and other	17.0%		21.5%	
	100.0%		100.0%	

In summary, sales for the quarter were lower than the prior year due to lower lobster, shrimp and groundfish sales, offset partially by clam sales. Gross profits were $7.4 million lower as compared to 2007 primarily due to the impact of the new inventory standard, foreign exchange, higher fuel costs, vessel commissioning costs and lower lobster volumes and margins. Gross margins were also impacted by the adoption of the new accounting standard for inventories. Excluding the impact of $4.3 million on 2008 second quarter earnings from this new standard, gross margins were $12.9 million in the second quarter of 2008 versus $16 million in the second quarter of 2007.

Fuel costs are also higher on average compared to 2007. Clearwater's factory freezer vessels used approximately 13 million litres of fuel in the first six months of 2008 and used approximately 29 million litres of marine diesel fuel during the 2007 year. A one-cent per litre change in the price of fuel impacts harvesting costs by approximately $280,000 based on fiscal 2007 fuel purchases. In early August 2008 fuel prices per litre have declined but still remain above historic levels.

Administration and selling costs were impacted by the adoption of the new accounting standard for inventories. Excluding the impact of $2.3 million on 2008 second quarter figures from this new standard, administrative and selling expenses were $9 million in the second quarter of 2008 versus $9.7 million in the second quarter of 2007 or approximately 7% lower than the prior quarter. Management had previously stated that they anticipate a reduction in administration and selling costs due to process and system improvements with tighter control over spending.

Other income in 2008 is higher than 2007 due mainly to a number of items of that are expected to be non-recurring.

Other income detail for the quarter:	2008	2007
Investment income	$ 639	$ 870
Export rebate	139	174
Other	82	(196)
	$ 860	$ 848

Other expense in 2008 includes approximately $700,000 in restructuring costs related to our lobster business to position it for greater profits in the future.

Foreign exchange and derivative contracts resulted in a gain of $13.6 million in the second quarter of 2008 as compared to a gain of $13.1 million in the comparative period for 2007. Realized losses were $2.4 million higher in 2008, offset by higher unrealized gains of $2.9 million. Clearwater does not account for its foreign exchange contracts as accounting hedges, and therefore records the mark-to-market value of the contracts each quarter, recording for non-cash impacts of foreign exchange on the outstanding contracts as income or expense.

Please refer to note 3 in the financial statements for a detailed listing of outstanding contracts at the end of the second quarter of 2008 and their fair values. As of June 28, 2008, the mark-to-market valuation was a net liability of $17 million versus $36 million at March 29, 2008 (December 31, 2007 – $12 million). This is a significant decrease over the past quarter and is due in part to the relative strengthening of the Canadian dollar to various currencies.

Over the longer term, the changing Canadian dollar will continue to impact Clearwater, as approximately 80% of our sales are denominated in foreign currencies.

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

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

In (000's)	2008	2007
Realized loss		
Foreign exchange and derivative	$ 2,464	$ 491
Other realized	2,071	1,660
	4,535	2,151
Unrealized (gain) loss		
Balance sheet translation	(1,741)	(3,538)
Mark-to-market on exchange derivative contracts	(16,894)	(9,987)
Mark-to-market on interest and currency swap contracts	493	(1,733)
	(18,142)	(15,258)
Total loss (gain)	$ (13,607)	$ (13,107)

Bank interest and interest on long-term debt increased as compared to 2007 as no interest was capitalized in 2008 versus $777,000 that was capitalized in 2007.

Depreciation and amortization was impacted by the adoption of a new accounting standard for inventories. Excluding the impact of $3 million on 2008 second quarter figures from this new standard, depreciation and amortization expense was $2.8 million in the second quarter of 2008 versus $2.9 million in the second quarter of 2007.

Income taxes have decreased compared to the second quarter amount in 2007 due mainly to lower earnings in taxable subsidiaries.

OUTLOOK

In late April 2008, Clearwater took delivery of the vessel it had been converting over the past several months for its clam fishery. Management continues to believe there is strong potential for growth in the clam business and expects to begin to realize this potential in the latter part of the year. This new vessel combined with the ocean bottom mapping technology will enable the clam business to realize significant improvements for 2008 and beyond.

In addition, Clearwater has renewed and expanded its joint venture agreement for its shrimp harvesting operations effective April 1, 2008. The key terms of this new agreement include an extension of the partnership for a further 10 years, the contribution by our partner of the factory vessel Ocean Prawns and the contribution by both parties of rights to fish shrimp and turbot fishing quotas. Each partner's equity interests in the partnership were adjusted to reflect the contribution of the vessel and use of quotas such that Clearwater's share of the partnership earnings have increased from 50% to 54% from April 1, 2008 onwards. This joint venture will enable Clearwater and its partner to combine shrimp harvesting assets and related shrimp and turbot quotas into a larger operating entity that is expected to create efficiencies and improved profits for the business in the future.

Finally, subsequent to quarter-end Clearwater purchased a vessel for conversion for the lobster fleet. The total expected cost, including conversion costs is approximately $5.7 million. This vessel will lower the average age of the lobster fleet to, improve operating efficiency and reliability of fishing efforts, significantly lower fuel consumption and result in greater stability in crewing. As a result, Clearwater expects to retire 3 of the 4 existing lobster vessels in the latter part of the year. This Conversion will include the addition of an on-board dryland pound capable of holding 80-90,000 pounds; a conveyor and weighing/grading systems similar to our shore plants that will minimize handling in all areas of the operation; a semi-automatic trap handling system and an automated unloading system to ensure fast discharge and proper handling which will minimize damage and stress. We expect to realize increased returns from this vessel due to lower fleet management costs (due to having fewer vessels) and lower mortality from the improved handling.

In summary, second quarter margins were impacted by commissioning costs, foreign exchange and lower lobster margins. However, a fully commissioned clam fleet and a new shrimp joint venture will provide the opportunity to increase our harvest and sales volumes in the coming year.

On August 14, 2008 Clearwater Seafoods Income Fund announced that it had entered into an acquisition agreement with CS Acquisition Limited Partnership ("CS Acquisition"), a partnership consortium led by Clearwater Fine Foods Incorporated ("CFFI"), the controlling unitholder of Clearwater Seafoods Limited Partnership.

Under the terms of the Agreement, CS Acquisition will acquire all of the assets of the Fund, which will result in the Fund's unitholders receiving $4.50 per unit and the holders of convertible debentures receiving 101% of the par value of debentures plus accrued interest.

Based on the recommendation of its Special Committee, the Board of Trustees has unanimously resolved to recommend that unitholders approve the transaction. The Fund will issue a management information circular which will contain its recommendation to unitholders together with the formal valuation and fairness opinion.

This offer effectively results in CS Acquisition Limited Partnership acquiring all of the Fund's investment in Clearwater. Concurrent with this transaction, Clearwater will reorganize it current capital structure, which will effectively result in the replacement of existing debt facilities with new debt facilities and the consolidation of its partnership units.

We hold significant quotas in our key species, we have leading edge, innovative harvesting and processing technologies and we are vertically integrated. Our business strategies to deliver long-term value are sound.

We have an outstanding and dedicated workforce, excellent quota positioning, and global customer relationships that span decades and we look forward to building on these strengths for the balance of 2008 and going forward.

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. Refer to the annual report for a complete listing of critical accounting policies and estimates used in the preparation of the consolidated financial statements.

Impact of recently adopted accounting policies

During the course of the quarter, Clearwater reviewed all new accounting standards issued by the CICA in order to determine the impact of the new standards, if any.

Impact of accounting policies adopted in 2008:

Inventories

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

Clearwater has applied the new standard retrospectively without restatement, which resulted in an increase to inventory and decrease in deficit of $5.3 million at January 1, 2008.

Inventories, which consist primarily of finished goods, are stated at the lower of cost or net realizable value. Cost includes the cost of materials plus direct labor applied to the product and the applicable share of manufacturing overheads, administration and depreciation and is determined on a first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

During the first half of 2008, $97,711,000 (Q1 – $45,513,000, Q2 - $52,198,000) of inventories was recognized as cost of sales. There was $400,098 in inventory write-downs recorded in the first half of 2008.

The following tables illustrate the impact of the new standard for the year-to-date and second quarter of 2008.

Year-to-date

	Amount prior to application of new standard	Adjustment for new standard	Amount per financial statements
Cost of good sold	$ 101,180	$ 10,245	$ 111,425
Gross profit	25,168	(10,245)	14,923
Administration and selling	17,728	(4,943)	12,785
Depreciation and Amortization	5,596	(5,231)	365
Net loss	$ (9,807)	$ (71)	$ (9,878)

Second quarter

	Amount prior to application of new standard	Adjustment for new standard	Amount per financial statements
Cost of good sold	$ 56,295	$ 4,301	$ 60,596
Gross profit	12,938	(4,301)	8,637
Administration and selling	9,037	(2,339)	6,698
Depreciation and Amortization	2,840	(3,013)	(173)
Net loss	*$ 10,440*	*$ 1,051*	*$ 11,491*

Financial instruments disclosure

Effective January 1, 2008, Clearwater adopted section 3862 “Financial Instruments – Disclosures” ” and 3863 “Financial Instruments – Presentation”, which replace Section 3861 Financial Instruments – Disclosure. This section requires Clearwater to provide disclosure of quantitative and qualitative information in the financial statements that enable users to evaluate the significance of financial instruments for Clearwater’s financial position and performance and the nature and extent of risks arising from financial instruments to which Clearwater is exposed to during the period and balance sheet date and management’s objectives, policies and procedures for managing such risks. . The adoption of 3862 and 3863 did not have an impact on Clearwater’s financial results or position.

Capital Disclosures

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

Impact of standards to be adopted in the future

International Financial Reporting Standards ("IFRS")

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

We are currently in the process of engaging advisors and further developing our implementation plan to ensure Clearwater is prepared to meet the requirements of the new accounting guidelines.

The key elements of our plan initially include identifying key accounting differences between Canadian and IFRS accounting standards, assessing the impact on information technology and internal control and disclosure systems, ensuring directors and employees receive appropriate training, assessing the impact on business activities including but not limited to debt covenants and ensuring we have a robust internal and external communication process.

Due to the complexity of the new guidelines it is difficult to determine the impact on Clearwater. However, based on the preliminary work we have done to date we have determined there are a number of standards likely to impact Clearwater, including but not limited to property, plant and equipment, intangible assets, consolidation, provisions and contingencies and joint ventures. In addition, there are a number of choices available under IFRS 1 – First Time Adoption of IFRS that will impact Clearwater's reporting as well as the additional volume of disclosures typically required under all IFRS standards. As we develop further in the process, any significant impacts will be reported on a timely basis.

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 2008				
Sales	$ 57,114	69,233		
Net (loss) income	(21,369)	11,491		
Basic (loss) income per unit	(0.42)	0.22		
Fiscal 2007				
Sales	$ 59,095	$ 75,311	$ 90,555	$77,720
Net earnings (loss)	3,668	12,120	9,323	(4,843)
Basic earnings (loss) per unit	0.07	0.23	0.18	(0.09)
Fiscal 2006				
Sales	$ 70,349	$ 81,312	$ 79,939	$ 84,136
Net earnings (loss)	1,634	10,407	8,507	(18,714)
Basic earnings (loss) per unit	0.03	0.22	0.16	(0.35)

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

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

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

DEFINITIONS AND RECONCILIATIONS

Distributable Cash

Distributable cash does not have any standardized meaning prescribed by Canadian 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 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. Management uses distributable cash as a measure of cash generated by Clearwater available for distribution to unitholders without eroding Clearwater's production capacity.

We calculate distributable cash by starting with the actual cash from operating activities. From that we add or deduct, as appropriate, actual changes in working capital and gains/losses on disposals of property, plant, equipment and licences. Finally, we deduct the actual amount of our minority partners' share in EBITDA, interest and taxes and the amount spent on capital expenditures that management has designated as being for maintenance rather than growth.

This reconciliation has been prepared using reasonable and supportable assumptions, all of which reflect Clearwater's planned courses of action given management's judgement about the most probable set of economic conditions. Any adjustments based on forward-looking information may vary from actual results, perhaps materially.

The distributable cash shortfall was $6.4 million year-to-date in 2008 compared to a shortfall of $5.3 million year-to-date in 2007. When reviewing the distribution policy, Clearwater's Trustees consider the financial results, on-going capital expenditure requirements, leverage, covenants and expectations regarding future earnings. Future earnings can be impacted by a number of factors including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates and fuel costs.

As previously discussed, the first half of 2008 reflected a relatively stable level of distributable cash as compared to the comparable period in 2007. Vessel commissioning and refit costs in 2008 more than offset higher vessel disruption costs in 2007.

($000's except per unit amounts)	13 weeks ended June 28, 2008	13 weeks ended June 30, 2007	26 weeks ended June 28, 2008	26 weeks ended June 30, 2007
Cash flow from operating activities	*$ (24,444)*	*$ (18,977)*	*$ (12,786)*	*$ (7,598)*
Add (deduct):				
Capital expenditures per cash flow	*(20,039)*	*(3,233)*	*(41,984)*	*(10,498)*
Standardized Distributable Cash	*(44,483)*	*(22,210)*	*(54,770)*	*(18,096)*
Change in non-cash working capital [A]	*21,915*	*20,989*	*9,089*	*5,993*
Minority share EBITDA, int., taxes [B]	*(608)*	*(641)*	*(1,047)*	*(2,169)*
Adjustment for ROI capital [C]	*19,512*	*2,412*	*40,467*	*9,191*
Gain (loss) on disposal P,P,E / licences [D]	*(1,300)*	*44*	*(160)*	*(226)*
Distributable cash	$ (4,964)	$ 594	$ (6,421)	$ (5,307)
Distributions [E]	$ -	$ 7,901	$ -	$ 15,817
Payout ratio	*-*	*1,329%*	*-*	*(298)%*

A. Change in non-cash working capital is excluded as changes in working capital are, for the most part, due to seasonality and tend to reverse over the year, and are financed using Clearwater's debt facilities. Changes in this item depend on variables including, but not limited to, supply and demand, collectibility of accounts and timing of payments. Due to the seasonal nature of the seafood industry, inventories tend to build up over the summer months due to more favourable fishing conditions, as well as during seasonal buys for product such as lobster.

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 calculated minority partners' interest in the earnings before interest, taxes, depreciation and amortization of the subsidiaries less their proportionate share of the interest and taxes. The adjustment is based on the actual results of minority interest entities and can fluctuate based on the results from the particular businesses.

C. Proportionate maintenance capital represents capital expenditures that are related to sustaining existing assets rather than expansion or productivity improvement. The adjustment includes all capital expenditures with the exception of those projects designated as ROI projects based on achieving at least a 20% return on investment; such projects are disclosed in the capital expenditures section of the MD&A. The amount can vary and may relate to actual and expected spending and future benefit when determining if the project is a maintenance project or ROI project.

D. The impact of the new inventory standard was excluded from this calculation in order to provide a comparable figure to fiscal 2007.

E. Gains (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. This includes gains and losses in the investing section of the Statement of Cash Flows along with any other minor adjustments not significant enough to disclose separately. The amount can vary and may relate to actual spending.

F. There were no distributions for the first half of 2008.

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

Gross Profit

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

Earnings before interest, tax, depreciation and amortization

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

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

Reconciliation of four quarters ended June 28, 2008 and four quarters ended December 31, 2007 EBITDA

($000's)	Four quarters ended *June 28, 2008*	Four quarters ended *December 31, 2007*
Net (loss) earnings	*$ (5,398)*	*$ 20,268*
Add (deduct):		
Minority interest	*2,946*	*4,024*
Income taxes	*384*	*133*
Reduction in foreign currency translation	*2,644*	*2,644*
Depreciation and amortization	*5,747*	*11,267*
Interest on long-term debt	*18,155*	*15,905*
Bank interest and charges	*709*	*840*
Foreign exchange and derivative loss (income) unrealized	*6,991*	*(17,697)*
Impact of new inventory standard	*10,245*	*-*
EBITDA	$ 42,423	$ 37,384

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 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 Icelandic debt for the period.

($000's)		*June 28, 2008*		*December 31, 2007*
EBITDA (as per previous table)		*$ 42,423*		*$ 37,384*
Total debt (per below)		*198,698*		*149,405*
Leverage		*4.7*		*4.0*
Debt per balance sheet		*222,863*		*227,564*
Adjust ISK denominated bond to swapped value:				
Less Icelandic bond	*(45,213)*		*(51,392)*	
Estimated payment for Icelandic bond (excluding CPI)	*44,831*	*(382)*	*44,111*	*(7,281)*
Reduce by unreserved cash		*(23,783)*		*(70,878)*
Net debt for leverage		*198,698*		*149,405*

Estimated payment for Icelandic bond when considering currency swaps

June 28, 2008

Currency in (000's)	*Amount*	*Current rate*	*Canadian $*
Canadian	*$25,000*	*1.000*	*$ 25,000*
US	*$9,708*	*1.011*	*9,811*
Euro	*2,500*	*1.593*	*3,983*
Sterling	*3,000*	*2.012*	*6,037*
			$ 44,831

December 31, 2007

Currency in (000's)	*Amount*	*Current rate*	*Canadian $*
Canadian	*$25,000*	*1.000*	*$ 25,000*
US	*$9,708*	*0.991*	*9,624*
Euro	*2,500*	*1.443*	*3,607*
Sterling	*3,000*	*1.960*	*5,880*
			$ 44,111

Off-balance sheet arrangements

Clearwater does not have any off-balance sheet arrangements.

CLEARWATER SEAFOODS INCOME FUND

Consolidated Balance Sheets
(In thousands of dollars)
(unaudited)

	June 28, 2008	December 31, 2007
Assets		
Current Assets		
Distributions and interest receivable from Clearwater Seafoods Limited Partnership	$ 806	$ 3,795
Investment in Clearwater Seafoods Limited Partnership (note 3)	214,245	348,125
	$ 215,051	$ 351,920
Liabilities and Unitholders' Equity		
Current Liabilities		
Distributions and interest payable	$ 785	$ 3,733
Convertible debentures (note 4)	87,773	87,624
Future income taxes	12,800	29,300
Unitholders' Equity		
Trust units (note 5)	283,839	288,913
Contributed surplus (note 5)	8,949	6,211
Deficit	(179,095)	(63,861)
	113,693	231,263
	$ 215,051	$ 351,920

See accompanying notes to consolidated financial statements

Subsequent event (note 3)

CLEARWATER SEAFOODS INCOME FUND

Consolidated Statements of Earnings and Deficit
13 and 26 week periods ended June 28, 2008 and June 30, 2007
(In thousands of dollars)

(unaudited)	13 weeks ended		26 weeks ended	
	2008	2007	2008	2007
Equity in net earnings (loss) of Clearwater Seafoods Limited Partnership	$ 6,192	$ 6,696	$ (5,450)	$ 8,685
Interest income	1,545	1,599	3,142	2,590
Interest expense	(1,668)	(1,659)	(3,334)	(2,697)
Writedown on investment in Clearwater Seafoods Limited Partnership (note 3)	(126,716)	-	(126,716)	-
Future income taxes	16,500	(34,000)	16,500	(34,000)
Net loss	$ (104,147)	$(27,364)	$ (115,858)	$(25,422)
Net loss per trust unit				
Basic	$ (3.75)	$ (0.93)	$ (4.15)	$ (0.87)
Diluted	$ (3.75)	$ (0.93)	$ (4.15)	$ (0.87)
Deficit at beginning of period as previously stated	$ (74,948)	$ (26,543)	$ (63,861)	$ (24,091)
Application of new inventory standard (note 2 (a))	-	-	2,868	-
Deficit at beginning of period restated	(74,948)	(26,543)	(60,993)	(24,091)
Reduction in investment in Clearwater (note 3)	-	-	(2,244)	-
Distributions declared during the period	-	(4,394)	-	(8,805)
Adjustment for cancellation of convertible debentures	-	-	-	17
Deficit at end of period	$ (179,095)	$ (58,301)	$ (179,095)	$ (58,301)

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS INCOME FUND

Consolidated Statement of Comprehensive Income
13 and 26 week periods ended June 28, 2008 and June 30, 2007
(In thousands of dollars)
(unaudited)

	13 weeks ended		26 weeks ended	
	2008	2007	2008	2007
Net loss	$ (104,147)	$ (27,364)	$ (115,858)	$ (25,422)
Other comprehensive (loss) income, net of tax unrealized gains and losses on translating financial statements of self-sustaining foreign operations investee	(31)	283	(33)	385
Comprehensive income (loss)	$ (104,178)	$ (27,081)	$ (115,891)	$ (25,037)

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS INCOME FUND

Consolidated Statements of Cash Flows
13 and 26 week periods ended June 28, 2008 and June 30, 2007
(In thousands of dollars)
(unaudited)

	13 weeks ended		26 weeks ended	
	2008	2007	2008	2007
Cash flows (used in) from operating activities				
Net loss	$ (104,147)	$ (27,364)	$ (115,858)	$ (25,422)
Items not involving cash				
Writedown (note 3)	126,716	-	126,716	-
Equity in net earnings of Clearwater Seafoods Limited Partnership, net of cash distributions received of $nil, 26 weeks $1,412 (2007 - $4,394 , 26 weeks - $ 8,805)	(6,192)	(2,302)	6,862	120
Future income taxes	(16,500)	34,000	(16,500)	34,000
Other	123	60	192	107
	-	4,394	1,412	8,805
Cash flows (used in) from financing activities				
Repurchase of convertible debentures	-	(37)		(1,000)
Repurchase of Class A units	-	(842)	(2,337)	(1,088)
Issuance of convertible debentures	-	4,542	-	48,042
Distributions to unitholders	-	(4,394)	(1,412)	(8,805)
	-	(731)	(3,749)	37,149
Cash flows (used in) from investing activities				
Redemption of Class A units	-	842	2,337	1,088
Redemption of Class C units	-	37	-	1,000
Purchase of Class D units	-	(4,542)	-	(48,042)
	-	(3,663)	2,337	(45,954)
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 in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). 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 except as described in note 2. These unaudited interim period consolidated financial statements do not contain all the disclosures required in annual audited financial statements by Canadian GAAP and accordingly should be read together with the audited annual consolidated financial statements and the accompanying notes included in the Fund's 2007 Annual Report.

These consolidated financial statements consolidate the accounts of the Fund and its subsidiary, Clearwater Seafoods Holdings Trust ("CSHT"). CSHT owns 54.27% (December 31, 2007 – 54.71%) of the units of Clearwater. However, as the Fund does not have the right to nominate the majority of the board of directors, it does not consolidate the results of Clearwater's operations but rather accounts for the investment using the equity method. Under this method, the cost of the investment is increased by the Fund's proportionate share of Clearwater's earnings and reduced by any distributions paid to the Fund by Clearwater and amortization of the purchase price discrepancy. Due to the limited amount of information that this provides on the underlying operations of Clearwater, the financial statements of Clearwater are also enclosed.

2. CHANGES IN ACCOUNTING POLICIES

a) Inventories

Effective January 1, 2008, Clearwater adopted section 3031 "Inventories" that establishes more extensive guidance on the determination of cost, requires impairment testing and expands the disclosure requirements to increase transparency. The adoption of this standard impacted the costs that are included in inventory for Clearwater, as a portion of plant overhead, administration and depreciation costs are included in inventory. The Fund's share of this was $2,868,000, which resulted in an increase to the investment in Clearwater Seafoods Limited Partnership and a decrease in deficit.

b) Capital Disclosures

Effective January 1, 2008, Clearwater adopted section 1535, "Capital Disclosures" that establishes standards for the disclosure of information on the Partnership's capital and how it is managed. The enhanced disclosure enables users to evaluate the Partnership's objectives, policies and processes for managing capital. Disclosures required by this standard are included in Note 7. The adoption of this standard did not have any affect on the financial position or performance of the Fund.

c) Financial Instruments

Effective January 1, 2008, Clearwater adopted section 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation", which replace Section 3861

Financial Instruments – Disclosure. This section requires Clearwater to provide disclosure of quantitative and qualitative information in the financial statements that enable users to evaluate the significance of financial instruments for Clearwater's financial position and performance and the nature and extent of risks arising from financial instruments to which Clearwater is exposed to during the period at the balance sheet date and management's objectives, policies and procedures for managing such risks. Disclosures required by this standard are included in note 3 of the Partnership statements. The adoption of 3862 and 3863 did not have an impact on Clearwater's financial results or position.

3. INVESTMENT IN CLEARWATER SEAFOODS LIMITED PARTNERSHIP

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

	June 28, 2008	December 31, 2007
Investment in Class A Partnership units, at cost	$ 281,587	$ 286,661
Investment in Class C Partnership units	45,000	45,000
Investment in Class D Partnership units	44,389	44,389
Add: Cumulative equity in net earnings	91,507	93,597
Less: Cumulative distributions received	(121,522)	(121,522)
Less: Writedown	(126,716)	-
	$ 214,245	$ 348,125

The majority of Clearwater's underlying assets consist of licences that enable Clearwater to harvest various species of seafood. These licences have indefinite lives, are not amortized and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Fund analyzes the carrying value of its investment in Clearwater as if it had consolidated Clearwater with the Fund. This assessment of the investment in Clearwater may not reflect the current market value of the business as it includes various long-term assumptions related to Clearwater's operations.

On August 14, 2008 Clearwater Seafoods Income Fund announced that it had entered into an acquisition agreement with CS Acquisition Limited Partnership ("CS Acquisition"), a partnership consortium led by Clearwater Fine Foods Incorporated ("CFFI"), the controlling unitholder of Clearwater Seafoods Limited Partnership.

Under the terms of the Agreement, CS Acquisition will acquire all of the assets of the Fund, which will result in the Fund's unitholders receiving $4.50 per unit and the holders of convertible debentures receiving 101% of the par value of debentures plus accrued interest. Based on the recommendation of its Special Committee, the Board of Trustees has unanimously resolved to recommend that unitholders approve the transaction.

This offer effectively results in CS Acquisition Limited Partnership acquiring all of the Fund's investment in Clearwater. As a result of this offer and the recommendation by the Board of Trustees of the Fund that such offer be accepted, a writedown in the investment has been recorded to reflect the values offered for Clearwater.

Included in equity in net earnings for the quarter is an expense of $46,000, 26 weeks - $91,000 (quarter ended June 30, 2007 – $45,000, 26 weeks - $90,000) 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.

During 2008, Clearwater repurchased 500,000 Class A Units with a carrying value, excluding share of equity in earnings, of $5,074,000 from the Fund for $2,336,500. The difference between the Fund's carrying value for these units (including share of equity in earnings), and the proceeds received from Clearwater was $2,244,000 and is included as an adjustment to equity. This was included as an equity adjustment because it was a related party transaction and was not a culmination of the earnings process.

Details of the change in cumulative equity in net earnings, as at June 28, 2008:

Balance, December 31, 2007	$ 93,597
Equity in net earnings of Clearwater Seafoods Limited Partnership	(5,450)
Application of new inventory standard	2,868
Share of equity in earnings upon cancellation of units	492
Balance, June 28, 2008	$ 91,507

Details of the historic allocation of the excess of the Fund's cost over the historical cost of the assets recorded by Clearwater are as follows:

	June 28, 2008	December 31, 2007
Intangible assets		
Licences – indefinite lives	$ 178,583	$ 181,796
Customer relationships and other	402	440
Goodwill	13,437	13,678
Long-term liabilities	311	370
Cumulative foreign currency translation account	(4,721)	(4,807)
	$ 188,012	$ 191,477

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 2007. Any repurchase at the Fund level has and will be accompanied by a similar repurchase of Class C Partnership units by Clearwater. The principal outstanding as at June 28, 2008 and December 31, 2007 was $45 million.

In 2007, the Fund completed an offering for $48 million of 7.25% convertible unsecured subordinated debentures, which are due March 31, 2014. The convertible debentures are convertible at any time up to maturity at the option of the holder into trust units of the Fund at a conversion price of $5.90 per trust unit. The debentures pay interest semi-annually in arrears on March 31 and September 30, commencing September 30, 2007. The debentures are not redeemable before March 31, 2010. On and after March 31, 2010, but before March 31, 2012, the debentures may be redeemed at the option of the Fund provided that the market price of the trust units is not less than 125% of the conversion price. On and after March 31, 2012, the debentures may be redeemed at the option of the Fund at a price equal to their principal amount plus accrued interest. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering that number of trust units equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash. The convertible debentures are classified in accordance with their component parts: the value ascribed to the holder's option to convert to units has been classified as equity and the remaining portion of the convertible debenture has been classified as debt. The principal outstanding as at June 28, 2008 and December 31, 2007 was $44 million.

The estimated fair value of the Fund's convertible debentures at June 28, 2008 was $73,543,694 based on the quoted market value of the debentures Clr.db and Clr.db.a on the Toronto Stock Exchange.

5. TRUST UNITS AND SPECIAL TRUST UNITS

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

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

	Units	Special Trust Units	Total $ (in 000's)
Balance December 31, 2007	28,245,695	23,381,217	$ 286,661
Equity component of Convertible Debentures			2,252
Balance December 31, 2006			288,913
Cancellation of Class A units	(500,000)	-	(5,074)
Balance June 28, 2008	27,745,695	23,381,217	$ 283,839

As at June 28, 2008 there were in total 51,126,912 units outstanding (51,626,912 - December 31 2007).

On January 24, 2007, the Fund received approval for a normal course issuer bid which enables 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.

During the first six months of 2008, the Fund purchased and cancelled 500,000 units at a cost of $2,336,500. The difference between the purchase price of these units and the underlying carrying value, being $2,738,000, has been credited to contributed surplus. During 2007, the Fund purchased and cancelled 1,162,100 units at a cost of $5,583,000. The difference between the purchase price of these units and the underlying carrying value, being $6,211,000, was credited to contributed surplus.

6. GUARANTEES

The Fund guarantees Clearwater's term credit facility (see note 4(g)) 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 June 28, 2008 and December 31, 2007 there was no balance outstanding on the term credit facility.

7. CAPITAL MANAGEMENT

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:

	June 28, 2008	December 31, 2007
Equity – Partnership units (see note 5)	$ 283,839	$ 288,913
Convertible debentures	87,773	87,624
Contributed surplus	8,949	6,211
Deficit	(179,095)	(63,861)
	$ 201,466	$ 318,887

8. SEASONALITY

Due to the seasonal nature of Clearwater's business, earnings are typically higher in the second half of the calendar year than the first half of the year.

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

Consolidated Balance Sheets
(In thousands of dollars)
(unaudited)

	June 28, 2008	December 31, 2007
Assets		
Current Assets		
Cash	$ 23,783	$ 70,878
Accounts receivable	46,956	48,861
Inventories	71,904	52,152
Derivative financial instruments (note 3 (a))	164	2,303
Prepaids and other	8,284	6,643
	151,091	180,837
Other long-term assets	10,373	8,694
Property, plant and equipment	124,408	103,547
Licences	120,585	106,930
Goodwill	10,378	10,378
	$ 416,835	$ 410,386
Liabilities and Unitholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 35,150	$ 30,264
Derivative financial instruments (note 3 (a))	17,176	14,261
Distributions payable	-	2,581
Income taxes payable	808	1,204
Current portion of long-term debt (note 4)	59,275	58,779
	112,409	107,089
Long-term debt (note 4)	163,588	168,785
Future income taxes	4,920	5,623
Due to joint venture partner	15,286	2,166
Minority interest	3,164	2,389
Unitholders' Equity		
Partnership units (note 5)	164,770	167,698
Deficit	(38,501)	(33,909)
Contributed surplus	1,816	1,224
Accumulated other comprehensive loss	(10,617)	(10,679)
	117,468	124,334
	$ 416,835	$ 410,386

Subsequent event (note 10)

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

Consolidated Statements of Earnings (Loss) and Deficit
13 and 26 week periods ended June 28, 2008 and June 30, 2007
(In thousands of dollars)
(unaudited)

	13 weeks ended 2008	13 weeks ended 2007	26 weeks ended 2008	26 weeks ended 2007
Sales	$ 69,233	$ 75,311	$126,348	$134,406
Cost of goods sold	60,596	59,268	111,425	106,553
Gross profit	8,637	16,043	14,923	27,853
Administration and selling	6,698	9,663	12,785	20,006
Gain on disposal of assets	(213)	(224)	(779)	(302)
Other income (note 6)	(860)	(848)	(2,093)	(2,094)
Insurance claim	-	(366)	-	(3,918)
Foreign exchange and derivative contracts (note 3(a))	(13,607)	(13,107)	3,684	(17,058)
Bank interest and charges	166	208	297	427
Interest on long-term debt	4,254	3,524	8,712	6,462
Depreciation and amortization	(173)	2,922	365	5,885
	(3,735)	1,772	22,971	9,408
Earnings (loss) before income taxes and minority interest	12,372	14,271	(8,048)	18,445
Income taxes	61	1,129	864	613
Earnings (loss) before minority interest	12,311	13,142	(8,912)	17,832
Minority interest	820	1,022	966	2,044
Net earnings (loss)	$ 11,491	$ 12,120	$ (9,878)	$ 15,788
Deficit at beginning of period as previously reported	(49,992)	(27,064)	(33,909)	(22,833)
Application of new inventory accounting policy (note 2(a))	-	-	5,286	-
Deficit at beginning of period restated	(49,992)	(27,064)	(28,623)	(22,833)
Distributions declared	-	(7,901)	-	(15,817)
Adjustment for cancellation of Class C Units	-	-	-	17
Deficit end of period	$ (38,501)	$ (22,845)	$ (38,501)	$ (22,845)
Net earnings (loss) per unit				
Basic	$ 0.22	$ 0.23	$ (0.19)	$ 0.30
Diluted	$ 0.21	$ 0.23	$ (0.19)	$ 0.30

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

Consolidated Statements of Comprehensive Income (Loss) and Accumulated Other Comprehensive (Loss)
13 and 26 week periods ended June 28, 2008 and June 30, 2007
(In thousands of dollars)
(unaudited)

	13 weeks ended		26 weeks ended	
	2008	2007	2008	2007
Comprehensive Income (loss)				
Net earnings (loss)	$11,491	$12,120	$(9,878)	$15,788
Other comprehensive (loss) income, net of tax unrealized gains and losses on translating financial statements of sustaining foreign operations	(58)	509	(62)	694
Comprehensive income (loss)	$11,433	$12,629	$(9,940)	$16,482
Accumulated other comprehensive loss				
Balance beginning of period	$(10,675)	$(12,506)	$(10,679)	$(12,321)
Unrealized gain (loss) on translation of foreign operation	58	(509)	62	(694)
Balance end of period	$(10,617)	$(13,015)	$(10,617)	$(13,015)

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

Consolidated Statements of Cash Flows
13 and 26 week periods ended June 28, 2008 and June 30, 2007
(In thousands of dollars)
(unaudited)

	13 weeks ended		26 weeks ended	
	2008	2007	2008	2007
Cash flows from (used in) operating activities				
Net earnings (loss)	$ 11,491	$ 12,120	$ (9,878)	$ 15,788
Items not involving cash:				
Depreciation and amortization	2,839	2,922	5,595	5,885
Unrealized foreign exchange on long-term debt	(1,741)	(3,538)	(8,336)	(697)
Unrealized inflation and interest on long-term debt	660	798	1,403	1,592
Future income taxes (recovery) expense	(449)	452	(98)	(721)
Minority interest	820	1,022	966	2,044
Unrealized gain on foreign exchange on currency option contracts	(16,894)	(9,987)	(20)	(20,971)
Unrealized loss on currency and interest swap contracts	493	(1,733)	6,625	(4,751)
Other	252	(44)	46	226
	(2,529)	2,012	(3,697)	(1,605)
Change in non-cash operating working capital	(21,915)	(20,989)	(9,089)	(5,993)
	(24,444)	(18,977)	(12,786)	(7,598)
Cash flows from (used in) financing activities				
Proceeds from long-term debt	-	4,378	-	45,735
Reduction of long-term debt and swap contracts	(232)	-	(331)	(826)
Other	(56)	(82)	(208)	(366)
Government assistance for capital assets	1,752	-	1,752	-
Repurchase of units	-	(879)	(2,337)	(2,088)
Distributions to minority partners	(191)	(1,559)	(191)	(2,988)
Investment by minority partner	12,911	-	12,911	-
Distributions to unitholders	-	(7,901)	(2,581)	(15,817)
	14,184	(6,043)	9,015	23,650
Cash flows from (used in) investing activities				
Increase in other long-term assets	(2,557)	485	(2,905)	114
Purchase of property, plant, equipment, licences and other	(20,039)	(3,233)	(41,984)	(10,498)
Proceeds on disposal of property, plant, equipment, licences and other	1,023	359	1,565	723
	(21,573)	(2,389)	(43,324)	(9,661)
(Decrease) increase in cash	(31,833)	(27,409)	(47,095)	6,391
Cash - beginning of period	55,616	44,650	70,878	10,850
Cash - end of period	$ 23,783	$ 17,241	$(23,783)	$ 17,241
Supplementary cash flow information				
Interest paid	$ 5,716	$ 5,240	$ 8,726	$ 7,153
Income taxes paid	$ 838	$ 4,789	$ 457	$ 6,035

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

The unaudited interim period consolidated financial statements have been prepared by Clearwater in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). 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 except as disclosed in note 2 below. These unaudited interim period consolidated financial statements do not contain all the disclosures required in annual audited financial statements by Canadian GAAP, 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") 2007 Annual Report.

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.

2. CHANGES IN ACCOUNTING POLICIES

a) Inventories

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

Clearwater has applied the new standard retrospectively without restatement, which resulted in an increase to inventories and a decrease in deficit of $5,286,000 at January 1, 2008.

Inventories, which consist primarily of finished goods, are stated at the lower of cost and net realizable value. Cost includes the cost of materials plus direct labor applied to the product and the applicable share of manufacturing overheads, administration and depreciation and is determined on a first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

During the first half of 2008, $97,711,000 (Q1 – $45,513,000, Q2 - $52,198,000) of inventories was recognized as cost of sales. There was $400,098 in inventory write-downs recorded in the first half of 2008.

The following table illustrates the impact of the new standard on the 13 week and 26 week periods ended June 28, 2008.

	Amount prior to application of new standard		Adjustment for new standard		Amount per financial statements	
	13 weeks	26 weeks	13 weeks	26 weeks	13 weeks	26 weeks
Cost of goods sold	$ 56,295	$ 101,180	$ 4,301	$ 10,245	$ 60,596	$ 111,425
Gross profit	12,938	25,168	(4,301)	(10,245)	8,637	14,923
Administration and selling	9,037	17,728	(2,339)	(4,943)	6,698	12,785
Depreciation and amortization	2,840	5,596	(3,013)	(5,231)	(173)	365
Net income (loss)	$ 10,440	$ (9,807)	$ 1,051	$ (71)	$ 11,491	$ (9,878)

b) Capital Disclosures

Effective January 1, 2008, Clearwater adopted section 1535, “Capital Disclosures” that establishes guidelines for the disclosure of information on the Partnership’s capital and how it is managed. The enhanced disclosure enables users to evaluate the Partnership’s objectives, policies and processes for managing capital. Disclosures required by this standard are included in Note 9.

c) Financial Instruments

Effective January 1, 2008, Clearwater adopted section 3862 “Financial Instruments – Disclosures” and 3863 “Financial Instruments – Presentation”, which replace Section 3861 Financial Instruments – Disclosure. This section requires Clearwater to provide disclosure of quantitative and qualitative information in the financial statements that enable users to evaluate the significance of financial instruments for Clearwater’s financial position and performance and the nature and extent of risks arising from financial instruments to which Clearwater is exposed to during the period and balance sheet date and management’s objectives, policies and procedures for managing such risks. Disclosures required by this standard are included in note 3. The adoption of 3862 and 3863 did not have an impact on Clearwater’s financial results or position.

3. FINANCIAL INSTRUMENTS AND DERIVATIVE CONTRACTS

In the normal course of operations, Clearwater is exposed to foreign exchange, interest rate, credit and liquidity risks

a) Foreign currency exchange rate risk

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

Risks associated with foreign exchange are partially mitigated by the fact that Clearwater operates internationally, which reduces the impact of any country-specific economic risks on its business.

Excluding derivative financial instruments, at June 28, 2008 Clearwater's balance sheet exposure to foreign currency was as follows (as converted to Canadian dollars):

Cash	$ 2,734
Accounts receivable	35,381
Accounts payable and accrued liabilities	10,819
Long-term debt	62,422
Net balance sheet exposure	$ (35,126)

The major components of this net exposure by currency are as follows (in local currency '000's):

	GBP	USD	Yen	Euros	ISK	DKK	Argentine Peso
Cash	169	222	18,880	480	-	4,129	847
Accounts receivable	1,741	12,338	281,318	8,865	-	1,873	7,568
Accounts payable and accrued liabilities	296	1,224	4,590	922	-	660	21,748
Long-term debt	-	22,300	133,931	-	2,912,032	7,772	-
Net balance sheet exposure	1,614	(10,964)	161,677	8,423	(2,912,032)	(2,430)	(13,333)

The above items are included in the balance sheet at their carrying value which is materially equal to fair value.

A 10% increase in the exchange rates relative to the Canadian dollar (i.e. increase is when GBP moves from 2.04 to 2.24) would result in the following increase (decrease) to net earnings and net equity (in thousands):

- GBP 325
- USD (1,108)
- Yen 155
- Euros 1,342
- ISK (3,655)
- DKK (52)
- Argentine Peso (448)

Clearwater's exposure to foreign currency derivative contracts at June 28, 2008 was as follows:

At June 28, 2008 and December 31, 2007, Clearwater had outstanding forward contracts as follows (as converted to Canadian dollars at contracted rates):

Currency	Notional Amount (in 000's)	Average Exchange Rate	Maturity	Fair Value Asset (Liability)
United States dollar				
June 28, 2008	Sell forwards 19,000	1.030	2008	513
	Buy forwards 6,000	1.010	2008	10
	Sell forwards 26,000	1.027	2009	377
December 31, 2007	Sell forwards 50,000	1.009	2008	1,262
Euro				
June 28, 2008	Sell forwards 26,672	1.491	2008	(2,632)
	Buy forwards 3,052	1.596	2008	1
	Sell forwards 22,000	1.557	2009	(402)
December 31, 2007	Sell forwards 33,675	1.438	2008	(355)

	Buy forwards 15,000	1.432	2008	237
Yen				
June 28, 2008	Sell forwards 1,363,339	0.009	2008	(210)
	Buy forwards 500,000	0.009	2008	73
December 31, 2007	Sell forwards 1,000,000	0.009	2008	243

In reviewing the sensitivity of exchange rate fluctuations to the above contracts, it is important to note the contracts are anticipated to be settled at the contracted rates. However, a 10% increase in the exchange rates relative to the Canadian dollar at June 28, 2008 would result in the following decrease to net earnings and net equity.

- USD 3,941
- Euros 7,268
- Yen 828

The above foreign exchange contracts are included in the balance sheet at their fair value as shown above.

At June 28, 2008 and December 31, 2007, Clearwater had written the following foreign currency option and expandable forward contracts, all of which are sell contracts unless otherwise indicated (as converted to Canadian dollars at contracted rates):

Currency		Notional Amount	Exchange Range	Maturity	Fair value asset (liability)
United States dollar					
June 28, 2008	Option	110,000	0.942 – 1.056	2008	(1,715)
	Expandables	12,000 – 54,000	1.017	2008	(196)
	Reverse knock outs	18,000	1.173	2008	(4)
	Option	30,000	1.002 – 1.024	2009	(589)
December 31, 2007	Option	100,000	0.942 – 1.056	2008	(2,704)
	Buy option	60,000	1.013 – 1.185	2008	(7,318)
	Expandables	22,000-74,000	1.009 – 1.106	2008	(187)
	Reverse knock outs	41,000	1.183	2008	(64)
Japanese Yen					
June 28, 2008	Option	5,000,000	0.008 – 0.009	2008	(4,300)
	Option	3,000,000	0.008 – 0.009	2009	(1,681)
December 31, 2007	Option	6,000,000	0.008 – 0.009	2008	(3,545)
Euro					
June 28, 2008	Option	8,000	1.448	2008	(1,107)
	Option	8,000	1.480	2009	(927)
December 31, 2007	Option	31,000	1.448 – 1.550	2008	(227)

To supplement its strategy to manage its exposure to foreign exchange Clearwater enters into various derivative instruments including options. Options include the selling of a call or put on a specific currency relative to another currency at a predetermined price in the future. These options can have added features which have the impact of changing the risk profile of the option including adding in a "knock in" feature which prevents the option from becoming exercisable unless a certain price threshold is reached; "expandables" where the amount of the currency sold forward is multiplied by a predetermined factor if the call is exercised; and "reverse knock outs", where the seller uses a series of puts and calls related to a currency price range which provides the seller the ability to limit the downside exposure.

In reviewing the sensitivity of exchange rate fluctuations to the above contracts it is important to note a number of items impact the value and option contracts and that to be called option contracts, they need to be considered out of the money and have reached applicable knock-in levels. However, a 10% increase in the exchange rates relative to the Canadian dollar at June 28, 2008 would result in the following decrease to net earnings and net equity.

- USD 17,180
- Euros 2,549
- Yen 7,670

If Clearwater had settled both the forward and option contracts prior to maturity, at June 28, 2008, it would have made a net payment of $12,789,000. For the contracts outstanding at December 31, 2007, if they had been settled it would have led to a net payment of $12,658,000. The liability or asset recorded is included in derivative financial instruments, and the resulting loss or gain is included in income.

The above foreign exchange contracts are included in the balance sheet at their fair value as shown above.

Summary of net liability position for derivative contracts

	2008	2007
Forward, option and expandable contracts	$ 12,789	$ 12,658
Commodity contracts	(164)	(12)
Interest rate contracts	360	216
Icelandic bond contracts	4,027	(904)
Net liability position	$ 17,012	$11,958
Portion disclosed as derivative financial instrument asset	$ 164	$ 2,303
Portion disclosed as derivative financial instrument liability	17,176	14,261
Net liability position	$ 17,012	$ 11,958

Foreign exchange and derivative contract loss (gain)

	13 weeks ended		26 weeks ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Realized loss (gain)				
Foreign exchange and derivative loss	$ 2,464	$ 491	$4,348	$ 7,782
Other realized loss	2,071	1,660	1,067	1,579
	4,535	2,151	5,415	9,361
Unrealized (gain) loss				
Balance sheet translation	(1,741)	(3,538)	(8,336)	(697)
Mark-to-market on exchange derivative contracts	(16,894)	(9,987)	(20)	(20,971)
Mark-to-market on interest and currency swaps	493	(1,733)	6,625	(4,751)
	(18,142)	(15,258)	(1,731)	(26,419)
Total (gain) loss	$(13,607)	$(13,107)	$3,684	$(17,058)

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 Canada, United States, Europe and Asia. A significant portion of Clearwater's customers from a value of sales perspective have been transacting with Clearwater in excess of five years and losses have occurred infrequently. Clearwater has a policy of utilizing a combination of credit reporting agencies, credit insurance, letters of credit and secured forms of payment to mitigate customer specific credit risk and country specific credit risk. As a result, Clearwater does not have any significant concentration of credit risk.

As at June 28, 2008, Clearwater's trade accounts receivable aging based on the invoice date is as follows: 72% 0-30 days, 19% 31-60 days, and 9% over 60 days.

The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts of $776. Clearwater reviews accounts past due on a regular basis and provides an allowance on a specific account basis. Accounts are only written off completely when it becomes virtually certain that collection will not occur.

c) Interest rate risk

The majority of Clearwater's debt has fixed interest rates with the exception of its ISK debt. A 10% change in the interest rate on the ISK debt would result in additional annual interest expense of approximately ISK 24,600,000 or Canadian $300,000.

As indicated in the note entitled "Long-Term Debt", Clearwater uses cross currency and interest rate swaps to economically hedge its exposures to changes in foreign currencies and interest rates. The terms of the swap agreements related to the Icelandic bonds also economically hedge the changes in the Icelandic Consumer Price Index ("CPI"). These agreements do not qualify for hedge accounting. Although Clearwater has no intention of settling these contracts prior to maturity, at June 28, 2008, if it settled these contracts it would have made a net payment of $4,387,000 (December 31, 2007 - received a net payment of $688,000). The liability is included in derivative financial instruments and the resulting non-cash loss is included in income. See note 4(d) for additional information relating to the swaps.

d) Liquidity risk

Please refer to note 9 for information on how Clearwater addresses liquidity risk.

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

The following table provides detail on the maturities of items not previously disclosed in section (a) and (b) of this note:

	Contractual obligations				
Payments due by year	Long term debt	Interest on long term debt	Operating leases	Other obligations	Total
< December 31, 2008	59,275	8,313	1,199	-	68,787
2009	11,187	12,664	2,742	-	26,593
2010	89,573	11,612	2,245	-	103,430
2011	914	5,549	2,148	-	8,611
2012	914	5,459	2,129	-	8,502
> 2012 years	61,000	27,642	1,993	3,164	93,799
Total	222,863	71,239	12,456	3,164	309,722

Further details on these obligations are disclosed in the notes to the annual consolidated financial statements. Amounts in years less than 1 and 3 are high as non-amortizing term credit facilities are scheduled for renegotiation. Interest payable on long-term debt obligations can be determined by reviewing the debt balances and maturities as disclosed in note 4.

4. LONG-TERM DEBT

	June 28, 2008	December 31, 2007
Notes payable (a)		
Canadian	$ 62,682	$ 62,573
United States dollars	20,118	19,697
Class C Partnership Units (b)	43,446	43,201
Class D Partnership Units (c)	41,306	40,951
Bond payable (d)	45,213	51,392
Marine mortgage, due in 2017 (e)	5,516	4,911
Term loan, due in 2091 (f)	3,500	3,500
Other loans	1,082	1,339
	222,863	227,564
Less current portion	59,275	58,779
	$ 163,588	$ 168,785

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

- $43,000,000 principle Canadian Series A Notes issued in 2003, bearing interest at 6.4% payable semi-annually, maturing December 8, 2008, net of financing costs.

- $15,000,000 principle U.S. dollar Series B Notes issued in 2003, bearing interest at 5.65% payable semi-annually, maturing December 8, 2008, net of financing costs.

- $20,000,000 principle Canadian Series C Notes issued in 2003, bearing interest at 7.23% payable semi-annually, maturing December 8, 2013, net of financing costs.

- $5,000,000 principle U.S. dollar Series D Notes issued in 2005, bearing interest at 6.12% payable semi-annually, maturing December 8, 2013, net of financing costs.

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 (g) 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 8.56% to the outstanding debt component. The difference between actual cash payments, which will approximate 7.02%, and interest expense is added to the debt component of the units.

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 the year ended December 31, 2006, $3 million of the Class C units were repurchased and cancelled with the proceeds used to repurchase and cancel an equivalent amount of convertible debentures. During the first quarter of 2007, 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 principal outstanding as at June 28, 2008 was $45 million.

(c) In 2007, 8,142,712 Class D units were issued concurrently with the issue by the Fund of $48.0 million of Convertible Debentures and are held by the Fund through CSHT. The Class D units are redeemable and retractable at a price of $5.90 per unit and are due on March 31, 2014. These units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the Convertible Debentures of the Fund and in a manner that ensures that the distributions on the Class D units will be able to fund the ongoing interest payments on the Convertible Debentures. The Class D units are classified in accordance with their component parts: the value ascribed to the holders' option to convert to Class A units has been classified as equity and the remaining portion of the units has been classified as debt. Interest on the debt is calculated by applying an effective interest rate of approximately 8.81% to the outstanding debt component. The difference between actual cash payments, which will approximate 7.27%, and interest expense is added to the debt component of the units.

On June 2, 2007, $1,000 of the convertible debentures was converted into 169 Class A units at a price of $5.90 per unit resulting in a principal outstanding as at June 30, 2007 of $48,041,000.

The Fund filed a normal course issuer bid by which it can acquire up to $4.8 million principal amount of the convertible debentures in the 12-month period ending August 2008. Any repurchase at the Fund level has and will be accompanied by a similar repurchase of Class D Partnership units by Clearwater. In 2007, approximately $3.7 million of Class D Partnership units were repurchased and cancelled with the proceeds used by the Fund to repurchase and cancel an equivalent amount. The principal outstanding as at June 28, 2008 of the convertible debentures was $44.4 million.

(d) 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 above contracts, 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 8.48%
- $5,000,000 U.S. dollar liability with an effective interest rate of 6.76%
- $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 9.70%
- 2,500,000 Euro liability with an effective interest rate of 8.04%

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 $6.0 million year-to date (2007 – $6.1 million). As previously noted interest exposure on this bond has been hedged and the year-to-date cash payment on the related swaps was $1.9 million (2007 - $1.0 million).

	June 28, 2008	December 31, 2007
Principal	$ 30,504	$ 38,174
Accrued interest	6,042	6,101
Accrued CPI	8,667	7,117
	$ 45,213	$ 51,392

(e) Marine mortgage payable in the principal amount of CDN $4,032,000 (December 31, 2007 - $4,032,000), DKK 16,480,000 (December 31, 2007 - DKK 16,480,000) and YEN 277,826,000 (December 31, 2007 - 277,826,000) bearing interest at UNIBOR plus 1% payable semi-annually, 50% of which represents Clearwater's proportionate share. Principal payments are required annually with CDN $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.

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

(g) Clearwater also has a revolving term debt facility of $60 million from a syndicate of banks (which was not drawn upon at June 28, 2008 or December 31, 2007). The facility, which matures and is renewable in May 2009 is part of a master netting agreement that was in a cash position of $23.6 million as at June 28, 2008.

Clearwater's debt facilities contain various non-financial and financial covenants. They include, but are not limited to, leverage ratios and fixed charge ratios that can limit distributions paid and the amount of allowable debt outstanding. In addition, payments related to these debt facilities take priority over payments on securities held in Clearwater by the Fund. Clearwater is in compliance with all debt covenants as at June 28, 2008.

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

2008	59,275
2009	11,187
2010	89,573
2011	914
2012	914

5. PARTNERSHIP UNITS

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

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

In 2007, 8,142,712 Class D units were issued concurrently with the issue by the Fund of $48.0 million of Convertible Debentures and are held by the Fund through CSHT. The Class D units are non-voting redeemable and retractable at a price of $5.90 per unit. These units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the Convertible Debentures of the Fund and in a manner that ensures that the distributions on the Class D units will be able to fund the ongoing interest payments on the Convertible Debentures. The Class D units are classified in accordance with their component parts: the value ascribed to the holders' option to convert to Class A units has been classified as equity and the remaining portion of the units has been classified as debt.

On January 24, 2007, the Fund received approval for a normal course issuer bid which will enable it to purchase, from time to time, up to 2.5 million outstanding trust units (the "Units"), which amount represents less than 10% of the public float. Any such purchases of Units has been made during the 12-month period commencing on January 24, 2007 and is in accordance with the requirements of the TSX. The Units will be purchased by the Fund for cancellation and will be accompanied by a similar repurchase of units by Clearwater. During 2007, the Fund purchased and cancelled 1,162,000 Class A units at a cost of $5.6 million. During the first quarter of 2008, the Fund purchased and cancelled 500,000 Class A units at a cost of $2.3 million. The total units purchased under this plan since January 24, 2007 is 1,662,000.

	Class A Units	Class B Units	$ (in 000's)
Balance December 31, 2006	29,407,626	23,381,217	$173,079
(includes $828 equity component of class A units)			
Cancellation of Class A Units	(1,162,100)	-	(6,807)
Issuance of Class A Units	169	-	1
Subtotal	28,245,695	23,381,217	166,273
Equity component of Class C Units			1,579
Cancellation of $2 million Class C Units			(35)
Equity component $3.7 million Class D Units			(119)
Balance December 31, 2007			$167,698
Cancellation of $0.5 million Class A Units	(500,000)	-	(2,928)
Balance March 29, 2008 no change to June 28, 2008	27,745,695	23,381,217	$164,770

As at June 28, 2008 there were in total 51,126,912 units outstanding (51,626,912 - December 31, 2007).

Distributions paid for the three-month period ended June 28, 2008 were $nil (2007 - $7,901) and year-to-date were $nil (2007 – $15,817). All of the Partnership's distributions are at the discretion of the Trustees and are subject to certain conditions imposed by lending agreements.

As CFFI controlled Clearwater's seafood business both before and after the initial public offering, the acquisition of the seafood business by Clearwater was accounted for using the book values of the assets and liabilities as recorded by CFFI. The excess of the capital contributions of $267,728,000 over book values of the assets of $180,533,000, being $87,195,000, was debited to share capital.

6. OTHER INCOME

	13 weeks ended		26 weeks ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Investment income	$ 639	$ 870	$ 1,342	$ 1,102
Export rebate	139	174	220	470
Other income (expense)	82	(196)	531	522
	$ 860	$ 848	$ 2,093	$ 2,094

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, Europe, Asia, and Canada.

b) Net sales to customers by product category

	13 weeks ended		26 weeks ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Scallops	$ 25,959	$ 26,041	$ 50,324	$ 46,917
Lobster	16,960	19,436	30,986	35,308
Clams	12,134	11,276	23,631	20,993
Coldwater shrimp	10,130	13,010	15,072	22,663
Crab	3,558	3,763	4,355	4,635
Groundfish and other	492	1,785	1,980	4,036
Hedging program	-	-	-	(146)
	$ 69,233	$ 75,311	$126,348	$134,406

c) Geographic information

	13 weeks ended		26 weeks ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
United States	$ 21,945	$ 26,447	$ 39,156	$ 47,320
Europe				
France	9,930	6,587	18,961	11,885
Denmark	1,459	4,682	1,707	9,758
UK	5,494	6,095	10,730	8,956
Other	8,440	6,962	13,567	12,123
Asia				
Japan	6,642	6,316	12,694	11,263
Other	5,251	5,879	10,663	11,455
Canada	9,900	11,180	18,540	20,182
Other, including hedging program	172	1,163	330	1,464
	$ 69,233	$ 75,311	$ 126,348	$ 134,406

	June 28, 2008	December 31, 2007
Property, plant, equipment, licences and goodwill		
Canada	$ 236,808	$ 202,637
Argentina	17,917	17,407
Other	646	811
	$ 255,371	$ 220,855

8. RELATED PARTY TRANSACTIONS

Clearwater had the following transactions and balances with CFFI, the controlling shareholder of Clearwater, during the second quarter and year-to-date periods of 2007 and 2006.

	13 weeks ended		26 weeks ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Transactions				
Charged by CFFI for rent and other services (net)	78	8	206	166

	June 28, 2008	December 31, 2007
Balances		
Distribution and other payable to CFFI	79	1,152

In addition Clearwater was charged approximately $30,261 for vehicle leases in the second quarter of 2008 (2007 - $29,500) and year-to-date $64,060 (2007 - $61,000) and nil for other services in the second quarter (2007 - $18,100) and nil year-to-date (2007 - $29,800) by companies controlled by a relative of an officer of Clearwater. There was also a management fee charged to a joint venture partner in the quarter of $87,501 (2007 - $188,600) and year-to-date $171,066 (2007 – $217,900).

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

During the first quarter of 2008, Clearwater sold equipment to one of our minority shareholders. The equipment was sold at a market price of $467,000.

9. CAPITAL MANAGEMENT

Clearwater's objectives when managing capital are as follows:

- To maintain financial flexibility to preserve access to capital markets and meet its financial obligations
- To have sufficient capital to maintain its capital program
- To meet requirements of lending facilities

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

Capital is managed by monitoring key metrics such as cash generation, capital expenditures, distribution payments, which in turn impact ratios such as leverage.

Management believes that the significant cash balances currently being carried and the available credit lines provided by its bank syndicate will be sufficient to meet Clearwater's cash requirements. We use leverage, in particular senior revolving and term debt, to lower our cost of capital. The amount of senior debt available to Clearwater is a function of earnings that can be impacted by known and unknown risks, uncertainties, and other factors outside management's control including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs. We maintain flexibility in our capital structure by regularly reviewing forecasts of future results and making any required changes on a timely basis. These changes can include early repayment of debt, repurchasing units, issuing new debt or equity, extending the term of existing debt, selling assets to repay debt and if required, limiting distributions paid. Refinancing risk is reduced by staggering the maturities of debt instruments and a policy whereby maturing debt agreements are revisited and updated or replaced as required in advance of maturity dates.

In 2008, $58.1 million of term notes are due (see note 4 (a) to the financial statements), resulting in that debt classified as current. Management intends to refinance the debt during the next two quarters with such refinancing happening as part of the strategic review currently being conducted or as a stand-alone refinancing.

9. OTHER ITEMS

Included in the year-to-date results are a number of items that management believes to be of a non-recurring nature, including $1.6 million of vessel commissioning expenses and $700,000 in restructuring costs related to our lobster business.

10. Subsequent event

On August 14, 2008 Clearwater Seafoods Income Fund announced that it had entered into an acquisition agreement with CS Acquisition Limited Partnership ("CS Acquisition"), a partnership consortium led by Clearwater Fine Foods Incorporated ("CFFI"), the controlling unitholder of Clearwater Seafoods Limited Partnership.

Under the terms of the Agreement, CS Acquisition will acquire all of the assets of the Fund, which will result in the Fund's unitholders receiving $4.50 per unit and the holders of convertible debentures receiving 101% of the par value of debentures plus accrued interest.

Based on the recommendation of its Special Committee, the Board of Trustees has unanimously resolved to recommend that unitholders approve the transaction. The Fund will issue a management information circular which will contain its recommendation to unitholders together with the formal valuation and fairness opinion.

This offer effectively results in CS Acquisition Limited Partnership acquiring all of the Fund's investment in Clearwater. Concurrent with this transaction, Clearwater will reorganize it current capital structure, which will effectively result in the replacement of existing debt facilities with new debt facilities and the consolidation of its partnership units.

Quarterly and unit information

The financial information disclosed below was derived from the unaudited interim earnings statements of Clearwater for periods from January 1, 2006 to June 28, 2008.

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

	2008		2007				2006			
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	69,233	57,114	77,720	90,555	75,311	59,095	84,136	79,939	81,312	70,349
Net earnings (loss)	11,491	(21,369)	(4,843)	9,323	12,120	3,668	(18,715)	8,507	9,787	1,634
Distributable cash	(4,964)	(1,457)	12,598	5,793	594	(5,901)	7,237	10,362	16,459	8,294
Distributions	-	-	7,807	7,875	7,901	7,918	7,919	7,918	-	-
Per unit data										
Basic and diluted net earnings (loss)	0.22	(0.42)	(0.09)	0.18	0.23	0.07	(0.36)	0.15	0.19	0.03
Diluted	0.21	(0.42)								

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

			2007				2006			
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Trading price range of units (board lots)										
High	3.85	4.65	4.95	4.99	5.25	5.15	5.36	5.68	4.60	4.25
Low	3.08	3.11	4.25	4.41	4.71	4.70	4.56	4.20	3.93	3.35
Close	3.35	3.73	4.50	4.60	4.79	4.82	4.97	5.33	4.32	4.05
Tranding volumes (000's)										
Total	790	1,633	5,209	1,770	8,197	6,958	2,895	2,794	4,051	4,311
Average daily	12	27	83	28	130	109	47	45	64	67
Units outstanding at end of quarter										
Units	27,745,695	27,745,695	28,245,695	28,949,895	29,190,395	29,357,526	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	23,381,217	23,381,217
Total	51,126,912	51,126,912	51,626,912	52,331,112	52,571,612	52,738,743	52,788,843	52,788,843	52,788,843	52,788,843

CORPORATE INFORMATION

TRUSTEES OF CLEARWATER SEAFOODS INCOME FUND

Bernard Wilson
Former Vice Chairman, PricewaterhouseCoopers

Brian Cowley
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

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

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

Brian Cowley
Founding President, Atlantic Institute for Market Studies

Brendan Paddick
Chief Executive Officer, Columbus Communications Inc.

John C. Risley
Chairman, CS ManPar Inc.

Colin E. MacDonald
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Toronto Stock Exchange
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Convertible Debenture symbols: CLR.DB and CLR.DB.A

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