

CLEARWATER SEAFOODS INCOME FUND

ANNUAL INFORMATION FORM

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TABLE OF CONTENTS

Clearwater Seafoods Income Fund.....	1
Administration Agreement.....	3
General Development Of The Fund And Clearwater.....	3
Business Of Clearwater.....	5
Industry.....	17
Information Concerning The Fund.....	20
Risk Factors.....	32
Selected Consolidated Financial Information Of The Fund And Clearwater.....	41
Management’s Discussion And Analysis.....	43
Selected Financial Information Of Clearwater.....	44
Distributions.....	44
Principal Unitholders.....	45
Market For Securities.....	45
Trustees, Directors And Management.....	46
Non-Competition Agreement.....	51
Transfer Agent And Registrar.....	52
Material Contracts.....	52
Legal Proceedings.....	53
Interest Of Management And Others In Material Transactions.....	53
Additional Information.....	53
Clearwater's Audit Committee Charter.....	Schedule A

CLEARWATER SEAFOODS INCOME FUND

The Fund

Clearwater Seafoods Income Fund (the “**Fund**”) is an unincorporated open-ended trust established under the laws of the Province of Ontario pursuant to a declaration of trust dated June 5, 2002, as amended (the “**Declaration of Trust**”). The Fund is administered by its trustees (the “**Trustees**”) and by Clearwater Seafoods Limited Partnership (“**Clearwater**”) pursuant to an administration agreement entered into by the Fund and Clearwater, among others, in July 2002 (the “**Administration Agreement**”). The principal and head office of the Fund is located at 757 Bedford Highway, Bedford, Nova Scotia B4A 3Z7.

The Fund holds an approximate 54.27% interest in Clearwater, which carries on the seafood business that was carried on by Clearwater Fine Foods Incorporated (“**CFFI**”) and its subsidiaries and joint ventures (“**Clearwater**”) immediately prior to July 2002, the date of completion of the Fund’s initial public offering.

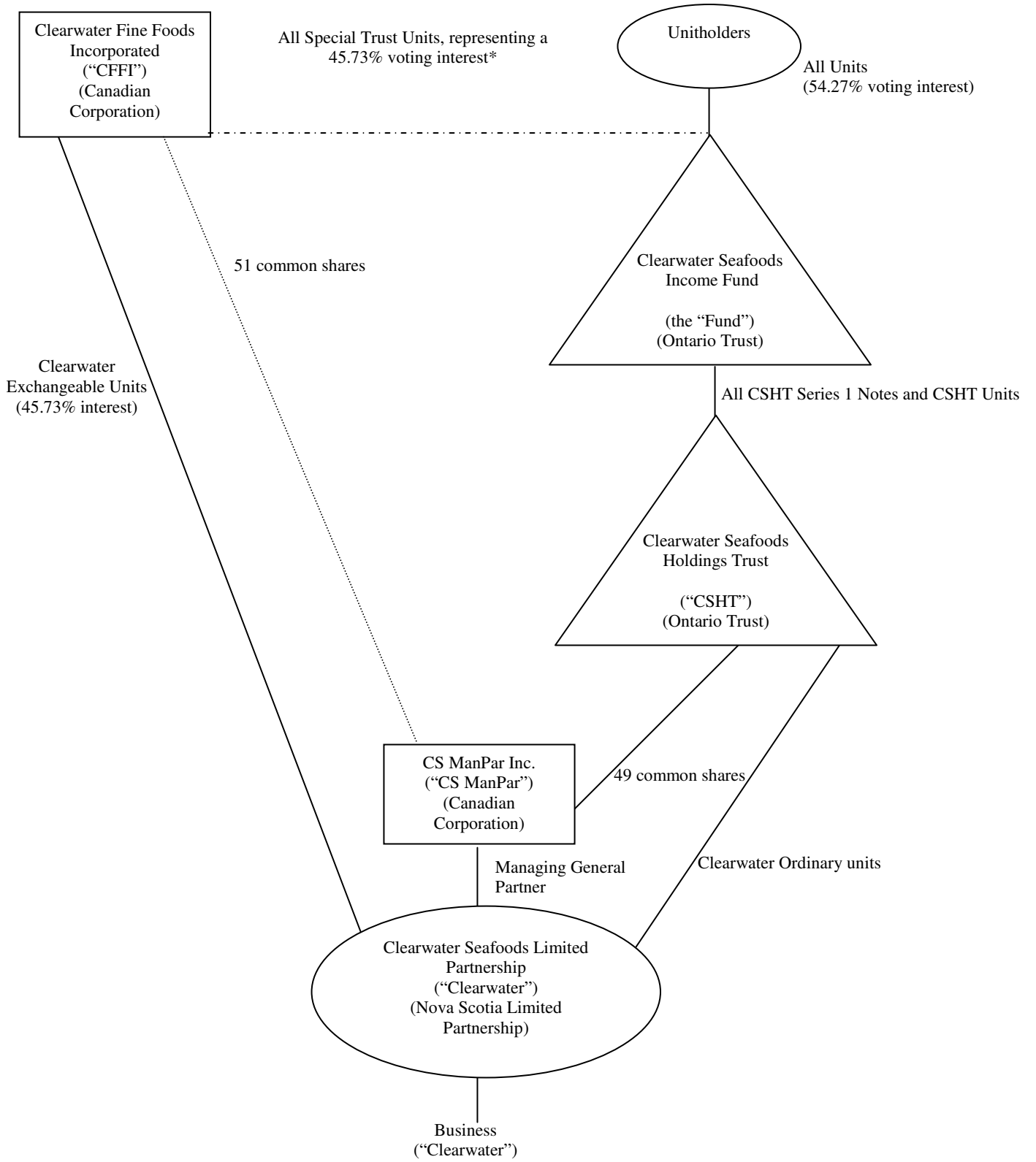
Clearwater Seafoods Holdings Trust

Clearwater Seafoods Holdings Trust (“**CSHT**”) is an unincorporated open-ended trust established pursuant to a declaration of trust dated July 17, 2002, as amended, and governed by the laws of the Province of Ontario. CSHT is wholly owned by the Fund and is the vehicle through which it holds its investment in Clearwater.

Clearwater

Clearwater is a limited partnership established under the laws of the Province of Nova Scotia to carry on, directly or indirectly, the business of, and the ownership, operation and lease of assets and property in connection with, the harvesting, processing, distribution and marketing of seafood, including the Clearwater business, and such other businesses as the directors of CS ManPar Inc. (“**CS ManPar**”), the managing general partner of Clearwater, may determine, and all activities ancillary and incidental thereto. The general partners of Clearwater are CS ManPar, which is the managing general partner, and CFFI.

Structure of the Fund



* CFFI owns 48.23% of the Fund on a fully diluted basis through its ownership of 23,381,217 Special Trust Units and 1,275,205 Units.

ADMINISTRATION AGREEMENT

In July 2002, Clearwater Seafoods Income Fund (“the Fund”), Clearwater Seafoods Holding Trust (“CSHT”) and Clearwater Seafoods Limited Partnership (“Clearwater”) entered into the Administration Agreement. Under the terms of the Administration Agreement, Clearwater agreed to provide (for no additional consideration, other than payment to Clearwater of out-of-pocket expenses for provision of such services), administrative and support services to the Fund and CSHT, including (without limitation) those necessary to: (i) ensure compliance by the Fund with continuous disclosure obligations under applicable securities legislation; (ii) provide investor relation services; (iii) provide or cause to be provided to Unitholders all information with respect to income taxes; (iv) call and hold meetings of Unitholders and holders of Special Trust Units and distribute required materials, including notices of meetings and information circulars, in respect of all such meetings; (v) assist the Trustees in calculating distributions to Unitholders; (vi) attend to all administrative and other matters arising in connection with any redemption of Units, units of CSHT (“CSHT Units”) and CSHT series 1 notes (“CSHT Series 1 Notes”); and (vii) ensure compliance with the Fund’s limitations on non-resident ownership. No amounts were charged for out-of-pocket expenses in 2002 through to 2009.

GENERAL DEVELOPMENT OF THE FUND AND CLEARWATER

Prior to July 2002, when the Fund completed its initial public offering (the “Closing”), it did not hold any material assets. The proceeds of the Fund’s initial public offering (together with the proceeds from exercise of the over-allotment option granted in connection therewith), net of underwriting and other costs, were used to purchase, indirectly, an approximate 49.9% interest in Clearwater.

Set forth below are material transactions that have taken place prior to and following the completion of the Fund’s initial public offering:

- The corporate structure of the ownership of the Clearwater business was reorganized, by adding holding entities to distribute the net cash generated to their security holders, which supports the distribution of distributable cash by the Fund, but the business did not change.
- The proceeds of the initial public offering were used by the Fund to acquire, through CSHT and other holding entities, an interest in Clearwater, in which the Fund holds a majority interest. Cash distributions made by Clearwater, using cash generated by its interests in the operating businesses, fund the cash distributions paid by the Fund to Unitholders.
- CFFI, the owner of the Clearwater business immediately prior to Closing, received a combination of Clearwater Exchangeable Units and cash. The Clearwater Exchangeable Units are interests in Clearwater, the same vehicle through which the Fund indirectly receives distributions and controls the business; through those interests CFFI receives its distributions from Clearwater. CFFI has certain rights to representation on the board of directors of CS ManPar so as to have input in the management of the business. See “Trustees, Directors and Management – Governance of CS ManPar”.
- On December 27, 2002, the Fund issued 1,271,186 Units through a private placement and increased its ownership in Clearwater to 51.23%, who in turn used the proceeds, along with \$4,125,000 in cash, to acquire the remaining 45% interest in one of its subsidiaries, Deep Sea Clam Company Incorporated.
- On May 21, 2003, Clearwater completed the purchase of certain of High Liner Foods Incorporated’s (“High Liner”) sea scallop and groundfish quotas and licences (the “Transaction”). The acquisition’s total cost was approximately \$65.4 million, and was financed by Clearwater through a combination of the net proceeds of the issuance of special warrants and a draw on the revolving term loan facility. The special warrants were issued by

private placement for gross proceeds of \$42,400,000, representing an issue price of \$10.60 per warrant. CFFI purchased 500,000 special warrants, which results in it retaining approximately 47% of the Units of the Fund. Each special warrant was exercisable for no additional consideration into one Unit of the Fund. The conversion of the special warrants occurred in May 2003. As part of the Transaction, Clearwater extended three loans to unrelated entities that purchased certain of High Liner's assets previously used in connection with such quotas and licences.

- On September 17, 2003, the Fund and Clearwater acquired an additional 10% interest in the Fund's Argentine subsidiary, Glaciar Pesquera S.A. ("**Glaciar**"), bringing Clearwater's interest in Glaciar from 70% to 80%. The acquisition's total cost of \$10.4 million was financed through the issuance of 848,962 Units of the Fund to the current minority shareholder of Glaciar.
- 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 due December 31 2010. The Class C units are non-voting and redeemable and retractable at a price of \$12.25 per unit, subject to certain conditions. 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.
- During 2006, the Fund repurchased and redeemed \$3 million of its Convertible Debentures due in 2010. This repurchase at the Fund level was accompanied by a similar repurchase of Class C Partnership units by Clearwater.
- In March 2007, 7,372,881 and in April 2007 an additional 769,831 Class D units were issued by Clearwater (indirectly) to the Fund concurrently with the issue by the Fund of \$48 million of Convertible Debentures due March 31, 2014. The Class D units are non-voting and redeemable and retractable at a price of \$5.90 per unit, subject to certain conditions. These units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the Convertible Debentures of the Fund and in a manner that ensures that the distributions on the Class D units will be able to (indirectly) fund the ongoing interest payments on the Convertible Debentures.
- During 2007, the Fund repurchased and redeemed \$2 million of its Convertible Debentures due in 2010 and approximately \$3.7 million of its Convertible Debentures due in 2014. This repurchase at the Fund level was accompanied by a similar repurchase of Class C and Class D Partnership units by Clearwater respectively.
- In January 2007, the Fund received approval for a normal course issuer bid which enabled it to purchase up to 2.5 million outstanding trust units until January 2008. During 2007, 1,162,100 units were repurchased at a cost of \$5.6 million. During 2008 500,000 units were repurchased at a cost of \$2.3 million.
- As of December 31, 2009 there remain outstanding 27,745,695 Units, 23,381,217 Special Trust Units, \$45,000,000 of 7% Convertible Debentures due in 2010 and \$44,398,000 7.25% Convertible Debentures due in 2014.

The Fund does not have the right to nominate the majority of the Board of Directors of Clearwater, so it does not consolidate the results of Clearwater's operations, but accounts for the investment using the equity method. The Fund has issued convertible debentures that are due on December 31, 2010 and used the funds to invest in Class C units of Clearwater. While management expects to be able to satisfy the

obligation at maturity, if unable to do so, the debentures would be converted to trust units in the manner outlined in note 4 and the Class C units in Clearwater would be converted to Class A units in Clearwater at a similar price to the trading price of the Fund's units. If this were to occur, given current trading prices for the Fund's units, the conversion would result in the issue of a substantial number of Class A units by Clearwater, a dilution of the existing Partnership unitholders and Clearwater Seafoods Income Fund consolidating Clearwater.

BUSINESS OF CLEARWATER

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

Clearwater harvests, processes and sells approximately 58 million pounds of seafood annually. Its operations consist primarily of:

- harvesting premium shellfish in the offshore fisheries off the coasts of Atlantic Canada and Argentina;
- processing shellfish on board state-of-the-art factory vessels or in modern shore-based processing plants in Atlantic Canada; and
- marketing and distributing premium shellfish to approximately 1,300 customers in North America, Europe and Asia.

Clearwater was established in 1976. Since then, it has developed new fisheries, acquired other seafood enterprises and formed strategic alliances to build a profitable international seafood enterprise. Today, Clearwater's unparalleled access to a diverse variety of premium shellfish provides it with a secure and stable source of revenues. In addition, Clearwater's investments in its operations and focus on innovation have allowed it to develop an efficient infrastructure.

Clearwater currently has operations in Canada, the United States, Europe, Asia and Argentina, employing approximately 1,200 people worldwide as of December 31, 2009. It currently operates 10 factory vessels ranging in size up to 235 feet. Clearwater's factory vessels are able to harvest, process and freeze product while at sea, which results in higher quality and, as a result, higher prices for its seafood compared to seafood, which is processed and frozen on land. Clearwater also operates six modern shore-based processing plants and two distribution facilities, including one adjacent to the distribution hub of United Parcel Services ("UPS") in Louisville, Kentucky, and one in Canada, allowing Clearwater to effectively service its international customer base in North America 40% of sales (45% of sales in 2008), Europe 36% of sales (35% of sales in 2008) and Asia 24% of sales (20% of sales in 2008).

Clearwater's Corporate Strategy

Since its inception in 1976, Clearwater has grown to become a leader in the global seafood industry. It has accumulated a large portfolio of licences and quotas to harvest a diverse range of shellfish and operates modern, state-of-the-art vessels and processing facilities.

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

- Leading sustainable harvesting and resource management;

- Developing its people;
- Creating value for its customers;
- Embracing a culture of innovation;
- Encouraging the entrepreneurial spirit; and
- Continuing to seek opportunities for growth and global development.

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

Clearwater's underlying corporate strategy for growth rests on three key pillars of its business: innovation through leadership in the adoption of new technology including resource management, vessels, plants, information technology and managerial processes, vertical integration from resource to customers, and diversity of species with a primary emphasis on shellfish. Key attributes of this strategy include: resource ownership and management, market and customer focus and skilled and dedicated employees.

Products

Clearwater harvests and processes five premium shellfish species (including: scallops both Canadian and Argentine, lobster, clams, coldwater shrimp and crab) and groundfish. It is the largest holder of quotas (or rights with respect thereto) in Canada for each of these shellfish species, except crab. The harvesting and processing systems are unique to each product and are the responsibility of distinct business units. All of the products are marketed and distributed by a coordinated sales department.

Scallops

In 2009, Clearwater had scallop sales of approximately \$116 million.

Canada

Clearwater holds quotas directly and indirectly for 49% of the total allowable catch in the Atlantic Canada offshore sea scallop fishery.

Many species of scallops are caught around the world. Those caught off the east coasts of Canada and the United States, *placopectan magellanicus*, are the largest single source of their particular size range, which is larger and premium priced compared to smaller, competing species.

The harvesting part of Clearwater's sea scallop business is operated from the South Shore of Nova Scotia. In the fall of 2002, Clearwater started a renewal program for its sea scallop fleet by building two, state-of-the-art vessels at an aggregate cost of \$26 million (the Atlantic Leader which was delivered in June 2002 and the Atlantic Guardian which was delivered in February 2003). These two vessels contain facilities on board that permit the sea scallops to be harvested, processed and frozen while at sea. In August 2004 Clearwater acquired two additional vessels, which were converted to factory freezer scallop vessels in 2005. The total cost to acquire and convert the vessels, including owner-supplied materials and related costs, was approximately \$21 million and these vessels entered the fishery in late 2005. The investment in these vessels completed Clearwater's vision to convert its scallop fleet to factory vessels. These vessels have provided incremental contributions by enabling Clearwater to produce a higher quality frozen-at-sea scallop that sells for a premium in the market. In addition, the vessels have enabled Clearwater to increase the efficiency of its harvesting operations by reducing the number of vessels employed, thus lowering its costs.

In May 2003, Clearwater completed the High Liner Transaction, acquiring certain scallop licences and quotas that increased Clearwater's ownership in total allowable catch ("TAC") of sea scallops in Atlantic Canada from 36% to the current level.

Sea scallops are processed and packaged at Clearwater's modern facility located in Lockeport, Nova Scotia. Major investments in the latest processing technologies at this facility reduced production costs over the past number of years and virtually eliminated "broken" sea scallops during the production process, thereby increasing yields over the same period. Sophisticated, automated grading machines enable Clearwater to offer customers more consistent and precise size grading. This size grading permits Clearwater to obtain greater value for its catch through improved handling processes that significantly reduce operating costs.

The market for Canadian sea scallops has been diversified into Europe and Asia from a primarily North American market prior to 1987.

Innovations introduced by Clearwater, bottom imaging technology and vessel tracking systems, have provided the industry and the Department of Fisheries and Oceans (the "DFO") with the ability to better understand the resource and have permitted Clearwater to harvest its quota more efficiently. An example is the ability to identify particular beds of sea scallops and to target its harvesting operations more specifically. This technology also permits identification of areas where the sea scallops are not at full maturity so as to allow operators to defer harvesting in those areas until maturity is reached.

Argentina

Participation in the Argentine scallop fishery, which has been operating since 1996, is limited to four licences that are currently held by two companies. Clearwater, through its 80% owned subsidiary, owns two of the four outstanding licences and operates two vessels. Similar to Canada, Argentina annually establishes a total allowable catch on a geographic basis. The Argentine authorities have demonstrated a keen interest in prudent, scientifically-guided management principles and have introduced a Canadian-type regulatory regime designed to ensure the fishing effort is closely matched with sustainable catch levels. Clearwater is actively engaged in research activity with INIDEP, the Argentine scientific authority, in carrying out research designed to determine biomass, growth rates and other resource parameters.

Argentine scallops are much smaller than Canadian sea scallops and, as a result, are processed mechanically on board harvesting vessels. As this species of scallop had prior to 1996 not been caught and processed, much of the equipment now utilized on board Clearwater's vessels was designed and manufactured on a custom basis. Although there were significant start-up costs and effort associated with the development of this capability, Clearwater believes it has now developed leading-edge technology.

The factory vessels remain at sea for several weeks at a time. The Argentine scallops harvested are removed from the shell using sophisticated on-board processing techniques developed by Clearwater. Argentine scallops are graded, frozen and packaged on board the vessels. On landing in Argentina, the frozen product is loaded into containers ready for export either directly to the European market, which applies to the majority of the Argentine scallops, or, to Clearwater's plant in Lockeport, Nova Scotia where the product is generally repackaged for sale in North America. After landing their product, the vessels are re-fuelled, the crew is changed and the vessel is typically back at sea within 36 hours.

The primary market for Clearwater's Argentine scallops is France and other European countries. These small size scallops have found a ready market in the recipe dish processing sector and a robust market in France has been developed. However, Clearwater has also developed a market in North America for this product. Management believes there is a growing interest in the value-added segment as the food

industry commits to finding new ways to make seafood more convenient for the consumer. This trend should support growing demand for the quality product produced by Clearwater's frozen-at-sea processing methods.

In December 2006, Clearwater's Argentine subsidiary company, Glaciar Pesquera SA was awarded the privilege to display the blue eco-label from the Marine Stewardship Council (MSC) on its Argentinean scallop products. The Argentine scallop fishery is the first scallop fishery in the world to receive this rigorous independent certification. The MSC certification comes with the privilege to display the blue eco-label on scallop products from this fishery. MSC certified products have a growing audience in North America and European markets as a result of the increased interest in products from well-managed and sustainable fishery efforts. The logo is evidence that the fishery meets the strict environmental standards set by the MSC and the product originates from a sustainable and well-managed fishing resource.

Lobster

There are only eight Canadian offshore lobster fishing licences, all of which are held by Clearwater. In addition, in 2009, Clearwater purchased approximately 6.7 million pounds of lobster from independent inshore harvesters. Clearwater's inshore purchases represented approximately 5% of the total Canadian inshore catch. In 2009, Clearwater had lobster sales, including its new raw lobster product of \$65 million.

The term "lobster" is used liberally to describe many varieties of the shellfish, some with two claws, some with none. *Homarus Americanus*, one of the two clawed varieties, with average weights in excess of one pound when caught are found only on the Northeast coasts of the United States and of Eastern Canada. In 2008 Catch volumes in Canada were approximately 57,000 metric tonnes and they were approximately 40,000 metric tonnes in the Northeast United States . Collectively these catches represent the largest source of any of the internationally available lobster species.

In July 2004, Clearwater completed construction of a new \$4 million lobster processing facility. This investment has enabled Clearwater to produce a new premium quality raw lobster product. Management expects that this investment will result in increased growth in our lobster business over the next several years, which has historically been solely a live lobster business. This new raw lobster meat product will complement our quality live lobster offering and leverage our international reputation for lobster through the addition of a value-added product.

Clearwater is now using a non-invasive scanning device derived from a medical diagnostics technology when purchasing and grading incoming lobster shipments and identifying the highest quality lobsters from each shipment. The device, which was more than 15 years in the making, can determine meat content and blood protein concentration in each of the approximately 8 million pounds of lobsters purchased and harvested each year. The measurements can be made on more than 100 individual lobsters every minute and determines lobster quality and health. To the consumer this translates into a superior eating experience with fully meated lobsters 100% of the time.

Clearwater operates two long-term storage facilities, or dryland pounds. These innovative facilities allow Clearwater to store up to 2.5 million pounds of lobsters in a live and healthy condition for periods up to six months. Long-term storage techniques are important as the fishery only produces an excellent quality product during the late fall and early spring. These two facilities gather lobster from Clearwater's own fleet of lobster vessels and the network of inshore fishermen from whom Clearwater purchases product. On arrival at one of these facilities, lobsters are graded for their biological ability to withstand extended storage and are sized, sorted, stored and inventoried accordingly. These unique facilities permit Clearwater to provide its customers with a consistent quality product year round and have allowed it to be a pioneer in the development of new markets for Canadian lobster around the world. From these two

facilities lobsters are sent to Bedford, Nova Scotia, or Louisville, Kentucky where Clearwater operates packing and distribution facilities.

Virtually all of Clearwater's live lobster is shipped live to its customers by air or other overnight carriers. Clearwater's major lobster customers represent large distributors, grocery and restaurant chains and seafood specialty outlets in North America, Europe and Asia. The proximity of the Bedford facility to the Halifax airport provides Clearwater with the ability to ensure maximum quality to its international customers. The facility in Louisville is adjacent to the UPS distribution hub. This operation is able to respond to Clearwater's United States corporate customer base with overnight delivery of orders received as late as 7:00 p.m. and the sophisticated live handling system ensures the customer a top quality product.

Clearwater works closely with the DFO and conducts ongoing sampling and monitoring programs, which provide it with the information necessary to make informed resource management decisions. In the offshore lobster industry, important stock indices such as catch per trap haul, male/female ratios and size distribution point to a stable, well managed fishery. Like the offshore sea scallop fishery, ocean floor mapping contributes to an understanding of the lobster resource and its habitat. This knowledge is improving management practices and reducing operating costs through increased harvesting efficiency. The DFO does not manage lobster on the basis of biomass. Rather, the health of the resource is assessed on the basis of catch per trap haul, size data and sex ratios.

Lobsters harvested in the offshore fishery are on average significantly larger than lobsters caught by inshore fishermen. Clearwater's year round access to these large size lobsters, combined with its expertise in live lobster storage, handling and distribution, have led to the development of lucrative niche markets where customers require large size lobsters for special menu applications.

In 2008 and 2009 Clearwater invested \$7.5 million in the conversion of a vessel for the lobster fleet. The new vessel is larger, safer and has a more stable platform and is capable of operating 24 hours a day fishing in all types of weather. This conversion included the addition of an on-board temperature controlled storage facility; a conveyor and weighing/grading system similar to Clearwater's shore plants that minimizes handling in all areas of the operation; a semi-automatic trap handling system and a more automated unloading system to ensure fast discharge and proper handling which minimizes damage and stress. This vessel lowers the average age of the lobster fleet, improves operating efficiency and reliability of fishing efforts, significantly lowers fuel consumption and permits greater stability in crewing. As a result, Clearwater retired 3 vessels in the first quarter of 2009 leaving it with a fleet of 2 vessels.

Clams

There are three offshore Arctic surf clam fishing licences, issued in the Canadian fishery, all of which are held by Clearwater, thereby providing Clearwater with a quota equal to 100% of the TAC. Clearwater's licences also permit it to land northern propeller clams and Greenland cockles taken as a by-catch during the harvesting operations for Arctic surf clams. Clearwater was a pioneer in the development of this fishery, which began in 1986. In 2009, Clearwater had clams sales of \$49 million.

Clearwater's on-shore facilities include a plant in Grand Bank, Newfoundland that is the primary facility for the grading and packaging of whole clams. Clearwater outsources the production of other products to manufacturers in China and the United States.

Clearwater operated this fishery in 2009 with two offshore Arctic surf clam harvesting/processing vessels. Arctic surf clams are harvested through a dredging process and once on-board, the surf clams are immediately removed from the shell, blanched and frozen. The product from these vessels is landed at Clearwater's shore-based facilities in Grand Bank, Newfoundland where the product may be custom cut,

graded and repackaged. Much of the equipment in use in this plant has been designed by Clearwater specifically to promote the efficient handling and processing of Arctic surf clams. This clam species is distinct from its American counterpart in that it turns a bright red when cooked. The cosmetic value of this colour change and its superior taste and quality makes the product ideal for the Japanese, Chinese and American markets. These markets value the frozen product, primarily used for sushi, at significantly higher prices than the value attributed to clams packaged in cans. In recent years Clearwater has developed marketing initiatives with the intent to increase Arctic surf clam sales outside of Japan, thereby providing greater market diversification.

As Clearwater was the pioneer of this fishery and now is the controlling licence holder, the database of scientific information regarding this resource has become its responsibility to develop. These clams are a slow growth species, taking 10 to 12 years to reach commercial size. Sustainable management practices are therefore crucial to a stable fishery. Clearwater regularly conducts research cruises over the two fishing banks, in part, to assess biomass.

Until 2001, little attention was paid to the commercial prospects for the by-catch of northern propeller clams and Greenland cockles. Clearwater has expanded the offshore clam fishery beyond Arctic surf clams to include northern propeller clams and Greenland cockles, both of which are suitable for use in chowders, as well as in other applications. Product and market development work for them continues.

Coldwater Shrimp

Clearwater holds and has rights to, through its 54% ownership in a joint venture, 23.37% of the TAC in the offshore coldwater shrimp fishery in Atlantic Canada. This combined with purchases of inshore shrimp, resulted in sales of \$33 million in 2009.

Coldwater shrimp has been harvested by two factory freezer trawlers, the Ocean Prawns and the Atlantic Enterprise (the vessels are owned by a joint venture partnership in which Clearwater has a 54% interest).

Effective April 1, 2008, Clearwater renewed and expanded its joint venture agreement for its shrimp harvesting operations. The key terms of this agreement included an extension of the joint venture for a further 10 years, the contribution by the other partner of the factory vessel Ocean Prawns and the contribution by both partners of rights to fish shrimp and turbot fishing quotas. Each partner's ownership percentage in the joint venture was adjusted to reflect the contribution of the vessel and use of quotas such that Clearwater's share of the joint venture earnings have increased from 50% to 54% from April 1, 2008 onwards. This joint venture has enabled Clearwater and its partner to combine shrimp harvesting assets and related shrimp and turbot quotas into a larger operating entity that has created efficiencies and improved profits for the business with significantly less capital employed.

In the past, the coldwater shrimp harvested in this Canadian offshore coldwater shrimp fishery was mostly sold into the Japanese market in raw format and into the European market as a cooked product, both of which are produced at sea on board the vessels that harvest the coldwater shrimp. However, in the last number of years, markets in China and Russia have opened and now represent a significant portion of the sales of this product.

In addition to its offshore coldwater shrimp harvesting business, Clearwater is a 75% partner in a coldwater shrimp processing plant in St. Anthony, Newfoundland. This plant commenced operations in 1999 and produces cooked and peeled coldwater shrimp and has a capacity to process 22 million pounds of coldwater shrimp annually. Leading retailers in the United Kingdom and North America, as well as the Danish brining industry have approved the facility. The United Kingdom and Denmark represent a significant percentage of the market for cooked and peeled coldwater shrimp.

Coldwater shrimp biomass is at levels never before observed. Clearwater's investment in FAS vessel technology positions it to take advantage of this resource by being a low cost producer and by having the processing flexibility to produce in high volumes to meet the requirements of different markets.

In September 2008, the Canadian northern prawn fishery was awarded the privilege to display the blue eco-label from the Marine Stewardship Council (MSC). The MSC certification comes with the privilege to display the blue eco-label on scallop products from this fishery. MSC certified products have a growing audience in North America and European markets as a result of the increased interest in products from well-managed and sustainable fishery efforts. The logo is evidence that the fishery meets the strict environmental standards set by the MSC and the product originates from a sustainable and well-managed fishing resource.

Groundfish and other

Clearwater has licences to harvest turbot in Atlantic Canada. In 2009, sales were \$8 million. Although certain of the groundfish stocks continue to be the subject of moratoria, there are a number of viable stocks in some areas of Atlantic Canada, specifically the ones Clearwater harvests. In May 2003, Clearwater completed the High Liner Transaction pursuant to which Clearwater acquired certain groundfish licences and quotas in respect of pollock, redfish, flounder, haddock and cod from High Liner. Clearwater leased these quotas in the past to third parties for a royalty. Clearwater views these quotas as non-core, has sold most of them off and will continue to sell the rest as the opportunity for return from quota sales has been greater than leasing them out.

Clearwater's crab processing facilities are located in Glace Bay, Nova Scotia and St. Anthony, Newfoundland and Labrador. These plants operate on a seasonal basis when producing crab. In 2009 Crab sales totaled \$11.9 million.

Facilities and Capital Expenditures

Clearwater directly and through its subsidiaries currently operate 10 factory vessels and six shore-based processing plants. With the exception of two harvesting vessels with processing capabilities engaged in the Argentine scallop fishery, these vessels and plants are all based in Atlantic Canada.

Clearwater maintains the largest fleet of factory freezer vessels in Canada. The condition and operating capability of these vessels is paramount for Clearwater successfully operating in its fisheries. During the past five years, Clearwater has invested approximately \$82 million on its fleet, its onshore processing facilities and licences. Clearwater typically replaces vessels early due to the 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 the historic capital expenditures and harvesting licence investments (in thousands of dollars) for the past five years:

	2009	2008	2007	2006	2005	TOTAL
Return on Investment						
Vessels	\$ 1,200	\$ 22,200	\$ 7,600	\$ -	\$ 11,800	\$ 42,800
Plants and other	-	4,300	-	-	1,600	5,900
Licenses	-	10,000	5,300	-	-	15,300
Maintenance capital	3,300	7,000	3,500	1,900	2,400	18,100
	<u>\$ 4,500</u>	<u>\$ 43,500</u>	<u>\$ 16,400</u>	<u>\$ 1,900</u>	<u>\$ 15,800</u>	<u>\$ 82,100</u>

The amounts capitalized related to the clam vessel, the Atlantic Seahunter, that had capsized prior to Clearwater taking delivery were removed from the chart above. This vessel capsized in Taiwan prior to

Clearwater taking possession in the third quarter of 2007. The result of the incident was a complete loss of the vessel for which Clearwater recovered the total cost invested through a claim filed with the shipyard. The capital expenditure amounts excluded from the table above include \$3.7 million in 2007, \$18.7 million in 2006 and \$12.8 million in 2005.

In addition to the amounts capitalized annually, Clearwater historically has spent and expensed an average of \$14.7 million a year over the past five years on the maintenance of its fleet and processing plants. This reflects Clearwater's commitment to ensuring that its assets are kept in top condition enabling it to harvest and process its allowable catch efficiently and have additional processing capacity for selective procurement when required.

Vessel investments significantly impact the amount spent annually on capital expenditures. Vessel and quota investments and debt levels significantly impact the amount spent annually on capital expenditures due to the significant investment required to purchase and maintain the vessels and the significant values attributed to the Canadian and Argentine quotas.

In 2009 Capital expenditures were minimal as the majority of Clearwater's larger projects were largely completed in 2008. During 2009, Clearwater refitted a vessel for its lobster operations. The total cost of the vessel including conversion was approximately \$7.4 million of which \$1.2 million occurred in 2009 (2008 - \$6.2 million). In addition Clearwater completed a conversion of a shrimp vessel, through a 54% owned joint venture, incurring costs in 2009 of \$1.6 million (2008 - \$6.2 million). As a result of the relatively high debt and leverage levels, Clearwater has restricted our capital expenditures to core projects. For 2010 our capital expenditures are expected to correspond to all planned and required refits and capital maintenance requirements which are estimated to cost approximately \$10 million.

In 2008 Clearwater invested \$6.2 million to complete the conversion of a vessel for its clam fishery, and invested \$6.2 million in the conversion of a vessel for its lobster fishery. In 2008 Clearwater also invested approximately \$10 million relating to turbot quotas.

In 2007 Clearwater began investment in the conversion of a vessel for its clam fishery and purchased an offshore lobster licence.

In 2006, capital expenditures were solely for maintenance projects.

In 2005, Clearwater completed conversion of two FAS scallop vessels.

The most costly of Clearwater's vessels are the factory freezers, of which it has 10. These vessels are used in the harvesting of Canadian scallops, Argentine scallops, shrimp and clams. Non-factory vessels typically do not cost as much to maintain and replace.

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

- Two have been used to harvest shrimp and are on average 16 year years old. These vessels provided incremental returns due to greater harvesting efficiencies and lower fuel costs. At the end of 2007, one of these vessels, the Arctic Endurance, was removed from the shrimp business to be converted to a clam vessel. In 2008 Clearwater, through its shrimp fishing joint venture, added a vessel such that it maintained its two shrimp vessels.
- Four are used to harvest Canadian sea scallops and are on average 9 years old. 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 of Clearwater's vessels are used to harvest Argentine scallops and are on average 29 years old. One vessel is expected to be replaced over the next five years and the second is expected to be replaced in the next 10 years.
- Two of Clearwater's vessels are used to harvest clams and are on average 16 years old. In 2008 the Arctic Endurance was converted from a shrimp vessel to a clam vessel and added to the fleet to replace the Atlantic Vigour, which was retired.

Capital expenditures were \$4.5 million for the year ended December 31, 2009. Of this amount \$1.3 million was considered return on investment ("**ROI**") capital. Larger ROI projects in 2008 included the conversion of the vessel for the lobster fishery and the purchase of turbot quota.

Harvesting

The following table sets forth the harvesting vessels utilized in Clearwater's harvesting operations, which include ten factory vessels and its other vessels.

Vessel	Principal Products
Atlantic Leader, Atlantic Guardian, Atlantic Protector ⁽¹⁾ , Atlantic Preserver, Cachalot ⁽²⁾ , Chockle Cap ⁽²⁾ , Freedom 99 ⁽²⁾ , E.E. Pierce, Tenacity	sea scallops
Atlantic Prospect, Nanuk	lobster
Atlantic Surf I ⁽³⁾ , Atlantic Surf III ⁽³⁾	Argentine scallops
Ocean Concord, Arctic Endurance	Arctic surf clams
¹⁾ Atlantic Enterprise ⁽⁴⁾ , Ocean Prawns ⁽⁴⁾	coldwater shrimp

Notes

- (1) Co-owned, Clearwater has a 60% interest
- (2) Owned by a joint venture in which Clearwater has a 50% interest.
- (3) Owned by a subsidiary in which Clearwater has an 80% interest.
- (4) Owned by a joint venture partnership in which Clearwater has a 54% interest.

Processing

The following table sets forth the location and principal products of Clearwater's processing operations:

Location	Principal Products
Arichat, Nova Scotia ⁽¹⁾	lobster
Clark's Harbour, Nova Scotia ⁽¹⁾	lobster
Glace Bay, Nova Scotia ⁽¹⁾	snow crab
Grand Bank, Newfoundland	clams
Lockeport, Nova Scotia	sea scallop, processed lobster
St. Anthony, Newfoundland ⁽²⁾	coldwater shrimp, crab

Notes

- (1) These facilities operate on a seasonal basis.
- (2) The plant at St. Anthony, Newfoundland is operated by a partnership, which is 75% owned by Clearwater.

Clearwater also owns its head office building located at 757 Bedford Highway, Bedford, Nova Scotia. In addition, Clearwater owns and operates a vessel discharge facility and a public cold store in Shelburne, Nova Scotia.

Sales, Marketing and Distribution Systems

Clearwater's strategy has always been to sell its products to a broad range of customers, customer types and geographic markets. This strategy has been complemented by a clear objective to deal as far into the distribution chain as possible and to avoid dependence on any one or group of customers. Clearwater relies on its own sales force dedicated to selling only its products. This has required the creation and maintenance of an internal sales and service support function and the operation of sales offices in all its important markets. These offices are staffed by a multilingual sales group able to do business in the

language of the customer. Clearwater has focused its business on developing long-term partnerships with its customers rather than transactional relationships. The food industry has been characterized by significant consolidation at all levels, in retail and food service distribution, in the growth of corporate and theme restaurant chains and in the institutional catering business. This consolidating customer base is demanding a reduction in the number of suppliers with whom it does business and is focused on those relationships, which provide stability, breadth and depth of product offerings in their respective categories. More and more it is becoming important to demonstrate leadership and investment in a respective field in order to build and maintain profitable and growing relationships with the preferred customer base.

It is these drivers which have led Clearwater to focus on ensuring all of its business units have the capability to offer year-round supply in an industry characterized by seasonal features, the ability to offer stable pricing in an industry in which price cycles can be measured in days and a commitment to consistency of quality in an industry where fragmentation often leads to the anonymity of supply sources and irregular quality and product specifications.

Examples of Clearwater's leading role in developing new customer relationships include:

- the first Canadian seafood company to guarantee year-round delivery of quality live lobster to the European and Asian markets;
- the first Canadian seafood company to open a sales office in China, where it now has four;
- the first Canadian seafood company to open and operate an overnight live and perishable distribution facility at one of the two major United States distribution hubs;
- the first Canadian seafood company to introduce roe-on Canadian sea scallops to the European market; and
- the first Canadian seafood company to offer customer education programs in the form of the Lobster, Shrimp and Scallop Universities.

Clearwater operates its own freight-forwarding department with in-house logistics expertise in both air and ocean freight distribution and is among the largest users of refrigerated containers in Atlantic Canada. Clearwater believes that this in-house logistics capability (which removes the need to deal with transportation brokers, like many of its competitors) provides the high level of service demanded by its sophisticated customers.

Clearwater also operates two distribution facilities, including one adjacent to the distribution hub of UPS in Louisville, Kentucky and one in Canada, allowing Clearwater to effectively service an international customer base.

Customers

Clearwater's customer base is diversified, both in terms of geographic markets and types of customer. Clearwater sells premium seafood products to retail chains, food distributors and corporate restaurants. No one customer of Clearwater represents in excess of 7% of its revenues. Clearwater also sells its products to a broad geographic market, including North America, Europe, China, Japan and other parts of Asia. This diversification mitigates the effects on Clearwater of adverse market conditions or low prices in any particular segment of the seafood industry at a given time, thereby stabilizing Clearwater's revenues.

Research and Development

Clearwater has been a pioneer in the development of new markets for its premium seafood products. Clearwater's commitment to continuously introducing technological improvements has permitted it to improve product quality, reduce costs and enhance stewardship of the seafood resources that it harvests. These initiatives have secured Clearwater's reputation as a market leader and innovator. Clearwater shares its research and development with the DFO and other industry participants in order to assist in building sustainable resource management regimes.

Clearwater's innovations in technology have allowed it to develop major new businesses around several previously unexploited species, such as Arctic surf clams and Argentine scallops, and Clearwater's history of developing new fisheries is continuing.

Clearwater took the lead in bringing other offshore sea scallop companies together with the Canadian Hydrographic Service in a partnership that has produced accurate, three-dimensional maps of much of Canada's offshore sea scallop grounds. By integrating sophisticated multibeam sonar and data processing technology pioneered in Atlantic Canada, Clearwater's fishing captains now use electronic charts detailing seabed habitat, topography and sediment type. "Seeing" the ocean floor and mapping the specific habitat preferred by sea scallops, enables Clearwater's captains to be more efficient in catching its quota. The quality of the DFO's scientific advice on sustainable catch levels is also being significantly enhanced through the use of ocean floor maps during research surveys of the resource. Clearwater's management believes that the introduction of this new technology will also result in a higher average total allowable catch in the future.

Clearwater's technology has also provided it with the ability to deliver a better quality product in a more timely way to its customers around the world. As an example, Clearwater has been a leader in research and development of measures and systems to manage and reduce one of the single largest expenses in the lobster industry, mortality before delivery. Clearwater has developed and is the only company in Atlantic Canada to use an on-land "dryland pound" system to store lobster. The dryland pound keeps the lobster in premium condition for as long as six months, by simulating the lobster's natural wintering hibernation state, resulting in significantly lower mortality rates than traditional holding systems such as holding tanks, tidal pounds, or crates. Clearwater's lobster biologists also add value throughout the supply chain and have designed a unique "Lobster University" program to educate staff, fishermen, shippers and customers on proper handling, husbandry and storage techniques for lobster.

Clearwater is committed to developing improvements to enhance the sustainability of seafood resources, the quality of our products and the efficiency of our processes.

Competitive Conditions

All segments of the food supply industry are highly competitive. The primary seafood industry is highly fragmented 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. Clearwater's diversity of its product mix mitigates the effects of fluctuations in the prices for any particular product at a given time, thereby stabilizing Clearwater's revenues in its customers currencies.

Human Resources

Clearwater employed approximately 1,200 individuals as of December 31, 2009. The number of employees fluctuates throughout the year based on raw material availability and other seasonal factors.

Clearwater has four collective agreements covering approximately 550 employees. The plant workers in Glace Bay, Nova Scotia are represented by the Canadian Auto Workers Union. The three year collective agreement with this plant expires on October 31, 2010. The plant workers in the two Newfoundland plants are represented by the Fish, Food and Allied Workers Union. The two year agreement for the plant in Grand Bank, Newfoundland expires on June 30, 2013. The three year agreement with plant workers in St. Anthony, Newfoundland expires on December 31, 2011. Clearwater also had 5-year collective agreements with the crew of its Canadian with its factory sea scallop vessels that expire on May 31, 2013 and its wet fish vessels that expired on June 1, 2009 (and are working off a one-year extension but in any event these vessels are not currently active).

INDUSTRY

Consumption of Seafood

Although the size of the consumer food industry has been relatively stable for the last several years, an increasing awareness of the health benefits of seafood has fuelled an expansion of the worldwide consumption of seafood as an alternative to other protein sources, such as beef, chicken and pork.

Purchasers of seafood (such as retailers, food distributors and corporate restaurants) will pay a premium to a supplier of seafood that can provide consistent quality, wide diversity and reliable delivery of seafood, together with value-added education and marketing of “easy to prepare” seafood. In fact, growth in the consumption rates of seafood is, in part, attributable to the recent commitment in the retail food industry to offer seafood in a more convenient form. Clearwater is well positioned to take advantage of this opportunity because of its premium quality, wide diversity and year-round delivery capability, as well as its value-added educational programs, such as its “Lobster University”.

There are no dominant suppliers or purchasers in the seafood industry, but there is a growing trend towards consolidation. Clearwater, which is able to supply a large, diverse range of quality seafood, is well positioned to capitalize on the opportunities resulting from the consolidation of the purchasers of seafood (e.g., retailers, food distributors and corporate restaurants).

Harvesting of Seafood

The Atlantic Canada seafood harvesting industry, where Clearwater primarily operates, is one of the largest sources of premium shellfish in the world. The industry consists of two distinctive segments — the seasonal inshore fishery and the year-round offshore fishery.

The inshore (or smaller vessel) fishery is comprised of thousands of independent fishermen. The interest of these fishermen are generally restricted to operating their own, relatively small fishing boats, harvesting one or two species of seafood in waters that are relatively close to the shore, and selling their harvest to seafood processors based in Atlantic Canada. The inshore fishery segment of the industry is highly fragmented across all species.

The offshore (or larger vessel) fishery, in which Clearwater operates, is comprised of a relatively small number of vertically integrated seafood enterprises. These enterprises generally operate large fishing vessels, harvest a variety of species of seafood in waters that are further from shore, process the seafood onboard the fishing vessels or at shore-based processing plants, and sell the products (directly or through distributors) in the international market. The enterprises also generally purchase product from inshore fishermen for processing and sale. Over the last number of years, there has been significant consolidation in the Atlantic Canadian fishing industry, as enterprises have grown organically and through acquisitions to become more efficient and competitive participants in the global seafood industry. Clearwater has

been a leading participant in this consolidation and is now the largest harvester in Canada of sea scallops, lobster, Arctic surf clams and coldwater shrimp.

The Atlantic Canada offshore fishery is regulated by the Government of Canada through the DFO. The regulatory environment in Canada and other mature fisheries, such as those in Norway, Iceland, Argentina and New Zealand, are highly sophisticated, emphasizing sustainability of the resource as the priority. There are three primary aspects to regulation: licensing, total allowable catch and quotas.

Licensing — In order to harvest any species of seafood in the Atlantic Canada offshore fishery, an enterprise must hold a licence to harvest that species. The DFO strictly controls the number of licensed enterprises in the fishery, rarely granting new licences unless and until increases in the stock of a particular species evidences significant and sustainable growth.

Total Allowable Catch (TAC) — In order to ensure that the seafood stocks in Atlantic Canada are not over harvested, the DFO (in consultation with industry working groups) establishes on an annual basis the total allowable catch (by ocean region) of each species of seafood. This amount represents the maximum amount of the species that can be harvested by all enterprises participating in the fishery for that species. As described in greater detail below, shellfish resources have generally been increasing and, therefore, total allowable catches have generally been increasing over time.

Quotas and Enterprise Allocations — In order to increase the efficiency of the offshore fishery and permit industry consolidation, the DFO regulates the harvesting by holders of offshore licences by way of a quota and Enterprise Allocation system. Under this system, each enterprise is permitted to harvest a specified and tradable percentage of the total allowable catch of a particular species in specific offshore areas. As such, the enterprises are not competing with one another in the harvest of seafood and are at liberty to harvest their quotas in a rational and efficient manner. Enterprise Allocations can be transferred, traded and sold, thereby providing an important opportunity for rationalization within the industry.

Supply of Seafood Resources

Canada is considered a global leader in the management of its fisheries. Clearwater has worked with the DFO and other industry players to build sustainable resource management regimes. In many instances, Clearwater has been the primary proponent of the adoption of these practices. Examples of the practices of Clearwater and the DFO to ensure sustainable resources include:

- ongoing joint investment in the DFO scientific research programs to ensure all fisheries are guided by the best possible scientific advice;
- regulated minimum size restriction in the sea scallop, lobster and crab fisheries so as to allow an opportunity for reproduction and growth to optimum size and value;
- closed fishing areas to protect concentrations of juvenile shellfish from premature harvest;
- continued modification and refinement of fishing gear to allow the release of juvenile shellfish and non-target species; and
- a male only retention rule in the snow crab fishery so as to protect the female stock.

As a result of the work done by the industry and the DFO in this area, total allowable catch levels of shellfish resources have been generally stable to increasing in Atlantic Canada.

Regulation

Licences

In Canada, the harvesting of seafood in the waters off Atlantic Canada is primarily regulated by the DFO through the Fisheries Act (Canada) and the Atlantic Fishery Regulations (1985) made under that act. These regulations provide for the registration of vessels and enterprises and for the issuance of licences to catch specified species of seafood. The licences set out conditions for harvesting that may include the species which may be caught, the type and quantity of gear to be used, the waters in which harvesting is permitted, the period during which harvesting is permitted, the vessel which may be used and the persons permitted to operate the vessel. The DFO grants renewable licences to participants in the various fisheries. In the Canadian offshore fishery, the licences permit the holder to catch a prescribed percentage of the TAC for the relevant fishing area. See “Industry — Harvesting of Seafood”.

The harvesting of scallops in Argentina is regulated by the National Federal Fishery Law (1998) and Resolution 150/96 of the Secretary of Agriculture, Livestock, Fishery and Food. These laws provide for the registration of vessels and enterprises and for the issuance of licences to catch specified species of seafood. The licences set out conditions for harvesting that may include the species which may be caught, the type and quantity of gear to be used, the waters in which harvesting is permitted, the period during which harvesting is permitted, the vessel which may be used and the persons permitted to operate the vessel.

Vessels

All vessels operated in connection with Clearwater’s harvesting operations are registered with, and subject to, inspection by Transport Canada or the Argentine Coast Guard.

Processing

All fish processing plants conducting business throughout Canada require a combination of provincial and federal licences to operate. The requirement to obtain and maintain a food processing licence principally relates to food safety and labeling. All fish processing plants are required to implement an approved quality management plan, or QMP, which is approved by the Canadian Food Inspection Agency (CFIA) covering the regulatory and safety aspects of food processing. Clearwater also maintains hazard analysis and critical control point (HACCP) quality management programs which focus on preventing hazards that could cause food-borne illnesses by applying science-based controls, from raw materials to finished products. See “Risk Factors - The Business and the Industry — Food Processing Risks”.

Environmental, Health and Safety Regulation

The harvesting, processing and transportation of seafood, seafood products and by-products and the operation of vessel discharge and maintenance facilities have been and are subject to extensive and increasingly stringent federal, provincial, municipal and local statutes, regulations and by-laws, permitting and other requirements with respect to workers’ health and safety and environmental matters in Canada.

Environmental legislation, orders, permits, approvals, common law and other requirements impose obligations relating to, among other things: the release of substances into the natural environment; the production, processing, preparation, handling, storage, transportation, disposal, and management of substances (including liquid and solid, non-hazardous wastes and hazardous materials); and the prevention and remediation of environmental impacts such as the contamination of soil and water

(including groundwater). See “Risk Factors—The Business and Industry—Environmental, Health and Safety Regulation”.

INFORMATION CONCERNING THE FUND

The following is a summary of the material attributes and characteristics of the Units and certain provisions of the Declaration of Trust, which does not purport to be complete. Reference is made to the Declaration of Trust for a complete description of the Units and the full text of its provisions.

Activities of the Fund

The Declaration of Trust provides that the Fund is a limited purpose trust and its activities are restricted to:

- (a) acquiring, investing in, holding, transferring, disposing of and otherwise dealing with interests in corporations, partnerships, trusts and other persons involved, directly or indirectly, in the harvesting, processing, distribution and marketing of seafood and such other investments as the Trustees may determine;
- (b) guaranteeing (as guarantor, surety or co-principal obligor) the payment of any indebtedness, liability or obligation of Clearwater, or any of its affiliates, or any affiliate of the Fund and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering any of its assets as security for such guarantee;
- (c) temporarily holding cash and other short-term investments in connection with and for the purposes of the Fund’s activities, including paying expenses of the Fund, paying amounts payable by the Fund in connection with the redemption or repurchase of any Units and making distributions to Unitholders;
- (d) issuing Units, Special Trust Units and other securities of the Fund (including securities convertible or exchangeable for Units, Special Trust Units or other securities of the Fund) including, for the purposes of: (i) obtaining funds to conduct the activities described in paragraph (a) above, including raising funds for further acquisitions; (ii) implementing unitholder rights plans or incentive option or other compensation plans, if any, established by the Fund; (iii) making non-cash distributions to Unitholders as contemplated by the Declaration of Trust, including pursuant to distribution reinvestment plans, if any, established by the Fund; and (iv) upon the exercise of the right of exchange held by holders of Clearwater Exchangeable Units pursuant to the Exchange Agreement (as defined herein);
- (e) issuing debt securities or otherwise borrowing and mortgaging, pledging, charging and granting a security interest in or otherwise encumbering any of its assets as security;
- (f) repurchasing or redeeming Units or other securities of the Fund;
- (g) satisfying the obligations, liabilities or indebtedness of the Fund; and
- (h) undertaking such other activities, or taking such actions, including investing in securities, related to or in connection with the foregoing, or as permitted by the Declaration of Trust and as shall be approved by the Trustees from time to time,

provided that the Fund shall not undertake any activity, take any action, or make any investment which would result in the Fund not being considered a “mutual fund trust” for purposes of the *Income Tax Act* (Canada) (the “**Tax Act**”).

Units and Special Trust Units

An unlimited number of Units and an unlimited number of Special Trust Units are issuable pursuant to the Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net income, net realized capital gains or other amounts, and in the net assets of the Fund in the event of termination or winding-up of the Fund. All Units are of the same class with equal rights and privileges. Except as set out under “Redemption at the Option of Unitholders” below, the Units have no conversion, retraction, redemption or pre-emptive rights.

The Special Trust Units are to be used solely for providing voting rights to persons holding Clearwater Exchangeable Units or other securities that are, directly or indirectly, exchangeable for Units and that, by their terms have voting rights of the Fund. Special Trust Units were issued in conjunction with, and are not transferable separately from, the Clearwater Exchangeable Units to which they relate. Each Special Trust Unit will entitle the holder thereof to a number of votes at any meeting of Unitholders and holders of Special Trust Units equal to the number of Units which may be obtained upon the exchange of the Clearwater Exchangeable Units to which the Special Trust Units relate (except for Clearwater Exchangeable Units which have previously been exchanged pursuant to the Exchange Agreement (as defined herein)), but will not otherwise entitle the holder to any rights with respect to the Fund’s property or income. See “Clearwater Exchangeable Units”.

On January 24, 2007, the Fund received approval for a normal course issuer bid which enabled it to purchase up to 2.5 million outstanding trust units (the “Units”), which amount represented less than 10% of the public float during a one year period. During 2007, 1,162,100 units were repurchased and cancelled at a cost of \$5.6 million. In 2008, 500,000 units were repurchased and cancelled. Currently there are 27,745,695 Trust units outstanding.

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. 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. In 2007 Clearwater repurchased \$5 million of the Class C units leaving \$45 million outstanding at December 31, 2008 and 2009.

In 2007, the Fund completed an offering for \$48 million of 7.25% convertible unsecured subordinated debentures, which are due March 31, 2014. The convertible debentures are convertible at any time up to maturity at the option of the holder into trust units of the Fund at a conversion price of \$5.90 per trust unit. The debentures pay interest semi-annually in arrears on March 31 and September 30. The debentures are not redeemable before March 31, 2010. On and after March 31, 2010, but before March 31, 2012, the debentures may be redeemed at the option of the Fund provided that the market price of the

trust units is not less than 125% of the conversion price. On and after March 31, 2012, the debentures may be redeemed at the option of the Fund at a price equal to their principal amount plus accrued interest. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering that number of trust units equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash. The convertible debentures are classified in accordance with their component parts: the value ascribed to the holder's option to convert to units has been classified as equity and the remaining portion of the convertible debenture has been classified as debt. In 2007 Clearwater repurchased \$3.6 million of the Class D units leaving \$44.4 million outstanding at December 31, 2008 and 2009.

Issuance of Units

The Declaration of Trust provides that the Units or rights to acquire Units may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Trustees determine, including pursuant to any unitholder rights plan or any incentive option or other compensation plan established by the Fund. Units may be issued in satisfaction of any non-cash distribution of the Fund to Unitholders on a pro rata basis. The Declaration of Trust also provides that immediately after any pro rata distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution. In this case, each certificate representing a number of Units prior to the non-cash distribution is deemed to represent the same number of Units after the non-cash distribution and the consolidation. However, if amounts so distributed represent income, then non-resident holders will be subject to withholding tax thereon and the consolidation will not result in those non-resident unitholders holding the same number of units. Such non-resident unitholders will be required to surrender the certificate (if any) representing their original units in exchange for a certificate representing their post-consolidation units.

Trustees

The Fund has a minimum of three and a maximum of nine Trustees. The Trustees supervise the activities and manage the affairs of the Fund.

Trustees are appointed at each annual meeting of Unitholders and holders of Special Trust Units to hold office for a term expiring at the close of the next annual meeting or until their successors are elected or appointed. All of the Trustees proposed for election must be unrelated to CFFI (as such term is defined by the Ontario Securities Commission ("OSC")). The Declaration of Trust prohibits a non-resident of Canada (as that term is defined in the Tax Act) from acting as a Trustee.

The Declaration of Trust provides that, subject to its terms and conditions, the Trustees have full, absolute and exclusive power, control and authority over the trust assets and over the affairs of the Fund to the same extent as if the Trustees were the sole and absolute legal and beneficial owners of the trust assets and will supervise the investments and manage the affairs of the Fund. The Trustees are responsible for, among other things:

- acting for, voting on behalf of and representing the Fund as a unitholder and note holder of CSHT and a shareholder of CS ManPar;
- maintaining records and providing reports to Unitholders;
- supervising the activities and managing the affairs of the Fund;
- ensuring the ownership restrictions in the Declaration of Trust are met; and
- effecting payments of distributions from the Fund to Unitholders.

The Trustees have the right to approve the adoption of a unitholder rights plan from time to time if the Trustees determine in good faith that the action is appropriate. Any such unitholder rights plan will be effective as of the date of its adoption by the Trustees but will terminate six months from the date of its adoption if not ratified and confirmed by the Unitholders in accordance with the Declaration of Trust.

Any one or more of the Trustees may resign upon 30 days' written notice to the Fund and may be removed by a resolution passed by a majority of the Unitholders and holders of Special Trust Units, and the vacancy created by the removal or resignation must be filled at the same meeting, failing which it may be filled by the former Trustee or the remaining Trustees.

A quorum of Trustees, being the greater of two Trustees or a majority of the Trustees then holding office, may fill a vacancy in the Trustees, except a vacancy resulting from an increase in the number of Trustees (other than as noted below) or from a failure of the Unitholders and holders of Special Trust Units to elect the required number of Trustees. In the absence of a quorum of Trustees, or if the vacancy has arisen from a failure of the Unitholders and holders of Special Trust Units to elect the required number of Trustees, the Trustees will promptly call a special meeting of Unitholders and holders of Special Trust Units to fill the vacancy. If the Trustees fail to call that meeting or if there are not Trustees then in office, any Unitholder or holder of a Special Trust Unit may call the meeting. The Trustees may, between annual meetings of Unitholders and holders of Special Trust Units, appoint one or more additional Trustees to serve until the next annual meeting of Unitholders and holders of Special Trust Units, but the number of additional Trustees may not exceed one-third of the number of Trustees who held office at the expiration of the immediately preceding annual meeting of Unitholders and holders of Special Trust Units.

The Declaration of Trust provides that the Trustees must act honestly and in good faith with a view to the best interests of the Fund and in connection with that duty must exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Declaration of Trust provides that each Trustee is entitled to indemnification from the Fund in respect of the exercise of the Trustee's powers and the discharge of the Trustee's duties, provided that the Trustee acted honestly and in good faith with a view to the best interests of the Unitholders. In addition, in certain circumstances, limitations on indemnification similar to those under the *Business Corporations Act* (Ontario) apply.

Except as expressly prohibited by law, the Trustees may grant or delegate certain of the authority of the Trustees to effect the actual administration of the duties of the Trustees under the Declaration of Trust. The Trustees may grant broad discretion to a third party to administer and manage the day-to-day operations of the Fund, and to make executive decisions that conform to the general policies and general principles set forth in the Declaration of Trust or are otherwise established by the Trustees from time to time, including pursuant to the Administration Agreement.

Cash Distributions

The Fund was set up to make monthly cash distributions, based upon cash receipts of the Fund in respect of such month, after satisfaction of administrative and other expenses (including reasonable reserves for such expenses), any debt service obligations (principal and interest) and any amounts payable by the Fund in connection with any cash redemptions or repurchases of Units. The Fund may make additional distributions in excess of the monthly distributions during the year in the discretion of the Trustees. All of the Partnership's distributions are at the discretion of the Trustees and are subject to certain conditions imposed by lending agreements. Any amounts of net income and net capital gains of the Fund for a taxation year not otherwise distributed during the year and that would otherwise result in the Fund being liable to tax will be payable on December 31 of that year.

Any income of the Fund which is applied to any cash redemptions of Units or is otherwise unavailable for cash distribution will, to the extent necessary to ensure that the Fund does not have an income tax liability under Part I of the Tax Act, be distributed to Unitholders in the form of additional Units. Such additional Units will be issued pursuant to applicable exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

Holders of Units who are non-residents of Canada are required to pay all withholding taxes payable in respect of any distributions of income by the Fund, whether such distributions are in the form of cash or additional Units. Non-residents should consult their own tax advisors regarding the tax consequences of investing in the Units. No distributions were paid in 2008 and 2009. Clearwater is unlikely to pay distributions over the next two years due to restrictions in lending agreements, the financial results in 2008 and 2009 and the need to reduce leverage.

Redemption at the Option of Unitholders

General

Units are redeemable at any time on demand by the holders thereof upon delivery to the Fund of a duly completed and properly executed notice requesting redemption in a form reasonably acceptable to the Trustees, together with written instructions as to the number of Units to be redeemed. As the Units will be issued in book entry form, a Unitholder who wishes to exercise the redemption right will be required to obtain a redemption notice form from the Unitholder's investment dealer who will be required to deliver the completed redemption notice form to the Fund at its head office and to Canadian Depository for Securities Limited. Upon receipt of the redemption notice by the Fund, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Unit (the "**Redemption Price**") equal to the lesser of:

- 90% of the "market price" on the principal market on which the Units are quoted for trading during the ten trading day period ending immediately prior to the date on which the Units were tendered for redemption (the "**Redemption Date**"); and
- 100% of the "closing market price" on the principal market on which the Units are quoted for trading on the Redemption Date.

For the purposes of this calculation, "market price" will be an amount equal to the weighted average of the closing price of the Units for each of the trading days on which there was a closing price; provided that if the applicable exchange or market does not provide a closing price, but only provides the highest and lowest prices of the Units traded on a particular day, the "market price" will be an amount equal to the weighted average of the highest and lowest prices for each of the trading days on which there was a trade; and provided further that if there was trading on the applicable exchange or market for fewer than five of the ten trading days, the "market price" will be the weighted average of the following prices established for each of the ten trading days: the average of the last bid and last asking prices of the Units for each day there was no trading; the closing price of the Units for each day that there was trading if the exchange or market provides a closing price; and the average of the highest and lowest prices of the Units for each day that there was trading if the market provides only the highest and lowest prices of Units traded on a particular day. The "closing market price" will be an amount equal to the closing price of the Units if there was a trade on the date and the exchange or market provides a closing price; an amount equal to the average of the highest and lowest prices of the Units if there was trading and the exchange or other market provides only the highest and lowest prices of Units traded on a particular day; or the average of the last bid and last asking prices of the Units if there was no trading on that date.

If the Units are not listed on a public market, the Redemption Price will be the net asset value of the Units, which shall be determined by the Trustees in their sole discretion.

The aggregate Redemption Price payable by the Fund in respect of any Units surrendered for redemption during any month shall be satisfied by way of a cash payment by the Fund within 30 days after the end of the calendar month in which the Units were tendered for redemption, provided that the entitlement of the Unitholders to receive cash upon the redemption of their Units is subject to the limitations that: (i) the total amount payable in cash by the Fund in respect of such Units and all other Units tendered for redemption in the same calendar month shall not exceed \$50,000 (provided that such limitation may be waived at the discretion of the Trustees in respect of all Units to be redeemed); (ii) at the time such Units are tendered for redemption, the outstanding Units shall be listed for trading on The Toronto Stock Exchange or traded or quoted on any other stock exchange or market which the Trustees consider, in their sole discretion, provides representative fair market value prices for the Units; (iii) the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the date that the Units are tendered for redemption or for more than five trading days during the ten day trading period prior to the date on which the Units are tendered for redemption; and (iv) the redemption of the Units will not result in the de-listing of the Units on the principal stock exchange on which the Units are listed.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the foregoing limitation, then the Redemption Price for such Units shall, subject to any applicable regulatory approvals, be paid and satisfied by way of a distribution in specie of assets held by the Fund. Where the Fund makes a distribution in specie of securities of CSHT on the redemption of Units to a Unitholder, the Fund currently intends to designate to that Unitholder any capital gain realized by the Fund as a result of the distribution of those securities to the Unitholder. In such circumstances, CSHT Units and CSHT Series 1 Notes of a value equal to the Redemption Price (as determined by the Trustee in their sole discretion) will be redeemed by CSHT in consideration of series 2 notes of CSHT (the “**CSHT Series 2 Notes**”) prescribed by the note indenture between CSHT and Computershare Trust Company of Canada (the “**CSHT Note Indenture**”) with an aggregate principal amount equal to the Redemption Price. The said CSHT Series 2 Notes will then be distributed in satisfaction of the Redemption Price. No CSHT Series 2 Notes will be distributed in integral multiples of less than \$100 and, where the number of amount of CSHT Series 2 Notes to be received by a Unitholder includes a multiple less than \$100, such number shall be rounded to the next lowest integral of \$100.

This redemption right is not the primary mechanism for Unitholders to dispose of their Units. Assets of the Fund which may be distributed in specie to Unitholders in connection with a redemption will not be listed on any exchange and no market is expected to develop in such assets of the Fund. Fund assets so distributed may be subject to resale restrictions under applicable securities laws. Assets of the Fund so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans.

CSHT Units

CSHT Units are not and are not intended to be issued or held by any person other than the Fund (until such time as a Unitholder redeems Units of the Fund) and, as such, registration of interests in, and transfer of, the CSHT Units are not to be made through the book-entry system administered by The Canadian Depository for Securities Limited. Rather, holders of CSHT Units will be entitled to receive certificates therefore.

CSHT’s declaration of trust provides that CSHT will make monthly cash distributions to holders of record of CSHT Units on the last business day of each month. Such distributions will be paid within 15 days following each month end and are intended to be received by the Fund prior to its related distributions to

Unitholders. The CSHT Trustee has adopted a policy to distribute all of CSHT's available cash, subject to applicable law, to holders of CSHT Units by way of monthly cash distributions, after satisfaction of administrative and other expenses (including reasonable reserves for such expenses), any debt service obligations (principal and interest) and any amounts payable in connection with any cash redemptions or repurchases of CSHT Units and CSHT Series 1 Notes.

CSHT may make additional distributions in excess of the monthly distributions during the year as may be determined in the sole discretion of the CSHT Trustee. Any income of CSHT which is unavailable for cash distribution will, to the extent necessary to ensure that the Trust does not have any income tax liability under Part I of the Tax Act, be distributed to unitholders in the form of additional CSHT Units and/or CSHT Series 1 Notes. Such additional Units will be issued pursuant to applicable exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

CSHT Notes

The following is a summary of the material attributes and characteristics of the CSHT Series 1 Notes and CSHT Series 2 Notes, which does not purport to be complete. Reference is made to the CSHT Note Indenture for a complete description of the CSHT Series 1 Notes and CSHT Series 2 Notes and the full text of its provisions.

CSHT Series 1 Notes and CSHT Series 2 Notes are issuable in Canadian currency. CSHT Series 1 Notes and CSHT Series 2 Notes are issuable in denominations of \$100.00 and integral multiples of \$100.00. No fractional CSHT Series 1 Notes or CSHT Series 2 Notes may be distributed and where the number of CSHT Series 1 Notes or CSHT Series 2 Notes to be received by a note holder includes a fraction, such number shall be rounded to the next lowest whole number.

CSHT Series 2 Notes have been reserved by CSHT to be issued exclusively to holders of CSHT Units and CSHT Series 1 Notes as full or partial payment of the redemption price thereof as the CSHT Trustees may decide or, in certain circumstances, be obliged to issue.

Interest and Maturity

The CSHT Series 1 Notes issued upon completion of the initial public offering to the Fund are repayable upon the earlier of (i) demand by the holder, and (ii) on the 25th anniversary of the closing of the initial public offering, and bear interest at the rate of 5.0% per annum payable monthly within 15 days of the end of each calendar month in respect of which such interest has accrued. Each CSHT Series 2 Note will mature on the 25th anniversary of the closing of the initial public offering and bear interest at a market rate to be determined by the CSHT Trustees at the time of issuance thereof, payable within 15 days of the end of each calendar month in respect of which such interest has accrued. As a result of the suspension of distributions by Clearwater, interest has not been paid on the notes for those months in which it did not receive a distribution.

Payment Upon Maturity

On maturity, CSHT will repay the CSHT Series 1 Notes and CSHT Series 2 Notes by paying to the trustee under the CSHT Note Indenture, in cash, an amount equal to the principal amount of the outstanding CSHT Series 1 Notes and CSHT Series 2 Notes that have then matured, together with accrued and unpaid interest thereon.

Redemption

The CSHT Series 1 Notes and CSHT Series 2 Notes are redeemable (at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, payable in cash) at the option of CSHT prior to maturity.

Subordination

Payment of the principal amount and interest on the CSHT Series 1 Notes and CSHT Series 2 Notes is subordinated in right of payment to the prior payment in full of the principal of and accrued and unpaid interest on, and all other amounts owing in respect of, all senior indebtedness which is defined in the CSHT Note Indenture as all indebtedness, liabilities and obligations of CSHT which, by the terms of the instrument creating or evidencing same, will be expressed to rank in right of payment in priority to the indebtedness evidenced by the CSHT Note Indenture. The CSHT Note Indenture provides that upon any distribution of the assets of CSHT in the event of any dissolution, liquidation, reorganization or similar proceedings relevant to CSHT, the holders of all such senior indebtedness will be entitled to receive payment in full before the holders of the CSHT Series 1 Notes and CSHT Series 2 Notes are entitled to receive any payment.

The CSHT Series 1 Notes and CSHT Series 2 Notes are unsecured debt obligations of CSHT.

Default

The CSHT Note Indenture provides that any of the following shall constitute an event of default:

- default in payment of the principal of the CSHT Series 1 Notes or CSHT Series 2 Notes when the same becomes due and payable and the continuation of such default for a period of ten business days;
- default in payment of any interest due on any CSHT Series 1 Notes or CSHT Series 2 Notes and continuation of such default for a period of ten business days;
- default in the observance or performance of any other covenant or condition of the CSHT Note Indenture and continuance of such default for a period of 30 days after written notice has been given by the trustee specifying such default and requiring CSHT to rectify same; and
- certain events of dissolution, liquidation, reorganization or other similar proceedings relative to CSHT.

The provisions governing an event of default under the CSHT Note Indenture and remedies available there under do not provide protection to the holders of CSHT Series 1 Notes or CSHT Series 2 Notes that would be comparable to the provisions generally found in debt securities issued to the public.

Repurchase of Units

The Fund is allowed, from time to time, to purchase Units for cancellation in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such purchases will constitute an “issuer bid” under Canadian securities legislation and must be conducted in accordance with the applicable requirements thereof.

Meetings of Unitholders

The Declaration of Trust provides that there shall be an annual meeting of Unitholders and holders of Special Trust Units for the purpose of: (i) the election or removal of the Trustees; (ii) the appointment or removal of auditors of the Fund for the ensuing year; (iii) any other matter which requires a resolution of

Unitholders and holders of Special Trust Units; and (iv) transacting such other business as the Trustees may determine or as may be properly brought before the meeting.

The Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders and holders of Special Trust Units.

Limitation on Non-Resident Ownership

In order for the Fund to maintain its status as a “mutual fund trust” under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act. Accordingly, the Declaration of Trust provides that at no time may non-residents of Canada be the beneficial owners of either more than 49% of the Units or more than 49% of the Units and the Special Trust Units, collectively, then outstanding. The Trustees may require declarations as to the jurisdictions in which beneficial owners of Units or Special Trust Units are resident. If the Trustees become aware that the beneficial owners of either at least 49% of the Units or at least 49% of the Units and the Special Trust Units, collectively, then outstanding are, or may be, non-residents or that such a situation is imminent, the transfer agent or registrar shall make a public announcement thereof and shall not accept a subscription for Units from or issue or register a transfer of Units or Special Trust Units to a person unless the person provides a declaration that he or she is not a non-resident. If, notwithstanding the foregoing, the Trustees determine that 49% or more of the Units or more than 49% of the Units and Special Trust Units are held by non-residents, the Trustees may send a notice to non-resident holders of Units and/or Special Trust Units, chosen in inverse order to the order of acquisition or registration or in such manner as the Trustees may consider equitable and practicable, requiring them to sell their Units or Special Trust Units or a portion thereof within a specified period of not less than 60 days. If the persons receiving such notice have not sold the specified number of Units or Special Trust Units or provided the Trustees with satisfactory evidence that they are not non-residents within such period, the Trustees may, on behalf of such persons, sell such Units or Special Trust Units and, in the interim, shall suspend the voting and distribution rights (if any) attached to such Units or Special Trust Units. Upon such sale, the affected holders shall cease to be holders of the Units or Special Trust Units, as applicable, and their rights shall be limited to receiving the net proceeds of such sale that, in the case of the Special Trust Units, may be nil. The Trustees shall have no liability for the amount received provided that they act in good faith.

Amendments to the Declaration of Trust

The Declaration of Trust may be amended or altered from time to time by special resolution of the Unitholders and holders of Special Trust Units, requiring 66 $\frac{2}{3}$ % of votes cast (a “**Special Resolution**”).

The Trustees may, without the approval of the Unitholders and holders of Special Trust Units, make certain amendments to the Declaration of Trust, including amendments:

- for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Trustees or the Fund;
- which, in the opinion of the Trustees, after consulting with legal counsel, provide additional protection or benefits for Unitholders and/or holders of Special Trust Units;
- to remove any conflicts or inconsistencies in the Declaration of Trust or to make minor corrections which, in the opinion of the Trustees, are necessary or desirable and not prejudicial to the Unitholders and holders of Special Trust Units; and

- which, in the opinion of the Trustees, are necessary or desirable as a result of changes in Canadian taxation laws.

Exercise of Certain Voting Rights Attached to the Securities of CSHT, CS ManPar and Clearwater

The Declaration of Trust provides that the Fund will not vote securities held by it of CSHT and CS ManPar, nor will it permit CSHT or CS ManPar to vote their securities of Clearwater, to authorize, among other things,

- any sale, lease or other disposition of all or substantially all of the assets of CSHT or Clearwater, except in conjunction with an internal reorganization or bona fide pledges or mortgages in the ordinary course of business or in connection with permitted guarantees;
- any amalgamation, arrangement or other merger or combination of CSHT, CS ManPar or Clearwater with any other entity, except in conjunction with an internal reorganization or the acquisition by Clearwater of the securities or assets of another entity;
- any material amendment to the CSHT Note Indenture, other than in contemplation of an issuance of CSHT Series 1 Notes or CSHT Series 2 Notes;
- the winding-up or dissolution of CSHT, CS ManPar or Clearwater prior to the end of the term of the Fund, except in connection with an internal reorganization; or
- any material amendment to the CSHT Trust Indenture, the limited partnership agreement of Clearwater or the articles of CS ManPar in a manner which may be prejudicial to the Fund,

without the authorization of the Unitholders and holders of Special Trust Units by Special Resolution.

Term of the Fund

The Fund has been established for a term to continue until 21 years after the death of the last surviving issue of Her Majesty, Queen Elizabeth II, alive on June 5, 2002. The termination of the Fund may also be required by Special Resolution. On a date selected by the Trustees, which is not more than two years prior to the expiry of the term of the Fund, the Trustees are obligated to commence to wind-up the affairs of the Fund so that it will terminate on the expiration of the term.

The Declaration of Trust provides that, upon being required to commence to wind up the affairs of the Fund, the Trustees will give notice thereof to the Unitholders and holders of Special Trust Units, which notice shall designate the time or times at which Unitholders shall surrender their Units for cancellation and the date at which the register of Units will be closed. Two years prior to the expiry of the term of the Fund or following a resolution to terminate the Fund, the Trustees shall proceed to wind up the affairs of the Fund as soon as may be reasonably practicable and for such purpose shall, subject to any direction to the contrary in respect of a termination authorized by a resolution of the Unitholders, fulfill or discharge the contracts of the Fund, perform or cause the auditor to perform any final audit of the Fund assets, collect its assets, sell, convey, assign, exchange, transfer or otherwise dispose of all or any part of the remaining Fund assets, to one or more persons in one transaction or a series of transactions at public or private sale for consideration which may consist in whole or in part of cash, securities or other property of any kind, discharge or pay its liabilities, and do all other acts appropriate to liquidate the Fund. After paying, retiring, discharging or making provision for the payment, retirement or discharge of all known liabilities and obligations of the Fund and providing for indemnity against any other outstanding liabilities and obligations, the Trustees shall distribute the remaining part of the proceeds of the sale of the assets together with any cash forming part of the assets of the Fund among the Unitholders in accordance with their pro rata interests. If the Trustees are unable to sell all or any of the assets which comprise part of the Fund by the date set for termination, the Trustees may distribute the remaining assets in specie directly to

the Unitholders in accordance with their pro rata interests, subject to obtaining all required regulatory approvals. The Trustees shall have no liability for the amount received provided that they act in good faith.

Take-over Bids

The Declaration of Trust provides that if a non-exempt take-over bid from a person acting at arm's length to holders of Clearwater Exchangeable Units is made for the Units and a contemporaneous identical offer is not made for the Clearwater Exchangeable Units (in terms of price, timing, proportion of securities sought to be acquired and conditions, provided that the offer for the Clearwater Exchangeable Units may be conditional on Units being taken up and paid for under the take-over bid), then provided not less than 25% of the Units (other than Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken-up and paid for pursuant to the non-exempt bid from and after the date of first take-up of Units under the said take-over bid in excess of the foregoing threshold, the Clearwater Exchangeable Units will be exchangeable at an exchange ratio equal to 110% of the exchange ratio previously in effect, such that, based on the current one-to-one exchange ratio, on exchange the holder of Clearwater Exchangeable Units will receive 1.1 Units for each Clearwater Exchangeable Unit. Notwithstanding any adjustment on completion of an exclusionary offer as described above, the voting rights attaching to the Special Trust Units will not be similarly adjusted, and the distribution rights will also not be adjusted until the exchange right is actually exercised.

The Declaration of Trust also contains provisions to the effect that if a take-over bid is made and not less than 90% of the aggregate of the Units (other than Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders who did not accept the take-over bid on the same terms on which the offeror acquired Units from Unitholders who accepted the take-over bid.

Information and Reports

In accordance with and subject to applicable securities laws, the Fund will furnish to Unitholders and holders of Special Trust Units such consolidated financial statements of the Fund (including quarterly and annual consolidated financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of tax returns under the Tax Act and equivalent provincial legislation. Prior to each meeting of Unitholders and holders of Special Trust Units, the Trustees will provide the Unitholders and holders of Special Trust Units (along with notice of such meeting) with all such information as is required by applicable law and the Declaration of Trust to be provided to such holders. CSHT and Clearwater will undertake to the Fund and the securities regulatory authorities to provide the Fund with (i) a report of any material change that occurs in the affairs of CSHT or Clearwater in form and content that they would file with applicable regulatory authorities were they reporting issuers (or equivalent); and (ii) all financial statements that it would be required to file with applicable regulatory authorities if it were a reporting issuer (or equivalent) under applicable securities laws. All such reports and statements will be provided to the Fund in a timely manner so as to permit the Fund to comply with the continuous disclosure requirements relating to reports of material changes in its affairs and the delivery of financial statements as required under applicable securities laws.

Clearwater Exchangeable Units

Clearwater issued Clearwater Exchangeable Units to CFFI in partial consideration for Clearwater's acquisition of the Clearwater business. The Clearwater Exchangeable Units, together with the Special Trust Units, except as otherwise noted, have economic and voting rights equivalent in all material respects to the Units. The Clearwater Exchangeable Units have the following attributes:

- (i) the Clearwater Exchangeable Units are exchangeable, directly or indirectly, on a one-for-one basis (subject to customary anti-dilution provisions and as provided under “Information Concerning the Fund – Take-Over Bids”) for Units of the Fund at the option of the holder;
- (ii) each Clearwater Exchangeable Unit entitles the holder thereof to receive distributions from Clearwater, where practicable, pro rata with distributions made to holders of Clearwater ordinary units; and
- (iii) each Clearwater Exchangeable Unit shall be accompanied by a Special Trust Unit of the Fund which entitles the holder thereof to receive notice of, to attend and to vote at all meetings of Unitholders (except in respect of Clearwater Exchangeable Units previously exchanged pursuant to the Exchange Agreement).

In the event that Clearwater makes a distribution to its unitholders, it distributes to limited partners (listed on the record) holding Clearwater ordinary units and to the general partners (listed on the record) holding Clearwater Exchangeable Units on the last day of each month. Distributions are made within 15 days of the end of each month. Distributions on the Clearwater ordinary units are intended to be received by CSHT prior to its related distributions to the Fund. Clearwater may, in addition, make a distribution at any other time.

Distributable cash represents, in general, all of Clearwater’s cash, after:

- satisfaction of its debt service obligations (principal and interest);
- satisfaction of administrative and other expense obligations;
- satisfaction of capital expenditures as considered appropriate by the board of directors of CS ManPar from time to time; and
- retaining reasonable reserves for administrative and other expense obligations and reasonable reserves for working capital and capital expenditures as may be considered appropriate by the board of directors of CS ManPar.

Exchange Agreement

On completion of the Fund’s initial public offering, the Fund, CSHT, Clearwater and CFFI entered into an exchange agreement (the “**Exchange Agreement**”).

The Exchange Agreement granted to CFFI (and to any subsequent holder of Clearwater Exchangeable Units) the right to exchange each Clearwater Exchangeable Unit not then subject to subordination for Units on a one-for-one basis (subject to customary anti-dilution provisions and as provided under “Information Concerning the Fund — Take-over Bids”).

The rights of exchange under the Exchange Agreement may be assigned in whole or in part, as applicable, by CFFI (and any subsequent holder of Clearwater Exchangeable Units) in connection with a transfer of the Clearwater Exchangeable Units.

RISK FACTORS

The Business and the Industry

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 locations are not necessarily consistently successful from year to year.

The availability of seafood in Canadian and Argentine 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 quotas 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.

Foreign Exchange Exposure

Approximately 80% of Clearwater's sales are in United States dollars and currencies other than the Canadian dollar, whereas the majority of expenses are in Canadian dollars. As a result, fluctuations may have a material impact on Clearwater's financial results. Risks associated with foreign exchange are partially mitigated by the fact that Clearwater operates internationally which reduces the impact of any country-specific economic risks on its business. Clearwater also uses forward exchange contracts to manage its foreign currency exposures.

Food Processing Risks

Clearwater's food processing operations are subject to international, 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.

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 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.

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.

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.

Seasonality of the Business and Weather

Clearwater's business is subject to seasonality because of poor weather and fewer fishing days in the first quarter of the year, which affects catch rates and vessel results. This seasonality affects Clearwater's working capital as inventory reaches peak levels in the early summer. If Clearwater is not able to adequately finance these working capital requirements, there may be a material adverse effect on Clearwater's financial condition and results of operations.

In addition, Clearwater harvests its products in Atlantic Canadian and Argentine waters which may be subject to adverse weather conditions.

Acquisitions Strategy

Clearwater's ability to continue to grow depends, in part, on successfully continuing its acquisition strategy. Clearwater may not be able to continue its acquisition strategy, which depends in part on the availability and suitability of appropriate acquisition targets. In addition, Clearwater may face competition for the acquisition of attractive candidates from other consolidators in the seafood industry, who may be larger and have greater economic resources than Clearwater. There can be no assurance that Clearwater will be able to successfully integrate the operations of any business that it acquires and there can be no assurance that Clearwater will be able to maintain its growth objectives in the absence of acquisition opportunities.

Product Liability

Clearwater is subject to potential product liabilities connected with its food processing operations, including liabilities and expenses associated with product defect and handling, such as the potential contamination of ingredients or products by bacteria and other external agents. Clearwater maintains insurance in respect of such liabilities in accordance with market practice within the industry. However, there can be no assurance that Clearwater will be adequately insured with respect to any losses arising from product liability claims.

Environmental, Health and Safety Regulation

Clearwater's past and present business operations, including the harvesting, processing and transportation of seafood, have been and are subject to extensive and increasingly stringent federal, provincial and local statutes, regulations and by-laws and other requirements with respect to workers' health and safety and environmental matters in Canada, the United States and elsewhere.

Environmental legislation, orders, permits, approvals, common law and other requirements impose obligations relating to, among other things: the release of substances into the natural environment; the production, processing, preparation, handling, storage, transportation, disposal, and management of substances (including liquid and solid, non-hazardous and hazardous wastes and hazardous materials); and the prevention and remediation of environmental impacts such as the contamination of soil and water (including groundwater). As a result of these requirements, Clearwater's operations and ownership, management and control of property carry an inherent risk of environmental liability (including potential civil actions, compliance or remediation orders, fines and other penalties), including with respect to the harvesting and processing of seafood, the disposal of waste and the ownership, management, control or use of vessels, transport vehicles and real estate.

Workers' health and safety legislation and other requirements impose a number of obligations on Clearwater. In Nova Scotia, the principal workers' health and safety legislation is the Occupational Health and Safety Act (Nova Scotia). Workers' health and safety on Canadian vessels is governed by the Canadian Department of Transport pursuant to the *Canada Shipping Act*.

Compliance with all such laws and future changes to them is material to Clearwater's business. Clearwater has incurred and will continue to incur significant capital and operating expenditures to comply with such laws. As a result of its operations, Clearwater may occasionally be subject to orders, investigations, inquiries or other proceedings relating to environmental, health and safety matters, including issues of compliance with legislation, permits, historical contamination and other requirements. Changes or additions to such regulatory matters, or more rigorous enforcement, could result in additional material expenditures. Furthermore, no assurance can be given that additional environmental and workers' health and safety issues relating to presently known matters or identified sites, or to other matters or sites, will not require currently unanticipated liability or expenditures for investigation, assessment or remediation, or result in fines or other penalties. Future discovery of previously unknown environmental issues, including contamination of property underlying or in the vicinity of Clearwater's present or former properties or manufacturing facilities, could require Clearwater to incur material unforeseen expenses.

Economic Fluctuations

As a seller of shellfish to a large global market, the prices of Clearwater's products are subject to price fluctuations as a result of changes in global supply and demand of such products and other economic factors. Material changes in the economies of the markets which Clearwater supplies, may have an adverse effect on Clearwater's revenues.

The price of raw material, fuel, insurance costs, interest rates, fluctuation in customers' business cycles and international, national and regional economic conditions are economic factors over which Clearwater has little or no control. Significant increases in fuel prices, interest rates or increases in insurance costs, to the extent not offset by increases in the selling prices of its products, or disruptions in raw material supply would reduce Clearwater's profitability and could adversely affect its ability to service its debts.

International Operations

Clearwater's foreign operations and investments and any future international expansion by Clearwater are subject to numerous risks, including fluctuations in foreign currency, exchange rates and controls, expropriation and other economic, political and regulatory policies of foreign governments. For example, the Government of Argentina devalued the Argentine Peso in early 2002 and forced the conversion of all foreign currency bank deposits and many other foreign currency denominated contracts into Argentine Pesos. The Argentine Government also imposed temporary restrictions on the ability of companies to transfer and retain cash outside of Argentina. Clearwater's operations in Argentina and elsewhere may be negatively affected by both foreign exchange and expropriation losses. No assurance can be given that Clearwater's operations will not be adversely impacted as a result of the existing or future legislation.

Duties

Markets in the United States and other countries may be affected from time to time by the imposition of customs duties and other tariffs. There can be no assurance that Clearwater's financial condition and results of operations will not be materially adversely affected by the imposition of customs duties or other tariffs in the future.

Labour Action

The success of Clearwater's business depends on a large number of employees, particularly during peak periods, employed on its vessels or at its processing facilities. Any organized work stoppage or other similar action at one or more of Clearwater's vessels or facilities may have a material adverse effect on its financial condition and results of operations.

Governmental Regulation

Clearwater operates in a highly regulated industry, both within Canada and internationally. Changes to any of the laws, regulations, rules or policies respecting the harvesting, production, processing, preparation, distribution, packaging or labeling of Clearwater's products could have a significant impact on its business. There can be no assurance that Clearwater will be able to comply with any future laws, regulations, rules and policies. Failure by Clearwater to comply with applicable laws, regulations, rules or policies may subject Clearwater to revocation of licences and quotas or to civil or regulatory proceedings, including fines, injunctions, recalls or seizures, which may have a material adverse effect on its financial condition and results of operations.

Reliance on Key Personnel

Clearwater's operations are dependent on the abilities, experience and efforts of its senior management. Should any of these individuals be unable or unwilling to continue their employment with Clearwater, there may be a material adverse effect on Clearwater's financial condition and results of operations.

Licence Renewals

Clearwater relies on licences issued by governmental authorities in order to permit it to harvest seafood. Any failure to renew Clearwater's licences or any material alteration to the terms of such licences may have a material adverse effect on Clearwater's financial condition and results of operations.

Demand for Product

Worldwide consumption of seafood has expanded over the past several years. Demand for Clearwater's products is subject to fluctuations resulting from adverse changes in general economic conditions, evolving consumer preferences, nutritional and health-related concerns and public reaction to food spoilage or food contamination issues. There can be no assurance that consumption will continue to expand or that present consumption levels will be maintained. Should consumer demand for seafood products stop growing or decrease, Clearwater's growth strategy, financial condition and results of operations may be materially adversely affected.

Uninsured and Underinsured Losses

The Declaration of Trust requires that the Fund obtain and maintain at all times insurance coverage in respect of potential liabilities of the Fund and the accidental loss of value of the Fund from risks, in amounts and on such terms as the Trustees consider appropriate, taking into account all relevant factors including the practices of owners of similar assets and operations. Management of Clearwater believes that it has adequate insurance in place sufficient to cover amounts required to repair or replace assets physically damaged or destroyed, with the exception of coverage for resultant business interruption losses, or extra expenses sustained, and to cover in respect of claims for bodily injury or property damage arising out of assets or operations. However, not all risk factors will be covered by insurance, and no assurance can be given that insurance will be consistently available or will be consistently available on an economically feasible basis or that the amounts of insurance will at all times be sufficient to cover each and every loss or claim that may occur involving the assets or operations of Clearwater.

The Structure of the Fund

Dependence on Clearwater

The Fund is a limited purpose trust, which is entirely dependent on the business of Clearwater through its ownership of Clearwater through CSHT. The cash distributions to the Unitholders are dependent on the ability of Clearwater to pay distributions. The ability of Clearwater to pay distributions is subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of Clearwater. The ability of Clearwater to pay distributions or make other payments is also dependent upon the ability of Clearwater's subsidiaries to pay distributions or make other payments or advances to Clearwater.

Leverage

The degree to which Clearwater is leveraged could have important consequences to the holders of the Units, including (i) the ability of Clearwater (and its affiliates) to obtain additional financing for working capital, capital expenditures or acquisitions in the future; (ii) a material portion of Clearwater's cash flow from operations may need to be dedicated to payment of the principal of and interest on indebtedness, thereby reducing funds available for future operations and to pay distributions; (iii) certain of the borrowings will be at variable rates of interest, which exposes Clearwater to the risk of increased interest rates; and (iv) Clearwater may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures. Clearwater's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

Clearwater's credit facilities contain restrictive covenants of a customary nature, including covenants that limit the discretion of management with respect to certain business matters. These covenants place

restrictions on, among other things, the ability of Clearwater to incur additional indebtedness, to pay distributions or make certain other payments and to sell or otherwise dispose of assets. In addition, they contain a number of financial covenants that require Clearwater to meet certain financial ratios and financial condition tests. A failure to comply with the covenants could result in an event of default, which, if not cured or waived, could permit acceleration of the relevant indebtedness. If indebtedness under the credit facilities were to be accelerated, there can be no assurance that the assets of Clearwater would be sufficient to repay in full that indebtedness. There can also be no assurance that the credit facilities would be able to be refinanced.

See Clearwater's annual Management's Discussion and Analysis, Liquidity and Capital resources for further information on liquidity.

Cash Distributions Are Not Guaranteed and Will Fluctuate with Clearwater's Performance

Although the Fund intends to distribute the interest and other income earned by the Fund less amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by Clearwater and paid to the Fund. The actual amount distributed in respect of the Units will depend upon numerous factors, including profitability, fluctuations in working capital, the sustainability of margins, capital expenditures and subject to certain conditions imposed by lending agreements. For Canadian income tax purposes, distributions to Unitholders shall consist of a combination of return of capital, dividend income and other income. However, there can be no assurance regarding the relative make-up of such distributions.

Nature of Units

Securities such as the Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in the business of Clearwater and should not be viewed by investors as shares or debt of Clearwater. As holders of Units, Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The Units represent a fractional interest in the Fund. The Fund's primary asset is its interest in CSHT. The price per Unit is a function of anticipated distributable income.

Distribution of Securities on Redemption or Termination of the Fund

Upon a redemption of Units or termination of the Fund, the Trustees may distribute CSHT Units, CSHT Series 1 Notes and CSHT Series 2 Notes, as the case may be, directly to the Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for the CSHT Units, CSHT Series 1 Notes or CSHT Series 2 Notes. In addition, the CSHT Units, CSHT Series 1 Notes and CSHT Series 2 Notes are not freely tradable and are not currently listed on any stock exchange. Securities so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, depending upon the circumstances at the time.

Reliance on Partners in Certain Subsidiaries and Joint Ventures

A portion of the business of Clearwater is now being carried on by subsidiaries and joint ventures of Clearwater, which in some cases are not wholly-owned by Clearwater. The actions of the other investors or partners in these subsidiaries and joint ventures may adversely impact on Clearwater and, therefore, indirectly on the Fund. For instance, if one of these investors or partners were to default on its obligations relating to a subsidiary or joint venture or if such an investor or partner were to take steps to delay or prevent the entity from distributing all of its available cash, there may be a material adverse effect on

Clearwater's financial condition and results of operations or its ability to distribute all available cash, which, in turn, would affect the Fund's ability to pay distributions.

Potential Dilution

The Declaration of Trust authorizes the Fund to issue an unlimited number of Units for such consideration and on such terms and conditions as shall be established by the Trustees without the approval of Unitholders. Additional Units may also be issued pursuant to the Exchange Agreement. The issuance of additional Units may dilute a Unitholder's investment in the Fund and reduce distributable cash per Unit. See "Information Concerning the Fund — Units".

Restrictions on Potential Growth

The payout by Clearwater of substantially all of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of such funds could limit the future growth of Clearwater and the related cash flow to the Fund.

Unitholder Liability

The Declaration of Trust provides that no Unitholder will be subject to any liability whatsoever to any person in connection with a holding of Units. However, there remains a risk, which is considered by the Fund to be remote in the circumstances, that a Unitholder could be personally liable despite such statement in the Declaration of Trust for the obligations of the Fund to the extent that claims are not satisfied out of the assets of the Fund. It is intended that the affairs of the Fund will be conducted to seek to minimize such risk wherever possible.

In December 2004, a new statute, the *Trust Beneficiary's Liability Act* (Ontario), was enacted to create a statutory limitation on the liability of Unitholders of Ontario income trusts such as the Fund. The legislation provides that a Unitholder will not, as beneficiary, be liable for any act, default, obligation or liability of the trust or any of its trustees after the legislation comes into force. However, this legislation does not address potential liabilities arising before the date the legislation came into force. In addition, this legislation has not been judicially considered and it is possible that reliance on the legislation by a Unitholder could be successfully challenged on jurisdictional or other grounds.

Undiversified and Illiquid Holding in CSHT

The Fund's holding of CSHT Units and CSHT Series 1 Notes is undiversified, and such securities are illiquid, as they are not currently, nor are they expected to be, listed or quoted on any stock exchange or other market.

Income Tax Matters

On June 22, 2007, Bill C-52, which significantly modifies the income tax rules applicable to certain publicly listed trusts and partnerships, received Royal Assent. In particular, certain income of (and distributions made by) these entities will be taxed in a manner similar to income earned by (and distributions made by) a corporation. These rules were effective for the 2007 taxation year with respect to trusts which commenced public trading after October 31, 2006. For trusts which were publicly traded or listed prior to November 1, 2006, the application of the rules will be delayed to the earlier of (i) the trust's 2011 taxation year and (ii) a taxation year of the trust in which the trust exceeds normal growth as determined by reference to the normal growth guidelines, as amended from time to time, unless that excess arose as a result of a prescribed transaction.

On December 15, 2006, the Department of Finance (Canada) released guidance for income trusts and other flow-through entities that qualify for the four-year transitional relief. The guidance establishes objective tests with respect to how much an income trust is permitted to grow without jeopardizing its transitional relief. In general, the Fund will be permitted to issue new equity in each of the next three years equal to the greater of \$50 million and a certain percentage of the Fund's market capitalization as of the end of trading on October 31, 2006. This latter amount is cumulative to the extent it is not used in a given year and, accordingly, the Fund will be permitted to issue new equity during the transitional period at least equal to its October 31, 2006 market capitalization (subject to the applicable annual limits). Market capitalization, for these purposes, is to be measured in terms of the value of the Fund's issued and outstanding publicly-traded units. If these limits are exceeded, the Fund may lose its transitional relief and thereby become immediately subject to the new rules.

On December 20, 2007, the Department of Finance (Canada) announced technical amendments to clarify certain aspects of the new rules (which, as discussed above, will be effective on January 1, 2011, subject to compliance with the normal growth guidelines). One of the amendments, which has since been enacted as law, is intended to exempt from the new rules a subsidiary partnership that (i) is not publicly traded, and (ii) is wholly-owned by a publicly traded trust or partnership, a taxable Canadian corporation or a combination of these entities.

The new rules (including the guidance released on December 15, 2006) may adversely affect the marketability of the Fund's units and the ability of the Fund to undertake financings and acquisitions, and, at such time as the new rules apply to the Fund, the distributable cash of the Fund may be materially reduced.

Clearwater has reviewed its corporate structure in light of these changes in tax legislation giving consideration to the following:

- On March 12, 2009 the federal government enacted rules to allow trusts to convert to a corporation on a tax-free basis prior to 2013.
- Clearwater's structure is a limited partnership (Clearwater Seafoods Limited Partnership) owned by a trust (Clearwater Seafoods Income Fund). Currently the Fund's portion of the taxable earnings of Clearwater, if any, flow through to the Fund and are allocated to unitholders regardless of whether the Fund pays distributions.
- The Fund has not paid distributions since December 2006. In addition, no distributions will be paid for the foreseeable future as lending agreements prevent distributions through June 2012. Clearwater will instead focus its cash flow on the retirement of senior debt.
- In recent years, the Fund has not been allocated taxable earnings from Clearwater. Further, Clearwater has significant tax assets to shield future taxable income. Clearwater anticipates that there will continue to be no taxable earnings allocated to the Fund through the 2012 fiscal year as it will be able utilize this tax shield. Further, Clearwater's management estimates that Clearwater has or can generate approximately \$75 million of currently deductible tax shield which can provide shelter for future taxable earnings allocated to the Fund
- Under the new tax rules starting in 2011, certain trusts will be required to pay taxes on any distribution of taxable earnings they allocate to their unitholders. The tax to be paid by these trusts is equivalent to the corporate tax rates and the recipient of the distributions of taxable income will be taxed on those distributions as taxable dividends.

- Clearwater does not anticipate the Fund will be paying any distributions to its unitholders through to June 2012 and nor will Clearwater be allocating any taxable earnings to the Fund prior to 2013. Therefore, there will be no taxes payable by the fund or unitholders if the Fund does not convert to a corporation.

After reviewing these factors, Clearwater has concluded that since the new tax rules will have limited impact on the Fund in the near future, the Fund does not need to convert to a corporation prior to 2012.

However, Clearwater will continue to review the Fund's structure to ensure that it is structured in the most tax efficient way possible.

Further, interest on the CSHT Series 1 Notes accrues at the Fund level for income tax purposes whether or not actually paid. The Declaration of Trust provides that an amount equal to the taxable income of the Fund will be distributed each year to Unitholders in order to reduce the Fund's taxable income to zero. Where in a particular year, the Fund does not have sufficient available cash to distribute such an amount to Unitholders (for instance, where interest payments on the CSHT Series 1 Notes are due but not paid in whole or in part) the Declaration of Trust provides that additional Units must be distributed to Unitholders in lieu of cash distributions. Unitholders will generally be required to include an amount equal to the fair market value of those Units in their taxable income, notwithstanding that they do not directly receive a cash distribution.

In addition, the agreements under which CFFI transferred the Clearwater business provided that elections would be made under the Tax Act to transfer the transferred assets on a fully or partially tax-deferred basis, as may be determined by CFFI. The adjusted cost to Clearwater of the assets so transferred where such elections were made may be less than fair market value, such that Clearwater may realize a gain for tax purposes on the future disposition of those assets.

Investment Eligibility

There can be no assurance that the Units will continue to be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered retirement income funds, registered education savings plans and registered disability savings plans under the Tax Act. Adverse tax consequences may arise under the Tax Act on the acquisition or holding of non-qualified or ineligible investments.

**SELECTED CONSOLIDATED FINANCIAL INFORMATION OF THE FUND AND
CLEARWATER**

The Fund commenced operations in July 2002 following its initial public offering. The following table illustrates the changes in unit capital from initiation to date, as well as the related investment in Clearwater.

Date	Number of units issued	Method and related investment in Clearwater	Ownership of Clearwater by the Fund
July 2002	21,170,435	IPO (acquired equal number of units)	45.36%
August 29, 2002	2,117,043	Over-allotment option granted to the underwriters – acquired equal number of units	49.90%
December 27, 2002	1,271,186	Private placement - acquired equal number of units	51.23%
May 1, 2003	4,000,000	Warrants converted to units - acquired equal number of units	54.98%
September 17, 2003	848,962	Private placement - acquired equal number of units	55.71%
June 2, 2007	169	Conversion of \$1,000 of debentures to units	55.71%
Various dates in 2007	(1,162,100)	Normal course issuer bid – reduced investment by \$5,583,000	54.71%
January 2008	(500,000)	Normal course issuer bid	54.27%
	<u>27,745,695</u>		

On June 15, 2004, the Fund completed an offering for \$50 million of 7% convertible unsecured subordinated debentures, which are due December 31, 2010 and used the proceeds to purchase 4,081,633 Class C units issued by Clearwater. The convertible debentures pay interest semi-annually and are convertible at any time up to maturity at the option of the holder into trust units of the Fund at a conversion price of \$12.25 per trust unit. The Clearwater Class C units are all held by the Fund and these units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the convertible debentures of the Fund. 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. As part of its strategy to reduce leverage levels, the Fund filed normal course issuer bids and during 2006, \$3 million of the Class C units were repurchased and cancelled with the proceeds used to repurchase and cancel an equivalent amount of convertible debentures. In 2007, an additional \$2 million of Class C Partnership units were repurchased and cancelled with proceeds used by the Fund to repurchase and cancel an equivalent amount of the 2004 series convertible debentures. The principal amount outstanding as at December 31, 2009 for the 2004 series convertible debentures was \$45 million (2008 - \$45 million).

On March 9, 2007, the Fund completed an offering for \$43.5 million of 7.25% convertible unsecured subordinated debentures, which are due March 31, 2014. On April 11, 2007 the Fund's syndicate exercised the over-allotment option in the amount of \$4,542,000 principal amount of convertible unsecured subordinated debentures. The convertible debentures are convertible at any time up to maturity at the option of the holder into trust units of the Fund at a conversion price of \$5.90 per trust unit. The debentures pay interest semi-annually in arrears on March 31 and September 30, commencing September 30, 2007. The debentures are not redeemable before March 31, 2010. On and after March 31, 2010, but before March 31, 2012, the debentures may be redeemed at the option of the Fund provided that the market price of the trust units is not less than 125% of the conversion price. On and after March 31, 2012,

the debentures may be redeemed at the option of the Fund at a price equal to their principal amount plus accrued interest. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering that number of trust units equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash. In 2007, approximately \$3.7 million of Class D Partnership units were repurchased and cancelled with proceeds used by the Fund to repurchase and cancel an equivalent amount of the 2007 series convertible debentures. The principal outstanding as at December 31, 2009 of the 2007 series convertible debentures was \$44.4 million (2008 – \$44.4 million).

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, CFFI has the right to appoint the majority of the board of directors of CS ManPar, the managing general partner. Since CFFI currently owns 48.23% (including its ownership of units in the Fund), it has 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.

Clearwater did not hold any material assets until July 2002, when it acquired the seafood business from CFFI.

In June 2009, Clearwater successfully completed the refinancing of its maturing senior debt facilities with a combination of asset backed revolving and term debt. This refinancing included a new \$60 million revolving debt facility with a three-year term, together with a three-year, \$59.5 million term debt facility with a syndicate of lenders.

The new debt facilities bear floating interest rates, with a weighted average of approximately 8.1%. The Term portion of the facility includes two tranches with one having partial amortization over the three-year term of the loan and the other maturing or to be paid in full at the end of the term. These new facilities carry covenants that prevent future distributions and include restrictions on annual capital expenditures to amounts approved by lenders and minimum EBITDA to Debt targets. Clearwater is in compliance with all of its debt covenants at December 31, 2009.

The following table includes consolidated financial information of the Fund and Clearwater (in thousands of Canadian dollars, except per Unit amounts) for fiscal years 2007, 2008 and 2009:

	Fund			Clearwater ⁽¹⁾		
	2009	2008	2007	2009	2008	2007
Sales	\$ -	\$ -	\$-	\$ 284,066	\$301,204	\$302,681
Equity in earnings of Clearwater	14,026	(55,667)	12,704	-	-	-
Net Earnings	(1,964)	(255,858)	(16,990)	25,843	(102,405)	20,951
Net Earnings per Unit (basic and fully diluted)	(.07)	(9.22)	(0.58)	0.51	(2.00)	0.40
Long-Term Debt	88,253	87,927	87,624	214,117	241,285	227,564
Unitholders' Equity	(28,946)	(27,674)	229,471	49,565	22,952	121,059
Total Assets	\$60,088	\$61,034	\$350,128	\$343,806	\$394,120	\$407,153

Note:

(1)As CFFI controlled the business both before and after the initial public offering, the acquisition was accounted for by Clearwater using the book values of the assets and liabilities as recorded by CFFI.

More detailed financial information is set out in the audited annual financial statements, and the related notes thereto included in the Annual Report, as at and for the year ended December 31, 2009.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reference is made to Management's Discussion and Analysis of Financial Conditions and Results from Operations for the year ended December 31, 2009 included in the Annual Report and the 2008 Management's Discussion and Analysis Financial Report, which is incorporated herein by reference.

SELECTED FINANCIAL INFORMATION OF CLEARWATER

The financial information below is presented in thousands of dollars:

	<u>2009</u>	<u>2008</u>	<u>2007 ⁽²⁾</u>
Sales	\$284,066	\$301,204	\$302,681
Cost of goods sold	240,215	261,443	232,584
Gross Profit ⁽¹⁾	43,851	39,761	70,097
Gross Profit (%)	15.4%	13.2%	23.1%
Administration and selling	25,724	25,926	37,818
Other income, gain on disposal and other, net	(6,567)	8,858	(8,333)
Foreign exchange (income) loss	(30,642)	80,210	(18,633)
Bank interest and charges	627	838	840
Interest on long-term debt	24,715	18,275	15,905
Depreciation and amortization	236	586	14,406
Reduction in foreign currency translation account	1,008	-	2,644
	15,101	134,693	44,647
Earnings (loss) before the undernoted	28,750	(94,932)	25,450
Income Taxes	1,868	4,595	365
Earnings (loss) before minority interest	26,882	(99,527)	25,085
Minority interest	1,039	2,878	4,134
Net earnings (loss)	\$25,843	\$(102,405)	\$20,951

Note:

- (1) Gross Profit is not a recognized measure under Canadian GAAP. Gross Profit should not be construed as an alternative to net earnings as determined in accordance with GAAP as an indicator of Clearwater's profitability. Clearwater's method of calculating Gross Profit may differ from other companies and, accordingly, Gross Profit may not be comparable to measures used by other companies.
- (2) Cost of goods sold, gross profit, administration and selling and depreciation expense in 2007 are not comparable to 2008 and 2009 as Clearwater adopted a new accounting policy in 2008 that required inclusion of portions of administration and selling and depreciation expense in cost of goods sold. Please refer to the 2009 and 2008 financial statements for more details.

DISTRIBUTIONS

The Fund and Clearwater paid monthly distributions to unsubordinated unitholders of \$0.0958 per unit from the time of the initial public offering on July 30, 2002 to December 31, 2003. Clearwater made quarterly payments of \$0.2874 per unit to subordinated unitholders from the initial public offering on July 30, 2002 to December 31, 2003. In 2004, annual distributions of \$1.15 per unit were paid to unsubordinated unitholders and \$0.46 per unit to subordinated unitholders.

In January 2005 Clearwater reduced distributions to its Class A and unsubordinated Class B Units to an annualized rate of \$0.84 per unit and suspended distributions on its subordinated Class B Units. The Fund made an identical reduction in its' distributions. On October 18, 2005 Clearwater suspended all distributions. The distributions to its Class A and unsubordinated Class B units for 2005 were \$0.63 per unit on an annualized rate.

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

The distributions paid for 2007 were \$0.60 per unit.

In January 2008, Clearwater suspended distributions to unit holders and has not resumed payment as of March 2010.

All of the Partnership's distributions are at the discretion of the Trustees and are subject to certain conditions imposed by lending agreements.

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

PRINCIPAL UNITHOLDERS

To the knowledge of the Trustees and the directors and senior officers of CS ManPar, the only person(s) or companies that beneficially owns, directly or indirectly, or exercises control or direction over, in excess of 10% of the Units (on a fully diluted basis) are as follows:

Name	Number of Units and Special Trust Units Owned	Percentage of Units and Special Trust Units Owned
Clearwater Fine Foods Incorporated ⁽¹⁾	24,656,422	48.23%

Note:

(1) CFFI holds 1,275,205 Units as well as an additional 23,381,217 Special Trust Units. Each Special Trust Unit was issued concurrently with the issuance of an Exchangeable Unit, which, subject to certain restrictions, will be exchangeable for Units on a one-for-one basis, subject to adjustment in certain circumstances. Upon exchange of the Exchangeable Units for Units of the Fund, the associated Special Trust Unit shall be cancelled.

Other than as set out above, to the knowledge of the Trustees and the directors and senior officers of CS ManPar, the number of Units owned collectively by the Trustees and the directors and officers of CS ManPar and their respective subsidiaries is approximately 1.7% of the Units on a fully-diluted basis, excluding those Units and Special Trust Units held by CFFI over which Messrs. MacDonald and Risley may be said to have control or direction or to beneficially own, as described below.

MARKET FOR SECURITIES

The outstanding Units of the Fund are listed for trading on The Toronto Stock Exchange under the symbol CLR.UN and the convertible debentures trade under the symbols CLR.DB and CLR.DB.A.

The monthly volume of trading and price ranges of the Units on the TSX over fiscal 2009 are set forth in the following table:

Period	High	Low	Volume
2009	\$	\$	
January.....	0.89	0.76	424,300
February.....	0.87	0.48	730,800
March.....	0.72	0.41	347,700
April.....	0.84	0.57	338,300
May.....	1.30	0.70	464,500
June.....	1.30	0.95	471,600
July.....	1.10	0.93	201,200
August.....	1.26	1.02	548,200
September.....	1.12	1.01	518,400
October.....	1.09	0.90	149,000
November.....	0.94	0.90	387,800
December.....	0.92	0.75	811,100

TRUSTEES, DIRECTORS AND MANAGEMENT

Trustees and Directors

The names, municipalities of residence, principal occupations and current holdings of the persons who are Trustees and directors of CS ManPar are set out below:

Thomas D. Traves , 61 Halifax, Nova Scotia Units: 2,500 ⁽¹⁾	Dr. Traves is the Chairman and a Trustee of the Fund, as well as a director of CS ManPar. His principal occupation is that of President and Vice-Chancellor of Dalhousie University.
Bernard R. Wilson , 67 Mississauga, Ontario Units: 4,500 ⁽¹⁾	Mr. Wilson was Vice Chairman of PricewaterhouseCoopers from 2001 to June 30, 2005. Mr. Wilson is a Trustee of the Fund and a director of CS ManPar.
David V. Johnson , 60 Auburn Hills, Michigan Units: 5,500 ⁽¹⁾	Mr. Johnson is the Chairman of Victor International Corporation, a Real Estate development company. Mr. Johnson is a Trustee of the Fund and a director of CS ManPar.
Colin E. MacDonald , 61 Halifax, Nova Scotia Units and Special Trust Units: 24,739,422 ⁽²⁾⁽³⁾	Mr. MacDonald is a director of CS ManPar. Mr. MacDonald's principal occupation is that of Chairman and Chief Executive Officer of CS ManPar.
John C. Risley , 61 Halifax, Nova Scotia Units and Special Trust Units: 24,656,422 ⁽³⁾	Mr. Risley is the President of Clearwater Find Foods Incorporated.
Brendan Paddick , 46 Freeport, Grand Bahama Island Units: 40,000 ⁽¹⁾	Mr. Paddick is a director of CS ManPar. His principal occupation is that of Chief Executive Officer of Columbus International Inc.
Mickey MacDonald , 57 Halifax, Nova Scotia Units: 4,997,060 (4)	Mr. MacDonald is President of Micco Companies (residential land development and automotive leasing). Mr. MacDonald is a director of CS ManPar.
Stan Spavold , 50 Halifax, Nova Scotia Units: 26,500 (1)	Mr. Spavold is the Executive Vice President of Clearwater Fine Foods Incorporated. Mr. Spavold is a director of CS ManPar.

Notes:

- (1) The information as to Units and Special Trust Units beneficially owned, directly or indirectly, including by associates or affiliates, not being within the knowledge of the Fund, has been furnished by the respective trustees and directors.
- (2) Colin MacDonald controls 83,000 Units directly and indirectly.

- (3) CFFI holds 1,275,205 Units as well as an additional 23,381,217 Special Trust Units. Each Special Trust Unit was issued concurrently with the issuance of Clearwater Exchangeable Units which are exchangeable for Units on a one-for-one basis, subject to customary anti-dilution protections and as provided under "Information Concerning the Fund – Takeover Bids". Messrs. MacDonald and Risley beneficially own, and exercise control or direction over such Units as the sole directors and shareholders of CFFI.
- (4) Mickey MacDonald holds 33,206 Units directly and 4,960,854 Units indirectly. He also holds 229,000 of the 7% Convertible Debentures due in 2010 and 430,000 of the 7.25% Convertible Debentures due in 2014.

Compensation for the Trustees is \$30,000 per Trustee per year (plus an additional \$25,000 for the Chair of the Trustees and an additional \$3,000 for the chair of each committee) and \$1,500 per meeting per Trustee for attending meetings of the board of Trustees. Compensation for the directors of CS ManPar, other than directors who also serve as Trustees or as management of CS ManPar, is \$30,000 per director per year and \$1,500 per meeting per director for attending meetings of the board of directors and committee meetings of the board of directors. All Trustees and directors are reimbursed for out-of-pocket expenses for attending meetings and participate in the insurance and indemnification arrangements described below.

Governance

The board of trustees of the Fund is responsible for supervising the activities and managing the investments and affairs of the Fund. The board reviews, discusses and approves various matters related to the Fund's investments and affairs, strategic direction and organizational structure to ensure that the best interests of the Fund are being served. The board is assisted in its supervision and management by the standing committees of the board of CS ManPar, who report to the board on matters falling within the purview of their mandate.

The Trustees are directly responsible for adopting and periodically reviewing and updating the Fund's written corporate disclosure policy. This policy, among other things:

- articulates the legal obligations of the Fund, its affiliates and their respective trustees, directors, officers and employees with respect to confidential corporate information;
- identifies spokespersons of the Fund who are the only persons authorized to communicate with third parties such as analysts, media and investors;
- provides guidelines on the disclosure of forward-looking information;
- requires advance review by the Trustees of any disclosure of financial information to ensure the information is not material, and ensures that selective disclosure of material information is not permitted, and that when it occurs, a news release is issued immediately; and
- establishes "black-out" periods immediately prior to and following the disclosure of quarterly and annual financial results and immediately prior to the disclosure of certain material changes during which the Fund, its affiliates and their respective trustees, directors, officers and employees may not purchase or sell units of the Fund.

Insiders of the Fund are required to file insider reports in compliance with applicable securities laws. For these purposes, insiders of the Fund include, amongst others, the directors and senior officers of CS ManPar. Each of these individuals has provided an undertaking to the securities regulatory authorities to file insider reports in compliance with applicable securities laws. Holders of partnership interests in Clearwater who are insiders of the Fund are also required to file insider reports in respect of their interests in Clearwater and Units.

The Audit Committee is comprised of Bernard Wilson (Chair), Brendan Paddick and David Johnson. The Corporate Governance and Compensation Committee is comprised of Tom Traves (Chair), Bernard Wilson, Mickey MacDonald and David Johnson.

The Trustees from time to time meet separately and, at other times, as part of the Board and committees thereof. The Trustees consider their major responsibility to be protecting the interests of the unitholders and, in particular, protecting the public unitholders in all respects. This can relate to monitoring distributions, monitoring and approving, and otherwise, any non-arm's length transactions, etc.

The Trustees, Tom Traves, Bernie Wilson and David Johnson, are all considered independent. In addition, Brendan Paddick is considered to be independent. The Directors who are not considered independent include Colin MacDonald, John Risley, Mickey MacDonald and Stan Spavold.

Governance of CS ManPar

The board of CS ManPar is typically fixed at seven individuals however in 2009 both the Trustees and Directors agreed to increase this to eight, three of whom have been appointed by the Fund and five of whom have been appointed by CFFI. Pursuant to a shareholders' agreement, CFFI will continue to have the right to appoint directors of CS ManPar on the following basis:

- so long as CFFI holds or controls at least 45% of the Units (on a fully diluted basis), it is entitled to appoint four of the seven directors;
- so long as CFFI holds or controls at least 33% of the Units (on a fully diluted basis) but less than 45% of such Units, it is entitled to appoint three directors;
- so long as CFFI holds or controls at least 20% of the Units (on a fully diluted basis) but less than 33% of such Units, it is entitled to appoint two directors; and
- once CFFI holds or controls less than 20% of the Units (on a fully diluted basis), it does not have the right to appoint any directors.

The directors of CS ManPar that are not appointed by CFFI will be appointed by the Fund. So long as CFFI holds or controls at least 20% of the Units (on a fully diluted basis), the size of the board of CS ManPar will remain fixed at seven unless both the Fund and CFFI agree to a change in the size of the board.

The Fund's current appointees to the board of directors of CS ManPar are the Trustees and CFFI's appointees to the board of directors of CS ManPar are Messrs. Colin E. MacDonald, John C. Risley, Brendan Paddick, Mickey MacDonald and Stan Spavold.

Management of the Business

The following sets out, for each of the executive officers of CS ManPar (the “**Executive Officers**”), the person’s name, position with CS ManPar and the current holdings of Units.

COLIN E. MACDONALD , 60 Halifax, Nova Scotia Units: 24,708,922 ⁽¹⁾	Mr. MacDonald is Chairman of CS ManPar.
ERIC R. ROE , 48 Halifax, Nova Scotia Units: 70,000	Mr. Roe is Chief Operating Officer of CS ManPar.
ROBERT D. WIGHT , 53 Halifax, Nova Scotia Units: 210,000	Mr. Wight is Vice President, Finance and Chief Financial Officer of CS ManPar.
MICHAEL PITTMAN , 62 Halifax, Nova Scotia Units: 6,000	Mr. Pittman is Vice-President, Fleet of CS ManPar.

Notes:

(1) See “Trustees, Directors and Management — Trustees and Directors”.

Effective January 23, 2009 Colin MacDonald assumed the role of Chairman of CS ManPar Inc. and announced his intention to retire as Chief Executive Officer of Clearwater Seafoods Income Fund. A committee of the board has been struck and is conducting a formal review and search for a new Chief Executive Officer.

Committees of the Board of Directors

The board of directors of CS ManPar has a Corporate Governance and Compensation Committee and an Audit Committee.

Corporate Governance and Compensation Committee

The Corporate Governance and Compensation Committee, which is comprised of Messrs., Traves, Wilson, MacDonald and Johnson reviews and makes recommendations to the board concerning the appointment of officers of CS ManPar and the hiring, compensation, benefits and termination of senior executive officers and all other key employees of CS ManPar. The committee annually reviews the chief executive officer’s goals and objectives for the upcoming year and provides an appraisal of the chief executive officer’s performance. The committee administers and makes recommendations regarding the operation of the long-term incentive plan. The committee is also responsible for developing CS ManPar’s approach to corporate governance issues, advising the board in filling vacancies on the board and periodically reviewing the composition and effectiveness of the board and the contribution of individual directors.

Audit Committee

The purpose of the Audit Committee, which is comprised of Messr Wilson, Spavold and Paddick, is to assist the board in fulfilling its responsibilities of oversight and supervision of the:

- accounting and financial reporting practices and procedures of Clearwater and its subsidiaries;

- adequacy of internal accounting controls and procedures of Clearwater and its subsidiaries; and
- quality and integrity of financial statements of Clearwater.

In addition, this committee is responsible for directing the examination into specific areas by the auditors of Clearwater. A copy of the Audit Committee's charter is attached hereto as Schedule "A".

In addition to each member's general business experience, the education and experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the Audit Committee are set forth below. The following is a brief summary of the education or experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the Audit Committee, including any education or experience that has provided the member financial literacy, that is, an understanding of the accounting principles used by Clearwater to prepare its annual and interim financial statements:

Audit Committee Members and Relevant Education and Experience

Bernard R. Wilson (Chair): Mr. Wilson was Vice Chairman of PricewaterhouseCoopers from 2001 to June 30, 2005. Mr. Wilson serves on the boards of Consolidated Thompson Iron Mines Limited, Crowflight Minerals Inc. and Goldengate Group, has a Fellowship from the Canadian Institute of Chartered Accountants and graduated with a Bachelor of Commerce from St. Francis Xavier University and a post-graduate study at Harvard University. Mr. Wilson is also Chairman of the Founders Board of the Institute of Corporate Directors in Canada.

Brendan Paddick: Mr. Paddick is the Chief Executive Officer of Columbus Communications Inc. since September 2004. He was the Chief Executive Officer of Persona Inc. and Persona Communications Inc. from 1992 to 2004. Mr. Paddick graduated with a Bachelor of Commerce and Master of Business Administration from Memorial University of Newfoundland and is a graduate of the Advanced Management Program at Harvard University.

David Johnson: Effective March 22, 2010 Mr. Johnson joined the audit committee. Mr. Johnson is the Founder and Chairman of Victor International Corporation; a community builder with communities in Michigan, USA and the British Virgin Islands. Mr. Johnson is an alumni of Michigan State University and Harvard Business School. Other Boards include ULI Foundation Board of Governors, Bay Harbor Foundation, Bay Harbor Yacht Club and Victor Foundation.

Until March 22, 2010 Stan Spavold was also a member of the audit committee. Mr. Spavold is the Executive Vice President of Clearwater Fine Foods Incorporated. Mr Spavold has his Bcom (Honours) from Dalhousie University. He received his CA designation in 1983. After 8 years in public accounting with KPMG, Stan joined McCain Foods Limited and enjoyed increasing responsibility and was appointed Vice President Finance in 1998. He joined Clearwater in 2002. Stan currently sits as Director and member of the Audit Committee of Highliner Seafoods. He is also past board member and Chair of the Audit Committees of General Don Lee Income Fund, Royal Host Realestate Trust and Halterm Income Fund. He is currently a Govenor of Dalhousie University and Chairs their investment committee. Stan is currently the Chair of Ocean Nutrition (Canada) and a member of the Board of Columbus International Inc (both private companies) .

Auditors' Fees

KPMG LLP has served as our auditor since the date of completion of our initial public offering. The aggregate amount of fees billed by KPMG LLP during the year ended December 31, 2009, for the annual

audit as well as other audit and review related services was \$457,486 (2008 – \$660,310). The aggregate amount of fees billed by KPMG LLP for all non-audit services rendered during the year ended December 31, 2009, was \$136,306 (2008 – \$141,260).

The table below provides for greater disclosure of the services provided and fees billed by the Fund’s external auditor over the three most recently completed fiscal years, dividing the services into the three categories of work performed:

Type of Work	Fees – Fiscal 2009	Fees – Fiscal 2008	Fees – Fiscal 2007
Audit services	\$457,486	\$660,310	\$407,500
Tax services	84,319	122,220	45,600
All other fees	51,987	19,040	449,400
Total	\$593,792	\$801,570	\$902,500

Audit Services

Audit services relate to professional services rendered by the auditors for the audit of the Fund and CS ManPar’s annual financial statements as well as services provided in connection with statutory and regulatory filings, prospectuses, periodic reports and other documents filed with securities regulatory bodies or other documents issued in connection with securities offerings.

Tax Services

Tax fees were paid for the review of tax returns, the review of proposed reorganizations of certain subsidiaries, assistance with review of foreign tax filings and assistance in completing routine tax schedules and calculations.

All Other Fees

Fees disclosed in the table above under the item “all other fees” were paid for services other than the audit fees, audit-related fees and tax fees described above. These services consisted of assistance with filings of foreign subsidiaries and completion of reports associated with security over foreign assets required as part of our banking arrangements.

Any non-audit services to be provided by the external auditors are required to be reviewed and approved in advance by the Chair of the Audit Committee. In addition, on a quarterly basis all fees paid to the external auditors, audit and non-audit, are reviewed in detail by the Audit Committee.

NON-COMPETITION AGREEMENT

In July 2002, CFFI and the individuals controlling it, Messrs. John C. Risley and Colin E. MacDonald, together with any person or entity controlled by or related to any of them, (collectively, the “**Restricted Persons**”) entered into a non-competition agreement (the “**Non-Competition Agreement**”) pursuant to which they covenanted not to compete with the business of Clearwater. The terms of this non-competition covenant are as follows.

- The term of the non-competition covenant is from July 31, 2002 until the first anniversary of the date that the Restricted Persons collectively hold less than 20% of the Units on a fully diluted basis.
- Subject to the next sentence, during the term of the non-competition covenant, the Restricted Persons may not engage in the harvesting or primary processing of seafood in Atlantic Canada or Argentina, either by establishing a new business or purchasing an existing

business, without the prior written consent of the Trustees. If any of the Restricted Persons purchases a business that, as part of its operations, harvests or primary processes seafood in Atlantic Canada or Argentina, such a purchase shall not be regarded as a breach of the non-competition agreement provided that the harvesting and primary processing aspect of the business is disposed of within 18 months and, in connection with any such disposition, the Fund is provided with a right of first refusal to purchase the business on terms that are no less favorable to the Fund than the terms (if any) made available to a third party. The decision by the Fund as to whether to exercise the right of first refusal will be made by the unrelated Trustees and in compliance with all applicable securities laws, including, if applicable, the rules of certain securities regulators applicable to “related party transactions”.

- The Restricted Persons may not purchase, directly or indirectly, a business that primarily engages in the harvesting or primary processing of seafood outside of Atlantic Canada or Argentina without first providing the Fund with the opportunity to pursue the purchase of such business.
- Notwithstanding the foregoing, none of the following shall be regarded as a breach of the non-competition agreement or give rise to any rights in favor of the Fund: (i) the acquisition of less than 20% of the shares or ownership interest in any entity or partnership provided that the Fund shall have a right of first refusal in respect of the subsequent disposition of such an interest; (ii) CFFI increasing its interest in FPI Limited up to 49.9%; or (iii) the purchase of any business that, as part of its operations, derives less than \$20 million in annual revenues over the three year period prior to the acquisition date from harvesting or primary seafood processing activities.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our Units is Computershare Investor Services Inc. at its principal office in the City of Toronto.

MATERIAL CONTRACTS

The only material contracts entered into by any of the Fund or Clearwater during the past year or entered into prior to the most recently completed financial year but after January 1, 2002 and that is still in effect, other than in the ordinary course of business, are as follows:

- (a) the Declaration of Trust of the Fund, as amended;
- (b) the CSHT Note Indenture;
- (c) the CSHT Trust Indenture, as amended;
- (d) the Clearwater Partnership Agreement, as amended;
- (e) the Administration Agreement; and
- (f) the trust indenture for the Convertible Debentures;
- (g) lending agreements

LEGAL PROCEEDINGS

Prior to the receivership of Glitnir Banki hf (“Glitnir”) in 2008 Clearwater had derivative contracts with Glitnir including foreign exchange derivative contracts and cross currency and interest rate swaps. For the foreign exchange derivative contracts, Clearwater and Glitnir reached an agreement in 2009 whereby the potential liability under these contracts was capped at \$13.97 million, the minimum settlement was set at \$2.9 million and Clearwater agreed to commence litigation on its position that these contracts are null and void. Clearwater has accrued \$13.97 million plus interest as of December 31, 2009. For the cross currency and interest rate swap contracts, Clearwater has received external legal advice that these contracts may be declared null and void. In the fourth quarter of 2009 Clearwater commenced litigation with Glitnir with respect to these contracts and as well as for funds on deposit it has with Glitnir and damages related to financing that Glitnir was to provide for a privatization in 2008. Clearwater expects that this litigation could take some time to settle.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No trustee, director, executive officer or principal shareholder of the Fund, CS ManPar or Clearwater, or associate or affiliate of any of the foregoing, has any other material interest, direct or indirect, in any transaction which has materially affected Clearwater in the past three years (or in any transactions or proposed transaction which may materially affect Clearwater in the future), except as disclosed herein under “General Development of the Fund” or as disclosed in the Fund’s Management Information Circular relating to the annual meeting of unitholders of the Fund.

ADDITIONAL INFORMATION

Additional information, including trustees’, directors’ and officers’ remuneration and indebtedness and principal holders of securities of the Fund, is contained in the Fund’s Management Information Circular relating to the annual meeting of unitholders of the Fund. Additional financial information is contained in our financial statements and MD&A for the year ended December 31, 2009. Additional information relating to the Fund may also be found at www.sedar.com. Copies of all of these documents may be obtained upon request from the Chief Financial Officer of CS ManPar, 757 Bedford Highway, Bedford, Nova Scotia, B4A 3Z7.

Schedule “A”

Clearwater’s Audit Committee Charter

Audit Committee Charter

The Canadian Securities Administrators’ (CSA) multilateral instrument 52-110 has defined specific requirements for Audit Committees to meet. One of these requirements is that the company’s Audit Committee will have a written charter that sets out its mandate and responsibilities. It also requires the text of the charter to be included in the annual information form along with other specified information on the audit committee members.

Purpose:

The Audit Committee is ultimately responsible for the policies and practices relating to integrity of financial and regulatory reporting as well as internal controls to achieve the objectives of safeguarding of corporate assets; reliability of information; and compliance with policies and laws. The committee will also be responsible for identifying principal risks of the business and ensuring appropriate risk management techniques are in place.

The Audit Committee charges management with developing and implementing procedures to:

- ensure internal controls are appropriately designed, implemented and monitored
- ensure reporting and disclosure of required information is complete, accurate, and timely.

The Audit Committee will make recommendations to the Board of Directors regarding items relating to financial and regulatory reporting and the system of internal controls, following the execution of the committee’s responsibilities as described in the mandate

Composition of Committee:

The committee will be composed of 3 Directors from the Company’s Board of Directors.

All members of the committee will be financially literate as defined by applicable legislation. If a member upon appointment to the committee is not financially literate as required, the person will be provided a three month period in which to achieve the desired level of literacy.

Authority:

The Committee has the authority to engage independent counsel and other advisors as it deems necessary to carry out its duties and the Committee will set the compensation for such advisors.

The Committee has the authority to communicate directly with and to meet with and without management involvement, the external auditors. This extends to requiring the external auditor to report directly to the Audit Committee.

Responsibilities:

1. The Audit Committee will recommend to the Board of Directors;
 - (a) the external auditor to be nominated for purposes of preparing or issuing the auditor's report or performing other audit, review or attest services for the Company.
 - (b) the compensation of the external auditor.
2. The Audit Committee is directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing the Auditor's Report or performing other review or attest services for the Company, including the resolution of disagreements between management and the external auditor regarding financial reporting. The Audit Committee will also ensure that the external auditor is in good standing with the Canadian Public Accountability Board and will enquire if there are any sanctions imposed by the CPAB on the external auditor. The Audit Committee will also ensure that the external auditor meets the rotation requirements for partners and staff on the Company's audit.
3. The Audit Committee must pre-approve all non-audit services to be provided to the Company or its subsidiary entities by the Company's external auditor. The Audit Committee has delegated to the Chair or any member of the Committee the authority to pre-approve non-audit services, with such pre-approved services presented to the Audit Committee at the next scheduled Audit Committee meeting following such pre-approval.
4. The Audit Committee will review and discuss with management and the external auditors the annual audited financial statements, including discussion of material transactions with related parties, accounting policies, as well as the external auditors' written communications to the Committee and to management.
5. The Audit Committee reviews the Company's financial statements, MD&A as well as annual and interim earnings press releases and recommends such to the Board. This is prior to public disclosure of such information.
6. The Audit Committee ensures that adequate procedures are in place for the review of financial information extracted or derived from the Company's financial statements, contained in the Company's other public disclosures and must periodically assesses the adequacy of those procedures.

The Audit Committee establishes procedures for:

- (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
 - (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
7. The Audit Committee reviews and approves the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Company. The Committee will ensure that the policies prohibits hiring any partners, employees and former partners and employees of the present and former external auditor of the Company

until the passage of three years subsequent to the date of their last employment by the present or former external auditor of the company.

8. The Audit Committee will, with respect to ensuring the integrity of disclosure controls and internal controls over financial reporting, understand the process utilized by the Chief Executive Officer and the Chief Financial Officer to comply with Multilateral Instrument 52-109. This will also involve enquiry of the Chief Internal Auditor as to the internal auditors' assessment of internal controls, and assessing disagreements between management and the internal auditor regarding the state of internal controls.
9. The Audit Committee will undertake a process to identify the principal risks of the business and ensure appropriate risk management techniques are in place. This will involve enquiry of management regarding how risks are managed as well as receiving opinions from Internal Audit regarding the effectiveness of the risk mitigation strategies.

Reporting:

The reporting obligations of the Committee will include:

- Report to the Board on the proceedings of each Audit Committee meeting and on the Audit Committee's recommendations at the next regularly scheduled Board meeting.
- Review the disclosure required in the Company's Annual Information Form as Form 52-110FI.

Meetings:

The Committee will meet at least four times per year and at least once every fiscal quarter.

Notice of meetings shall be given to the external auditor of the Company, and meetings can be convened at the request of the external auditor.