Restated Management's discussion & analysis – 2005 financial report

This restated Management's Discussion and Analysis ("MD&A") was prepared effective February 6, 2006. It has been updated effective August 11, 2006 only in relation to the adjustments required with respect to the accounting for the senior unsecured bond and related interest (see section "Restatement of Financial Statements" for further details) for the year ended December 31, 2005 and the quarter ended April 1, 2006.

The Audit Committee and the Board have reviewed and approved the contents of this restated MD&A.

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

As of December 31, 2005, Clearwater's management evaluated the effectiveness of its disclosure controls and procedures, as defined under the rules adopted by the Ontario Securities Commission in multilateral instrument 52-109. This evaluation was performed under the supervision of, and with the participation of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Based on the evaluation of disclosure controls and procedures, the CEO and CFO have concluded that Clearwater's disclosure controls and procedures are effective.

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 of the Fund and Clearwater

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

The Fund commenced operations in July 2002 when it completed an initial public offering. The following table illustrates the capital changes from initiation to date as well as the related investment in Clearwater.

Date	Number of units issued	Method and related investment in Clearwater	Ownership of Clearwater by the Fund
July 2002	21,170,435	IPO (acquired equal number of units)	45.36%
August 29, 2002	2,117,043	Over-allotment option granted to the underwriters – acquired equal number of units	49.9%
December 27, 2002	1,271,186	Private placement – acquired equal number of units	51.23%
May 21, 2003	4,000,000	Warrants converted to units – acquired equal number of units	54.98%
September 17, 2003	848,962	Private placement – acquired equal number of units	55.71%

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

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

Restatement of financial statements

During the preparation of the second quarter 2006 interim financial statements, Clearwater discovered an error relating to its financial statements for the year ended December 31, 2005 and the quarter ended April 1, 2006.

This document has been restated to reflect the required adjustments by Clearwater to properly account for the inflation adjusted bonds. The adjustments are non-cash and relate to accounting for the bonds using the effective interest method. As disclosed in the notes to the 2005 restated annual financial statements, Clearwater has derivative agreements that effectively hedge the economic impact from inflation adjustments. These non-cash entries will be offset by non-cash adjustments related to the derivative agreements. Subsequently, management has developed additional controls regarding the accounting for the inflation bonds and believe them to be effective as of the date of this release.

Summary of adjustments from reported to restated figures for Clearwater Seafoods Income Fund:

Consolidated statements of net earnings:

FOR THE 13 WEEKS ENDED DECEMBER 31, 2005	As previously reported	Adjustments	As restated
Equity in earnings of Clearwater Seafoods Limited Partnership	$ 3,241	$ (650)	$ 2,591
Net earnings	3,214	(650)	2,564

Consolidated statements of net earnings:

FOR THE YEAR ENDED DECEMBER 31, 2005	As previously reported	Adjustments	As restated
Equity in earnings of Clearwater Seafoods Limited Partnership	$ 9,764	$ (650)	$ 9,114
Net earnings	9,658	(650)	9,008

Consolidated balance sheet:

AS OF DECEMBER 31, 2005			
Investment in Clearwater Seafoods Limited Partnership	$ 329,921	$ (650)	$ 329,271
Cumulative earnings	76,535	(650)	75,885

Summary of adjustments from reported to restated figures for Clearwater Seafoods Limited Partnership:

Consolidated statements of net earnings:

FOR THE 13 WEEKS ENDED DECEMBER 31, 2005	As previously reported	Adjustments	As restated
Foreign exchange loss (income)	$ (3,008)	$ 838	$ (2,107)
Interest on long-term debt	2,901	575	3,467
Income taxes	1,076	(246)	830
Net earnings	$ 5,888	$ (1,167)	$ 4,721

Consolidated statements of net earnings:

FOR THE YEAR ENDED DECEMBER 31, 2005	As previously reported	Adjustments	As restated
Foreign exchange loss (income)	$ (12,550)	$ 838	$ (11,712)
Interest on long-term debt	11,875	575	12,450
Income taxes	3,221	(246)	2,975
Net earnings	$ 21,040	$ (1,167)	$ 19,873

Consolidated balance sheet:

AS OF DECEMBER 31, 2005			
Other long-term assets	$ 10,397	$ 246	$ 10,643
Long-term debt	192,024	1,413	193,437
Cumulative earnings	151,053	(1,167)	149,886

Overall performance of Clearwater Seafoods Limited Partnership

During the fourth quarter of 2005 Clearwater's sales and net earnings were $84.2 million and $4.7 million respectively versus sales of $98.8 million and net earnings of $16.6 million in 2004. These results were consistent with management expectations for a slower quarter as outlined in our last quarterly report.

The major changes in gross profit for the quarter were as a result of the following:

- Lower earnings in the clam business due in part to lower selling prices when converted to Canadian dollars and higher vessel costs;
- Lower earnings in the scallop business due to lower volumes, increased costs due to vessel interruptions and higher fuel and crew costs partially offset by increased selling prices.

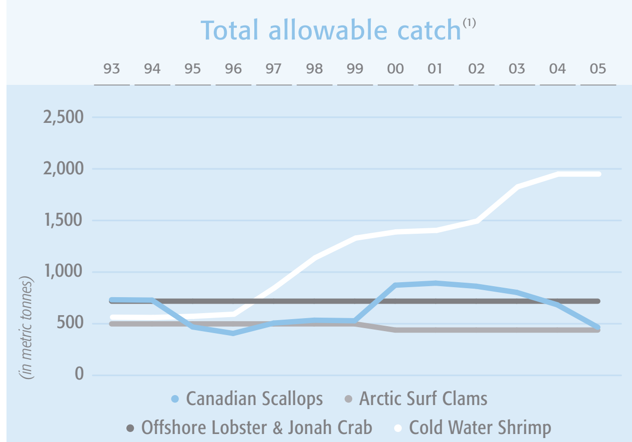
Clearwater's annual sales and net earnings for 2005 were $315 million and $19.9 million respectively versus sales of $345 million and net earnings of $37.5 million in 2004.

The significant factors contributing to the decrease from 2004 include:

- Reduction in sales and gross profit due to the strengthening Canadian dollar in the amount of $17.6 million compared to 2004;
- 32% lower total allowable catch ("TAC") for the Canadian scallop business that resulted in lower volumes, partially offset by higher selling prices;
- Abnormally high frequency of vessel disruptions in 2005.

These factors have reduced margins and therefore the amount of cash available for distribution for the year. Distributable cash generated in 2005 was $27.2 million ($54.3 million in 2004), which resulted in a payout ratio of 101% in 2005 (100% in 2004).

On December 31, 2005 subordination on 9.4 million units expired, as a result all units (52,788,843 units) will participate in any future distributions. Despite the ongoing challenge of foreign exchange, management believes higher selling prices for core species as well as less vessel disruptions will provide the potential for improvement in distributable cash levels in 2006 with further opportunity for growth in 2007 and beyond.



Our commitment to resource sustainability is demonstrated by the fact that TAC levels for most species we harvest are generally stable.

In October 2005 Clearwater announced that the distributions were suspended for the fourth quarter of 2005. The Trustees have determined that going forward they plan to review the ability of Clearwater to pay distributions on a quarterly basis in arrears with the first such review to occur concurrent with first quarter 2006 earnings release which will be in May 2006. As part of that review they will give consideration to the financial results for the most recently completed quarter, capital expenditure requirements, expectations regarding future earnings levels, leverage levels and the payout ratio before making a determination as to the amount to distribute, if any.

A number of challenges were faced in 2005 that had a negative impact on earnings and some challenges, for example, foreign exchange and high fuel costs, are expected to continue into 2006. The core business is healthy and we have invested approximately $184 million in the past five years and continue to make investments to further strengthen it. The resources we fish are healthy and the long-term outlook for the business is positive. The initiatives on price increases, the investment in our clam business, growing our new raw lobster business and investing in more frozen-at-sea scallop vessels are multi-year initiatives and the returns from them will be reflected over several years. For 2005 the benefits from these initiatives did not keep pace with the significant impact of foreign exchange, a lower scallop TAC and higher vessel costs.

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

Selected annual information

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

(IN 000'S EXCEPT PER UNIT AMOUNTS)	2005 (AS RESTATED)	2004	2003
Sales	$ 314,839	$ 345,459	$ 349,737
Net earnings	19,873	37,473	62,117
Basic net earnings per unit	0.38	0.71	1.22
Total assets	390,662	380,012	374,482
Long-term debt	194,445	169,198	145,802
Cash distributions on unsubordinated units	0.63	1.15	1.15
Cash distributions on subordinated units	–	0.46	1.15

During 2005, Clearwater continued to be challenged by the impact of a weakening U.S. dollar relative to the Canadian dollar and also began to realize the impact of a weakening Yen and Euro relative to the Canadian dollar as well. Approximately 74% of Clearwater's 2005 sales were denominated in U.S. dollars, Yen and Euro. The stronger Canadian dollar, after taking into account hedging, has had the effect of reducing sales dollars by an estimated $18 million in 2005, in addition to $10 million in 2004 and $15 million in 2003.

The increase in total assets reflects continued investment in the business including two scallop factory freezer vessels and progress payments on the new clam vessel in 2005.

The increase in long-term debt reflects the financing of a portion of the additional investment in the business with new debt facilities. Debt levels have grown over the past years due to the recent investments we have made. As we realize the return from these investments and stable exchange rates we expect our leverage ratio to decrease.

Distributable cash generated in 2005 was $27.2 million ($54.3 million in 2004), which resulted in a payout ratio of 101% in 2005 (100% in 2004). On December 31, 2005 subordination on 9.4 million units expired, as a result all units (52,788,843 units) will participate in any future distributions. Despite the ongoing challenge of foreign exchange, management believes higher selling prices for core species as well as less vessel disruptions will provide the potential for improvement in distributable cash levels in 2006 with further opportunity for growth in 2007 and beyond.

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Vision, core business and strategy

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

Our vision

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

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

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

Strategy for our core business

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

1. **Innovation** – We are a leader in developing and adopting technologies and practices that enhance both top and bottom line growth, while ensuring the sustainability of the resource base. Our efforts are directed at getting more from less.
2. **Vertical Integration** – By controlling the production process from harvesting to processing and from marketing to delivery we provide quality and unsurpassed cost efficiencies to our customers.
3. **Diversity of Species and Markets** – Diversity has always been a key to Clearwater's success. The diversity of our product offering and market positioning creates a natural hedge against downturns in any one species or market while enabling us to capitalize on the growing demand for premium seafood.

The key attributes of this strategy include:

Quota ownership is the cornerstone of our business.

Resource ownership and management – From the beginning we have invested in quota ownership to guarantee access to supply as well as to create a defensible position in the market place. Our scale of resource ownership provides us not only with security of supply it also provides the scale needed to invest in leading edge science as well as innovative harvesting, processing and marketing efforts. Our strategy of resource ownership depends on ensuring sustainable harvesting through responsible resource management. We have been proactive in protecting our key resources through our investments in science and by actively co-managing these resources in partnership with the federal Department of Fisheries and Oceans.

Clearwater prides itself on being a global company.

Market and customer focus – As demand for premium shellfish has grown, we have developed a worldwide presence. We have three sales offices in China, two in the United States, one in the United Kingdom and one in Japan. As well, we maintain distribution facilities in London, England and Louisville, Kentucky, in addition to Halifax. While we continually seek new business, we believe that our current customers represent our greatest growth prospects. Our success is based on our relationships with leading retailers, food processors and restaurants that understand both the need and the demand for quality in today's increasingly sophisticated market. At the same time, we mitigate risk through diversification of our customer base.

Accomplishing our goals depends on the skill and dedication of our employees.

Skilled and dedicated employees – Our decentralized decision-making and personal accountability enhance performance, foster innovation, improve quality, increase yields and lower costs. We emphasize customer service, quality and efficiency – and invest in our 1,600 employees to further their training and create new opportunities for them to excel. Clearwater intends to leverage the approximately $184 million that has been invested in the past five years in modernized vessels, its shore-based processing plants and licences. This has already resulted in increased yields, improved product quality, reduced costs, improved environmental responsiveness, and strong stewardship of the resources that Clearwater harvests.

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

Key performance drivers

Clearwater's key performance drivers include:

- Its quota ownership and the amounts harvested and procured;
- The markets for the various species of shellfish and the related customer relationships in those markets;
- Innovation and technology, including Clearwater's ability to leverage science and technology to create new products, increase quality and reduce costs;
- Ensuring Clearwater's employees continue to play an active role in its success.

Capability to deliver results

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

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

- The sea scallop resource and landings have been strong over the last number of years. Clearwater believes that this is a very well managed fishery. The 2005 scallop total allowable catch was lower than the historic high levels we experienced in prior years but well within historic ranges. We believe the total allowable catch may increase over the next several years.
- The Arctic surf clam resource is stable. In addition, Clearwater is now harvesting and marketing a significant amount of the by-catch (i.e., northern propeller clams and Greenland cockles) that is landed by the clam fleet.
- The Argentine scallop resource is strong due in part to rotational fishing efforts used to manage the resource, which ensure the resource has adequate time to regenerate.
- The coldwater shrimp resource remains strong and Clearwater expects that catch rates and landings will continue at or near recent levels.
- The lobster resource is considered strong and landings continue to be stable.

Clearwater maintains the largest fleet of factory freezer vessels in Canada. It also maintains a fleet of wet fish trawlers that harvest Clearwater's offshore lobster quota and a small portion of its sea scallop allocation. During 2005 Clearwater acquired two additional vessels, which were converted into FAS scallop vessels. The investment in these vessels completes Clearwater's vision to convert the majority of its scallop fleet to factory vessels and has resulted in the retirement of a number of wet fish vessels.

The condition and operating capability of these vessels is paramount for Clearwater to successfully operate in its fisheries. In the past five years Clearwater has invested approximately $184 million, excluding acquisitions, on its fleet, its on-shore processing facilities and licences.

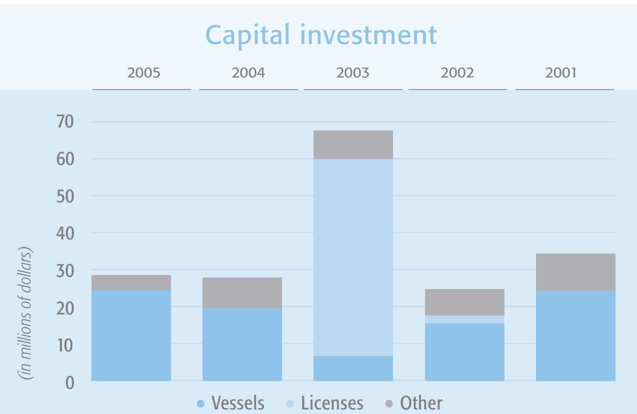
Clearwater typically replaces vessels as a result of its focus on innovation and constant adoption of new and leading edge technology. These additional investments typically provide greater efficiencies, lower costs and in some cases new product forms.

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

	2005	2004	2003	2002	2001
Vessels	$ **24,566**	$ 19,700	$ 6,700	$ 15,600	$ 24,500
Plants and other	**1,580**	5,500	4,900	2,000	7,200
Licences	**–**	–	53,500	2,100	–
Maintenance capital	**2,454**	2,700	2,700	5,100	2,800
	$ **28,600**	$ 27,900	$ 67,800	$ 24,800	$ 34,500

In addition to the amounts capitalized annually above, Clearwater historically has spent and expensed on average about $15 million a year on the maintenance of its fleet and processing plants. This reflects Clearwater's commitment to ensuring that the assets are kept in top condition enabling it to harvest and process its allowable catch efficiently and allow for the processing of additional capacity for selective procurement when required.

Vessel investments significantly impact the amount spent annually on capital expenditures. The amounts spent on plants, licences and other capital assets typically run between $5 – $13 million with $5 million being more of a base amount with no consideration for a growth strategy. In 2005 we completed two FAS scallop vessels that were started in 2004 and continued to construct a new clam vessel expected to be delivered in late 2006. In 2004 capital expenditures included progress payments on our clam vessels, two FAS scallop vessels as well as the investment in a new processed lobster facility. In 2003 we acquired a significant amount of scallop and groundfish quotas and licences. In 2002 we completed expansions at several of our plants and accepted delivery of a FAS scallop vessel and a shrimp vessel. During 2001 a partnership, in which Clearwater is a 50% partner, expended $19.5 million to replace a cold water shrimp freezer vessel. Clearwater's portion was $9.7 million. Additionally $7.4 million was expended to convert a vessel for the Argentine scallop fishery. Other expansion capital expenditures in 2001 included $4.2 million for Jonah crab and sea scallop processing equipment.



Most capital investment over the past five years has been in FAS vessels and scallop licences.

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

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

Of the 11 factory vessels:

- Two are used to harvest shrimp and are 5 years old or less. These vessels provide incremental returns due to greater harvesting efficiencies and lower fuel costs.
- Four are used to harvest Canadian sea scallops with two new in 2005 and two 3 years old or less. These vessels provide a return on investment well in excess of the cost of capital due to greater harvesting efficiencies, lower costs and a new higher quality product, frozen-at-sea scallops.
- Two are used to harvest Argentine scallops with one expected to be replaced over the next 5 years and the second to be replaced in the next 10 years. Management estimates a new vessel would cost approximately $15 – $20 million. Management believe that there is opportunity to improve efficiency in this fishery through the investment in new technology as well as additional research.

- Three are used to harvest clams. Clearwater will replace two vessels with the new vessel currently under construction when it is operational and the third vessel has an estimated useful life of another 10+ years. Management estimates it may cost on average $30 – $50 million to replace a clam vessel. Management believes the new clam vessel will generate incremental earnings by increasing the harvesting capacity and improving the processing efficiency to improve yields.

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

Clearwater's management is key to its ability to deliver results as its executive management team has years of experience in the fishing industry. During the year, additions to the executive management team include Rick Betz, responsible for North American Sales, Paul Broderick, responsible for Asian sales and Bernard Leger, responsible for European sales.

All segments of the food supply industry are highly competitive. The primary seafood industry is highly fragmented specializing in a single species or non-vertically integrated sales structure with businesses representing minor share positions, typically targeting price-conscious consumers. Although Clearwater has a number of competitors in each of its product categories, few of Clearwater's direct competitors offer the diversity of high quality seafood offered by Clearwater.

Explanation of annual results

Consolidated operating results for the year ended December 31 in thousands of Canadian dollars.

The results of operations of the Fund are entirely related to Clearwater's performance and therefore the commentary below is on the operations of Clearwater. The statement of earnings disclosed below reflects the audited annual earnings of Clearwater for the years ended December 31, 2005 (as restated) and December 31, 2004.

	2005 (AS RESTATED)	2004
Sales	$ 314,839	$ 345,459
Cost of goods sold	242,601	253,322
Gross profit	72,238	92,137
	22.9%	26.7%
Administration and selling	33,594	36,759
Gain on disposal and other, net	(4,102)	(5,976)
Other income	(1,660)	(5,475)
Foreign exchange income	(11,712)	(7,482)
Bank interest and charges	786	659
Interest on long-term debt	12,450	10,490
Depreciation and amortization	15,400	16,145
Reduction in foreign currency translation account	1,236	3,006
	45,992	48,126
Earnings before income taxes and minority interest	26,246	44,011
Income taxes	2,975	4,276
Earnings before minority interest	23,271	39,735
Minority interest	3,398	2,262
Net earnings	$ 19,873	$ 37,473

Net earnings

Net earnings decreased by $17.6 million in 2005 due primarily to lower sales and gross profit, lower other income and cash foreign exchange income partially offset by increased non-cash gains on foreign exchange and lower administration and selling expenses.

	2005	2004	Change
Net earnings	$ 19,873	$ 37,473	$ (17,600)
Explanation of changes in earnings:			
Change in non-cash foreign exchange			8,005
Lower administration and selling expense			3,165
Lower reduction in foreign currency translation account			1,770
Lower income taxes			1,301
Lower gross profit			(19,899)
Lower gains disposal and other, net			(5,689)
Change in cash foreign exchange income			(3,775)
Higher interest costs			(2,087)
Higher minority interest expense			(1,136)
All other			745
			$ (17,600)

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

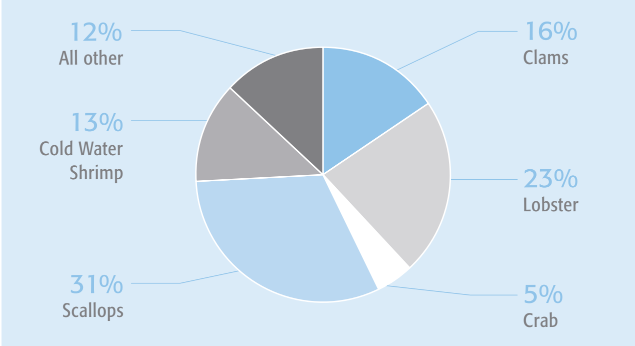
	2005	2004	Change	%
Scallops	$ 98,571	$ 114,735	$ (16,164)	(14%)
Lobster	70,954	66,603	4,351	7%
Clams	49,242	59,898	(10,656)	(18%)
Groundfish and other	29,934	44,679	(14,745)	(33%)
Cold water shrimp	39,994	31,741	8,253	26%
Crab	15,111	17,246	(2,135)	(12%)
Hedging program	11,033	10,557	476	5%
	$ 314,839	$ 345,459	$ (30,620)	(9%)

Scallop sales were down due primarily to 25% lower volumes, offset partially by selling prices that ranged from 16% to 26% higher. Volumes decreased due to a lower Canadian total allowable catch ("TAC") with the final Canadian TAC for 2005 being approximately 32% lower than 2004. Selling prices of scallops have increased from 2004 continuing a trend we have seen since the second half of 2004. During the third and fourth quarter we experienced some delays with the two new Canadian frozen at sea (FAS) vessels due to design problems that were corrected in the fourth quarter. The vessels resumed fishing in the fourth quarter, however, harvesting costs were higher. We also saw the impact of higher fuel costs in the later part of the year. Clearwater's fleet used approximately 32 million litres of marine fuel oil in 2005. A change of one cent in the price of marine fuel oil results in a change of approximately $320,000 to annual harvesting expenses.

Lobster sales increased compared to the prior year with the sales of our new raw lobster product exceeding our expectations for the year. In addition the application of new technology that allows us to better sort and grade our live lobster, combined with the technology we use for the new raw lobster product, has allowed us to purchase live product on a more selective basis and utilize the product we have more efficiently.

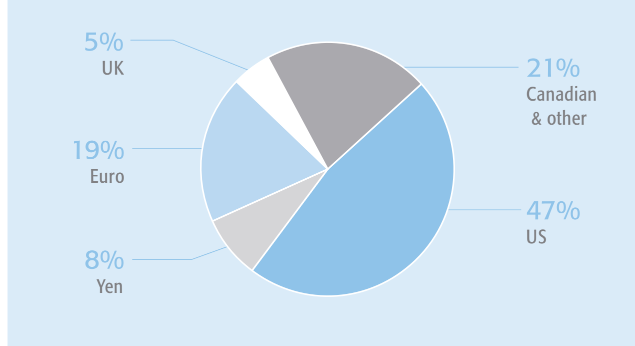
Clam sales decreased due primarily to 6% lower volumes and selling prices that were 12% lower, due primarily to mix of products sold and lower average selling prices in Canadian dollars when converted from U.S. dollars and Japanese Yen. Production volumes were lower and costs were higher due to higher than expected costs of completing vessel refits and repairs. In the first two quarters we completed scheduled refits on all three vessels and in the third and fourth quarter had some additional maintenance costs.

2005 Sales by species



Clearwater has a diverse product offering with no one species representing more than 31% of 2005 sales.

2005 Sales by currency



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

Volumes were also lower in part because Clearwater switched from a single importer in the Chinese market during the second quarter and as a result the sales to this market were nominal in that quarter while this was being implemented.

In 2005 we began a process of reorganizing our clam business to take advantage of opportunities that will arise when the new vessel arrives in late 2006. As a result we expect we may continue to see some short-term sales disruptions in this business. As previously disclosed, we are focused on increasing prices, reducing our costs and growing our volumes but expect results to be realized over time. In addition, we expect to begin negotiations on a new collective agreement for our North Sydney location in late February.

Groundfish and other sales are down due primarily to a previously announced and planned reduction in cod volumes. In 2004 Clearwater decreased production of individually quick frozen ("IQF") cod, a low margin product, due to increasing competition from Chinese processors. We began negotiations on a new collective agreement for our Glace Bay location in early February.

Coldwater shrimp sales and margins were up primarily as a result of increasing our investment to 75% and thus fully consolidating in December 2004 a business that we previously only 50% proportionally consolidated. Had these sales been reflected in 2004 numbers, sales would have shown a 3% decrease.

In summary, annual gross profit was lower by $19.9 million due primarily to the following:

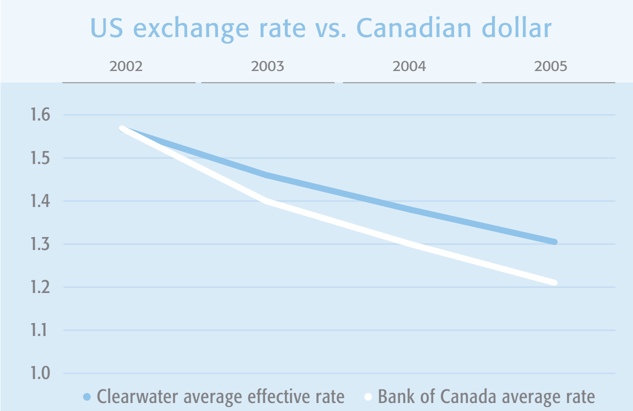
- Lower earnings from the clam business due to lower than expected volumes (due in part to vessel repairs), lower prices in part due to foreign exchange, higher vessel costs and a temporary disruption in our distribution channels in China;
- Lower earnings from the scallop business due to, a lower total allowable catch ("TAC"), higher costs per pound and lower catch rates, offset partially by higher selling prices.

Partially offset by:

- Higher earnings from the lobster business primarily due to higher volumes of our new raw lobster product.

Foreign exchange reduced sales and margins by approximately $17.6 million in 2005. We received about 7.5 cents less for each U.S. dollar in 2005, which resulted in our receiving approximately $8.4 million less when converted to Canadian dollars. In addition, exchange rates on Euros, Pounds Sterling and Yen were lower in 2005, which impacted sales, which resulted in our receiving approximately $9.2 million less when converted to Canadian dollars.

	2005		2004	
Currency	% sales	Rate	% sales	Rate
US Dollars	46.5%	1.307	53.0%	1.382
Japanese Yen	8.2%	0.011	8.2%	0.012
Euros	19.1%	1.478	15.8%	1.613
UK pounds	5.0%	2.188	4.4%	2.382
Canadian dollar and other	21.2%		18.6%	
	100.0%		100.0%	



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

Clearwater maintains an active hedging program to provide a higher degree of certainty to future Canadian dollar cash flows. For 2006 we have US $62 million in hedges that will expire at an average rate of 1.26 which represents about 55% of 2005 annual US$ receipts. In 2006 there is also 12 million Euros in hedges that will expire in 2006 at an average rate of 1.50 which represents about 30% of 2005 annual Euro receipts. For 2006 we also have US $22.5 million in economic hedges, at a rate of 1.25 that are accounted for as non-qualifying hedges.

Administration and selling costs were lower due to a planned reduction in salary costs and related benefits, travel costs and consulting fees. In 2004 Clearwater incurred consulting fees related to the development of sales support and manufacturing information systems. In 2006 we intend to invest further in developing the Asian markets for our products. However we are also focused on reducing costs in other areas as part of our process of controlling administration and selling costs.

Gain on disposal and other, net in 2005 includes a gain of approximately $3.2 million on the sale of non-core properties in Lunenburg, Nova Scotia as well as a gain of $2.5 million on the sale of non-core fishing quota. It also includes a $1.6 million impairment loss for shrimp harvesting contracts in the Canadian FAS shrimp business unit. The value of the harvesting contracts was adjusted based on declining margins as a result of low selling prices. In 2004 it included gains on the sale of non-core fishing quotas as well as gains on disposal of property, plant and equipment.

Other income is down due in part to a $1 million decrease in royalties from the leasing of quotas to third parties when compared to 2004. In 2004 other income included $625,000 related to the proceeds of an insurance claim.

Foreign exchange was $11.7 million of income in 2005 versus income of $7.5 million in 2004, an improvement of $4.2 million. In 2005 foreign exchange includes approximately $3.6 million of unrealized exchange gains on both long-term debt and foreign exchange options versus $4.4 million of unrealized losses in 2004. From a cash perspective, the business generated $8.1 million of cash from foreign exchange management in 2005 versus $11.9 million in 2004.

Foreign Exchange (gains) losses	2005	2004
Unrealized	$ (3,598)	$ 4,407
Realized	(8,114)	(11,889)
	$ (11,712)	$ (7,482)

Bank interest and interest on long-term debt increased due to higher average outstanding debt balances in 2005. Interest costs will increase going forward due to the increase in debt levels to finance the FAS scallop vessels coupled with our strategy to use more long-term fixed rate debt and the new Iceland bond debt. Until such time as construction is complete on the new clam vessel the related interest costs are being capitalized. In 2005 $1,389,000 of interest was capitalized (2004 – $180,000). As of December 31, 2005 Clearwater has used economic hedges to term out and fix substantially all its interest rate exposures.

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

Minority interest relates primarily to earnings from Clearwater's investment in Argentina.

Income taxes are lower than in the prior year due to the use of loss carrybacks to recover taxes paid in prior periods, offset by higher taxes in Argentina. In addition, 2004 taxes included a one-time net tax expense of approximately $840,000 related to the planned reorganization of a subsidiary which has the effect of reducing taxes paid by that subsidiary. We expect to have additional loss carrybacks that are intended to be utilized in 2006.

Distributable cash and cash distributions

Distributable cash is not a recognized measure under Canadian Generally Accepted Accounting Principles (GAAP) and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes that distributable cash 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 analysed for income trusts we have calculated the amount in order to assist readers in facilitating this review. Distributable cash should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of performance, as a measure of liquidity or as a measure of cash flows and management does not use this measure as a performance measure of earnings.

Clearwater's business is seasonal in nature with the result being that lower amounts of distributable cash are generated in the first half of the year as compared to the latter half. Historically Clearwater has funded a portion of the distributions paid in the first half of the year using an advance on its existing debt facilities and has recovered those advances in the latter portion of the year.

During the fourth quarter of 2005, Clearwater generated $8.0 million of distributable cash compared to $18.0 million in 2004. For the year ended December 31, 2005 Clearwater generated $27.2 million of distributable cash (2004 – $54.3 million) and declared distributions of $27.4 million (2004 – $54.3 million). Please refer to the distributable cash reconciliation included in this document for detailed reconciliations of these amounts.

The significant factors contributing to the decrease from 2004 include:

- Reduction in sales and gross profit due to the strengthening Canadian dollar in the amount of $17.6 million compared to 2004;
- 32% lower TAC for the Canadian scallop business that resulted in lower volumes, partially offset by higher selling prices;
- Abnormally high frequency of vessel disruptions in 2005.

These factors have reduced margins and therefore the amount of cash available for distribution for the year. On December 31, 2005 subordination on 9.4 million units expired, as a result all units (52,788,843 units) will participate in any future distributions.

Despite the ongoing challenge of foreign exchange, management believes higher selling prices for core species as well as less vessel disruptions will provide the potential for improvement in distributable cash levels in 2006 with further opportunity for growth in 2007 and beyond.

In October 2005 Clearwater announced that distributions were suspended for the fourth quarter of 2005. The Trustees have determined that going forward they plan to review the ability of Clearwater to pay distributions on a quarterly basis in arrears with the first such review to occur concurrent with the first quarter 2006 earnings release which will be in May 2006. As part of that review they will give consideration to the financial results for the most recently completed quarter, capital expenditure requirements, expectations regarding future earnings levels, leverage levels and the payout ratio before making a determination as to the amount to distribute, if any.

Liquidity and capital resources

As at December 31, 2005 the Fund owns 55.71% (December 31, 2004 – 55.71%) of the outstanding partnership units of Clearwater. However, as Clearwater Fine Foods Incorporated ("CFFI") has maintained the right to nominate the majority of the board of directors of Clearwater at the time of the initial investment by the Fund, the assets and liabilities at acquisition have been recorded using the book values as recorded by CFFI.

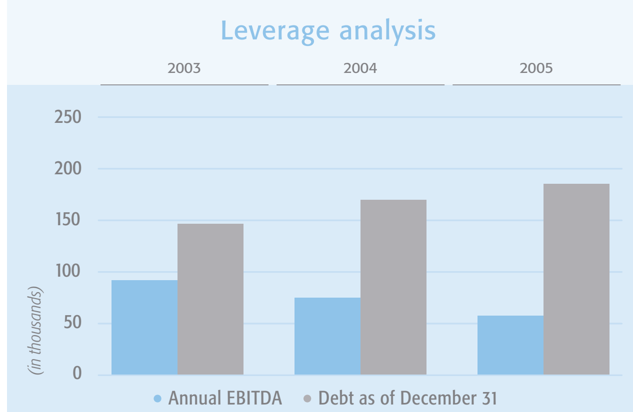
As at December 31, 2005 the Fund and Clearwater had similar capital structures as illustrated in the table below:

	Fund	Clearwater
Units		
Publicly Listed Trust Units	29,407,626	
Class A Partnership Units		29,407,626
Units Held solely by Clearwater Fine Foods Incorporated		
Special Trust Units	23,381,217	
Class B Partnership Units		23,381,217
	52,788,843	52,788,843
Convertible debentures/Class C Partnership Units		
Convertible debentures	$ 49,279,829	
Class C Partnership Units		$ 49,279,829

The **Special Trust Units** issued by the Fund were issued solely to provide voting rights to Clearwater Class B Partnership units held by CFFI. The right of 9,352,487 Class B Partnership units to receive distributions was subordinated to the rights of the Class A units until December 31, 2005.

In June 2004, 4,081,633 **Class C units** were issued by Clearwater (indirectly) to the Fund concurrently with the issue by the Fund of $50 million of Convertible Debentures. The Class C units are non-voting and redeemable and retractable at a price of $12.25 per unit. These units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the Convertible Debentures of the Fund and in a manner that ensures that the distributions on the Class C units will be able to (indirectly) fund the ongoing interest payments on the Convertible Debentures. The Class C units are classified in accordance with their component parts: the value ascribed to the holder's option to convert to units, $882,000, has been classified as equity and the remaining portion of the units has been classified as debt.

The $50 million of **Convertible Debentures** issued by the Fund are unsecured and subordinated, bear interest at 7% and are due on December 31, 2010. They are convertible at any time up to maturity at the option of the holder into trust units of the Fund at a conversion price of $12.25 per trust unit. The Debentures pay interest semi-annually in arrears on June 30 and December 31.



Recent years have seen Clearwater's leverage increase as a result of higher debt levels and reduced earnings.

The Debentures are not redeemable before December 31, 2007. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the Debentures on redemption or at maturity, in whole or in part, by delivering that number of trust units equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash.

In addition to the Convertible Debentures/Class C Partnership units, Clearwater has three additional primary debt facilities, approximately $86 million in **five and ten year notes** in Canadian and U.S. dollars from a syndicate of five institutional lenders, approximately Canadian $45 million in **five-year bonds** and a $115 million **revolving term debt facility** from a syndicate of banks.

In September 2005 Clearwater obtained 2,460 million ISK (approximately Canadian $46.9 million as of December 31, 2005) from the Icelandic bond market. The bonds yield 6.7%, are adjusted for changes in the Iceland consumer price index (CPI), have a face value of 2,460 million ISK, mature in 2010 and are unsecured. These bonds have been fully swapped into Canadian, US, Euro and Pound Sterling debt with floating interest rates. The bond is measured at fair value for changes in foreign exchange with the interest and CPI valued using the effective interest rate method. The non-cash accrual for the interest and inflation adjustment are recorded using the effective interest rate method with the expense being recorded as interest expense on long term debt on the income statement and as an increase to the value of the bond on the balance sheet. The cash interest paid along with the change in the mark-to-market value of the related swaps are classified as foreign exchange and derivative income on the income statement and as a net liability on the balance sheet. In addition, during the quarter Clearwater added an additional lender to its syndicate of five and ten year notes and added an additional US $25 million of available room under the notes of which US $5 million has been drawn down. The proceeds from these new facilities were used to reduce the amount outstanding under the Canadian $115 million secured revolving term debt facility.

The revolving term debt facility is available to Clearwater until May 2007. This facility is renewable on an annual basis. The facility is part of a master netting agreement and was in a cash position of $7,859,000 as at December 31, 2005. The cash position was a result of the timing of capital expenditures, suspension of distributions in the fourth quarter as well as the timing of drawdowns on the new Icelandic bonds and new long-term debt in the third quarter of 2005.

Clearwater's debt facilities contain various covenants and Clearwater is in compliance with these covenants. Management believes the available credit will be sufficient to meet its cash requirements, however Clearwater's available credit is a function of its earnings and the decline in earnings over the past several years has reduced the amount of available credit. In addition other factors outside management's control including, but not limited to total allowable catch levels, selling prices, weather, exchange rates and fuel costs could further impact the amount of available credit.

Summarized cash flow information

For the 13 and 52 week periods ending December 31. See statements of cash flows for more detail.

	13 weeks ended		Year ended	
	2005	2004	**2005**	2004
Cash flow from operations				
(before change in working capital)	**$ 9,449**	$ 20,365	**$ 34,585**	$ 53,541
Investing, Financing, and other activities				
Distributions to unitholders	**–**	14,139	**27,365**	54,276
Capital expenditures (net of proceeds on sale)	**1,298**	(1,501)	**19,184**	14,659
Investment (reduction) in working capital	**1,466**	(4,173)	**(1,557)**	6,435
Other investing activities	**1,485**	1,289	**1,492**	4,923
Issue of units	**–**	–	**–**	(882)
Distributions to minority partners	**984**	1,099	**3,092**	1,973
Other	**(83)**	(62)	**(160)**	(27)
	5,150	10,791	**49,416**	81,357
Increase (decrease) in long term debt, net of cash	**$ (4,299)**	$ (9,574)	**$ 14,831**	$ 27,816

During the year funded debt (net of cash balances) has grown by approximately $15 million. The sale of some non-core assets and the suspension of distributions in the fourth quarter have partially offset the impact of capital expenditures during 2005. As a result of the capital expenditures outlined below, which are expected to cost approximately $27 million, Clearwater expects debt levels to increase in 2006.

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

As previously announced Clearwater is currently in the process of constructing a **new factory freezer clam vessel**. The total estimated cost of the vessel, including owner supplied materials and related costs, is expected to be approximately $48 million, of which $23 million has been spent to date. The previously disclosed cost of $45 million was net of investment tax credits ("ITC's") earned on the construction costs, $3 million of which will no longer be used to reduce the cost of the vessel because of a change in tax strategy regarding ITC's. Clearwater expects the new vessel to be delivered in late 2006 and begin harvesting in 2007. Once operational, this new vessel is expected to reduce harvesting costs, greatly improve the quality and range of products offered and increase its' harvesting capacity. Two exciting and key innovations in this vessel, which support these goals, are its state of the art energy management system and its advanced on-board processing systems. The energy management system is expected to result in significantly reduced fuel consumption. The advanced on-board processing systems are expected to improve product quality and yield as well as provide the flexibility to produce a greater variety of products. The funds required to complete the clam vessel have been reserved from existing available debt facilities and construction costs will be funded by drawing down on those debt facilities until such time as the vessel is complete.

In the second quarter Clearwater took delivery of two **factory freezer scallop vessels**. In the third and fourth quarters additional costs were incurred to remedy a flaw in the design and both resumed fishing during the fourth quarter. The total final cost to acquire and convert the vessels, including owner supplied materials and related costs was $21 million. One of the vessels is a joint venture in which a partner owns 40% of the vessel. Therefore, the total cost to Clearwater for its interest in the two vessels is approximately $16.8 million. These vessels provide a return on investment by enabling Clearwater to produce a higher quality frozen-at-sea scallop that sells for a premium in the market.

Capital expenditures were $28.6 million for the year (2004 – $27.9 million). Of this amount, $26.2 million (2004 – $25.2 million) was considered return on investment (ROI) capital and $2.4 million (2004 – $2.7 million) was maintenance capital. The ROI capital investments in 2005 included the investment in the new clam vessel, completion of the two new FAS scallop vessels and improvements to an existing clam vessel. ROI and maintenance capital are tracked on a project-by-project basis. 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. In addition to the amounts to be incurred to complete the new clam vessel, Clearwater expects to invest approximately $2 million in various capital projects in 2006.

As at December 31, 2005 commitments for long-term debt, operating leases and other long-term obligations are as follows:

	Contractual obligations			
Payments due by year	Long term debt	Operating leases	Other obligations	Total
< 1 year	$ 1,008	$ 3,378	$ –	$ 4,386
< 2 years	963	3,257	–	4,220
< 3 years	61,661	3,026	–	64,687
< 4 years	1,085	2,838	–	3,923
< 5 years	97,121	2,661	–	99,782
> 5 years	32,607	8,807	2,023	43,437
Total	$ 194,445	$ 23,967	$ 2,023	$ 220,435

Further details on these obligations are disclosed in the notes to the annual consolidated financial statements. Amounts in years 3 and 5 appear high as non-amortizing term credit facilities are scheduled for renegotiation.

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

Explanation of fourth quarter results

Consolidated operating results for the thirteen weeks comprising the fourth quarter, in thousands of Canadian dollars.

The results of operations of the Fund are entirely related to Clearwater's performance and therefore the commentary below is on the operations of Clearwater. The statements of earnings disclosed below reflect the unaudited interim earnings of Clearwater for the 13 week periods ended December 31, 2005 (as restated) and December 31, 2004.

	2005 (AS RESTATED)	2004
Sales	$ 84,220	$ 98,845
Cost of goods sold	65,509	69,977
Gross profit	18,711	28,868
	22.2%	29.2%
Administration and selling	7,795	9,011
Loss (Gain) on disposal and other, net	8	(3,207)
Other income	(711)	(1,160)
Foreign exchange income	(2,170)	(2,096)
Bank interest and charges	212	168
Interest on long-term debt	3,476	2,633
Depreciation and amortization	3,839	4,037
Reduction in foreign currency translation account	–	1,045
	12,449	10,431
Earnings before income taxes and minority interest	6,262	18,437
Income taxes	830	966
Earnings before minority interest	5,432	17,471
Minority interest	711	918
Net earnings	$ 4,721	$ 16,553

Net earnings

Net earnings decreased by $11.8 million in the fourth quarter of 2005 due to lower gross margins and gain on disposal of licences and other, net partially offset by lower administration and selling costs and a lower non-cash reduction in foreign currency translation.

	2005	2004	Change
Net earnings	$ 4,721	$ 16,553	$ (11,832)
Explanation of changes in earnings:			
Lower gross margins			(10,157)
Lower gain on disposal and other, net			(3,215)
Reduction in administration and selling expense			1,216
Lower reduction in the foreign currency translation account			1,045
All other			(721)
			$ (11,832)

Net sales to customers for the quarter by product category:

	2005	2004	Change	%
Scallops	$ 28,097	$ 38,012	$ (9,915)	(26%)
Lobster	19,621	19,527	94	0%
Clams	13,062	15,925	(2,863)	(18%)
Groundfish and other	7,345	9,976	(2,631)	(26%)
Cold water shrimp	9,800	8,925	875	10%
Crab	2,582	1,852	730	39%
Hedging program	3,713	4,628	(915)	(20%)
	$ 84,220	$ 98,845	$ (14,625)	(15%)

Scallop sales were down due primarily to 43% lower volumes, higher harvest costs, offset by selling prices that ranged from 20% to 36% higher. Selling prices of scallops have increased from 2004 continuing a trend we have seen since the second half of 2004. During the quarter we completed the maintenance on our new Canadian FAS vessels. The vessels resumed fishing in the fourth quarter, however, harvesting costs were higher as a result and fuel costs also increased.

Lobster sales were unchanged from 2004 with sales of our new raw lobster product meeting expectations for the quarter offset by lower sales of live lobster, due to more selective procurement.

Clam sales were down in the quarter primarily due to selling prices that were 10% lower. Selling prices were impacted by the mix of products sold and lower average selling prices in Canadian dollars when converted from U.S. dollars and Japanese Yen. We are continuing the process of reorganizing our clam business to take advantage of opportunities that will arise when the new vessel arrives in late 2006 and begins harvesting in 2007. As a result we expect we may continue to see some short-term sales disruptions in this business. As previously disclosed in 2005 we are focused on increasing selling prices, reducing our costs and growing our volume.

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

Coldwater shrimp sales and margins were up primarily as a result of increasing our investment to 75% and thus fully consolidating in December 2004 a business that we previously only 50% proportionally consolidated. Had these sales been reflected in 2004, sales would have been down 18% due mainly to decreased volumes.

In summary, gross profit for the quarter was less than 2004 due to:

- Lower earnings from the scallop business as a result of lower volumes and higher harvesting costs partially offset by higher selling prices;
- Lower earnings from the clam business due to lower selling prices, in part due to mix and currency as well as higher vessel costs.

Foreign exchange reduced sales and margins by approximately $6.0 million in the quarter. We received approximately 5 cents less for each U.S. dollar in the fourth quarter of 2005, which resulted in our receiving approximately $1.3 million less when converted to Canadian dollars. In addition, exchange rates on Euros, UK pounds and Yen were lower in 2005, which impacted sales and resulted in our receiving approximately $4.7 million less when converted to Canadian dollars.

	2005		2004	
Currency	% sales	Rate	% sales	Rate
US Dollars	41.9%	1.309	45.5%	1.357
Japanese Yen	8.8%	0.010	7.7%	0.012
Euros	21.0%	1.389	22.2%	1.604
UK pounds	5.1%	2.044	4.5%	2.293
Canadian dollar and other	23.2%		20.1%	
	100.0%		100.0%	

Clearwater maintains an active hedging program to provide a higher degree of certainty to future Canadian dollar cash flows. In 2006 we have US$62 million in hedges expiring at an average rate of 1.26 which represents about 55% of 2005 annual US$ receipts. In 2006 there is also 12 million Euros in hedges expiring at an average rate of 1.50 that represents about 30% of estimated annual Euro receipts. For 2006 we also have US $22.5 million in economic hedges at a rate of 1.25 that are accounted for as non-qualifying hedges.

Gain on disposal and other, net included a gain of approximately $2.9 million in 2004 on the sale of certain quotas.

Foreign exchange income was $2.2 million in 2005 versus $2.1 million in 2004. From a cash perspective, the business generated $1.4 million of cash from foreign exchange management in 2005 versus $2.2 million in 2004.

	2005	2004
Unrealized exchange gains	$ (811)	$ 89
Realized exchange gains	(1,359)	(2,185)
	$ (2,170)	$ (2,096)

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

Income taxes were $830,000 as compared to $966,000 in 2004. Income taxes fluctuate based mainly on the earnings from Clearwater's subsidiary in Argentina.

Outlook

Clearwater's annual sales and net earnings for 2005 were $315 million and $19.9 million respectively versus sales of $345 million and net earnings of $37.5 million in 2004. The significant factors contributing to the decrease from 2004 include a reduction in sales and gross profit due to the strengthening Canadian dollar in the amount of $17.6 million compared to 2004, a 32% lower TAC for the Canadian scallops business that resulted in lower volumes and abnormally high frequency of vessel disruptions in 2005.

These factors have reduced margins and therefore the amount of cash available for distribution for the year. Distributable cash generated in 2005 was $27.2 million ($54.3 million in 2004), which resulted in a payout ratio of 101% in 2005 (100% in 2004). On December 31, 2005 subordination on 9.4 million units expired, as a result all units (52,788,843 units) will participate in any future distributions. Despite the ongoing challenge of foreign exchange, management believes higher selling prices for core species as well as less vessel disruptions will provide the potential for improvement in distributable cash levels in 2006 with further opportunity for growth in 2007 and beyond.

In October 2005 Clearwater announced that the distributions were suspended for the fourth quarter of 2005. The Trustees have determined that going forward they plan to review the ability of Clearwater to pay distributions on a quarterly basis in arrears with the first such review to occur concurrent with first quarter 2006 earnings release which will be in May 2006. As part of that review they will give consideration to the financial results for the most recently completed quarter, capital expenditure requirements, expectations regarding future earnings levels, leverage levels and the payout ratio before making a determination as to the amount to distribute, if any.

A number of challenges were faced in 2005 that had a negative impact on earnings and some challenges, for example, foreign exchange and high fuel costs, are expected to continue into 2006. The core business is healthy and we have invested approximately $184 million in the past five years and continue to make investments to further strengthen it. The resources we fish are healthy and the long-term outlook for the business is positive. The initiatives on price increases, the investment in our clam business, growing our new raw lobster business and investing in more frozen-at-sea scallop vessels are multi-year initiatives and the returns from them will be reflected over several years. For 2005 the benefits from these initiatives did not keep pace with the significant impact of foreign exchange, a lower scallop TAC and higher vessel costs.

Risks and uncertainties

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

Resource supply

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

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

Foreign exchange

Most of Clearwater's sales are in United States dollars, Euros, Yen and other currencies, although cash distributions payable by the Fund and Clearwater are in Canadian dollars. As a result, exchange rate fluctuations may have a material impact on Clearwater's financial results and the amount of cash available for distribution to Unitholders.

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

Clearwater sales denominated in U.S. dollars were approximately 47% of annual sales in 2005. Based on 2005 sales and hedges in place on December 31, 2005, a one-cent change in the U.S. dollar as converted to Canadian dollars in 2006 would result in a US $505,000 change in sales and gross profit. In addition, approximately 19% of 2005 annual sales were denominated in Euros. Based on 2005 sales and hedges in place on December 31, 2005, a one-cent change in the Euro as converted to Canadian dollars in 2006 would result in a 285,000 Euro change in sales and gross profit. Also, 8% of 2005 annual sales were denominated in Japanese Yen. Based on 2005 annual sales, every one-twentieth of a cent change in the Yen as converted to Canadian dollars would result in a change of ¥1,180,000 in sales and gross profit.

Food processing risks

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

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

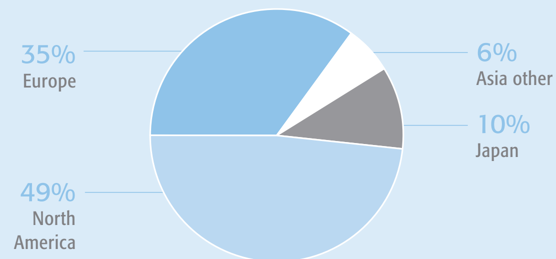
Suppliers, customers and competition

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

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

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

2005 Sales by region



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

Risk associated with suppliers is mitigated through diversification of suppliers. Risk associated with customers is mitigated through diversification of the customer base. Clearwater has over 1,400 customers worldwide with no individual customer representing more than 5% of sales. Clearwater uses a combination of credit reporting agencies, credit insurance, letters of credit and secured forms of payment to mitigate credit risk associated with its customers.

Input costs

Clearwater used approximately 32 million litres of marine fuel oil in 2005. A change of one cent in the price of marine fuel oil would result in a change of approximately $320,000 to annual harvesting expenses.

Transactions with related parties

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

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

	2005	2004
Commissions charged to joint ventures	$ 1,959	$ 2,658
Interest charged to joint ventures (paid to)	(16)	879

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

	2005	2004
Accounts receivable from joint venture partner	$ 244	$ 341
Accounts payable to joint venture partner	64	74
Due to joint venture partner	2,023	1,995

As at December 31, 2005, Clearwater was contingently liable for the obligations of the joint venture partners in the amount of $6,133,000 (2004 – $6,696,000). However, the joint venture partner's share of the assets is available for the purpose of satisfying such obligations. The book value of these assets is $15,545,000 (2004 – $16,336,000).

In addition to the transactions and balances associated with related parties disclosed above, Clearwater had the following transactions and balances with Clearwater Fine Foods Inc ("CFFI") during 2005 and 2004:

	2005	2004
Transactions		
Charged by CFFI for use of a corporate airplane	$ 65	$ 202
Charged to CFFI for rent and other services	280	244
Charged by CFFI for management fees	90	–
Balances		
Receivable from CFFI	$ 639	$ 38
Distribution payable to CFFI	–	3,000

In addition, Clearwater was charged approximately $175,000 for vehicle leases in 2005 (2004 – $ 225,000) and approximately $51,000 for other services (2004 – $69,000) by companies controlled by a relative of an officer of Clearwater. The receivable balance in 2005 relates to payments Clearwater remitted on behalf of CFFI and subsequently recharged the amounts to CFFI for certain professional services. The majority of the payments are for professional services from suppliers that are shared by both CFFI and Clearwater.

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

Critical accounting policies

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

Impact of recently adopted accounting policies

There have not been any substantial changes to any of Clearwater's significant accounting policies in the past two years with the exception of the adopting in the third quarter of 2004 of a policy whereby it will capitalize interest on capital projects for which the total estimated costs is greater than $5 million and the period of construction is greater than 18 months. As a result of adopting this policy $180,000 of interest costs were capitalized in 2004. $1,389,000 was capitalized in 2005. This policy was applied retroactively, however no adjustments were required to prior periods. During the course of the year Clearwater reviewed all new accounting standards issued by the Canadian Institute of Chartered Accountants in order to determine the impact of the new standards, if any.

Impact of accounting policies to be adopted in the future

For the 2006 fiscal year, EIC 156 "Accounting by a vendor for consideration given to a customer (including a reseller of the vendor's product)", will be effective and applied retroactively for prior periods. The impact will be to account for cash consideration (rebates) as a reduction in the selling price rather than a cost of sale or selling expense. The EIC is not expected to have a material impact.

Looking forward, new standards will become effective for fiscal years beginning after October 1, 2006, or in Clearwater's case fiscal 2007, with respect to financial instruments, hedging and comprehensive income.

- Clearwater will review the impact of this standard in relation to the accounting for contracts used for hedging purposes, in particular the timing of recognition of gains or losses and the related classification, the recognition of the CTA account and classification of items in the balance sheet.
- A new section will be added to the financial statements for the "Statement of Comprehensive Income". This statement will recognize non-cash mark-to-market adjustments as well as adjustments to the currency translation account.
- There will be additional disclosure related to comprehensive income and financial instruments. This will not impact distributable cash as any non-cash amounts will be excluded from the calculation of distributable cash.

Licences

One of the key pillars of Clearwater's business is resource ownership. Ownership of licences and quota (hereafter referred to as licences) ensure continued access to the underlying resource. Clearwater owns underlying licences for a significant portion of the products that it sells, the net book value of the licences as of December 31, 2005 was $103,181,000.

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

Estimating the net recoverable amount requires estimates of future cash flows, which are subject to management judgments concerning the health of the underlying resource, selling prices and operating costs. Should management determine that a licence for a specific species was either fully or partially impaired, the underlying book value of the licence would be written down or written off as appropriate. During the year, a write down of $1,636,000 for the impairment of shrimp harvesting contracts has been included in "gain on disposal and other, net" on the income statement for Clearwater Seafoods Limited Partnership. The value was adjusted based of declining margins associated with the shrimp harvesting contracts in the Canadian FAS shrimp business unit.

A write down of $3,193,000 was recorded in the Clearwater Seafoods Income Fund statements for the current year, also related to the shrimp harvesting contracts.

Property, plant and equipment

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

Derivative financial instruments

Forward exchange contracts, interest rate swaps, and cross currency swaps are used by Clearwater in the management of its foreign currency, Iceland Consumer Price Index and interest rate exposures. Clearwater formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific forecasted transactions. Clearwater also formally assesses on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Clearwater writes foreign currency options. These securities, which according to Generally Accepted Accounting Principles, do not act as a fully effective hedge, and which mature over a short period of time, are stated at estimated quoted market prices. For further information on these contracts please refer to the financial instruments section of this MD&A.

Financial instruments

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

Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated U.S. dollar, and European Euro denominated sales are recognized in the consolidated financial statements when the related transaction occurs. At December 31 Clearwater had outstanding contracts for US $62,000,000 (2004 – US$114,500,000), which expire in 2006. This represents approximately 55% of average 2005 annual sales as denominated in U.S. dollars. In addition Clearwater has outstanding contracts for Euros 12 million (2004 – nil) that expire in 2006. Although Clearwater has no intention of settling these contracts, at December 31, 2005 Clearwater would have, if it settled these contracts, received a payment of $7,850,000 (December 31, 2004 – $10,771,000). Clearwater accounts for forward exchange contracts as fully effective hedges and no amount is included in the accounts until such time as the related transaction occurs. For 2006 we also have a US $22.5 million in economic hedges at a rate of 1.25 that are accounted for as non-qualifying hedges. For further details on these contracts please refer to the note to the Annual Financial Statements entitled "Financial Instruments."

Clearwater also writes foreign currency options. These securities, which, according to Generally Accepted Accounting Principles, do not act as a fully effective hedge, and which mature over a short period of time, are stated at estimated quoted market prices. Realized and unrealized gains and losses on these securities are included in earnings. At expiry of these contracts Clearwater will either have no obligation or will be called to deliver foreign currency at a rate management deemed acceptable upon entering into these contracts. At December 31 Clearwater had outstanding contracts for U.S. $230,000,000 (2004 – $262,500,000), 1,000,000,000 Yen (2004 – 1,000,000,000), Euros 29,000,000 (2004 – nil) and Sterling 5,000,000 (2004 – nil). The market value of these contracts at December 31, 2005 was an asset of $303,000 (2004 – liability of $2.6 million). This represents the potential net liability/asset in the event the contracts were closed. The liability recorded in 2004 was included in accounts payable and accrued liabilities and the asset recorded in 2005 is included in prepaids and other. For further details on these contracts please refer the note to the Annual Financial Statements entitled "Financial Instruments".

Clearwater uses interest rate and cross currency swaps to hedge its exposures to changes in interest rates and currency related to its balance sheet exposure. The interest rate swaps and the cross currency swaps are not accounted for as hedges and realized and unrealized gains and losses are included in earnings. While Clearwater has no intention of settling these contracts at December 31, 2005, if Clearwater had settled these contracts it would have been required to pay $563,000 (2004 – $1.4 million). Prior to the third quarter, the interest rate swaps were accounted for as hedges.

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

Summary of quarterly results

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

(IN 000'S EXCEPT PER UNIT AMOUNTS)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2005				
Sales	**$ 67,359**	**$ 69,712**	**$ 93,548**	**$ 84,220**
Net earnings	**1,645**	**1,371**	**12,136**	**4,721**(1)
Basic earnings per unit	**0.03**	**0.03**	**0.23**	**0.09**(1)
Fiscal 2004				
Sales	$ 72,741	$ 85,038	$ 88,835	$ 98,845
Net earnings (loss)	(2,978)	8,760	15,138	16,553
Basic earnings (loss) per unit	(0.06)	0.17	0.29	0.31
Fiscal 2003				
Sales	$ 75,079	$ 76,579	$ 96,514	$ 101,565
Net earnings	9,881	16,913	11,569	23,754
Basic earnings per unit	0.21	0.33	0.22	0.45

(1) As restated

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

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

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

Definitions and reconciliations

Distributable Cash

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

Reconciliation of distributable cash

($000'S EXCEPT PER UNIT AMOUNTS)	**13 weeks ended December 31, 2005**	13 weeks ended December 31, 2004	**Year ended December 31, 2005**	Year ended December 31, 2004
Cash flow from operating activities	**$ 7,983**	$ 24,538	**$ 36,142**	$ 47,106
Add (deduct):				
Change in non-cash working capital [A]	**1,466**	(4,173)	**(1,557)**	6,435
Minority share EBITDA, int., taxes [B]	**(706)**	(736)	**(3,680)**	(2,385)
Proportionate maint. capital [C]	**(227)**	(1,409)	**(2,454)**	(2,678)
Taxes on reorganization [D]	**–**	–	**–**	6,002
Gain (loss) on disposal P,P,E /licences [E]	**(546)**	(202)	**(1,246)**	(204)
Distributable cash	**$ 7,970**	$ 18,018	**$ 27,205**	$ 54,276
Distributions [F]	**$ –**	$ 14,139	**$ 27,367**	$ 54,276
Payout ratio	**– %**	78%	**101%**	100%

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

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

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

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

E. Gains and losses on property, plant and equipment are added back (deducted) as during the course of operating the business Clearwater will typically realize gains and losses from the turnover of assets, which occurs frequently due to Clearwater's focus on innovation. During the second and third quarters of 2005 gains of $5.6 million were deducted from the calculation of distributable cash as it pertains to the sale of a licence that did not relate to the typical turnover of assets. In 2004 gains of $2.5 million were deducted.

F. 2005 Distributions consist of payments of 63 cents/unit on 43,436,356 unsubordinated units (no payments were made on 9,352,487 subordinated units). 2004 distributions consist of payments of $1.15/unit on 43,436,356 unsubordinated units and payments of 46 cent/unit on 9,352,487 subordinated units.

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

Gross profit

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

MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

Colin MacDonald
Chief Executive Officer

Robert Wight
Vice-President, Finance and Chief Financial Officer

February 6, 2006, except as to note 8 which is as of August 4, 2006

AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the restated consolidated balance sheets of Clearwater Seafoods Income Fund as at December 31, 2005 and 2004 and the restated consolidated statements of earnings and cumulative earnings and cash flows for the year then ended. These restated consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these restated consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Our previous report dated February 6, 2006 has been withdrawn and the consolidated financial statements have been restated as explained in note 8 to the restated consolidated financial statements.

KPMG LLP

Chartered Accountants
Halifax, Canada

February 6, 2006, except as to note 8 which is as of August 4, 2006

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS OF DOLLARS)

DECEMBER 31	2005 (AS RESTATED) (SEE NOTE 8)	2004
ASSETS		
Current Assets		
Distribution and interest receivable from Clearwater Seafoods Limited Partnership	$ –	$ 2,820
Investment in Clearwater Seafoods Limited Partnership (note 3)	329,271	338,672
	$ 329,271	$ 341,492
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities		
Distributions and interest payable	$ –	$ 2,817
Convertible debentures (note 4)	49,278	49,165
UNITHOLDERS' EQUITY		
Trust units (note 5)	299,336	299,336
Cumulative earnings	75,885	66,877
Cumulative distributions	(95,228)	(76,703)
	279,993	289,510
	$ 329,271	$ 341,492

See accompanying notes to consolidated financial statements

Approved by the Board of Trustees:

Bernard Wilson

Thomas Traves

CONSOLIDATED STATEMENTS OF EARNINGS AND CUMULATIVE EARNINGS

(IN THOUSANDS OF DOLLARS)

YEARS ENDED DECEMBER 31	2005 (AS RESTATED) (SEE NOTE 8)	2004
Equity in net earnings of Clearwater Seafoods Limited Partnership	$ 9,114	$ 18,719
Interest income	3,510	1,911
Interest expense	(3,616)	(1,955)
Net earnings	9,008	18,675
Cumulative earnings at beginning of year	66,877	48,202
Cumulative earnings at end of year	$ 75,885	$ 66,877
Basic and diluted net earnings per trust unit	$ 0.31	$ 0.64

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS OF DOLLARS)

YEARS ENDED DECEMBER 31	2005 (AS RESTATED) (SEE NOTE 8)	2004
Cash flows from operating activities		
Net earnings	$ 9,008	$ 18,675
Items not involving cash		
Equity in net earnings of Clearwater Seafoods Limited Partnership, net of cash distributions received of $18,525, (2004 – $33,804)	9,411	12,928
Other	106	2,201
	18,525	33,804
Cash flows (used in) from financing activities		
Distributions to unitholders	(18,525)	(33,804)
Issuance of units	–	882
Issuance of convertible debentures	–	49,118
	(18,525)	16,196
Cash flows used in investing activities		
Acquisition (note 3)	–	(50,000)
Increase (decrease) in cash	–	–
Cash – beginning of year	–	–
Cash – end of year	$ –	$ –

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABULAR AMOUNTS EXPRESSED IN THOUSANDS OF DOLLARS)

Note 1. BASIS OF PRESENTATION

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

These consolidated financial statements consolidate the accounts of the Fund and its subsidiary, Clearwater Seafoods Holdings Trust ("CSHT"). CSHT owns 55.71% (December 31, 2004 – 55.71%) of the units of Clearwater. However, as the Fund does not have the right to nominate the majority of the board of directors, it does not consolidate the results of Clearwater's operations but rather accounts for the investment using the equity method. Under this method, the cost of the investment is increased by the Fund's proportionate share of Clearwater's earnings and reduced by any distributions paid to the Fund by Clearwater and amortization of the purchase price discrepancy. Due to the limited amount of information that this provides on the underlying operations of Clearwater the financial statements of Clearwater are also enclosed.

Note 2. ACCOUNTING POLICIES

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

(a) Consolidation

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

(b) Intangible assets and goodwill

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

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

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

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

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

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

(c) Convertible Debentures

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

(d) Distributions to unitholders

The Fund's distribution policy is to make distributions to unitholders of its available cash to the maximum extent possible consistent with good business practices.

On October 18, 2005 Clearwater announced the suspension of monthly cash distributions.

(e) Income taxes

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

(f) Financial instruments

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

(g) Use of estimates

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

Note 3. INVESTMENT IN CLEARWATER SEAFOODS LIMITED PARTNERSHIP

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

	2005 (AS RESTATED) (SEE NOTE 8)	2004
Investment in Class A Partnership units, at cost	**$ 298,454**	$ 298,454
Investment in Class C Partnership units	**50,000**	50,000
Add: Cumulative equity in net earnings	**76,045**	66,921
Less: Cumulative distributions received	**(95,228)**	(76,703)
	$ 329,271	$ 338,672

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

Included in equity in net earnings for the year is an expense of $1,956,000 and $2,200,000 for 2005 and 2004 respectively. This amount included amortization and other adjustments relating to purchase price discrepancies recognized by the Fund in accounting for its investment in Clearwater using the equity method. Included in the expense for 2005 is a write down for the impairment of shrimp licences and harvesting contracts of $3,193,000. The write down was based on declining margins associated with shrimp licences and harvesting. This impairment was included in "equity in earnings of Clearwater Seafoods Limited Partnership."

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

	2005	2004
Intangible assets		
Licences – indefinite lives	**$ 189,260**	$ 190,557
Licence agreements – finite lives	**–**	1,146
Customer relationships and other	**578**	638
Goodwill	**14,240**	14,240
Long-term liabilities	**606**	697
Cumulative foreign currency translation account	**(7,435)**	(8,073)
	$ 197,249	$ 199,205

Note 4. CONVERTIBLE DEBENTURES

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

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

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

The estimated fair value of the Fund's convertible debentures at December 31, 2005 was $44,500,000 based on the quoted market value of the debentures Clr.db on the Toronto Stock Exchange.

Note 5. TRUST UNITS AND SPECIAL TRUST UNITS

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

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

The right of the holders of 40% of the CSLP Exchangeable Units, or 9,352,487 units, to receive distributions from Clearwater were subordinated to the rights of holders of Class A limited partnership units of Clearwater ("CSLP Ordinary Units") until December 31, 2005 at which time all subordination agreements expired. CSLP Exchangeable Units that are no longer subject to subordination may at any time thereafter at the option of the holder be exchanged on a one-for-one basis for units of the Fund.

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

	Units	Special Trust Units	Total
Balance, December 31, 2003	29,407,626	23,381,217	$ 298,454
Equity Component of Convertible Debentures (see notes 2(c) and 4)	–	–	882
Balance December 31, 2004, no change to December 31, 2005	29,407,626	23,381,217	$ 299,336

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

Note 6. EARNINGS PER UNIT

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

	2005 (AS RESTATED) (SEE NOTE 8)	2004
Basic		
Net earnings	**$ 9,008**	$ 18,675
Weighted average number of units outstanding	**29,408**	29,408
Earnings per unit	**$ 0.31**	$ 0.64

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

Note 7. ADMINISTRATION AGREEMENT

The Fund has an Administration Agreement with Clearwater. Under the terms of the agreement, Clearwater is responsible to provide administrative and support services to the Fund and is to provide these services for no additional consideration, other than payment of out-of-pocket expenses. There were no charges for out-of-pocket expenses for the years ended December 31, 2005 and 2004.

Note 8. RESTATEMENT

During the preparation of the second quarter 2006 interim financial statements, Clearwater discovered an error relating to its financial statements for the year ended December 31, 2005 and the quarter ended April 1, 2006. The senior unsecured bond and the accrued interst reported on the previously released financial statements (see note 5 (c) of Clearwater's financial statements) did not reflect adjustments for the change in the Icelandic Consumer Price Index for the periods reported.

These financial statements have been restated to reflect the required adjustments by the Fund related to its equity interest in Clearwater to properly account for the inflation adjusted bonds within Clearwater. The adjustments are non-cash and relate to accounting for the bonds using the effective interest method. As disclosed in the notes to the financial statements, Clearwater has derivative agreements that effectively hedge the economic impact from inflation adjustments. These non-cash entries will be offset by non-cash adjustments related to the derivative agreements.

Summary of adjustments from reported to restated figures:

Consolidated statements of net earnings: FOR THE YEAR ENDED DECEMBER 31, 2005	As previously reported	Adjustments	As restated
Equity in earnings of Clearwater Seafoods Limited Partnership	$ 9,764	$ (650)	$ 9,114
Net earnings	9,658	(650)	9,008
Consolidated balance sheet: AS OF DECEMBER 31, 2005			
Investment in Clearwater Seafoods Limited Partnership	$ 329,921	$ (650)	$ 329,271
Cumulative earnings	76,535	(650)	75,885

MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

Colin MacDonald
Chief Executive Officer

Robert Wight
Vice-President, Finance and Chief Financial Officer

February 6, 2006, except as to note 15 which is as of August 4, 2006

AUDITORS' REPORT

We have audited the restated consolidated balance sheets of Clearwater Seafoods Limited Partnership as at December 31, 2005 and 2004 and the restated consolidated statements of earnings and cumulative earnings and cash flows for the year then ended. These restated consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these restated consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2005 and 2004 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Our previous audit report dated February 6, 2006 has been withdrawn and the consolidated financial statements have been restated as explained in note 15 to the restated consolidated financial statements.

KPMG LLP

Chartered Accountants
Halifax, Canada

February 6, 2006, except as to note 15 which is as of August 4, 2006

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS OF DOLLARS)

DECEMBER 31	2005 (AS RESTATED) (SEE NOTE 15)	2004
ASSETS		
Current Assets		
Cash (note 5(d))	$ 9,726	$ –
Accounts receivable	54,912	61,344
Inventories	43,419	45,661
Prepaids and other	6,458	4,744
	114,515	111,749
Other long-term assets	10,643	13,497
Property, plant and equipment (note 3)	151,945	139,305
Licences and licence agreements (note 4)	103,181	105,083
Goodwill	10,378	10,378
	$ 390,662	$ 380,012
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities		
Checks issued in excess of funds on deposit	$ –	$ 572
Accounts payable and accrued liabilities	36,597	37,607
Distributions payable	–	5,817
Income taxes payable	2,144	3,234
Current portion of long-term debt (note 5)	1,008	1,206
	39,749	48,436
Long-term debt (note 5)	193,437	167,992
Future income taxes (note 6)	7,958	7,693
Due to joint venture partner	2,023	1,995
Minority interest	2,181	1,874
UNITHOLDERS' EQUITY		
Partnership units (note 7)	173,133	173,133
Cumulative earnings	149,886	130,013
Cumulative distributions	(162,620)	(135,254)
Cumulative foreign currency translation account (note 8)	(15,085)	(15,870)
	145,314	152,022
	$ 390,662	$ 380,012

Commitments and contingencies (note 11)

See accompanying notes to consolidated financial statements

Approved by the Board of CS ManPar Inc.:

John Risley, *Chairman*

Colin MacDonald, *Chief Executive Officer*

CONSOLIDATED STATEMENTS OF EARNINGS AND CUMULATIVE EARNINGS

(IN THOUSANDS OF DOLLARS)

YEARS ENDED DECEMBER 31	2005 (AS RESTATED) (SEE NOTE 15)	2004
Sales	$ 314,839	$ 345,459
Cost of goods sold	242,601	253,322
Gross profit	72,238	92,137
Administration and selling	33,594	36,759
Gain on disposal and other, net	(4,102)	(5,976)
Other income	(1,660)	(5,475)
Foreign exchange and derivative income	(11,712)	(7,482)
Bank interest and charges	786	659
Interest on long-term debt	12,450	10,490
Depreciation and amortization	15,400	16,145
Reduction in foreign currency translation account (note 8)	1,236	3,006
	45,992	48,126
Earnings before the undernoted	26,246	44,011
Income taxes (note 6)	2,975	4,276
Earnings before minority interest	23,271	39,735
Minority interest	3,398	2,262
Net earnings	19,873	37,473
Cumulative earnings at beginning of year	130,013	92,540
Cumulative earnings at end of year	$ 149,886	$ 130,013
Basic and diluted net earnings per unit (note 9)	$ 0.38	$ 0.71

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS OF DOLLARS)

YEARS ENDED DECEMBER 31	2005 (AS RESTATED) (SEE NOTE 15)	2004
Cash flows from (used in) operating activities		
Net earnings	$ 19,873	$ 37,473
Items not involving cash		
Depreciation and amortization	15,400	16,145
Foreign exchange on long-term debt	(1,555)	(1,860)
Unrealized interest and inflation on long-term debt	1,413	–
Future income taxes (recovery)	424	(4,583)
Reduction in foreign currency translation account	1,236	3,006
Minority interest	3,398	2,262
Unrealized foreign exchange on currency option contracts	(2,881)	6,267
Gain on disposal and other, net	(2,723)	(5,169)
	34,585	53,541
Change in non-cash operating working capital	1,557	(6,435)
	36,142	47,106
Cash flows from (used in) financing activities		
Proceeds from long-term debt	52,112	49,524
Reduction of long-term debt	(26,983)	(22,844)
Other	160	27
Distributions to minority partners	(3,092)	(1,973)
Issuance of units	–	882
Distributions to unitholders	(27,365)	(54,276)
	(5,168)	(28,660)
Cash flows from (used in) investing activities		
Increase in other long-term assets and other	(1,492)	(4,923)
Purchase of property, plant and equipment, licences and other	(28,600)	(27,889)
Proceeds on disposal and other, net	9,416	13,230
	(20,676)	(19,582)
Increase in cash	10,298	(1,136)
Cash – beginning of year	(572)	564
Cash – end of year	$ 9,726	$ (572)
Supplementary cash flow information		
Interest paid	$ 12,097	$ 11,401
Income taxes paid	6,032	5,896
Change in non-cash working capital consists of changes in the following accounts:		
Accounts receivable	6,130	(6,978)
Inventories	2,273	4,213
Foreign exchange on currency contracts	2,881	(6,267)
Prepaids and other	(1,713)	4,488
Accounts payable and accrued liabilities	(6,923)	(4,672)
Income taxes payable	(1,091)	2,781
	$ 1,557	$ (6,435)

There were no material non-cash transactions during the year

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABULAR AMOUNTS EXPRESSED IN THOUSANDS OF DOLLARS)

Note 1. BASIS OF PRESENTATION

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

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

Note 2. ACCOUNTING POLICIES

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

(a) Consolidation

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

(b) Inventories

Inventories, which consist primarily of finished goods, are stated at the lower of cost and net realizable value.

(c) Property, plant and equipment

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

During the third quarter of 2004 Clearwater adopted a policy whereby it capitalizes interest on capital projects for which the total estimated cost is greater than $5 million and the period of construction is greater than 18 months. As a result of adopting this policy $1,389,000 of interest was capitalized in 2005 (2004 – $180,000).

(d) Impairment of long-lived assets

In 2004 Clearwater adopted CICA Handbook section 3063, "Impairment of Long-Lived Assets." Clearwater reviews long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered to be impaired. An impairment loss is measured as the amount by which the carrying amount of the group of assets exceeds its fair value.

(e) Licences and licence agreements

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

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

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

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

(f) Goodwill

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

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

(g) Due to joint venture partner

The amount due to joint venture partner of $2,023,000 (2004 – $1,995,000) is a non-interest bearing capital advance that is repayable only upon dissolution of the joint venture partnership.

(h) Class C Partnership units

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

(i) Translation of foreign currencies

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

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

(j) Hedging and derivative financial instruments

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

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

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

Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated U.S. dollar, Japanese Yen and European Euro denominated sales are recognized in the consolidated financial statements when the related transaction occurs.

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

Realized and unrealized gains and losses on derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current, or non-current assets and liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

Clearwater writes foreign currency options. These securities, which according to Canadian GAAP, do not act as a fully effective hedge, and which mature over a short period of time, are stated at estimated quoted market prices. Realized and unrealized gains and losses on these securities are included in earnings. At expiry of these contracts Clearwater will either have no obligation or will be called to deliver foreign currency at a rate management deemed acceptable upon entering into these contracts.

(k) Income taxes

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

(l) Revenue recognition

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

(m) Use of estimates

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

Note 3. PROPERTY, PLANT AND EQUIPMENT

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

	Cost	Accumulated depreciation	2004 Net
Land and land improvements	$ 3,068	$ 711	$ 2,357
Buildings and wharves	67,150	42,016	25,134
Equipment	77,149	58,686	18,463
Vessels	148,575	66,741	81,834
Construction in progress	23,039	–	23,039
	318,981	168,154	150,827
Less: Deferred government assistance			(11,522)
	$ 318,981	$ 168,154	$ 139,305

Note 4. LICENCE AND LICENCE AGREEMENTS

	Gross carrying amount	Accumulated amortization	2005 Net
Licences	$ 123,009	$ 19,828	$ 103,181
Licences agreements	–	–	–
	$ 123,009	$ 19,828	$ 103,181

	Gross carrying amount	Accumulated amortization	2004 Net
Licences	$ 123,181	$ 19,826	$ 103,355
Licences agreements	2,500	772	1,728
	$ 125,681	$ 20,598	$ 105,083

The aggregate amortization expense for the year ended December 31, 2005 of $94,000 (2004 – $125,000) is included in depreciation and amortization expense.

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

Note 5. LONG-TERM DEBT

	2005 (AS RESTATED) (SEE NOTE 15)	2004
Notes payable (a)		
Canadian	$ 63,000	$ 63,000
United States dollars	23,296	18,030
Class C Partnership Units (b)	49,280	49,165
Bond payable (c)	46,873	–
Term credit facility (d)		
Canadian	–	10,588
Pounds Sterling	–	4,601
United States dollars	–	7,212
Euros	–	2,437
Marine mortgage, due in 2017 (e)		
Canadian	2,792	3,050
Danish Kroner	1,771	2,257
Yen	1,570	1,979
Term loan, due in 2091 (f)	3,500	3,500
Other loans	2,363	3,379
	194,445	169,198
Less current portion	1,008	1,206
	$ 193,437	$ 167,992

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

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

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

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

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

Clearwater had previously entered into swap agreements to minimize the interest rate exposure related to the term credit facility, which was paid down in the third quarter, these agreements have not been unwound. The effect of leaving the following contracts in place when combined with the previous contracts is to effectively minimize the interest rate exposure for the periods covered by the agreements ranging from June 16, 2008 to June 1, 2010.

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 8.55%
- $5,000,000 U.S. dollar liability with an effective interest rate of 8.88%
- $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 9.63%
- 2,500,000 Euro liability with an effective interest rate of 7.96%

Interest expense on the bond is recorded using the effective interest rate method that takes into account estimated future Icelandic inflation rates. Interest expense for the fourth quarter and year-to-date for 2005 was $1.4 million (nil 2004). As previously noted interest exposure on this bond has been hedged and the cash payment on the related swaps was $838,000 for the fourth quarter and year-to-date 2005 (nil 2004).

(d) Term credit facility, maturing in May 2007. In May 2006 the banking syndicate at the request of Clearwater may extend the credit for an additional two years until May 2008. This facility is part of a master netting agreement and on December 31, 2005 was in a net cash position of CDN $7,859,000, all other periods stated are in credit positions (December 31, 2004 CDN $10,588,000), Pounds Sterling nil (December 31, 2004 – 2,000,000), United States dollars nil (December 31, 2004 – $6,000,000) and Euro nil (December 31, 2004 – 1,500,000). The facility bears interest at rates ranging from prime plus 0.5 – 1.25% and Libor plus 1.5 – 2.25% and has no scheduled repayments. The facility is secured by mortgages and charges on all of the present and future property and assets of Clearwater and of certain of its wholly-owned subsidiaries, the interests of the Fund in CSHT, the interests of CSHT in Clearwater and all the issued shares of CS ManPar Inc., and is subject to the maintenance of certain financial covenants. As part of the master netting arrangement, bank account balances associated with the facility are netted with the term credit facility balance.

(e) Marine mortgage payable in the principal amount of CDN $5,583,000 (December 31, 2004 – $6,100,000), DKK 19,262,000 (December 31, 2004 – DKK 20,653,000) and YEN 317,516,000 (December 31, 2004 – 337,361,000) bearing interest at UNIBOR plus 1% payable semi-annually, 50% of which represents Clearwater's proportionate share. Principal payments are required annually with CDN $517,000, DKK 1,391,000 and YEN 19,845,000 due in 2006-2007, CDN $776,000, DKK 2,087,000 and YEN 29,767,000 due in 2008-2012, CDN $669,000 due in 2013, DKK 2,087,000 and YEN 29,767,000 due in 2013-2014, DKK 1,871,000 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.

Clearwater's debt facilities contain various covenants. Clearwater is in compliance with all debt covenants at December 31, 2005.

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

2006	$ 1,008
2007	963
2008	61,661
2009	1,085
2010	97,121

The estimated fair value of Clearwater's long-term debt at December 31, 2005 was not materially different from its carrying value. Fair value has been estimated based on discounting expected future cash flows at the discount rates which represent borrowing rates presently available to Clearwater for loans with similar terms and maturities.

Note 6. INCOME TAXES

(a) Future tax liability

A provision for income taxes is recognized for Clearwater's corporate subsidiaries that are subject to tax. The income tax effects of temporary differences in Clearwater's corporate subsidiaries that would give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2005 and 2004 are as follows:

	2005 (AS RESTATED) (SEE NOTE 15)	2004
Future income tax asset		
Loss carry-forwards and future deductible expenses		
of foreign subsidiaries, included in other long-term assets	$ 674	$ 831
Future income tax liabilities		
Licences	5,329	5,329
Property, plant and equipment	2,629	2,364
	$ 7,958	$ 7,693

A portion of Clearwater's income is earned through partnerships. Therefore, that portion of Clearwater's income is not subject to income tax at the partnership level and the taxable income is allocated directly to its partners. These partnerships have temporary differences between the carrying value and income tax bases of assets and liabilities which flow through to the partners and that would result in future income tax assets and liabilities if the partnerships were subject to income tax. The temporary differences are as follows:

	2005	2004
Deductible temporary differences:		
Licences	$ 30,676	$ 38,546
Financing fees	5,740	8,916
Other	175	172
	$ 36,591	$ 47,634
Taxable temporary differences:		
Accounts receivable	$ 5,234	$ 5,234
Property, plant and equipment	14,723	9,782
Foreign exchange contracts	7,634	6,142
	$ 27,591	$ 21,158
Net deductible temporary differences	$ 9,000	$ 26,476

(b) Income tax expense

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

	2005 (AS RESTATED) (SEE NOTE 15)	2004
Current	$ 2,551	$ 8,859
Future (recovery)	424	(4,583)
	$ 2,975	$ 4,276

The provision for income taxes in the consolidated statement of earnings represents an effective tax rate different from the Canadian statutory rate of 38.1% (2004 – 38.1%). The differences are as follows:

	2005		2004	
	Amount	%	Amount	%
Income tax expense computed at statutory rates	$ 10,005	38.1	$ 16,777	38.1
Income of the partnership distributed directly to unitholders	(4,898)	(18.7)	(12,391)	(28.2)
Income of foreign subsidiary not subject to tax	(3,418)	(13.0)	(2,191)	(5.0)
Other tax differences	1,286	4.9	2,081	4.8
	$ 2,975	11.3	$ 4,276	9.7

Note 7. PARTNERSHIP UNITS

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

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

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

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

	Class A Units	Class B Units	($ in 000's)
Balance, December 31, 2002	24,558,664	23,381,217	$ 122,133
Issuance of Class A Units, May 2003	4,000,000	–	39,757
Issuance of Class A Units, September 2003	848,962	–	10,361
Balance, December 31, 2003	29,407,626	23,381,217	$ 172,251
Equity component of Class C Units (note 5(b))	–	–	882
Balance December 31, 2004, no change to December 31, 2005	29,407,626	23,381,217	$ 173,133

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

Note 8. CUMULATIVE FOREIGN CURRENCY TRANSLATION ACCOUNT

The reduction in the foreign currency translation account is a non-cash adjustment, which relates to the reduction of Clearwater's net investment in its' 80% owned subsidiary in Argentina. The cumulative translation account largely arose because of the significant devaluation of the peso in Argentina versus the Canadian dollar in 2001. It is Clearwater's desire to continue to manage its exposure to Argentine pesos by repatriating its capital as quickly as possible while not impairing local operations. Dividends declared have resulted in a reduction in Clearwater's net investment in that subsidiary and accordingly, a proportionate share of the cumulative translation account has been recognized in earnings. Clearwater anticipates that continued repayments of its advances to and the payment of dividends from the subsidiary in Argentina may result in additional reduction of the cumulative translation account in the future. The cumulative translation account is included in the Unitholders Equity section of the balance sheet and the remaining balance at December 31, 2005 is $15,085,000 (December 31, 2004 – $15,870,000).

Note 9. EARNINGS PER UNIT

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

	2005 (AS RESTATED) (SEE NOTE 15)	2004
Basic		
Net earnings	$ 19,873	$ 37,473
Average number of units outstanding	52,789	52,789
Earnings per unit	$ 0.38	$ 0.71

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

Note 10. FINANCIAL INSTRUMENTS

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

(a) Hedging

Qualifying hedges

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

At December 31, 2005 and December 31, 2004 Clearwater had outstanding contracts as follows (as converted to Canadian dollars at contracted rates):

Currency	Notional Amount	Average Exchange Rate	Maturity	Fair value asset (liability)
United States dollar				
December 31, 2005	62,000	1.257	2006	6,516
December 31, 2004	94,500	1.314	2005	8,783
	20,000	1.327	2006	1,988
Euro				
December 31, 2005	12,000	1.498	2006	1,334
December 31, 2004	–	–	–	–

Although Clearwater has no intention of settling these contracts, at December 31, 2005, if it settled these contracts it would have received a payment of $7,850,000 (December 31, 2004 – $10,771,000). Clearwater accounts for these contracts as fully effective hedges and no amount is included in the accounts until such time as the maturity of the hedge.

Non-qualifying hedges

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

Currency	Notional Amount	Exchange Range	Maturity	Fair value asset (liability)
United States dollar				
December 31, 2005	170,000	1.172 - 1.255	2006	(1,214)
	20,000	1.180 - 1.135	2007	161
	22,500 - 45,000	1.229 - 1.271	2006	1,951
	17,500 - 35,000	1.187 - 1.202	2007	315
December 31, 2004	240,000	1.190 - 1.383	2005	(2,867)
	22,500 - 45,000	1.229 - 1.271	2006	378
Japanese Yen				
December 31, 2005	1,000,000	0.01125	2006	(12)
December 31, 2004	1,000,000	0.01250	2005	(90)
Euro				
December 31, 2005	29,000	1.215 - 1.478	2006	(741)
December 31, 2004	–	–	–	–
Sterling				
December 31, 2005	5,000	2.020	2006	(157)
December 31, 2004	–	–	–	–

Although Clearwater has no intention of settling these contracts prior to maturity, at December 31, 2005, if it settled these contracts it would have received a payment of $303,000 (December 31, 2004 – made a payment of $2,579,000). The above market values represent the potential net asset/liability in the event the contracts were closed. The liability or asset recorded is included in accounts payable and accrued liabilities or prepaids and other, as appropriate and the resulting loss or gain is included in income.

(b) Credit risk

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

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

(c) Interest rate risk and fair values

As indicated in the note entitled "Long-Term Debt" Clearwater uses cross currency and interest rate swaps to hedge its exposures to changes in foreign currencies and interest rates. The terms of the swap agreements related to the Icelandic bonds also effectively hedge the changes in the Iceland CPI. These agreements do not qualify for hedge accounting. Although Clearwater has no intention of settling these contracts prior to maturity, at December 31, 2005, if it settled these contracts it would have made a payment of $563,000 (December 31, 2004 – $1,379,000). The liability is included in accounts payable and accrued liabilities and the resulting non-cash loss is included in income. See note 5(c) for additional information relating to the swaps.

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

Note 11. COMMITMENTS AND CONTINGENCIES

(a) Clearwater is committed directly, and through its proportionate share of its joint ventures, to various licence and lease agreements, the payments on which aggregate $23,967,000 as of December 31, 2005 ($26,964,000 December 31, 2004). These commitments require approximate minimum annual payments in each of the next five years as follows:

2006	3,378
2007	3,257
2008	3,026
2009	2,838
2010	2,661

Included in commitments are amounts to be paid to a company controlled by a relative of an officer of Clearwater over a period of years ending in 2008 for vehicle leases, which aggregate approximately $188,000 ($299,000 December 31, 2004).

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

In July 2004 Clearwater entered into a contract to construct a new factory freezer clam vessel. The total estimated cost of the vessel, including owner supplied materials and related costs, is expected to be approximately $48 million, of which $23.5 million has been spent to date.

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

Note 12. JOINT VENTURES

Clearwater has a 50% interest in two joint ventures (prior to December 31, 2004 – three). On December 31, 2004 Clearwater increased ownership in one of its ventures and began fully consolidating it. However, during 2004 it only recognized its' 50% proportionate share of revenues and expenses. The financial statements include Clearwater's proportionate share of the assets, liabilities, sales and expenses of such joint ventures, the material elements of which are as follows:

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

	2005	2004
Current assets	$ 5,541	$ 5,050
Property, plant, equipment and other long-term assets	14,580	15,381
Current liabilities	2,080	3,024
Long-term liabilities	6,008	6,554

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

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

DECEMBER 31	2005	2004
Sales	$ 9,655	$ 19,178
Expenses	7,438	16,789
Earnings before taxes	2,217	2,388

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

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

	2005	2004
Accounts receivable from joint venture partner	$ 244	$ 341
Accounts payable to joint venture partner	64	74
Due to joint venture partner, long term	2,023	1,995

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

DECEMBER 31	2005	2004
Commissions charged to joint ventures	$ 1,959	$ 2,658
Interest charged to joint ventures (charged by)	(16)	879

As at December 31, 2005, Clearwater was contingently liable for the obligations of the joint venture partners in the amount of $6,133,000 (2004 – $6,696,000). However, the joint venture partners share of the assets is available for the purpose of satisfying such obligations. The book value of these assets is $15,545,000 (2004 – $16,336,000).

Note 13. SEGMENTED INFORMATION

(a) General information

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

(b) Net sales to customers by product category

	2005	2004
Scallops	$ 98,571	$ 114,735
Lobster	70,954	66,603
Clams	49,242	59,898
Cold water shrimp	39,994	31,741
Groundfish and other	29,934	44,679
Crab	15,111	17,246
Hedging program	11,033	10,557
	$ 314,839	$ 345,459

(c) Geographic information

	2005	2004
Sales		
United States	$ 95,940	$ 114,710
Europe		
France	51,545	53,187
Denmark	16,656	14,082
UK	19,630	18,930
Other	18,565	19,419
Asia		
Japan	31,531	35,316
Other	19,247	29,225
Canada	49,158	48,706
Other, including hedging program	12,567	11,884
	$ 314,839	$ 345,459

	December 31, 2005	December 31, 2004
Property, plant, equipment, licences and goodwill		
Canada	$ 246,503	$ 235,141
Argentina	18,295	18,456
Other	706	1,169
	$ 265,504	$ 254,766

Note 14. RELATED PARTY TRANSACTIONS

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

	2005	2004
Transactions		
Charge by CFFI for use of a corporate airplane	$ 65	$ 202
Charged to CFFI for rent and other services	280	244
Charged by CFFI for management fees	90	–
Balances, as at December 31, 2005 and December 31, 2004		
Receivable from CFFI	$ 639	$ 38
Distribution payable to CFFI	–	3,000

In addition Clearwater was charged approximately $175,000 for vehicle leases in 2005 (2004 – $225,000) and approximately $51,000 for other services (2004 – $69,000) by companies controlled by a relative of an officer of Clearwater. The receivable balance in 2005 relates to payments Clearwater remitted on behalf of CFFI and subsequently recharged the amounts to CFFI for certain professional services. The majority of the payments are for professional services from suppliers that are shared by both CFFI and Clearwater.

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

Note 15. RESTATEMENT

During the preparation of the second quarter 2006 interim financial statements, Clearwater discovered an error relating to its financial statements for the year ended December 31, 2005 and quarter ended April 1, 2006. The senior unsecured bond and the accrued interest reported on the previously released financial statements (see note 5(c)) did not reflect adjustments for the change in Icelandic Consumer Price Index for the periods reported.

These financial statements have been restated to reflect the required adjustments by Clearwater to properly account for inflation adjusted bonds. The adjustments are non-cash and relate to accounting for the bonds using the effective interest method. As disclosed in the notes to the financial statements, Clearwater has derivative agreements that effectively hedge the economic impact from inflation adjustments. These non-cash entries will be offset by non-cash adjustments related to the derivative agreements.

Summary of adjustments from reported to restated figures:

Consolidated statements of net earnings: FOR THE YEAR ENDED DECEMBER 31, 2005	As previously reported	Adjustments	As restated
Foreign exchange loss (income)	$ (12,550)	$ 838	$ (11,712)
Interest on long-term debt	11,875	575	12,450
Income taxes	3,221	(246)	2,975
Net earnings	$ 21,040	$ (1,167)	$ 19,873
Consolidated balance sheet: AS OF DECEMBER 31, 2005			
Other long-term assets	$ 10,397	$ 246	$ 10,643
Long-term debt	192,024	1,413	193,437
Cumulative earnings	151,053	(1,167)	149,886

GLOSSARY OF TERMS

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

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

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

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

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

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

Harvesting – means the catching of seafood.

IQF – means individually quick frozen.

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

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

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