



Embracing change...



2007 SECOND QUARTER REPORT



# Letter to Unitholders

- Net earnings of \$12.1 million versus \$10.4 million in Q2 2006. Sales of \$75 million versus \$81 million in Q2 2006.
- Gross profit negatively impacted by the timing and product mix of scallop sales reflecting the seasonal nature of business and market conditions.
- Management expects the scallop business to be stronger in the second half of the year due to improvements in catch rates, sales and product mix.
- Subsequent to the second quarter, Clearwater reached an agreement for a cash settlement of \$46 million related to the loss of the clam vessel that had been under construction.

The first half of 2007 reflected the seasonal nature of the seafood business. However management expectations remain positive for fiscal 2007 with stronger results expected in the second half of the year. "Clearwater's strong quota ownership combined with our leading harvesting and production processes enhance our ability to work through the inherent variability in the seafood business", said Colin MacDonald, Chief Executive Officer of Clearwater. "We have had some obstacles to overcome in the first half of the year but are confident that the second half of the year will deliver stronger results."

Clearwater's sales and gross profit for the first half of 2007 were \$134.4 million and \$27.9 million as compared to \$151.7 million and \$44.5 million, respectively, in 2006. Net earnings in the first half of 2007 were \$15.8 million versus \$12.0 million in 2006. A number of significant factors impacted the year-to-date 2007 results; these include:

- **Scallops** During the first half of the year, market conditions were soft for both Argentine and Canadian scallops. Recognizing the relatively limited opportunities to sell the product into the market at acceptable prices the scallop fleet did not fish for a portion of the first quarter. Clearwater took this opportunity to complete some refits earlier than planned. The soft market conditions and our resulting decision not to fish had the impact of reducing sales volumes by 14% as compared to the prior year. We

expect to benefit from improved market conditions in the second half of the year as well as improved catch rates and a more profitable product mix. As a result we anticipate improved margins in the latter half of the year.

- **Clam business** On December 5, 2006, one of our three factory freezer clam vessels, the Atlantic Pursuit, was struck by a large wave that caused extensive damage and as a result was retired early, affecting clam sales volumes and gross profits. Vessel costs were also higher and harvest volumes lower due to clam vessel refits in the first half of the year. Looking forward, clam sales volumes are expected to continue to reflect the impacts of these factors until the clam fleet is expanded. We communicated these disruptions in supply to our customers and we have put transition plans in place to manage the shortage of volumes expected for the balance of the year and early 2008.
- **Foreign exchange** Earnings have been impacted by cash and non-cash foreign exchange. Year-to-date, Clearwater recorded a non-cash mark-to-market gain of \$26 million on its exchange contracts compared to a \$13 million loss in 2006 as a result of the fluctuations in the Canadian dollar. In addition, Clearwater incurred a net cash expense of \$9.4 million in the first half of 2007 versus income of \$10.0 million in 2006, a change of \$19.4 million.

- **Refit expense** As a result of a change in accounting standards, we changed our accounting policy from accruing refit costs in advance to expensing them as incurred, effective January 1, 2007. This will result in more variability in earnings, as refit expenses were previously amortized over a period of years and now will be expensed as incurred. This policy has been applied retroactively. As a result, \$2.8 million has been expensed in the first half of 2007 (\$2.1 million in 2006). In 2006, annual refit costs were approximately \$3.3 million; management expects the total refit costs for 2007 to be in the range of \$3 to \$4 million.

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

Clearwater declared distributions of \$15.8 million for the first half of 2007 compared to nil in the first half of 2006. Distributable cash was a deficit of \$5 million year-to-date in 2007 compared to \$25 million of distributable cash generated in the first six months of 2006. Management expects stronger results in the second half of the year sufficient to maintain current levels of distribution. Achieving strong sales levels in the second half of the year, the absence of vessel disruptions and a measure of stability in exchange rates will be critical in achieving these results. In determining the payment of distributions Clearwater considers the financial results, on-going capital expenditure requirements, leverage and expectations regarding future earnings. Future earnings can be impacted by a number of factors including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates and fuel costs.

As discussed above, factors including market conditions, foreign exchange, clam vessel disruptions and refit costs impacted earnings in the first half of 2007; these impacts also translated into a reduction of distributable cash generated in the first half by \$30 million as compared to 2006. However, management expects the second half of the year to be stronger due to positive impacts of decisions made in the first half of the year and expected improvements in market conditions for scallops. Clearwater is seasonal in nature and typically generates greater amounts of distributable cash in the second half of the year. Please refer to our quarterly and annual reports for details on distributable cash generated in prior periods.

### **Clam fleet**

On June 25, 2007 the new clam vessel that was to have been delivered in the third quarter capsized prior to taking possession of the vessel. Subsequent to quarter-end we agreed to a cash settlement of Canadian \$46 million with

the yard that had been constructing the vessel. As security we have \$26 million in letters of credit and an assignment of insurance proceeds. The settlement will cover construction costs and enable us to put this unfortunate accident behind us and focus on future opportunities. We continue to plan for a replacement vessel and one of the key considerations for replacement is the time period it will take to bring it into operation. Although disappointing, this accident will not impact the current year's distributable cash. It will however, delay the growth we had expected to see in the clam portion of our business, which represents approximately 20% of annual sales, until we are able to bring a replacement vessel into use. The investment in new harvesting capacity for the clam business remains a great opportunity for Clearwater and we expect to make an announcement in the near future with respect to how we will deal with replacing the clam vessel.

### **Capital Resources and Investment Opportunities**

To further enhance Clearwater's capital structure, and to provide the flexibility to allow Clearwater to pursue potential accretive acquisitions, the Fund successfully completed an offering of convertible unsecured subordinated debentures on March 9, 2007 for total gross proceeds of \$48,042,000.

### **Summary**

In summary, the first half of 2007 reflected the seasonal nature of the seafood business with lower sales and gross profits than are typically seen in the latter half of the year. However, management expects to achieve solid performance for 2007 as a whole, based on improved volumes and efficiencies in the scallop, lobster and shrimp businesses offset in part by restricted harvest capacity in the clam business. Achieving strong sales levels in the second half of the year, the absence of vessel disruptions and a measure of stability in exchange rates will be critical in achieving these results.

With the strength of our quota ownership and our significant investment in developing effective and efficient harvesting and production processes, the outlook for the balance of 2007 and beyond is positive. Our strategy continues to have a long-term focus, developing and maintaining the strong foundations, investing in science, people, technology, marketing development, resource ownership and resource management, Clearwater was built upon.

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

## FINANCIAL HIGHLIGHTS

### CLEARWATER

	13 weeks ended	13 weeks ended	26 weeks ended	26 weeks ended
(\$000's except per unit amounts)	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Sales	\$ 75,311	\$ 81,312	\$ 134,406	\$ 151,661
Net earnings	\$ 12,120	\$ 10,407	\$ 15,788	\$ 12,041
Basic and diluted net earnings per unit	\$ 0.23	\$ 0.22	\$ 0.30	\$ 0.24
Cash flows from operating activities	\$ (18,977)	\$ 1,145	\$ (7,598)	\$ 21,943
Distributable cash <sup>1</sup>	\$ 594	\$ 16,459	\$ (5,307)	\$ 24,752
Distributions paid or payable <sup>2</sup>	\$ 7,901	\$ -	\$ 15,817	\$ -
Distributions paid per unit per month	\$ 0.05	\$ -	\$ 0.05	\$ -
Weighted Average Units outstanding				
Limited Partnership Units	52,725,098	52,788,843	52,725,098	52,788,843
Fully diluted	60,620,119	56,870,476	60,620,119	56,870,476

The Fund	13 weeks ended	13 weeks ended	26 weeks ended	26 weeks ended
(\$000's except per unit amounts)	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Net earnings (loss)	\$ (27,364)	\$ 5,902	\$ (25,422)	\$ 7,414
Basic and diluted net earnings (loss) per unit	\$ (0.93)	\$ 0.22	\$ (0.87)	\$ 0.26
Cash flows from operating activities	\$ 4,394	\$ -	\$ 8,805	\$ -
Distributable cash <sup>1</sup>	\$ 4,394	\$ -	\$ 8,805	\$ -
Distributions paid or payable	\$ 4,394	\$ -	\$ 8,805	\$ -
Weighted Average Units outstanding				
Trust Units <sup>3</sup>	29,343,878	29,407,626	29,343,878	29,407,626
Special Trust Units	23,381,217	23,381,217	23,381,217	23,381,217

1. Please refer to the Distributable Cash definition in the MD&A for detailed reconciliations of these amounts. The Fund receives distributions from Clearwater and in turn distributes them to its unitholders. As such, distributable cash for the Fund is equal to the distributions received and paid.
2. Clearwater's Partnership Agreement provides that as long as Clearwater Fine Foods Incorporated ("CFFI") owns more than 45% of the special trust and regular voting units of the Fund on a fully diluted basis, they have the right to appoint 4 of the 7 directors of CS ManPar. CFFI currently owns 46.9% and therefore the Fund has the right to nominate the majority of the board of directors. Therefore the Fund does not consolidate the results of Clearwater's operations but rather accounts for the investment using the equity method. Due to the limited amount of information that this would provide on the underlying operations of Clearwater, the financial highlights of Clearwater are also enclosed.



**Colin MacDonald**  
Chief Executive Officer  
Clearwater Seafoods Limited Partnership  
August 14, 2007

## 2007 SECOND QUARTER CONFERENCE CALL AND WEBCAST

Clearwater will review its second quarter financial results via conference call on Tuesday, August 14, 2007 at 4:00 p.m. Eastern Time (5:00 p.m. Atlantic). The call will be chaired by Colin MacDonald, Clearwater's Chief Executive Officer, and he will be joined by Robert Wight, the Chief Financial Officer. You can access the call by dialling 800-732-6179 or 416-644-3418. A replay will be available through August 21, 2007 at 877-289-8525 or 416-640-1917 using pass code 21241381 (pound key). To listen to the web cast of this event, please enter <http://www.newswire.ca/en/webcast/viewEvent.cgi?eventID=1941940> in your web browser.

## ABOUT CLEARWATER

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared effective August 14, 2007.

The Audit Committee and the Board have reviewed and approved the contents of this MD&A as well as the related 2007 second quarter 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](http://www.sedar.com) as well as Clearwater's website, [www.clearwater.ca](http://www.clearwater.ca).

Clearwater has established and maintains disclosure controls and procedures, as defined under the rules adopted by the Ontario Securities Commission in multilateral instrument 52-109, over financial reporting. The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have evaluated the design of Clearwater's disclosure controls and procedures as of June 30, 2007 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.

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## COMMENTARY REGARDING FORWARD-LOOKING STATEMENTS

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

## OVERVIEW

Clearwater is the largest publicly traded shellfish company in North America. Clearwater is recognized for its consistent quality, wide diversity, and reliable delivery of premium seafood, including scallops, lobster, clams, coldwater shrimp, crab and groundfish. 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 its founding in 1976, Clearwater has invested in science, people, technology, resource ownership and resource management to preserve and grow its seafood resource. This commitment has allowed Clearwater to remain a leader in the global seafood market.

"In the second quarter and first half of 2007, Clearwater remained focused on performance and on achieving our objectives and was able to deliver results that will allow us to maintain current levels of distribution," said Colin MacDonald, Chief Executive Officer of Clearwater. "The seafood business is seasonal in nature and we have and continue to make improvements in our business that allow it to account for that variability while allowing us to deliver on our overall objectives. Our strong quota ownership, combined with our leading harvesting and production processes, enhance our ability to succeed in the long-term. We fully anticipate that, with the positive impacts of decisions made in the first half of the year, expected improvements in market conditions and sales levels combined with some measure of stability in the exchange rate, our results will be much stronger in the second half of the year."

## EXPLANATION OF YEAR-TO-DATE RESULTS

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

The statements of earnings disclosed below reflects the unaudited year-to-date earnings of Clearwater for the 26-

week periods ended June 30, 2007 and July 1, 2006 in thousands of Canadian dollars. The prior year has been restated to reflect the impact of the new accounting policy for refits, adopted in fiscal 2007 and applied retroactively. Please refer to the critical accounting policies section of the MD&A for further details.

	2007	2006
Sales	\$ 134,406	\$ 151,661
Cost of goods sold	106,553	107,203
	27,853	44,458
	20.7%	29.3%
Administration and selling	20,006	17,621
(Gain) loss on disposal and other, net	(302)	2,931
Other income	(2,094)	(3,697)
Insurance claim	(3,918)	-
Foreign exchange income	(17,058)	(7,668)
Bank interest and charges	427	437
Interest on long-term debt	6,462	6,836
Depreciation and amortization	5,885	7,673
Reduction in foreign currency translation account	-	1,697
	9,408	25,830
Earnings before income taxes and minority interest	18,445	18,628
Income taxes	613	3,361
Earnings before minority interest	17,832	15,267
Minority interest	2,044	3,226
Net earnings	\$ 15,788	\$ 12,041



## NET EARNINGS

Net earnings increased by \$3.7 million in the first half of 2007, due primarily to the impact of foreign exchange offset by a lower gross margin.

	2007	2006	Change
Net earnings	\$ 15,788	\$ 12,041	\$ 3,747
Explanation of changes in earnings:			
Higher unrealized foreign exchange and derivative income			28,760
Higher gain on disposal and other, net			3,233
Lower income tax expense			2,748
Larger realized foreign exchange and derivative expense			(19,370)
Lower gross profit, net of insurance claim of \$3,918			(12,687)
All other			1,063
			\$ 3,747

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

	2007	2006	Change	%
Scallops	\$ 46,917	\$ 54,317	\$ (7,400)	(14)%
Lobster	35,308	35,233	75	- %
Clams	20,993	29,757	(8,764)	(29)%
Coldwater shrimp	22,663	15,558	7,105	46%
Groundfish and other	4,036	8,165	(4,129)	(51)%
Crab	4,635	4,260	375	9%
Hedging program	(146)	4,371	(4,517)	(103)%
	\$ 134,406	\$ 151,661	\$ (17,255)	(11)%

Scallops, which represent one of our more profitable species, have decreased in sales levels by 14% compared to the prior year, primarily due to lower volumes and product mix. This contributed significantly to the negative variance in gross margins. The lower volumes related to soft market conditions, however management expects stronger market conditions together with improvements in catch rates and mix to bring much stronger margins in the second half of 2007.

Lobster sales in the first half of 2007 are relatively consistent with the prior year. We continue to realize the benefits of our new raw lobster product and the application of technology that provides a more effective

method to sort and grade our live lobster. In addition, in January 2007, Clearwater purchased an additional offshore lobster licence and related assets, which based on recent TAC levels, should provide a return on investment in the 15-20% range and increase our lobster volumes by approximately 3%.

Clam sales, volumes and gross profits were impacted by the loss of the Atlantic Pursuit. As well, vessel costs were higher and harvest volumes lower due to refits being completed during the first half of the year. An insurance claim of \$3.9 million has been received related to the Atlantic Pursuit. Looking forward, clam sales and volumes are expected to continue to reflect the impacts of these

factors until the clam fleet is expanded. In order to mitigate impacts to our customers and maintain our relationships with them, we have communicated these disruptions in supply with them and have put plans in place to manage the shortage of volumes expected for the balance of the year and early 2008.

Coldwater shrimp sales were higher in the first quarter of 2007 than the same period in the prior year primarily due to a 41% increase in volumes as a result of the timing of landings and an improved product mix.

Groundfish sales were lower in the first half of the year compared to the prior year as Clearwater's plant in Glace

Bay, Nova Scotia was not in operation from March 2006 due to a labour dispute that ended in the second quarter of 2007. The plant is now operating on a seasonal basis producing crab. The disruption impacted groundfish sales in the first half of 2007, but did not have a material impact on earnings.

Foreign exchange decreased sales and margins, by approximately \$2.9 million in the first half of 2007 compared to the rates received in the first half of 2006. Higher effective rates on the Euro and Pound Sterling were offset by a lower exchange rate on the US Dollar.

Currency	2007 year-to-date		2006 year-to-date	
	% sales	Rate	% sales	Rate
US Dollars	47.2%	1.125	41.5%	1.209
Euros	15.0%	1.499	26.5%	1.418
Japanese Yen	9.4%	0.010	8.8%	0.010
UK pounds	7.0%	2.217	5.3%	2.038
Canadian dollar and other	21.4%		17.9%	
	100.0%		100.0%	

In summary, sales and gross profits were lower in the first half of 2007 as compared to the same period in 2006, primarily due to softer market conditions for scallops and clam vessel disruptions. This resulted in overall gross profits that were \$16.6 million lower compared to the first half of 2006.

**Gain on disposal and other, net** has increased compared to the prior year. The 2007 figure includes a recovery of approximately \$350,000 related to recovery of accounts receivable previously provided for. The first six months of 2006 included a write down related to the plant and assets in North Sydney and exit costs totalling approximately \$3.1 million.

**Income taxes** have decreased compared to the prior year due to lower net earnings in taxable entities.

**Administration and selling costs** increased by approximately \$2.4 million as compared to the prior year. We have been and expect to continue to invest further in developing markets for our products in Asia and have incurred costs to improve our processes such as our sales management information systems. In addition, year-to-date we have expensed fees and costs of approximately \$600,000 related to potential acquisition activities.

**Other income** is lower in 2007 as there was less in royalty income from the rental of quota when compared to the prior year due to the timing of quota sales. This decrease was partially offset by higher investment income.

Other income detail	2007	2006
Investment income	\$ 1,102	\$ 776
Export rebate	470	858
Quota rental and royalties	63	1,316
Other	459	747
	<u>\$ 2,094</u>	<u>\$ 3,697</u>

**The insurance claim** relates 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 the year but as a result of the damage incurred was retired from service early. An agreement was reached with Clearwater's insurers during the first quarter and as a result a gain of approximately \$3.9 million was recorded. The vessel has a nominal book value and management intends to dispose of the vessel in 2007.

**Depreciation and amortization** is lower compared to 2006 primarily due to a lower depreciable asset base in 2007 partially related to the write down of the North Sydney plant and equipment at the end of the second quarter of 2006.

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

**Foreign exchange and derivative contracts** resulted in a gain of \$17.1 million in the first half of 2007 as compared to \$7.7 million in 2006. This includes approximately \$25.7 million of unrealized exchange gains on currency swaps and foreign exchange options, partially offset by an unrealized exchange loss on long-term debt. From a cash perspective, the business incurred an outlay of \$9.4 million of cash from foreign exchange management in the first half 2007 versus \$10.0 million in cash receipts generated in the first half 2006 - a change of \$19.4 million. A significant portion of realized foreign exchange expense for 2007 related to settlement of options at less than the spot exchange rate versus option income earned in 2006. Please refer to note 3 in the financial statements for a detailed listing of outstanding contracts at period end and their fair values. As of June 30, 2007, the mark-to-market valuation was a net asset of \$0.3 million versus a liability of \$27.0 million at December 31, 2006.

Over the longer term, the changing Canadian dollar may benefit or hurt Clearwater, as approximately 80% of our sales are denominated in foreign currencies. Clearwater therefore maintains an active currency management program to provide a degree of certainty to future Canadian dollar cash flows with respect to sales.

Clearwater's foreign exchange management program, which is used to hedge our foreign exchange exposure, involves the use of foreign exchange forward contracts supplemented by the use of foreign exchange options. As a result of the type of options normally employed, the possibility of the option being exercised does not exist until certain trigger prices, that are significantly higher than market when the option is entered into, have been reached. Once triggered, whether or not a contract will be called depends on whether spot rates exceed contract rates at the time of maturity. To the extent that contracts are exercised, it will serve to mute or delay the positive impact of an improving exchange rate environment on Clearwater's financial results.

From an accounting perspective, Clearwater does not elect to pursue hedge accounting. Therefore all its contracts, forwards and options, are marked-to-market at the quarter end. Clearwater records the change in the market value of these contracts as an adjustment to net earnings, this can result in losses or gains during periods of time when exchange rates are changing rapidly.

Schedule of foreign exchange and derivative contract income:

	2007	2006
Realized loss (gain)		
Foreign exchange and derivative income	7,782	(8,309)
Other realized	1,579	(1,700)
	9,361	(10,009)
Unrealized (gain) loss		
Balance sheet translation	(697)	(10,655)
Mark-to-market on exchange derivative contracts	(20,971)	4,048
Mark-to-market on interest and currency swap contracts	(4,751)	8,948
	(26,419)	2,341
Total gain	\$ (17,058)	\$ (7,668)

**Bank interest and interest on long-term debt** decreased slightly as the change in the method of accounting for the inflation indexed bond was partially offset by the new convertible debentures issued in the first quarter of 2007. Prior to 2007, interest expense included an estimate of the assumed inflation rate on the Icelandic bond. The estimated change in the liability associated with inflation indexing is included in foreign exchange and derivative contract expense for 2007.

**Minority interest** relates to earnings from Clearwater's investment in its subsidiaries in Argentina and Newfoundland and Labrador. It was lower in the first half of 2007 due to lower net earnings from these subsidiaries year-to-date.

## LIQUIDITY AND CAPITAL RESOURCES

*Earnings before interest, tax, depreciation and amortization (EBITDA) and leverage are not recognized measures under Canadian GAAP and therefore are unlikely to be comparable to similar measures presented by other companies. Management believes 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 types of long-term debt. Clearwater's objective when managing its capital structure is to obtain the lowest cost of capital available, while maintaining flexibility and reducing exchange and refinancing risk as appropriate.

Clearwater lowers its cost of capital through the use of leverage, in particular senior revolving and term debt. Clearwater maintains some flexibility in its capital structure, as the amount of capital available to Clearwater can be impacted by known and unknown risks, uncertainties, and other factors outside management's control including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs, as well as capital expenditures and distributions paid. 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. Management believes the available credit will be sufficient to meet its cash requirements.

As at June 30, 2007, the Fund owns 55.52% (December 31, 2006 - 55.71%) 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 30, 2007, the Fund and Clearwater had similar equity/convertible debt structures as illustrated in the table below:

	Fund	Clearwater
<b>Units</b>		
Publicly Listed Trust Units	29,190,395	
Class A Partnership Units		29,190,395
<b>Units Held solely by Clearwater Fine Foods Incorporated</b>		
Special Trust Units	23,381,217	
Class B Partnership Units		23,381,217
	52,571,612	52,571,612
<b>Convertible debentures/Class C Partnership Units</b>		
Convertible debentures	\$ 43,864,000	
Class C Partnership Units		\$ 43,864,000
<b>Convertible debentures/Class D Partnership Units</b>		
Convertible debentures	\$ 44,279,000	
Class D Partnership Units		\$ 44,279,000

Clearwater also has other debt, and as a result its total capital structure is as follows as of June 30, 2007 and December 31, 2006:

	2007	2006
a. Equity – Partnership units	\$ 173,370	\$ 173,079
b. Convertible debt, Class C units, due in 2010	43,864	46,430
c. Convertible debt, Class D units, due in 2014	44,279	-
d. Non-amortizing debt		
Term notes, due in 2008 - 2013	83,599	86,308
Bond payable, due in 2010	52,004	46,795
Term loan, due in 2091	3,500	3,500
	139,103	136,603
e. Amortizing debt		
Marine mortgage	4,810	5,584
Other loans	1,296	1,643
	6,106	7,227
<b>Total capital</b>	<b>\$ 406,722</b>	<b>\$ 363,339</b>

- a. Equity consists of Class A Limited Partnership units, Class B General Partnership units, 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 (\$44 million in principal outstanding as at June 30, 2007 when accounting for buybacks) to fund capital projects. 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 30, 2007, the face value of the debt outstanding was \$46 million, \$44 million net of financing charges and option to convert (December 31, 2006 - \$47 million, net of option to convert, with no netting against 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 - On March 9, 2007, 7,372,881 and on April 10, 2007 an additional 769,831 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 net of financing charges and option to convert, to fund potential acquisitions. 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/Class C and D Partnership units, Clearwater has additional primary debt facilities. These facilities include approximately \$84 million in **five and ten year notes** in Canadian and U.S. dollars from a syndicate of five institutional lenders (with US \$20 million available to be drawn at market rates until late 2007) 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 \$41.3 million along with \$5.6 million of accrued interest and \$5.1 million of accrued CPI, both of which are completely offset by swap contracts. The mark-to-market adjustment related to the bond as of June 30, 2007 is an asset of \$1.1 million.



During the second quarter, Clearwater renegotiated the terms and maturity of its \$60 million **revolving term debt facility** from a syndicate of banks. This facility was not available to be drawn upon at June 30, 2007 or currently due to leverage restrictions. This facility, which matures and is renewable in May 2009, is part of a master netting agreement and was in a cash position of \$14 million as at June 30, 2007.

As part of its strategy to manage its capital structure, the Fund filed a normal course issuer bid by which it can acquire up to \$5 million principal amount of convertible debentures in the 12-month period ending August 2007. This was accompanied by a similar agreement to repurchase Class C Partnership units by Clearwater. In total, \$4 million of the Class C units have been repurchased (\$3 million in fiscal 2006 and \$1 million in the first quarter of 2007) and cancelled and the proceeds were used to repurchase and cancel an equivalent amount of convertible debentures.

The Board of Trustees believes that repurchase of the Fund's units, from time to time, may represent an attractive opportunity to realize additional unitholder value and that the purchase of Units would be an appropriate and desirable use of the Fund's available resources. Therefore, 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, which amount represents less than 10% of the public float. Any such

purchases of units would be made during the 12-month period commencing on January 24, 2007, and in accordance with the requirements of the TSX. The units will be purchased by the Fund for cancellation and will be accompanied by a similar repurchase of units by Clearwater. Purchases will be made at market prices through the facilities of the TSX, and will be funded out of the Fund's available cash and through borrowings under its existing credit facility (subject to receiving the approval of its lenders). Year-to-date, the Fund repurchased and cancelled 217,400 units at a cost of approximately \$1,088,000. The transactions resulted in decreasing the unit value outstanding by \$2,206,000 and increasing contributed surplus by \$1,118,000.

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 the amount of distributions paid and the amount of debt outstanding. In addition, the debt related to these facilities take priority over the securities in Clearwater held by the Fund. Clearwater is in compliance with all covenants. Due to the items previously noted that impacted the first half of 2007's results, earnings were unusually low, and in turn, leverage increased to 6.4 times debt to earnings before interest, tax, depreciation and amortization (EBITDA) as at June 30, 2007, up from 2.9 times as of December 31, 2006. Clearwater will continue to monitor and manage debt levels based on business needs and opportunities.

## CASH FLOWS

### Summarized cash flow information

For the 13 and 26 week periods ending June 30, 2007 and July 1, 2006. See statements of cash flows for more detail.

	2007	13 weeks ended 2006	2007	26 weeks ended 2006
Cash flow from operations				
(before change in working capital)	\$ 2,012	\$ 17,147	\$ (1,605)	\$ 28,632
Investing, Financing, and change in non-cash working capital				
Change in non-cash working capital	(20,989)	(16,002)	(5,993)	(6,689)
Other investing activities	485	(283)	114	904
Capital expenditures (net of proceeds on sale)	(2,874)	(7,449)	(9,775)	(14,926)
Distributions to unitholders	(7,901)	-	(15,817)	-
Distributions to minority partners	(1,559)	(1,849)	(2,988)	(2,418)
Purchase of units	(842)	-	(1,088)	-
Other	(119)	(89)	213	96
	(33,799)	(25,672)	(35,334)	(23,033)
(Increase) decrease in long-term debt, net of cash	\$ (31,787)	\$ (8,525)	\$ (36,939)	\$ 5,599



During the first half of 2007, funded debt (net of cash balances) has increased by approximately \$37 million.

**Cash flows** generated by Clearwater along with its banking facilities are used to fund current operations, seasonal working capital demands, capital expenditures, other commitments and distributions to unitholders. Due to the seasonality in Clearwater's business, sales and gross profit are typically higher in the second half of the calendar year than 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. Due to the market conditions, the level of scallop inventory has been higher than normal in 2007, however this is expected to improve during the balance of the year.

## CAPITAL EXPENDITURES

Capital expenditures were \$10.5 million year-to-date (2006 - \$15.9 million). Of this amount, \$9.2 million (2006 - \$15.1 million) was considered return on investment (ROI) capital and \$1.3 million (2006 - \$0.8 million) was maintenance capital. ROI and maintenance capital are tracked on a project-by-project basis; there are no ROI projects currently in process. 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 cost of capital are classified as maintenance. Maintenance capital has historically been approximately \$3 million annually.

The clam vessel which had been under construction since July 2004 capsized on June 25, 2007 while being moved to dry dock. Subsequent to the end of the second quarter 2007, Clearwater reached an agreement with the shipyard that had been constructing the new vessel for a cash settlement of \$46 million. As security we have \$26 million in letters of credit and an assignment of insurance proceeds. Management is continuing to plan for the replacement vessel and is reviewing the options of either constructing a new vessel or converting an existing hull. One of the key considerations for a replacement vessel will be the time period it will take to bring the vessel into operation.

Clearwater is also continuing to plan for the replacement for one of its vessels in Argentina.

## DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

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

*Distributable cash does not have any standardized meaning prescribed by Canadian Generally Accepted Accounting Principles (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 the distributable cash as a measure of cash generated by Clearwater available for distribution to unitholders without eroding Clearwater's production capacity.*

In the first half of 2007, distributable cash was a deficit of \$5.3 million (2006 - \$24.8 million generated) and Clearwater declared distributions of \$15.8 million (2006 - \$nil). Please refer to the distributable cash reconciliation included in this document for detailed reconciliations of these amounts.

As discussed above, the more significant factors that impacted earnings in 2007 year-to-date include market conditions, clam vessel disruptions and foreign exchange. The impact of these factors reduced distributable cash generated in the first half of 2007 by \$30 million as compared to the same period in 2006.

In August 2006, Clearwater reinstated distributions to unitholders on record as of August 31, 2006 at a rate of \$0.05 per month; \$0.60 when annualized. In making this decision, Clearwater considered the financial results, on-going capital expenditure requirements, leverage 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. An update on those factors is as follows.

- Current financial results – The first half of 2007 was impacted by market conditions, clam vessel disruptions and foreign exchange, with these factors reducing distributable cash generated year-to-date by \$30 million as compared to 2006. Earnings, excluding the impact of non-cash foreign exchange, have declined compared to 2006 with the rolling four quarters EBITDA (excluding the impact of non-cash foreign exchange) and distributable cash as of the first half of 2007 of \$34 million and \$12 million respectively as compared to \$65 million and \$42 million realized in 2006.
- Capital expenditures - Clearwater currently has two significant capital projects in the planning phase; a replacement vessel for its clam fleet and a replacement vessel for its Argentine fleet. Clearwater has funds currently available for the clam vessel and plans to ensure an Argentine vessel is fully funded prior to delivery. The delivery of these vessels will result in a fleet of freezer processor vessels that has a low average age with long remaining life spans. For greater details on Clearwater's strategy for capital replacement, a 5-year history of capital expenditures as well as information on Clearwater's strategy in maintaining its assets, please refer to the Capability to Deliver Results section in the 2006 annual report available on our website at [www.clearwater.ca](http://www.clearwater.ca).
- Leverage - Due to the items previously noted that impacted the first half of 2007's results and higher debt levels with the new convertible debenture issue, leverage has increased and now stands at 6.4 times EBITDA as compared to 2.9 times at December 31, 2006. Clearwater intends to continue to monitor and manage debt levels based on business needs and opportunities but expects with improved earnings and the settlement on the clam vessel this ratio will improve in the second half of the year. Please see the Definitions and Reconciliations section at the end of this report for the calculation of leverage.
- Expectations regarding future earnings – Management expects the second half of the year to be stronger due to the positive impact of decisions made in the first half of the year regarding scallop harvesting and sales. Achieving strong sales levels in the second half of the year, the absence of vessel disruptions and a measure of stability in exchange rates will be critical in achieving these results.

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

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

## Summary of distributable cash and other key figures

(\$000's except unit amounts)	13 weeks ended June 30, 2007	26 weeks ended June 30, 2007	year ended Dec 31, 2006	year ended Dec 31, 2005
Cash flow from operations	\$ (18,977)	\$ (7,598)	\$ 44,648	\$ 36,142
Net earnings	\$ 12,120	\$ 15,788	\$ 1,463	\$ 19,873
Distributions paid or payable	\$ 7,901	\$ 15,817	\$ 15,837	\$ 27,366
Distributable cash	\$ 594	\$ (5,307)	\$ 42,351	\$ 27,205
(Shortfall) excess of distributable cash over distributions paid or payable	\$ (7,307)	\$ (21,124)	\$ 26,514	\$ (161)
(Shortfall) excess of cash flows from operating activities over distributions paid	(26,878)	(23,415)	28,811	8,776
(Shortfall) excess of net income over cash distributions paid	4,219	(29)	(14,374)	(7,493)

Cash on hand was used to fund the distributions year-to-date. The funding of future distributions will be through an expected increase in cash flow generated from operating activities based on strong sales in the second half of the year, the absence of vessel disruptions and a measure of stability in exchange rates. We do not believe that the shortfall is an economic return on capital as the business is seasonal in nature and it must be viewed on an annual basis. As previously stated, the expectation for the second half of 2007 is to generate sufficient distributable cash to maintain distributions. When considering the ability of Clearwater to maintain its current distribution level, as mentioned above, the Trustees consider current financial conditions, capital expenditures, leverage and expectations for future earnings. As of August 14, 2007, management and the Trustees expect future earnings to generate sufficient cash flow to cover the shortfall to date and generate sufficient cash flows for future distributions.

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". Both calculations have been provided in the definitions and reconciliations section of the MD&A. The CICA guidance also provides

a number of recommendations on various disclosures. The calculation of distributable cash is in compliance with the guidance, however management believes it would be premature to attempt to adopt all disclosure requirements until such time as greater guidance is provided. The CICA plans to issue a companion document, which will contain more guidance. Management plans to review that document when it is issued.

## EXPLANATION OF SECOND QUARTER RESULTS

*Consolidated Operating Results for the thirteen weeks comprising the second quarter, in thousands of Canadian dollars. The prior year has been restated to reflect the impact of the new accounting policy for refits, adopted in fiscal 2007 and applied retroactively. Please refer to the critical accounting policies section of the MD&A for further details.*

*The results of operations of the Fund are entirely related to Clearwater's performance and therefore the commentary below is on the operations of Clearwater. The statements of earnings disclosed below reflect the unaudited interim earnings of Clearwater for the 13-week periods ended June 30, 2007 and July 1, 2006.*

	2007	2006
Sales	\$75,311	\$81,312
Cost of goods sold	59,268	58,946
Gross profit	16,043	22,366
	21.3%	27.5%
Administration and selling	9,663	8,932
Loss (gain) on disposal of licences and other, net	(224)	2,815
Other income	(848)	(2,608)
Insurance claim	(366)	-
Foreign exchange and derivative income	(13,107)	(8,698)
Bank interest and charges	208	216
Interest on long-term debt	3,524	3,152
Depreciation and amortization	2,922	3,702
Reduction in foreign currency translation account	-	345
	1,772	7,856
Earnings before income taxes and minority interest	14,271	14,510
Income taxes	1,129	2,324
Earnings before minority interest	13,142	12,186
Minority interest	1,022	1,779
Net earnings	\$12,120	\$10,407

## NET EARNINGS

Net earnings increased by \$1.7 million in the second quarter of 2007 due primarily to foreign exchange earnings offset by lower gross profit as outlined below.

	2007	2006	Change
Net earnings	\$12,120	\$10,407	\$1,713
Explanation of changes in earnings:			
Higher non-cash foreign exchange			14,078
Higher gain on disposal and other, net			3,039
Lower cash foreign exchange			(9,669)
Lower gross profit			(6,323)
All other			588
			\$1,713

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

	2007	2006	Change	%
Scallops	\$26,041	\$28,174	\$(2,133)	(8%)
Lobster	19,436	20,705	(1,269)	(6%)
Clams	11,276	15,711	(4,435)	(28%)
Coldwater shrimp	13,010	8,268	4,742	57%
Groundfish and other	1,785	3,597	(1,812)	(50%)
Crab	3,763	3,172	591	19%
Hedging program	-	1,685	(1,685)	(100%)
	<b>\$75,311</b>	<b>\$81,312</b>	<b>\$(6,001)</b>	<b>(7%)</b>

Scallop sales have decreased by 8% in the second quarter of 2007 compared to the same period in the prior year. This contributed significantly to the negative variance in profit margins. The decrease in scallop sales relates primarily to lower volumes caused by soft market conditions during the quarter and product mix.

Lobster sales are relatively consistent with the prior year. We continue to realize the benefits of our new raw lobster product and the application of technology that provides a more effective method to sort and grade our live lobster. In addition, in January 2007, Clearwater purchased an additional offshore lobster licence and related assets, which based on recent TAC levels, should provide a return on investment in the 15-20% range and increase our lobster volumes by approximately 3%.

Clam sales, volumes and gross profits were impacted by the loss of the Atlantic Pursuit and vessel costs were higher with lower harvest volumes due to refit costs. Volumes are expected to continue to be lower until the clam fleet is expanded.

Coldwater shrimp sales are higher than the prior year primarily due to an increase in volumes due to the timing of landings and an improved product mix.

Groundfish sales were lower compared to the prior year as Clearwater's plant in Glace Bay, Nova Scotia resumed operations at the end of the second quarter of 2007 from a labour dispute. The plant is now operating on a seasonal basis producing crab.

Hedging income was \$1.7 million lower in 2007 as compared to the same period in 2006. Due to the increasing complexity of applying accounting standards, Clearwater stopped designating its foreign exchange derivative contracts as hedges for accounting purposes as of April 2, 2006. This has had the impact of reducing sales and margins compared to the prior year, as gains or losses on derivative contracts are included below the gross profit line as opposed to being included in sales.

In summary, gross profit for the quarter was \$6.3 million lower than in 2006, primarily due to lower sales volumes of scallops and clams.

Foreign exchange reduced sales and margins by approximately \$2.5 million in the second quarter of 2007 when compared to the rates received in the second quarter of 2006.

	2007		2006	
Currency	% sales	Rate	% sales	Rate
US Dollars	48.0%	1.097	42.5%	1.169
Japanese Yen	8.6%	0.009	10.3%	0.010
Euros	14.9%	1.469	24.7%	1.427
UK pounds	7.0%	2.169	5.1%	2.051
Canadian dollar and other	21.5%		17.4%	
	<b>100.0%</b>		<b>100.0%</b>	

Clearwater maintains an active hedging program to provide a higher degree of certainty to future Canadian dollar cash flows. For additional detail please refer to the year-to-date analysis as well as note 3 in the financial statements.

**Loss (gain) on disposal of licenses and other, net** is a gain in 2007 versus an expense item in 2006. The 2007 figure includes a recovery of approximately \$350,000 related to recovery of accounts receivable previously provided for. The prior year included a write down related to the plant and assets in North Sydney and exit costs totalling approximately \$3.1 million.

**Other income** is lower in 2007 as there is less in royalty income from the rental of quota when compared to the prior year partially offset by higher investment income. The Highland plant was operational in the second quarter of 2007 and therefore the earnings from the crab sales are included in sales as opposed to royalties in the previous year.

Other income detail for the quarter	2007	2006
Investment income	\$ 870	\$ 278
Export rebate	174	440
Quota rental and royalties	(274)	1,312
Other	78	578
	<b>\$ 848</b>	<b>\$ 2,608</b>

**Depreciation and amortization** is lower compared to 2006 primarily due to a lower depreciable asset base in 2007 partially related to the write down of the North Sydney plant and equipment at the end of the second quarter of 2006.

**Income taxes** have decreased compared to the prior year due to lower net earnings in taxable entities.

**Minority interest** relates to earnings from Clearwater's investment in its subsidiaries in Argentina and Newfoundland and Labrador. It was lower due to lower net earnings from these subsidiaries year-to-date.

**Selling and administration** costs are higher as Clearwater continues to invest in its people and develop markets for its products, particularly in Asia.

**Foreign exchange and derivative contract** income was \$13.1 million in 2007 versus \$8.7 million in 2006. From a cash perspective, the business incurred an expense of \$2.2 million of cash from foreign exchange management in 2007 versus generation of \$7.5 million in 2006.

Foreign exchange and derivative contract detail for the quarter	2007	2006
Realized loss (gain)		
Foreign exchange derivatives	491	(6,081)
Other realized	1,660	(1,437)
	<b>2,151</b>	<b>(7,518)</b>
Unrealized (gain)/loss		
Foreign exchange on balance sheet	(3,538)	(5,350)
Mark-to-market on foreign exchange derivative contracts	(9,987)	1,587
Mark-to-market on interest and currency swap contracts	(1,733)	2,583
	<b>(15,258)</b>	<b>(1,180)</b>
Total exchange gain	<b>\$ (13,107)</b>	<b>\$ (8,698)</b>



## OUTLOOK

The factors that impacted earnings year-to-date – market conditions, foreign exchange and clam vessel disruptions – reduced distributable cash generated in the first half of the year by \$30 million as compared to 2006. However, management expects the second half of the year to be stronger due to the positive impact of decisions made in the first half of the year and a positive impact in later quarters from the change in refit policy. Management believes these factors along with stronger market conditions for the scallop business will have a positive impact on Clearwater and that distributable cash generated in 2007 will be sufficient to maintain the current distribution level. Achieving strong sales levels in the second half of the year, the absence of vessel disruptions and a measure of stability in exchange rates will be critical in achieving these results.

With the loss of the clam vessel under construction, the improvements that were anticipated to provide additional profit within the clam business throughout 2008 will be delayed and realized beginning in early 2009. Management is in the process of determining a replacement for the vessel and continues to believe there is strong potential for growth in the clam business.

With the strength of our quota ownership, our significant investment in developing effective and efficient harvesting and production processes, and opportunities for acquisitions in a fragmented international seafood business, the outlook for the longer-term is positive. Our strategy continues to have a long-term focus, developing and maintaining the strong foundations, investing in science, people, technology, market development, resource ownership and resource management, Clearwater was built upon.

## CRITICAL ACCOUNTING POLICIES

Clearwater's critical accounting policies are those that are important to the portrayal of Clearwater's financial position and operations and require management to make judgments based on underlying estimates and assumptions about future events and their effects.

Underlying estimates and assumptions are based on historical experience and other factors that are believed by management to be reasonable under the circumstances. These estimates and assumptions are subject to change as new events occur, as more experience is acquired, as additional information is obtained, and as the operating

environment changes. Management believes the following are the most critical accounting policies and estimates used in the preparation of the consolidated financial statements.

### Impact of recently adopted accounting policies

Due to the increasing complexity of applying the accounting standards, as well as the requirement to adopt the Comprehensive Income accounting standard in the future, Clearwater no longer designated contracts as hedges for accounting purposes, effective April 2, 2006. As a result, it recorded the fair value of these contracts as an asset (\$1.9 million at April 1, 2006) with the offsetting gain deferred and amortized at that time. From that point forward, these contracts were marked-to-market each reporting period and any gains or losses, both realized and unrealized, were included in foreign exchange income.

There have not been any other substantial changes to any of Clearwater's significant accounting policies in the past two years. During the course of the 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 this year-to-date:

#### *Financial instruments and comprehensive income*

Effective January 1, 2007, Clearwater adopted the new CICA Handbook Standards relating to financial instruments. These new standards have been adopted on a prospective basis with no restatement of prior period financial statements.

#### (a) Financial Instruments

Section 3855, "Financial Instruments – Recognition and Measurement" provides guidance on the recognition and measurement of financial assets, financial liabilities and non-financial derivatives. This new standard requires that all financial assets and liabilities be classified as either: held-for-trading, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities. The initial and subsequent recognition depends on their initial classification.

Held-for-trading assets are carried at fair value with transaction costs expensed immediately and gains and losses recognized in net earnings in the period in which they arise. Held-to-maturity financial assets and loans and receivables are initially recognized at their fair values and subsequently



measured at amortized cost using the effective interest rate method, with gains and losses recognized in net earnings in the period in which they arise. Available-for-sale assets are carried at fair value with gains and losses recognized in comprehensive income. Other financial liabilities are initially measured at cost or at amortized cost depending upon the nature of the instrument and are subsequently measured at amortized cost using the effective interest rate method, with gains and losses recognized in net earnings in the period in which they arise.

The standard requires Clearwater to make certain elections, upon initial adoption of the new rules, regarding the accounting model to be used to account for each financial instrument. The following is a summary of the accounting model Clearwater has elected to apply to each of its significant categories of financial instruments outstanding as of January 1, 2007:

Cash	Held-for-trading
Accounts receivable	Loans and receivables
Derivative financial instruments	Held-for-trading
Accounts payable and accrued liabilities	Other liabilities
Long-term debt	Other liabilities
Due to joint venture partner	Other liabilities
Commodity contracts	Held-for-trading

As a result of the adoption of this section, Clearwater reflected the following adjustments as of January 1, 2007:

- \$71,000 was adjusted to the opening retained earnings for January 1, 2007. This related to long-term debt.
- A presentational reclassification of amounts previously recorded in "Cumulative foreign currency translation account" to "Accumulated other comprehensive income".

Deferred financing costs related to debt are no longer presented as other assets on the balance sheet but are

now netted against the debt. This change in accounting policy resulted in a decrease of \$2.8 million in the amount of long-term debt as of January 1, 2007.

## (b) Comprehensive Income

Section 1530, "Comprehensive Income" requires separate disclosure of comprehensive income and its components in the financial statements. Other comprehensive income includes the exchange gains and losses arising from the translation of the financial statements of self-sustaining foreign operations. The effect of exchange rate variations on the translation of Clearwater's net assets of self-sustaining foreign operations has been recorded as "Other comprehensive income (loss), net of tax".

## Refit accruals

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

In the absence of specific guidance in Canada on this topic, we believe it appropriate to follow FASB AUG AIR-1 and therefore adopted this standard on January 1, 2007. As a result of adopting this standard, we have reduced opening refit accruals by \$4.9 million, reduced future tax assets by \$295,000, increased future tax liability by \$260,000 and reduced the opening deficit by \$4.3 million. This change in policy will result in more variability in earnings as refit expenses were previously amortized over a period of years and now will be expensed as incurred. This policy has been applied retroactively. As a result, \$2.8 million has been expensed in the first half of 2007 (\$2.1 million in 2006). In 2006, annual refit costs were approximately \$3.3 million. Management expects the annual refit costs for 2007 to be in line with the prior year.

As a result of adopting this standard, comparative figures for 2006 have been restated. We have made the following adjustments:

	January 1, 2007	July 1, 2006 13 weeks ended
<b>Balance Sheet</b>		
Reduction in accounts payable and accrued liabilities	\$ 4,849	\$ 4,048
Reduction in other long-term assets	(295)	(208)
Increase in future income taxes liability	(260)	(343)
Reduction in deficit	\$ 4,294	\$ 3,497
<b>Income statement</b>		
Increase in cost of goods sold	-	965
Increase in future tax expense	-	135
Decrease in net earnings	-	1,110

#### Future Income Tax and other

The Fund recorded a future income tax expense of \$34 million in the second quarter of 2007, accounting for the largest change in the Fund's net income (loss) quarter-over-quarter and on a year to date basis in 2007 relative to the prior year. The second quarter expense reflects the impact of the trust tax legislation. With the June 2007 substantive enactment of Bill C-52, a new 31.5 per cent tax will be applied to distributions from Canadian public trusts starting in 2011. As a result, the Fund recorded a \$34 million future income tax expense and corresponding future income tax liability related to the differences between the accounting and tax basis of the Trust's and underlying partnership's assets. Prior to this legislation, the Fund did not record future income taxes as it was not subject to income tax. While net income in the second quarter of 2007 was reduced significantly by this future tax adjustment, there was no impact on cash from operating activities.

#### Impact of standards to be adopted in the future

##### Inventory

The CICA has issued a new standard on inventories, which provides more guidance on the determination of cost (it will now include an allocation of overheads), allows reversal of impairment losses and provides additional disclosures. The implementation date is January 1, 2008. Management will review the new standard in the latter part of the year and prior to its implementation date will disclose the impact.

## SUMMARY OF QUARTERLY RESULTS

The following financial data provides historical data for the ten most recently completed quarters. Please note that quarters prior to Q2 2006 have not been restated for the change in refit policy.

(IN 000'S EXCEPT PER UNIT AMOUNTS)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2007				
Sales	\$59,095	<b>\$75,311</b>		
Net earnings	3,668	<b>12,120</b>		
Basic earnings per unit	0.07	<b>0.23</b>		
Fiscal 2006				
Sales	\$70,349	<b>\$81,312</b>	\$79,939	\$84,136
Net earnings (loss)	1,634	<b>10,407</b>	8,106	(19,130)
Basic earnings (loss) per unit	0.03	<b>0.22</b>	0.15	(0.36)
Fiscal 2005				
Sales	\$67,359	<b>\$69,712</b>	\$93,548	\$84,220
Net earnings	1,645	<b>1,371</b>	12,136	4,721
Basic earnings per unit	0.03	<b>0.03</b>	0.23	0.09

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

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

For a more detailed analysis of each quarter'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 Generally Accepted Accounting Principles (GAAP) and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes that distributable cash is a useful supplemental measure as it provides an indication of cash available for distribution to readers seeking to assess the sustainability of distributions by comparing distributions paid to the amount of distributable cash. In addition, as distributable cash is a measure frequently analyzed for income trusts we have calculated the amount in order to assist readers in 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 the 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 licenses. 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 shortfall in the distributable cash was \$5 million year-to-date in 2007 compared to \$25 million generated in the first six months of 2006. Management expects stronger results in the second half of the year sufficient to maintain current levels of distribution through improved cash flows from operating activities. Achieving strong sales levels in the second half of the year, the absence of vessel disruptions and a measure of stability in exchange rates will be critical in achieving these results. In determining the payment of distributions, Clearwater

considers the financial results, on-going capital expenditure requirements, leverage and expectations regarding future earnings. Future earnings can be impacted by a number of factors including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates and fuel costs.

As discussed above, factors including market conditions, foreign exchange, clam vessel disruptions and refit costs impacted earnings in the first half of 2007. These impacts also translated into a reduction of distributable cash generated in the first half by \$30 million as compared to 2006. However, management expects the second half of the year to be stronger due to positive impacts of decisions made in the first half of the year and expected improvements in market conditions for scallops.

(\$000's except per unit amounts)	13 weeks ended June 30, 2007	13 weeks ended July 1, 2006	26 weeks ended June 30, 2007	26 weeks ended July 1, 2006
Cash flow from operating activities	\$ (18,977)	\$ 1,145	\$ (7,598)	\$ 21,943
Add (deduct):				
Capital expenditures per cash flow	(3,233)	(8,342)	(10,498)	(15,863)
Standardized Distributable Cash	(22,210)	(7,197)	(18,096)	6,080
Change in non-cash working capital <sup>A</sup>	20,989	16,002	5,993	6,689
Minority share EBITDA, int., taxes <sup>B</sup>	(641)	(2,249)	(2,169)	(4,125)
Adjustment for ROI capital <sup>C</sup>	2,412	8,001	9,191	15,141
Gain (loss) on disposal P,P,E /licenses <sup>D</sup>	44	1,902	(226)	967
Distributable cash	\$ 594	\$ 16,459	\$ (5,307)	\$ 24,752
Distributions <sup>E</sup>	\$ 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 and as well 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 expenditure 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. For additional information please refer to the 2006 annual report.
- D. 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 to disclose separately. The amount can vary and may relate to actual spending.
- E. There were no distributions for the first and second quarter of 2006.

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 (EBITDA)

*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 (EBITDA) is not a recognized measure under Canadian GAAP, and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes 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 30, 2007 and four quarters ended December 31, 2006 EBITDA

(\$000's)	Four quarters ended June 30, 2007	Four quarters ended December 31, 2006
Net earnings	\$ 4,764	\$ 1,463
Add:		
Minority interest	4,451	5,633
Income taxes	1,372	3,853
Reduction in foreign currency translation	672	2,369
Foreign exchange and derivative loss (income) unrealized	(3,899)	23,030
Depreciation and amortization	12,978	14,766
Interest on long-term debt	12,736	13,110
Bank interest and charges	943	953
<b>EBITDA</b>	<b>\$ 34,017</b>	<b>\$ 65,177</b>

## 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 30, 2007	December 31, 2006
EBITDA (as per previous table)	\$ 34,017	\$ 65,177
Total debt (per below)	217,445	187,619
Leverage	6.4	2.9
Debt per balance sheet	233,352	190,260
Adjust ISK denominated bond to swapped value:		
Less Icelandic bond (52,004)		(46,795)
Estimated payment for Icelandic bond (excluding CPI) 45,338	(6,666)	47,004
Reduce cash by unreserved cash		
Less cash balance (17,241)		(10,850)
Add cash reserve for new vessels 8,000	(9,241)	8,000
Net debt for leverage	217,445	187,619

## Estimated payment for Icelandic bond when considering currency swaps

June 30, 2007			
Currency	Amount	Current rate	Canadian \$
Canadian	\$ 25,000	1.000	\$ 25,000
US	\$ 9,708	1.0654	10,343
Euro	€ 2,500	1.4395	3,599
Sterling	£ 3,000	2.1321	6,396
			\$ 45,338
December 31, 2006			
Currency	Amount	Current rate	Canadian \$
Canadian	\$ 25,000	1.000	\$ 25,000
US	\$ 9,708	1.1653	11,313
Euro	€ 2,500	1.5377	3,844
Sterling	£ 3,000	2.2824	6,847
			\$ 47,004

**CONSOLIDATED BALANCE SHEETS**

(IN THOUSANDS OF DOLLARS)

	June 30, 2007 (unaudited)	December 31, 2006 (as revised note 1(c))
<b>ASSETS</b>		
<b>Current Assets</b>		
Distributions and interest receivable from Clearwater Seafoods Limited Partnership	\$ 2,791	\$ 1,486
Investment in Clearwater Seafoods Limited Partnership (note 2)	367,447	321,645
	<u>\$ 370,238</u>	<u>\$ 323,131</u>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Distributions and interest payable	\$ 2,766	\$ 1,470
Convertible debentures (note 3)	92,016	46,430
Future income taxes (note 4)	34,000	-
<b>Unitholders' Equity</b>		
Trust units (note 5)	298,639	299,282
Contributed surplus	1,118	-
Deficit	(58,301)	(24,051)
	<u>241,456</u>	<u>275,231</u>
	<u>\$ 370,238</u>	<u>\$ 323,131</u>

See accompanying notes to consolidated financial statements



## CLEARWATER SEAFOODS INCOME FUND

### CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT

13 and 26 week periods ended June 30, 2007 and July 1, 2006

(In thousands of dollars) (unaudited)	13 weeks ended		26 weeks ended	
	2007	2006 (as revised note 1(c))	2007 (as revised note 1(c))	2006 (as revised note 1(c))
Equity in net earnings of Clearwater Seafoods Limited Partnership	\$ 6,696	\$ 5,929	\$ 8,685	\$ 7,470
Interest income	1,599	877	2,590	1,755
Interest expense	(1,659)	(904)	(2,697)	(1,811)
Future income taxes (note 4)	(34,000)	-	(34,000)	-
Net earnings (loss)	(27,364)	5,902	(25,422)	7,414
Deficit at beginning of period as previously stated	(26,543)	(18,196)	(26,453)	(19,343)
Transitional adjustment for the application of new financial instrument sections by equity investee (note 1 (a))	-	-	(40)	-
Application of new refit policy by equity investee (note 1 (c))	-	2,560	2,402	2,195
Deficit at beginning of period restated	(26,543)	(15,636)	(24,091)	(17,148)
Distributions paid during the period	(4,394)	-	(8,805)	-
Adjustment for cancellation of convertible debentures (note 5)	-	-	17	-
Deficit at end of period	\$ (58,301)	\$ (9,734)	\$ (58,301)	\$ (9,734)
Basic and diluted net earnings (loss) per trust unit	\$ (0.93)	\$ 0.22	\$ (0.87)	\$ 0.26

See accompanying notes to consolidated financial statements

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

13 and 26 week periods ended June 30, 2007 and July 1, 2006

(In thousands of dollars) (unaudited)	13 weeks ended		26 weeks ended	
	2007	2006	2007	2006
Net earnings (loss)	\$ (27,364)	\$ 5,902	\$ (25,422)	\$ 7,414
Other comprehensive income, net of tax				
unrealized gains and losses on translating financial statements of self-sustaining foreign operations investee	283	150	385	109
Comprehensive income (loss)	\$ (27,081)	\$ 6,052	\$ (25,037)	\$ 7,523

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

13 and 26 week periods ended June 30, 2007 and July 1, 2006

(In thousands of dollars) (unaudited)	13 weeks ended		26 weeks ended	
	2007	2006	2007	2006
<b>Cash flows (used in) from operating activities</b>				
Net earnings (loss)	\$ (27,364)	\$ 5,902	\$ (25,422)	\$ 7,414
Items not involving cash				
Equity in net earnings of Clearwater Seafoods Limited Partnership, net of cash distributions received of \$4,394, 26 weeks \$8,805 (2006 – \$ nil, 26 weeks - \$ nil)	(2,302)	(5,929)	120	(7,470)
Future income taxes	34,000	–	34,000	–
Other	60	27	107	56
	4,394	–	8,805	–
<b>Cash flows (used in) from financing activities</b>				
Repurchase of convertible debentures	(37)	–	(1,000)	–
Repurchase of Class A units	(842)	–	(1,088)	–
Issuance of convertible debentures	4,542	–	48,042	–
Distributions to unitholders	(4,394)	–	(8,805)	–
	(731)	–	37,149	–
<b>Cash flows (used in) from investing activities</b>				
Redemption of Class A units	842	–	1,088	–
Redemption of Class C units	37	–	1,000	–
Purchase of Clearwater Class D units	(4,542)	–	(48,042)	–
	(3,663)	–	(45,954)	–
Increase (decrease) in cash	–	–	–	–
Cash - beginning of period	–	–	–	–
Cash - end of period	\$ –	\$ –	\$ –	\$ –

See accompanying notes to consolidated financial statements

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABULAR AMOUNTS EXPRESSED IN THOUSANDS OF DOLLARS)  
(UNAUDITED)

## 1. BASIS OF PRESENTATION

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

The unaudited interim period consolidated financial statements have been prepared by the Fund in accordance with Canadian Generally Accepted Accounting Principles ("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 1 (a) and 1 (b). 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 2006 Annual Report.

These consolidated financial statements consolidate the accounts of the Fund and its subsidiary, Clearwater Seafoods Holdings Trust ("CSHT"). CSHT owns 55.71% (December 31, 2006 – 55.71%) of the units of Clearwater. However, as the Fund does not have the right to nominate the majority of the board of directors, it does not consolidate the results of Clearwater's operations but rather accounts for the investment using the equity method. Under this method, the cost of the investment is increased by the Fund's proportionate share of Clearwater's earnings and reduced by any distributions paid to the Fund by Clearwater and amortization of the purchase price discrepancy. Due to the limited amount of information that this provides on the underlying operations of Clearwater, the financial statements of Clearwater are also enclosed.

(a) Effective January 1, 2007, the Fund adopted the new CICA Handbook Standards relating to financial instruments. These new standards have been adopted on a prospective basis with no restatement of prior period financial statements.

Section 3855, "Financial Instruments – Recognition and Measurement" provides guidance on the recognition and measurement of financial assets, financial liabilities and non-financial derivatives. This new standard requires that all financial assets and liabilities be classified as either: held-for-trading, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities. The initial and subsequent recognition depends on their initial classification.

Held-for-trading assets are carried at fair value with transaction costs expensed immediately and gains and losses recognized in net earnings in the period in which they arise. Held-to-maturity financial assets and loans and receivables are initially recognized at their fair values and subsequently measured at amortized cost using the effective interest rate method, with gains and losses recognized in net earnings in the period in which they arise. Available-for-sale assets are carried at fair value with gains and losses recognized in comprehensive income. Other financial liabilities are initially measured at cost or at amortized cost, depending upon the nature of the instrument, and are subsequently measured at amortized cost using the effective interest rate method, with gains and losses recognized in net earnings in the period in which they arise.

The standard requires the Fund to make certain elections, upon initial adoption of the new rules, regarding the accounting model to be used to account for each financial instrument. The following is a summary of the accounting model the Fund has elected to apply to each of its significant categories of financial instruments outstanding as of January 1, 2007:

Distribution and interest receivable	Loans and receivables
Distribution and interest payable	Other liabilities
Convertible debentures	Other liabilities

As a result of the adoption of this section, the following adjustments have been made as of January 1, 2007 (reflecting their equity interest in adjustments made by Clearwater):

- Investment in Clearwater Seafoods Limited Partnership was increased by \$40,000 and
- Deficit was reduced by \$40,000. This related to the amortization of the deferred financing charges associated with the convertible debentures.

(b) Comprehensive Income

Section 1530, "Comprehensive Income" requires separate disclosure of comprehensive income and its components in the financial statements. Other comprehensive income includes the exchange gains and losses arising from the translation of the financial statements of self-sustaining foreign operations. The effect of exchange rate variations on the translation of Clearwater's net assets of self-sustaining foreign operations has been recorded as "Other comprehensive income (loss), net of tax".

- (c) In September 2006, the Financial Accounting Standards Board in the United States issued FASB AUG AIR-1, Accounting for Planned Major Maintenance Activities. This standard, which is effective January 1, 2007, amends the guidance for planned major maintenance activities; specifically it precludes the use of the previously acceptable "accrue in advance" method, the method used by Clearwater in the past. In the absence of specific guidance in Canada on this topic, we believe it appropriate to follow FASB AUG AIR-1 and therefore have adopted this standard on January 1, 2007. As a result of adopting this standard comparative figures for 2006 have been restated. The Fund made the following adjustment as a result:

	January 1, 2007	13 weeks ended July 1, 2006	26 weeks ended July 1, 2006
Increase in investment in Clearwater Seafoods Limited Partnership	\$ 2,402	\$ 2,313	\$ 1,583
Reduction in opening deficit	2,402	2,560	2,195
Decrease in equity in net earnings of Clearwater Seafoods Limited Partnership	-	(612)	(247)

## 2. INVESTMENT IN CLEARWATER SEAFOODS LIMITED PARTNERSHIP

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

	June 30, 2007	December 31, 2006
Investment in Class A Partnership units, at cost	\$ 297,111	\$ 298,454
Investment in Class C Partnership units	46,000	47,000
Investment in Class D Partnership units	48,041	-
Add: Cumulative equity in net earnings	89,151	80,242
Less: Cumulative distributions received	(112,856)	(104,051)
	<u>\$ 367,447</u>	<u>\$ 321,645</u>

Included in equity in net earnings for the quarter is an expense of \$45,000, 26 weeks - \$90,000 - (quarter ended July 1, 2006 - \$130,000, 26 weeks - \$761,000) 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.

In March 2007, 7,372,881 Class D units were issued concurrently by Clearwater with the issue by the Fund of \$43.5 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.

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

	June 30, 2007	December 31, 2006
Intangible assets		
Licences – indefinite lives	\$ 189,260	\$ 189,260
Customer relationships and other	488	518
Goodwill	14,240	14,240
Long-term liabilities	448	504
Cumulative foreign currency translation account	(6,254)	(6,254)
	\$ 198,179	\$ 198,268

### 3. CONVERTIBLE DEBENTURES

On June 15, 2004, the Fund completed an offering for \$50 million of 7% convertible unsecured subordinated debentures, which are due December 31, 2010. The convertible debentures are convertible at any time up to maturity at the option of the holder into trust units of the Fund at a conversion price of \$12.25 per trust unit. The debentures pay interest semi-annually in arrears on June 30 and December 31, commencing December 31, 2004. The debentures are not redeemable before December 31, 2007. On and after December 31, 2007, but before December 31, 2008, the debentures may be redeemed at the option of the Fund provided that the market price of the trust units is not less than 125% of the conversion price. On and after December 31, 2008, the debentures may be redeemed at the option of the Fund at a price equal to their principal amount plus accrued interest. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering that number of trust units equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash. The convertible debentures are classified in accordance with their component parts: the value ascribed to the holders' option to convert to units has been classified as equity and the remaining portion of the convertible debenture has been classified as debt.

The Fund filed a normal course issuer bid by which it can acquire up to \$5 million principal amount of convertible debentures in the 12-month period commencing August 2006. Any repurchase at the Fund level would be accompanied by a similar repurchase of Class C Partnership units by Clearwater. During 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 the Class C units were repurchased and cancelled with the proceeds used to repurchase and cancel an equivalent amount of convertible debentures. The principal outstanding as at June 30, 2007 was \$46 million.

On March 9, 2007, the Fund completed an offering for \$43.5 million of 7.25% convertible unsecured subordinated debentures, which are due March 31, 2014. On April 11, 2007 the Fund's syndicate exercised the over-allotment option in the amount of \$4,542,000 principal amount of convertible unsecured subordinated debentures. The convertible debentures are convertible at any time up to maturity at the option of the holder into trust units of the Fund at a conversion price of \$5.90 per trust unit. The debentures pay interest semi-annually in arrears on March 31 and September 30, commencing September 30, 2007.

The debentures are not redeemable before March 31, 2010. On and after March 31, 2010, but before March 31, 2012, the debentures may be redeemed at the option of the Fund provided that the market price of the trust units is not less than 125% of the conversion price. On and after March 31, 2012, the debentures may be redeemed at the option of the Fund at a price equal to their principal amount plus accrued interest. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering that number of trust units equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash. The convertible debentures are classified in accordance with their component parts: the value ascribed to the holders' option to convert to units has been classified as equity and the remaining portion of the convertible debenture has been classified as debt.

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 estimated fair value of the Fund's convertible debentures at June 30, 2007 was \$90,557,401 based on the quoted market value of the debentures Clr.db and Clr.db.a on the Toronto Stock Exchange.

## 4. FUTURE INCOME TAXES

In June 2007, Bill C-52 Budget Implementation Act, 2007 was substantively enacted by the Canadian federal government, which contains legislation to tax publicly traded trusts in Canada. As a result, a new 31.5 per cent tax will be applied to distributions from Canadian public income trusts. The new tax is not expected to apply to Clearwater Seafoods Income Fund until 2011 as a transition period applies to publicly traded trusts that existed prior to November 1, 2006. As a result of this substantive enactment of trust taxation, the Fund recorded a \$34 million future income tax expense and future income tax liability in the second quarter of 2007. The future income tax adjustment represents the taxable temporary differences of Clearwater Seafoods Income Fund tax effected at 31.5 per cent, which is the rate that will be applicable in 2011 under the current legislation and the Fund's current structure. The Fund continues to review its current structure in light of this new tax on trusts, and intends to evaluate alternatives so that the best structure is in place for unitholders.

## 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, 2006	29,407,626	23,381,217	\$ 298,454
Equity component of Convertible Debentures			828
Balance December 31, 2006			299,282
Cancellation of Class A units	(217,400)	-	(2,206)
Issuance of Class A units	169	-	1
	29,190,395	23,381,217	297,077
Equity component of Convertible Debentures 7.25%			1,579
Equity component of Convertible Debentures repurchased 7%			(17)
Balance June 30, 2007			\$ 298,639

As at June 30, 2007 there were in total 52,571,612 units outstanding (December 31 2006 - 52,788,843).

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. Any such purchases of Units would be made during the 12-month period commencing on January 24, 2007 and in accordance with the requirements of the TSX. Any Units purchased by the Fund will be cancelled and will be accompanied by a similar repurchase of units by Clearwater. During the first six months of 2007, the Fund purchased and cancelled 217,400 units at a cost of \$1,088,000 which reduced the equity component of the units by \$2,206,000 and created contributed surplus of \$1,118,000.

## 6. GUARANTEES

The Fund guarantees Clearwater's term credit facility (see note 5(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 30, 2007 and December 31, 2006 there was no balance outstanding on the term credit facility.

## 7. 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)

	June 30, 2007 (UNAUDITED)	December 31, 2006 (AS REVISED – NOTE 2(C))
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 17,241	\$ 10,850
Accounts receivable	46,706	59,388
Inventories	73,303	53,669
Derivative financial instruments (notes 2(a) and 3(b))	6,543	-
Vessel, settlement reached after quarter end (note 4(a))	45,881	-
Prepays and other	5,809	6,122
	195,483	130,029
Other long-term assets	7,879	9,563
Property, plant and equipment (note 4(a))	109,338	156,816
Licences	108,125	102,714
Goodwill	10,378	10,378
	\$ 431,203	\$ 409,500
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 37,582	\$ 32,995
Derivative financial instruments (notes 2(a) and 3(b))	6,274	27,002
Distributions payable	2,631	2,639
Income taxes payable	1,598	5,481
Current portion of long-term debt (note 5)	1,080	868
	49,165	68,985
Long-term debt (note 5)	232,272	189,392
Future income taxes	8,630	8,569
Due to joint venture partner	2,127	2,280
Minority interest	1,314	2,258
<b>UNITHOLDERS' EQUITY</b>		
Partnership units (note 6)	173,370	173,079
Deficit	(22,845)	(22,742)
Contributed surplus	185	-
Accumulated		
other comprehensive loss (note 2(b))	(13,015)	(12,321)
	137,695	138,016
	\$ 431,203	\$ 409,500

See accompanying notes to consolidated financial statements

# CLEARWATER SEAFOODS LIMITED PARTNERSHIP

## CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT

13 AND 26 WEEK PERIODS ENDED JUNE 30, 2007 AND JULY 1, 2006  
(IN THOUSANDS OF DOLLARS)

	13 weeks ended		26 weeks ended	
	2007	2006	2007	2006
(UNAUDITED)				
Sales	\$ 75,311	\$ 81,312	\$ 134,406	\$ 151,661
Cost of goods sold	59,268	58,946	106,553	107,203
Gross profit	16,043	22,366	27,853	44,458
Administration and selling	9,663	8,932	20,006	17,621
Loss (gain) on disposal of licenses and other	(224)	2,815	(302)	2,931
Other income (note 7)	(848)	(2,608)	(2,094)	(3,697)
Insurance claim (note 4(b))	(366)	-	(3,918)	-
Foreign exchange and derivative contracts (note 3(c))	(13,107)	(8,698)	(17,058)	(7,668)
Bank interest and charges	208	216	427	437
Interest on long-term debt	3,524	3,152	6,462	6,836
Depreciation and amortization	2,922	3,702	5,885	7,673
Reduction in foreign currency translation account (note 8)	-	345	-	1,697
	1,772	7,856	9,408	25,830
Earnings before the undernoted	14,271	14,510	18,445	18,628
Income taxes	1,129	2,324	613	3,361
Earnings before minority interest	13,142	12,186	17,832	15,267
Minority interest	1,022	1,779	2,044	3,226
Net earnings	\$ 12,120	\$ 10,407	\$ 15,788	\$ 12,041
Deficit at beginning of period as previously reported	(27,064)	(11,755)	(27,054)	(12,734)
Transitional adjustment for the application of new financial instrument sections (note 2(b))	-	-	(71)	-
Application of new refit policy (note 2(c))	-	4,597	4,292	3,942
Deficit at beginning of period restated	(27,064)	(7,158)	(22,833)	(8,792)
Distributions paid (note 6)	(7,901)	-	(15,817)	-
Adjustment for cancellation of Class C units	-	-	17	-
Deficit at end of period	\$ (22,845)	\$ 3,249	\$ (22,845)	\$ 3,249
Basic and diluted net earnings per unit	\$ 0.23	\$ 0.22	\$ 0.30	\$ 0.24

See accompanying notes to consolidated financial statements

# CLEARWATER SEAFOODS LIMITED PARTNERSHIP

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

13 and 26 week periods ended June 30, 2007 and July 1, 2006

(In thousands of dollars)	13 weeks ended		26 weeks ended	
(UNAUDITED)	2007	2006	2007	2006
<b>Comprehensive Income</b>				
Net earnings	\$ 12,120	\$ 10,407	\$ 15,788	\$ 12,041
Other comprehensive income (loss), net of tax				
unrealized gains and losses on translating financial				
statements of sustaining foreign operations	509	270	694	197
Comprehensive income	\$ 12,629	\$ 10,677	\$ 16,482	\$ 12,238
<b>Accumulated other comprehensive loss</b>				
Balance beginning of period	\$ (12,506)	\$ (13,660)	\$ (12,321)	\$ (15,085)
Reduction in cumulative foreign				
currency translation account (note 8)	-	345	-	1,697
Unrealized gain (loss) on translation				
of foreign operation (note 2(b))	(509)	(270)	(694)	(197)
Balance end of period	\$ (13,015)	\$ (13,585)	\$ (13,015)	\$ (13,585)

# CLEARWATER SEAFOODS LIMITED PARTNERSHIP

## CONSOLIDATED STATEMENTS OF CASH FLOWS

13 AND 26 WEEK PERIODS ENDED JUNE 30, 2007 AND JULY 1, 2006  
(IN THOUSANDS OF DOLLARS)

(UNAUDITED)	13 weeks ended 2007	2006 (AS REVISED – NOTE 2(C))	26 weeks ended 2007	2006 (AS REVISED – NOTE 2(C))
<b>Cash flows from (used in) operating activities</b>				
Net earnings	\$ 12,120	\$ 10,407	\$ 15,788	\$ 12,041
Items not involving cash:				
Depreciation and amortization	2,922	3,702	5,885	7,673
Unrealized foreign exchange on long-term debt	(3,538)	(5,304)	(697)	(10,656)
Unrealized inflation and interest on long-term debt	798	1,125	1,592	2,374
Future income tax (recovery) expense	452	258	(721)	(678)
Reduction in foreign currency translation account	-	345	-	1,697
Minority interest	1,022	1,779	2,044	3,226
Unrealized foreign exchange on currency option contracts	(9,987)	1,586	(20,971)	4,048
Unrealized loss on currency and interest rate swap contracts	(1,733)	1,605	(4,751)	7,118
Loss (gain) on disposal and other, net	(44)	1,644	226	1,789
	2,012	17,147	(1,605)	28,632
Change in non-cash operating working capital	(20,989)	(16,002)	(5,993)	(6,689)
	(18,977)	1,145	(7,598)	21,943
<b>Cash flows from (used in) financing activities</b>				
Proceeds from long-term debt	4,378	-	45,735	-
Reduction of long-term debt	-	(1,055)	(826)	(1,617)
Other	(82)	(89)	(366)	(96)
Purchase of Class C units	(37)	-	(1,000)	-
Purchase of Class A units	(842)	-	(1,088)	-
Distributions to minority partners	(1,559)	(1,849)	(2,988)	(2,418)
Distributions to unitholders	(7,901)	-	(15,817)	-
	(6,043)	(2,993)	23,650	(3,489)
<b>Cash flows from (used in) investing activities</b>				
Increase in other long-term assets	485	(283)	114	904
Purchase of property, plants, equipment, licences and other	(3,233)	(8,342)	(10,498)	(15,863)
Proceeds on disposal of property, plants, equipment, licences and other	359	893	723	937
	(2,389)	(7,732)	(9,661)	(14,022)
Increase (decrease) in cash	(27,409)	(9,580)	6,391	4,432
Cash - beginning of period	44,650	23,738	10,850	9,726
Cash - end of period	\$ 17,241	\$ 14,158	\$ 17,241	\$ 14,158
<b>Supplementary cash flow information</b>				
Interest paid	\$ 5,240	\$ 4,737	\$ 7,153	\$ 7,300
Income taxes paid (received)	\$ 4,789	\$ (137)	\$ 6,035	\$ 673

## CLEARWATER SEAFOODS LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(TABULAR AMOUNTS EXPRESSED IN THOUSANDS OF DOLLARS) (UNAUDITED)

### 1. BASIS OF PRESENTATION

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

The unaudited interim period consolidated financial statements have been prepared by Clearwater in accordance with Canadian Generally Accepted Accounting Principles ("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") 2006 Annual Report.

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.

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) Financial Instruments

Effective January 1, 2007, Clearwater adopted the new CICA Handbook Standards relating to financial instruments. These new standards have been adopted on a prospective basis with no restatement of prior period financial statements.

Section 3855, "Financial Instruments – Recognition and Measurement" provides guidance on the recognition and measurement of financial assets, financial liabilities and non-financial derivatives. This new standard requires that all financial assets and liabilities be classified as either: held-for-trading, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities. The initial and subsequent recognition depends on their initial classification.

Held-for-trading assets are carried at fair value with transaction costs expensed immediately and gains and losses recognized in net earnings in the period in which they arise. Held-to-maturity financial assets and loans and receivables are initially recognized at their fair values and subsequently measured at amortized cost using the effective interest rate method, with gains and losses recognized in net earnings in the period in which they arise. Available-for-sale assets are carried at fair value with gains and losses recognized in comprehensive income. Other financial liabilities are initially measured at cost or at amortized cost, depending upon the nature of the instrument, and are subsequently measured at amortized cost using the effective interest rate method, with gains and losses recognized in net earnings in the period in which they arise.

Cash	Held-for-trading
Accounts receivable	Loans and receivables
Derivative financial instruments	Held-for-trading
Accounts payable and accrued liabilities	Other liabilities
Long-term debt	Other liabilities
Due to joint venture partner	Other liabilities
Commodity contracts	Held-for-trading

The standard requires Clearwater to make certain elections, upon initial adoption of the new rules, regarding the accounting model to be used to account for each financial instrument. The following is a summary of the accounting model Clearwater has elected to apply to each of its significant categories of financial instruments outstanding as of January 1, 2007:

As a result of the adoption of this section, Clearwater reflected the following adjustments as of January 1, 2007:

- \$71,000 was adjusted to the opening retained earnings for January 1, 2007. This related to the amortization of the deferred financing charges associated with the long-term debt.
- A reclassification of amounts previously recorded in "Cumulative foreign currency translation account" to "Accumulated other comprehensive income".

Deferred financing costs related to debt are no longer presented as other assets on the balance sheet but are now netted against the debt. This change in accounting policy resulted in a decrease of \$2.8 million in the amount of long-term debt as of January 1, 2007.

(b) Comprehensive Income

Section 1530, "Comprehensive Income" requires separate disclosure of comprehensive income and its components in the financial statements. Other comprehensive income includes the exchange gains and losses arising from the translation of the financial statements of self-sustaining foreign operations. The effect of exchange rate variations on the translation of Clearwater's net assets of self-sustaining foreign operations has been recorded as "Other comprehensive income (loss), net of tax".

(c) Refits

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

In the absence of specific guidance in Canada on this topic, we believe it appropriate to follow FASB AUG AIR-1 and therefore have adopted this standard on January 1, 2007. As a result of adopting this standard comparative figures for 2006 have been restated. We have made the following adjustments:

	January 1, 2007	July 1, 2006
<b>Balance Sheet</b>		
Reduction in accounts payable and accrued liabilities	\$ 4,849	\$ 4,048
Reduction in other long-term assets	(295)	(208)
Increase in future income taxes liability	(260)	(343)
Reduction in deficit	\$ 4,294	\$ 3,497
	<b>13 weeks ended</b>	<b>26 weeks ended</b>
	<b>July 1, 2006</b>	<b>July 1, 2006</b>
<b>Income statement</b>		
Increase in cost of goods sold	965	178
Increase in future tax expense	135	267
Decrease in net earnings	1,100	445

**Impact of standards to be adopted in the future:**

**Inventory**

The CICA has issued a new standard on inventories, which provides more guidance on the determination of cost (it will now include an allocation of overheads), allows reversal of impairment losses and provides additional disclosures. The implementation date is January 1, 2008. Management will review the new standard in the latter part of the year and prior to its implementation date will disclose the impact.



### 3. FOREIGN EXCHANGE AND DERIVATIVE CONTRACTS

(a) Clearwater enters into derivative financial instruments to reduce underlying fair value and cash flow risks associated with foreign currency and interest rates.

At June 30, 2007 and December 31, 2006, Clearwater had outstanding forward contracts as follows (as converted to Canadian dollars at contracted rates):

Currency		Notional Amount	Average Exchange Rate	Maturity	Fair Value Asset (Liability)
<b>United States dollar</b>					
June 30, 2007	Sell forwards	30,000	1.060	2007	(164)
	Buy forwards	18,000	1.089	2007	(435)
December 31, 2006	Sell forwards	20,000	1.117	2008	1,087
	Sell forwards	55,500	1.136	2007	(1,526)
	Buy forwards	14,000	1.120	2007	544
<b>Euro</b>					
June 30, 2007	Sell forwards	4,000	1.448	2007	23
December 31, 2006	Sell forwards	9,550	1.442	2007	(913)
<b>Sterling</b>					
June 30, 2007	Sell forwards	9,100	2.272	2007	1,434
	Buy forwards	5,000	2.135	2007	21
	Sell forwards	15,000	2,163	2008	1,045
December 31, 2006		-	-	-	-
<b>Yen</b>					
June 30, 2007	Sell forwards	600,000	0.010	2007	994
	Sell forwards	300,000	0.011	2008	492
December 31, 2006		-	-	-	-

At June 30, 2007 and December 31, 2006, Clearwater had written the following foreign currency option and expandable forward contracts (as converted to Canadian dollars at contracted rates):

Currency		Notional Amount	Exchange Rate	Maturity	Fair Value Asset (Liability)
<b>United States dollar</b>					
June 30, 2007	Option	55,000	1.106 – 1.149	2007	(1,668)
	Option hedge	4,000	1.135 – 1.180	2007	285
	Expandable	500 – 36,000	1.131 – 1.187	2007	42
	Option	85,000	1.081 – 1.185	2008	(3,826)
	Expandable	12,000 – 30,000	1.106	2008	288
	Reverse knock outs	(41,000)	1.183	2008	(103)
December 31, 2006	Option	160,000	1.1003 – 1.252	2007	(5,435)
	Option hedge	20,000	1.135 – 1.180	2007	90
	Expandable	500 – 72,000	1.131 – 1.202	2007	(1,931)
<b>Japanese Yen</b>					
June 30, 2007	Option	2,000,000	0.009	2007	(1)
December 31, 2006	Option	2,000,000	0.009 – 0.010	2007	(189)
<b>Euro</b>					
June 30, 2007	Option	47,000	1.390 – 1.486	2007	(1,103)
	Option	23,000	1.533 – 1.550	2008	(73)
December 31, 2006	Option	55,000	1.390 – 1.585	2007	(6,466)
<b>Sterling</b>					
June 30, 2007	Option	5,000	2.100	2007	(116)
December 31, 2006	Option	25,700	2.013 – 2.101	2007	(5,995)

Although Clearwater has no intention of settling these contracts prior to maturity, at June 30, 2007, if it settled these contracts it would have made a net payment of \$1,778,000. The contracts outstanding at December 31, 2006, if settled would have led to a net payment of \$21,821,000. The liability or asset recorded is included in derivative financial instruments, and the resulting loss or gain is included in income.

(b) Summary of net asset position for derivative contracts:	
Forward, option and expandable contracts	\$ (1,778,000)
Interest rate contracts	1,650,000
Commodity contracts	397,000
Net asset position	\$ 269,000
Portion disclosed on balance sheet as derivative financial instrument asset	\$ 6,543,000
Portion disclosed on balance sheet as derivative financial instrument liability	6,274,000
Net asset position	\$ 269,000

(c)	13 weeks ended		26 weeks ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Realized (gain) loss				
Foreign exchange and derivative income	\$ 491	\$ (6,081)	\$ 7,782	\$ (8,309)
Other	1,660	(1,437)	1,579	(1,700)
	2,151	(7,518)	9,361	(10,009)
Unrealized (gain) loss				
Foreign exchange on long-term debt	(3,538)	(5,350)	(697)	(10,655)
Mark-to-market on option contracts	(9,987)	1,587	(20,971)	4,048
Mark-to-market on interest and currency swaps	(1,733)	2,583	(4,751)	8,948
	(15,258)	(1,180)	(26,419)	2,341
Total (gain) loss	\$ (13,107)	\$ (8,698)	\$ (17,058)	\$ (7,668)

(d) 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. 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.

(e) Interest rate risk

As indicated in the note entitled "Long-Term Debt", Clearwater uses cross currency and interest rate swaps to hedge its exposures to changes in foreign currencies and interest rates. The terms of the swap agreements related to the Icelandic bonds also effectively hedge the changes in the CPI. These agreements do not qualify for hedge accounting. Although Clearwater has no intention of settling these contracts prior to maturity, at June 30, 2007, if it settled these contracts it would have received a net payment of \$1,650,000 (December 31, 2006 - made a net payment of \$4,605,000). The liability is included in derivative financial instruments and the resulting non-cash loss is included in income. See note 5(d) for additional information relating to the swaps.

(f) Commodity contracts

On January 19, 2007, Clearwater entered into a crude oil option for 13,000 barrels per month effective for the period from March 1, 2007 to August 31, 2007 with a strike price of US \$60 per barrel. Although Clearwater has no intention of settling the contract prior to maturity, if it settled the contract it would have received a payment of \$280,000. If the contracts outstanding at December 31, 2006 were settled, Clearwater would have made a payment of \$553,000.

On June 27, 2007, Clearwater entered into a natural gas option for 20,000 MMBTU per month, effective for the period from September 1, 2007 to February 29, 2008 with a strike price of US \$8.40 per MMBTU. Although Clearwater has no intention of settling the contract prior to maturity, if it settled the contract it would have received a payment of \$117,000.

## 4. INSURANCE

- (a) On June 25, 2007, a new clam vessel that was to have been delivered in the third quarter capsized. Subsequent to quarter-end we agreed to a cash settlement of Canadian \$46 million with the yard that had been constructing the vessel with proceeds due to be received by September 2007. Security for this agreement includes \$26 million in letters of credit and an assignment of insurance proceeds.
- (b) On December 5, 2006, one of our three factory freezer clam vessels, the Atlantic Pursuit, was struck by a large wave that caused extensive damage as it was riding out a winter storm on the Southeastern Grand Banks. This was an older vessel and scheduled to be retired from the fleet later in 2007 but as a result of the extensive damage incurred was retired early. An agreement was reached with Clearwater's insurers during the first quarter and as a result a gain of approximately \$3.9 million has been recorded.

## 5. LONG-TERM DEBT

	June 30, 2007	December 31, 2006
Notes payable (a)		
Canadian	\$ 62,467	\$ 63,000
United States dollars	21,132	23,308
Class C Partnership Units (b)	43,864	46,430
Class D Partnership Units (c)	44,279	-
Bond payable (d)	52,004	46,795
Marine mortgage, due in 2017 (e)	4,810	5,584
Term loan, due in 2091 (f)	3,500	3,500
Other loans	1,296	1,643
	233,352	190,260
Less current portion	1,080	868
	\$ 232,272	\$ 189,392

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

- \$43,000,000 Canadian Series A Notes issued in 2003, bearing interest at 6.4% payable semi-annually, maturing December 8, 2008 net of financing costs.
- \$15,000,000 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 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 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. Clearwater has an additional \$20,000,000 U.S. dollar available to draw on this facility until December 31, 2007.

The notes are secured by mortgages and charges on all of the present and future property and assets of Clearwater and certain of its wholly owned subsidiaries, the interests of the Fund in Clearwater Seafoods Holdings Trust ("CSHT") and all the issued shares of CS ManPar Inc., the general partner of Clearwater. The security arrangement is guaranteed by an inter-creditor agreement with the banking syndicate members participating in the term credit facility disclosed in section (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 30, 2007 was \$46 million.

- (c) In March 2007, 7,372,881 Class D units were issued concurrently with the issue by the Fund of \$43.5 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. 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 interest rate of approximately 8.89% 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 April 10, 2007, an additional 769,831 Class D units were issued for proceeds of \$4.5 million bringing the total amount to \$48,042,000. Class D units were issued concurrently with the issue by the Fund of \$4.5 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.

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.

- (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 8.74%
- \$5,000,000 U.S. dollar liability with an effective interest rate of 9.31%
- \$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 9.76%

- 2,500,000 Euro liability with an effective interest rate of 7.99%

Interest expense on the bond is recorded using the effective interest rate method that takes into account estimated future Icelandic inflation rates. Interest accrued is \$5.6 million year-to date (2006 – \$3.5 million). As previously noted interest exposure on this bond has been hedged and the cash payment on the related swaps was \$1.0 million (2006 - \$nil).

	June 30, 2007	December 31, 2006
Principal	\$ 41,315	\$ 40,369
Accrued interest	5,624	3,470
Accrued CPI	5,065	2,956
	<b>\$ 52,004</b>	<b>\$ 46,795</b>

- (e) Marine mortgage payable in the principal amount of CDN \$4,032,000 (December 31, 2006 - \$4,549,000), DKK 16,480,000 (December 31, 2006 - DKK 17,871,000) and YEN 277,826,000 (December 31, 2006 - 297,671,000) 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 30, 2007 or December 31, 2006). The facility, which matures and is renewable in May 2009 is part of a master netting agreement that was in a cash position of \$14 million as at June 30, 2007.

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 30, 2007.

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

2007	1,080
2008	59,603
2009	919
2010	96,686
2011	818

## 6. 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 March 2007, 7,372,881 Class D units were issued concurrently with the issue by the Fund of \$43.5 million of Convertible Debentures and are held by the Fund through CSHT. The overallotment was exercised on April 10, 2007 and 769,831 additional Class D units were issued concurrently with the issue by the Fund of \$4.5 million additional 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. 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 would be made during the 12-month period commencing on January 24, 2007 and in accordance with the requirements of the TSX. The Units will be purchased by the Fund for cancellation and will be accompanied by a similar repurchase of units by Clearwater. On March 30, 2007, the Fund purchased and cancelled 50,100 Class A units. During the second quarter of 2007, the Fund purchased and cancelled 167,300 Class A units.

	Class A Units	Class B Units	\$ (in 000's)
Balance December 31, 2006	29,407,626	23,381,217	\$ 172,251
Cancellation of Class A Units	(217,400)	-	(1,272)
Issuance of Class A Units	169	-	1
Subtotal	29,190,395	23,381,217	170,980
Equity component of Class C Units			828
Cancellation of \$1 million Class C Units			(17)
Equity component of Class D Units			1,579
Balance June 30, 2007			\$ 173,370



As at June 30, 2007 there were in total 52,571,612 units outstanding (December 31, 2006 - 52,788,843).

Distributions paid for the three-month period ended June 30, 2007 were \$7,901 (2006 – \$ nil) and year-to-date were \$15,817 (2006 – \$ nil). All of the Partnership's distributions are discretionary.

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 \$180,553,000, being \$87,195,000, was debited to share capital.

## 7. OTHER INCOME

	13 weeks ended		26 weeks ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Investment income	\$ 870	\$ 278	\$ 1,102	\$ 776
Export rebate	174	440	470	858
Quota rental and royalties	(274)	1,312	63	1,316
Other (income)/expense	78	578	459	747
	\$ 848	\$ 2,608	\$ 2,094	\$ 3,697

## 8. CUMULATIVE FOREIGN CURRENCY TRANSLATION ACCOUNT

The reduction in the foreign currency translation account is a non-cash adjustment, which relates to the reduction of Clearwater's net investment in its 80% owned subsidiary in Argentina. The cumulative translation account largely arose because of the significant devaluation of the peso in Argentina versus the Canadian dollar in 2001. It is Clearwater's desire to continue to manage its exposure to Argentine pesos by repatriating its capital as quickly as possible while not impairing local operations. Dividends declared have resulted in a reduction in Clearwater's net investment in that subsidiary and accordingly, a proportionate share of the cumulative translation account has been recognized in earnings. Clearwater anticipates that continued payment of dividends from the subsidiary in Argentina may result in additional reduction of the cumulative translation account in the future. The cumulative translation account is included in the accumulated other comprehensive income section of the balance sheet and the remaining balance at June 30, 2007 is \$13,015,000 (December 31, 2006 - \$12,321,000).

## 9. 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 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
<b>Transactions</b>				
Charged by CFFI for rent and other services (net)	8	46	166	94
	June 30, 2007		December 31, 2006	
<b>Balances</b>				
Distribution and other payable to CFFI		120		1,088

In addition Clearwater was charged approximately \$29,500 for vehicle leases in the second quarter of 2007 (2006 - \$38,000) and year-to-date \$61,000 (2006 - \$75,000) and approximately \$18,100 for other services in the second quarter (2006 - \$10,000) and \$29,800 year-to-date (2006 - \$19,000) 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 \$188,600 (2006 - \$27,900) and year-to-date \$217,900 (2006 - \$57,100).

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

## 10. 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 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Scallops	\$ 26,041	\$ 28,174	\$ 46,917	\$ 54,317
Lobster	19,436	20,705	35,308	35,233
Clams	11,276	15,711	20,993	29,757
Coldwater shrimp	13,010	8,268	22,663	15,558
Groundfish and other	1,785	3,597	4,036	8,165
Crab	3,763	3,172	4,635	4,260
Hedging program	-	1,685	(146)	4,371
	\$ 75,311	\$ 81,312	\$ 134,406	\$ 151,661

(c) Geographical information

	13 weeks ended		26 weeks ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Sales				
United States	\$ 26,447	\$ 23,087	\$ 47,320	\$ 40,123
Europe				
France	6,587	17,093	11,885	34,925
Denmark	4,682	4,645	9,758	6,833
UK	6,095	5,334	8,956	10,153
Other	6,962	2,681	12,123	7,096
Asia				
Japan	6,316	7,346	11,263	12,767
Other	5,879	8,107	11,455	13,633
Canada	11,180	11,334	20,182	21,760
Other, including hedging program	1,163	1,685	1,464	4,371
	\$ 75,311	\$ 81,312	\$ 134,406	\$ 151,661

	June 30, 2007	December 31, 2006
<b>Property, plant, equipment, licences and goodwill</b>		
Canada	\$ 209,294	\$ 251,282
Argentina	17,677	18,024
Other	870	602
	\$ 227,841	\$ 269,908

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

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

# FINANCIAL INFORMATION

## QUARTERLY AND UNIT INFORMATION

The financial information disclosed below was derived from the unaudited interim earnings statements of Clearwater for periods from January 1, 2005 to June 30, 2007. Please note only Q1 and Q2 2006 have been restated for the change in refit policy.

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

	2007		2006				2005			
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	75,311	59,095	84,136	79,939	81,312	70,349	84,220	93,548	69,712	67,359
Net earnings (loss)	12,120	3,668	(19,130)	8,106	11,507	979	4,721	12,136	1,371	1,645
Distributable cash	594	(5,901)	7,237	10,362	16,459	8,294	7,970	11,694	612	6,929
Distributions	7,901	7,918	7,919	7,918	-	-	-	9,123	9,121	9,123
Per unit data										
Basic and diluted net earnings (loss)	0.23	0.07	(0.36)	0.15	0.22	0.02	0.09	0.23	0.03	0.03

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

	2007		2006				2005			
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Trading price range of units (board lots)										
High	5.25	5.15	5.36	5.58	4.50	4.20	6.10	6.43	8.29	9.40
Low	4.71	4.70	4.56	4.21	4.00	3.46	2.25	5.65	6.21	7.92
Close	4.79	4.82	4.97	5.33	4.32	4.05	3.75	6.02	6.53	8.20
Trading volumes (000's)										
Total	8,197	6,958	2,895	2,794	4,051	4,311	11,243	11,641	4,338	7,142
Average daily	130	109	47	45	64	67	181	185	68	113
Units outstanding at end of quarter										
Units	29,190,395	29,357,526	29,407,626	29,407,626	29,407,626	29,407,626	29,407,626	29,407,626	29,407,626	29,407,626
Special	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217
Total	52,571,612	52,738,743	52,788,843	52,788,843	52,788,843	52,788,843	52,788,843	52,788,843	52,788,843	52,788,843

**TRUSTEES OF CLEARWATER  
SEAFOODS INCOME FUND**

**Bernard Wilson**  
Former Vice Chairman  
Pricewaterhouse Coopers

**Brian Crowley**  
Founding President  
Atlantic Institute for Market Studies

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

**DIRECTORS OF CS MANPAR INC.,  
MANAGING PARTNER OF  
CLEARWATER SEAFOODS  
LIMITED PARTNERSHIP**

**Bernard Wilson**  
Former Vice Chairman  
Pricewaterhouse Coopers  
Chairman, Audit Committee

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

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

**Brian Crowley**  
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Atlantic Institute for Market Studies

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

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Vice-President, Fleet

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

**Stan Spavold**  
Corporate Secretary

**INVESTOR RELATIONS**

**Tyrone D. Cotie, C.A.**  
Director of Corporate Finance  
and Investor Relations  
(902) 457-8181  
tcotie@clearwater.ca

**AUDITORS**

KPMG LLP  
Halifax, Nova Scotia

**UNITS LISTED**

Toronto Stock Exchange  
Unit symbol: CLR.UN  
Convertible Debenture symbols:  
CLR.DB and CLR.DB.A

**TRANSFER AGENT**

Computershare Investor Services Inc.





757 Bedford Highway • Bedford, Nova Scotia  
Canada B4A 3Z7 • Telephone (902) 443-0550  
Fax (902) 443-7797 • [www.clearwater.ca](http://www.clearwater.ca)

## Dedicated to sustainable seafood excellence

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

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

