



# Strategies for the long term

CLEARWATER SEAFOODS INCOME FUND



2006 First Quarterly Report

# Letter to Unitholders

- Improved first quarter gross profit compared to 2005 – a result of fewer vessel disruptions and strong margins, particularly in the scallop business
- Foreign exchange impact continues to be a challenge
- Continued suspension of distributions, Trustees to revisit in August 2006

During the first quarter of 2006 Clearwater's sales and net earnings were \$70.3 million and \$1.4 million respectively versus sales of \$67.4 million and net earnings of \$1.6 million in 2005.

Gross profit for the first quarter of 2006 was \$21.3 million, an improvement of \$5.2 million over 2005. The most significant factor contributing to the change in gross profit for the quarter was the sales mix, with the first quarter of 2006 having a stronger contribution from the scallop business due to higher volumes and selling prices.

These improved margins in the quarter increased the amount of distributable cash in the first quarter to \$8.3 million versus \$6.9 million in the first quarter 2005.

As part of their current quarterly review the Trustees have decided to continue the suspension of distributions. In making this decision they have considered the financial results for the first quarter, on-going capital expenditure requirements, leverage and expectations regarding future earnings levels, which in turn are impacted by a number of factors including but not limited to, total allowable catch levels, selling prices, weather, exchange rates and fuel costs. While the first quarter results are improved, the Trustees believe it is prudent to focus on leverage and liquidity in the short-term to continue to provide additional

latitude in financial flexibility. The Trustees will continue to review the ability of Clearwater to pay distributions on a quarterly basis in arrears with the next such review to occur concurrent with second quarter 2006 earnings release in August 2006.

A number of challenges that were faced in 2005 continued into the first quarter of 2006 including foreign exchange and high fuel costs and are expected to continue throughout the year, however we continue to work towards a strong and encouraging future. The core business is healthy and with the strength of our quota ownership and our significant investment in developing effective and efficient harvesting and production processes the long-term outlook for the business is positive. Our strategy is for the long term, to develop and maintain the strong foundations Clearwater was built upon.

Despite the ongoing challenge of foreign exchange and leverage, a positive outlook for the scallop business and fewer vessel disruptions should provide the potential for continued improvements in 2006 compared to 2005.

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

## FINANCIAL HIGHLIGHTS

<b>CLEARWATER</b>	<b>13 weeks ended</b>	<b>13 weeks ended</b>
(\$000'S EXCEPT PER UNIT AMOUNTS)	<b>April 1, 2006</b>	<b>April 2, 2005</b>
Sales	\$ 70,349	\$ 67,359
Net earnings	\$ 1,421	\$ 1,645
Basic and diluted net earnings per unit	\$ 0.03	\$ 0.03
Distributable cash (1)	\$ 8,294	\$ 6,929
Distributions paid or payable	\$ -	\$ 9,123
Distributions paid per unit on unsubordinated units	\$ -	\$ 0.21
Distributions paid per unit on subordinated units	\$ -	\$ -
Weighted Average Units outstanding		
Limited Partnership Units	52,788,843	52,788,843
Fully diluted	56,870,476	56,870,476
<b>THE FUND</b>	<b>13 weeks ended</b>	<b>13 weeks ended</b>
(\$000'S EXCEPT PER UNIT AMOUNTS)	<b>April 1, 2006</b>	<b>April 2, 2005</b>
Net earnings	\$ 1,393	\$ 902
Basic and diluted net earnings per unit	\$ 0.05	\$ 0.03
Distributable cash <sup>1</sup>	\$ -	\$ 6,176
Distributions paid or payable	\$ -	\$ 6,176
Weighted Average Units outstanding		
Trust Units <sup>3</sup>	29,407,626	29,407,626
Special Trust Units	23,381,217	23,381,217

1. Please refer to the Distributable cash definition in the MD&A for detailed reconciliations of these amounts. The Fund receives distributions from Clearwater and in turn distributes them to its unitholders. As such, distributable cash for the Fund is equal to the distributions received and paid.
2. Subordination on 9,352,487 million units expired on December 31, 2005.
3. Clearwater's Partnership Agreement provides that as long as Clearwater Fine Foods Incorporated ("CFFI") owns more than 45% of the units of the Fund on a fully diluted basis, they have the right to appoint 4 of the 7 directors of CS ManPar. CFFI currently owns 46.71% and therefore the Fund has the right to nominate the majority of the board of directors. Therefore the Fund does not consolidate the results of Clearwater's operations but rather accounts for the investment using the equity method. Due to the limited amount of information that this would provide on the underlying operations of Clearwater, the financial highlights of Clearwater are also enclosed.



Colin MacDonald  
 Chief Executive Officer  
 Clearwater Seafoods Limited Partnership  
 May 9, 2006

## 2006 First Quarter Conference Call and Webcast

Clearwater will review its first quarter financial results via conference call on Tuesday May 9, 2006 at 4:00 p.m. Eastern Time (5:00 p.m. Atlantic). The call will be chaired by Colin MacDonald, Clearwater's Chief Executive Officer, and he will be joined by Robert Wight, the Chief Financial Officer. You can access the call by dialling 800-814-4861 or 416-644-3429. A replay will be available through May 16, 2006 at 877-289-8525 or 416-640-1917 using pass code 21185618 (pound key). To listen to the webcast of this event, please enter <http://www.newswire.ca/en.webcast/viewEvent.cgi?eventID=1440340> in your web browser.

## About Clearwater

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

## Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") was prepared effective May 9, 2006.

The Audit Committee and the Board have reviewed and approved the contents of this MD&A as well as the related 2006 first quarter news release.

This MD&A should be read in conjunction with the interim and annual financial statements, and the annual information form, which are available on Sedar at [www.sedar.com](http://www.sedar.com) as well as Clearwater's website, [www.clearwater.ca](http://www.clearwater.ca).

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

The review and evaluation of disclosure controls and procedures is an on-going process managed by the CEO and CFO to ensure compliance with security rules and regulations.

## Commentary Regarding Forward-Looking Statements

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

<b>Contents:</b>	<b>4</b>	Explanation of First Quarter Results	<b>7</b>	Distributable Cash and Distributions	<b>8</b>	Liquidity and Capital Resources
<b>11</b>	<b>11</b>	Outlook	<b>11</b>	Summary of Quarterly Results	<b>12</b>	Definitions and Reconciliations

## Explanation of First Quarter Results

Consolidated Operating Results for the 13- week periods ended April 1, 2006 and April 2, 2005 in thousands of Canadian dollars.

The results of operations of the Fund are entirely related to Clearwater's performance and therefore the commentary below is on the operations of Clearwater. The statement of earnings disclosed below reflects the unaudited quarterly earnings of Clearwater for the 13 week periods ended April 1, 2006 and April 2, 2005.

	2006	2005
Sales	\$ 70,349	\$ 67,359
Cost of goods sold	49,043	51,211
	21,306	16,148
	30.3%	24.0%
Administration and selling	8,690	8,661
(Gain) loss on disposal and other, net	116	(80)
Other income	(1,597)	(328)
Foreign exchange loss (income)	764	(1,499)
Bank interest and charges	221	162
Interest on long-term debt	3,334	2,942
Depreciation and amortization	3,971	3,891
Reduction in foreign currency translation account	1,352	198
	16,851	13,947
Earnings before income taxes and minority interest	4,455	2,201
Income taxes	1,588	15
Earnings before minority interest	2,867	2,186
Minority interest	1,446	541
Net earnings	\$ 1,421	\$ 1,645

## Net Earnings

Net earnings decreased by \$0.2 million in 2006 due primarily to the impact of foreign exchange, income tax and minority interest offset by an improved gross margin and higher other income.

	2006	2005	Change
Net earnings	\$ 1,421	\$ 1,645	\$ (224)
Explanation of changes in earnings:			
Higher gross profit			5,158
Higher other income			1,269
Larger non-cash foreign exchange loss			(1,641)
Higher income tax expense			(1,573)
Higher reduction in foreign currency translation account			(1,154)
Higher minority interest expense			(905)
Lower cash foreign exchange income			(622)
All other			(756)
			\$ (224)

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

	2006	2005	Change	%
Scallops	\$ 26,143	\$ 19,556	\$ 6,587	34%
Lobster	14,528	13,471	1,057	8%
Clams	14,046	10,870	3,176	29%
Cold water shrimp	7,290	10,487	(3,197)	(30%)
Groundfish and other	4,568	8,800	(4,232)	(48%)
Crab	1,088	1,286	(198)	(15%)
Hedging program	2,686	2,889	(203)	(7%)
	\$ 70,349	\$ 67,359	\$ 2,990	4%

Scallops, which represent one of our more profitable species, have grown to represent 37% of sales in the first quarter of 2006 compared to 31% of annual 2005 sales and 29% of the first quarter 2005 sales. Scallop sales increased primarily due to 22% higher volumes as well as higher selling prices. Volumes have increased in part due to fewer vessel interruptions in 2006 as well as higher allowable catches. Prices have increased due in part to a

better size mix as well as the fact the Canadian scallop fleet fished virtually all of its product with the FAS vessels, which harvest a premium product. This was partially offset by higher harvesting costs due in part to higher fuel costs. Clearwater's fleet used approximately 32 million litres of marine fuel oil in 2005. A change of one cent in the price of marine fuel oil results in a change of approximately \$320,000 to annual harvesting expenses.

Lobster sales increased slightly compared to the prior year due to modest increases in volumes. A combination of our new raw lobster product and the application of technology that provides an effective method to sort and grade our live lobster, has allowed us to purchase live product on a more selective basis and utilize the product we have more efficiently.

Clam sales increased due primarily to higher volumes offset by lower selling prices as a result of the mix of products sold and lower average selling prices in Canadian dollars when converted from U.S. dollars and Japanese Yen. Also, in 2005, there were significant disruptions and refit costs incurred in the clam business. In 2005 we

In summary, gross profit was greater by \$5.2 million due primarily to higher earnings in the scallop business as a result of higher volumes and prices with fewer vessel disruptions despite the continued negative impact of foreign exchange.

Foreign exchange reduced sales and margins by approximately \$5.7 million in the first quarter of 2006. Lower exchange rates on the Euro, US Dollar, Yen and Pound Sterling in the first quarter of 2006 as compared to the first quarter of 2005 negatively impacted sales by approximately \$2.7 million, \$1.4 million, \$1 million and \$0.6 million respectively.

Currency	2006 1st Quarter		2005 1st Quarter	
	% sales	Rate	% sales	Rate
US Dollars	40.4%	1.261	49.2%	1.324
Japanese Yen	7.2%	0.010	7.3%	0.012
Euros	28.7%	1.409	17.9%	1.601
UK pounds	5.4%	2.025	5.6%	2.315
Canadian dollar and other	18.3%		20.0%	
	100.0%		100.0%	

began a process of reorganizing our clam business to take advantage of opportunities that will arise when the new vessel arrives in late 2006. As a result we expect we may continue to see some short-term sales disruptions in this business. As previously disclosed, we are focused on increasing prices to offset the continuing impact of foreign exchange, reducing our costs through harvesting and processing efficiencies and growing our volumes but expect results to be realized over time. In addition, we are currently in the process of negotiating a new collective agreement at our North Sydney, Nova Scotia location.

Groundfish and other sales are lower as a result of previously announced and planned reduction in low margin cod volumes. In addition, we began negotiations on a new collective agreement in early February with the Union at our Highland plant in Glace Bay, Nova Scotia. These negotiations are currently at a standstill. The disruption could impact sales for 2006 but should not have a material impact on earnings.

Coldwater shrimp sales are lower primarily due to lower volumes for the quarter that were impacted by the timing of vessel landings.

Clearwater maintains an active hedging program to provide a higher degree of certainty to future Canadian dollar cash flows. As of April 1, 2006 the total economic hedges include US \$57 million that will expire in 2006 at an average rate of 1.21. This represents approximately 66% of 2005 US dollar sales for the related period. There are also US \$27.5 million in economic hedges that will expire in 2007 at an average rate of 1.17. As well, there are economic hedges of Euro 12 million in place for the remainder of 2006 that expire at an average rate of 1.48. This represents approximately 36% of 2005 Euro sales for the related period. There is also Euro 4 million at an average rate of 1.43 that expire in 2007.

Clearwater utilizes a number of financial instruments as part of its hedging strategy that do not qualify for hedge accounting. Please refer to the notes to the financial statements for a list of the contracts outstanding at quarter end.

In the first quarter of 2006 Clearwater took early delivery of approximately \$35 million of hedge contracts in place at the end of 2005. The gains received from this activity will be deferred and realized in income in the same period they were originally deemed to expire.

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

**Administration and selling costs** were consistent overall on a comparative basis. In 2006 we continue to invest further in developing markets for our products, particularly in Asia.

**Other income** has increased as a result of a number of items including marked-to-market adjustments on interest rates swap contracts and investment income.

**Foreign exchange** was a loss of \$0.8 million in the first quarter of 2006 versus income of \$1.5 million in 2005. In the first quarter 2006, foreign exchange includes approximately \$3.2 million of unrealized exchange losses on currency swaps and foreign exchange options partially offset by unrealized exchange gains on long term debt. From a cash perspective, the business generated \$2.5 million of cash from foreign exchange management in the first quarter 2006 versus \$3.1 million in the first quarter 2005.

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

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

**Income taxes** have increased compared to the prior year and are estimated to be approximately \$3 - 4 million for the 2006 fiscal year.

## Distributable Cash and Cash Distributions

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

	2006	2005
Unrealized exchange losses	3,230	1,589
Realized exchange gains	(2,466)	(3,088)
	\$ 764	\$ (1,499)

**Bank interest and interest on long-term debt** increased slightly due to higher average outstanding debt balances in 2006. Until such time as construction is complete on the new clam vessel the related interest costs are being capitalized. In the first quarter in 2006 \$459,000 of interest was capitalized (2005 \$275,000). As of April 1, 2006 Clearwater has used economic hedges to term out and fix substantially all its interest rate exposures.

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. Historically Clearwater has funded a portion of the distributions paid in the first half of the year using an advance on its existing debt facilities and has recovered those advances in the latter portion of the year. The current policy of declaring distributions quarterly in arrears is more appropriate based on the impact of seasonality.



During the first quarter of 2006, Clearwater generated \$8.3 million of distributable cash compared to \$6.9 million in 2005. Please refer to the distributable cash reconciliation included in this document for detailed reconciliations of these amounts.

The significant factors contributing to the increase from 2005 include:

- Increase in gross profit due primarily to higher earnings from the scallop business as a result of higher volumes and prices with fewer vessel disruptions;

Offset by:

- Higher minority interest in earnings from Clearwater's investment in its subsidiaries in Argentina and Newfoundland and Labrador;
- Higher cash taxes.

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

Despite the ongoing challenge of foreign exchange and leverage, a positive outlook for the scallop business as well as fewer vessel disruptions and higher selling prices for scallops, lobster and clams should provide the potential for improvement in distributable cash levels in 2006 when compared to the 2005 year.

## Liquidity and Capital Resources

As at April 1, 2006 the Fund owns 55.71% (April 2, 2005 - 55.71%) of the outstanding partnership units of Clearwater. However, as Clearwater Fine Foods Incorporated ("CFFI") has maintained the right to nominate the majority of the board of directors of Clearwater at the time of the initial investment by the Fund, the assets and liabilities at acquisition have been recorded using the book values as recorded by CFFI.

As at April 1, 2006 the Fund and Clearwater had similar capital structures as illustrated in the table below:

	Fund	Clearwater
<b>Units</b>		
Publicly Listed Trust Units	29,407,626	
Class A Partnership Units		29,407,626
<b>Units Held solely by Clearwater Fine Foods Incorporated</b>		
Special Trust Units	23,381,217	
Class B Partnership Units		23,381,217
	52,788,843	52,788,843
<b>Convertible debentures/Class C Partnership Units</b>		
Convertible debentures	\$ 49,310,000	
Class C Partnership Units		\$ 49,310,000

As part of their current quarterly review the Trustees have decided to continue the suspension of distributions. In making this decision they have considered the financial results for the first quarter, on-going capital expenditure requirements, leverage and expectations regarding future earnings levels, which in turn are impacted by a number of factors including but not limited to, total allowable catch levels, selling prices, weather, exchange rates and fuel costs. While the first quarter results are improved, the Trustees believe it is prudent to focus on leverage and liquidity in the short-term to continue to provide additional latitude in financial flexibility. The Trustees will continue to review the ability of Clearwater to pay distributions on a quarterly basis in arrears with the next such review to occur concurrent with second quarter 2006 earnings release in August 2006.

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

In June 2004, 4,081,633 **Class C units** were issued by Clearwater (indirectly) to the Fund concurrently with the issue by the Fund of \$50 million of Convertible Debentures. The Class C units are non-voting and redeemable and retractable at a price of \$12.25 per unit. These units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the Convertible Debentures of the Fund and in a

manner that ensures that the distributions on the Class C units will be able to (indirectly) fund the ongoing interest payments on the Convertible Debentures. The Class C units are classified in accordance with their component parts: the value ascribed to the holder's option to convert to units, \$882,000, has been classified as equity and the remaining portion of the units has been classified as debt.

The \$50 million of **Convertible Debentures** issued by the Fund are unsecured and subordinated, bear interest at 7% and are due on December 31, 2010. They are convertible at any time up to maturity at the option of the holder into trust units of the Fund at a conversion price of \$12.25 per trust unit. The Debentures pay interest semi-annually in arrears on June 30 and December 31. The Debentures are not redeemable before December 31, 2007. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the Debentures on redemption or at maturity, in whole or in part, by delivering that number of trust units equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash.

In addition to the Convertible Debentures/Class C Partnership units, Clearwater has three additional primary debt facilities, approximately \$86 million in **five and ten year notes** in Canadian and U.S. dollars from a syndicate of five institutional lenders, 2,460 million ISK (approximately Canadian \$40 million) in **five-year bonds** and a \$60 million **revolving term debt facility** from a syndicate of banks.

In September 2005 Clearwater obtained 2,460 million ISK (approximately Canadian \$40 million as of April 1, 2006) from the Icelandic bond market. The bonds yield 6.7%, have a face value of 2,460 million ISK, mature in 2010 and are unsecured. These bonds have been fully swapped into Canadian, US, Euro and Pound Sterling debt. In addition, during the third quarter of 2005 Clearwater added an additional lender to its syndicate of five and ten year notes and added an additional US \$25 million of available credit under the notes of which US \$5 million has been drawn down. The proceeds from these new facilities were used to reduce the amount outstanding under the revolving term debt facility.

The revolving term debt facility is available to Clearwater until May 2008. This facility is renewable on an annual basis. During the first quarter of 2006, Clearwater determined it did not require access to the full facility and therefore reduced the amount available under the facility from \$115 million to \$60 million. As a result, Clearwater expects to realize lower standby fees going forward. The facility is part of a master netting agreement and was in a cash position of \$20,392,000 as at April 1, 2006. The cash position was a result of the positive operating results, the timing of capital expenditures and the continued suspension of distributions that commenced in the fourth quarter of 2005.

## Summarized cash flow information

For the 13 week periods ending April 1, 2006 and April 2, 2005. See statements of cash flows for more detail.

	13 weeks ended April 1, 2006	13 weeks ended April 2, 2005
Cash flow from operations		
(before change in working capital)	\$ 10,698	\$ 8,648
Investing, Financing, and other activities		
Change in non-cash working capital	10,100	11,248
Other investing activities	1,187	598
Capital expenditures (net of proceeds on sale)	(7,477)	(14,689)
Distributions to unitholders	-	(9,123)
Distributions to minority partners	(569)	(869)
Other	185	(125)
	3,426	(12,960)
(Increase) decrease in long term debt, net of cash	\$ 14,124	\$ (4,312)

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

During the quarter funded debt (net of cash balances) has decreased by approximately \$14 million. The positive earnings for the quarter, net of expenditures, the majority of which related to the new clam vessel currently under construction, are the significant reasons for the reduction in net long-term debt. Debt levels during the remainder of the year will be impacted by capital expenditures related to the completion of the new clam vessel, which is expected to cost approximately \$17 million in the remainder of 2006.

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

As previously announced Clearwater is currently in the process of constructing a **new factory freezer clam vessel**. The total estimated cost of the vessel, including owner supplied materials and related costs, is expected to be approximately \$48 million, of which \$31 million has been spent to date. Clearwater expects the new vessel to be delivered in late 2006 and begin harvesting in 2007. Once operational, this new vessel is expected to reduce harvesting costs, greatly improve the quality and range of products offered and increase its harvesting capacity. Two exciting and key innovations in this vessel, which support these goals, are its state of the art energy management system and its advanced on-board processing systems. The energy management system is expected to result in significantly reduced fuel consumption. The advanced on-board processing systems are expected to improve product quality and yield as well as provide the flexibility to produce a greater variety of products. The funds required to complete the clam vessel have been reserved from existing available debt facilities and construction costs will be funded by drawing down on those debt facilities if required.

**Capital expenditures** were \$7.5 million for the quarter (2005 - \$15 million). Of this amount, \$7.1 million (2005 - \$14.1 million) was considered return on investment (ROI) capital and \$0.4 million (2005 - \$0.9 million) was maintenance capital. ROI and maintenance capital are tracked on a project-by-project basis with the only ROI project currently in process being the new clam vessel. Significant expenditures that are expected to have an average return in excess of average cost of capital are classified as ROI, and expenditures that have less than the cost of capital are classified as maintenance. In addition to the amounts to be incurred to complete the new clam vessel, Clearwater expects to invest approximately \$2 million in various capital projects during 2006. In addition, Clearwater is in the early stages of reviewing a replacement for one of the vessels in Argentina.

## Outlook

Clearwater's first quarter sales and gross profit for 2006 improved compared to 2005. The most significant factors contributing to the increase from 2005 include a stronger contribution from the scallop business due to higher volumes and prices with fewer vessel disruptions offset partially by a continued strengthening of the Canadian dollar.

Distributable cash generated has improved compared to the first quarter in 2005 with \$8.3 million of distributable cash generated versus \$6.9 million in 2005. Despite the ongoing challenge of foreign exchange and leverage, a positive outlook for the scallop business and fewer vessel disruptions should provide the potential for improvements in 2006 as compared to 2005.

As part of their current quarterly review the Trustees have decided to continue the suspension of distributions. In making this decision they have considered the financial results for the first quarter, on-going capital expenditure requirements, leverage and expectations regarding future earnings levels, which in turn are impacted by a number

of factors including but not limited to, total allowable catch levels, selling prices, weather, exchange rates and fuel costs. While the first quarter results are improved, the Trustees believe it is prudent to focus on leverage and liquidity in the short-term to continue to provide additional latitude in financial flexibility. The Trustees will continue to review the ability of Clearwater to pay distributions on a quarterly basis in arrears with the next such review to occur concurrent with second quarter 2006 earnings release in August 2006.

A number of challenges that were faced in 2005 continued into the first quarter of 2006 including foreign exchange and high fuel costs and are expected to continue throughout the year, however we continue work towards a strong and encouraging future. The core business is healthy and with the strength of our quota ownership and our significant investment in developing effective and efficient harvesting and production processes the long-term outlook for the business is positive. Our strategy is for the long term, to develop and maintain the strong foundations Clearwater was built upon.

## Summary of Quarterly Results

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

(IN 000'S EXCEPT PER UNIT AMOUNTS)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>Fiscal 2006</b>				
<b>Sales</b>	<b>\$ 70,349</b>			
<b>Net earnings</b>	<b>1,421</b>			
<b>Basic earnings per unit</b>	<b>0.03</b>			
Fiscal 2005				
Sales	\$ 67,359	\$ 69,712	\$ 93,548	\$ 84,220
Net earnings	1,645	1,371	12,136	5,888
Basic earnings per unit	0.03	0.03	0.23	0.11
Fiscal 2004				
Sales	\$ 72,741	\$ 85,038	\$ 88,835	\$ 98,845
Net earnings (loss)	(2,978)	8,760	15,138	16,553
Basic earnings (loss) per unit	(0.06)	0.17	0.29	0.31
<p>Clearwater's business is seasonal in nature with sales typically higher in the second half of the calendar year than in the first half of the year, a trend illustrated in the results above.</p> <p>For a more detailed analysis of each quarter results please refer to our quarterly reports and our annual reports, which contain an analysis of the fourth quarter.</p>				

## Definitions and Reconciliations

### Distributable Cash

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

### Reconciliation of distributable cash

	13 weeks ended	13 weeks ended
(\$000'S EXCEPT PER UNIT AMOUNTS)	April 1, 2006	April 2, 2005
Cash flow from operating activities	\$ 20,798	\$ 19,896
Add (deduct):		
Change in non-cash working capital <sup>A</sup>	(10,100)	(11,248)
Minority share EBITDA, interest and taxes <sup>B</sup>	(1,876)	(410)
Proportionate maintenance and capital expenditures <sup>C</sup>	(381)	(911)
Gain (loss) on disposal of property, plant and equipment/licenses <sup>D</sup>	(147)	(398)
Distributable cash	\$ 8,294	\$ 6,929
Distributions <sup>E</sup>	\$ -	\$ 9,123
Payout ratio	-	132%

- A. Change in non-cash working capital is excluded as changes in working capital are financed using Clearwater's debt facilities.
- B. Minority share in EBITDA, interest and taxes represents cash flows attributable to the minority interest in certain non-wholly owned subsidiaries. It is the minority partners' interest in the earnings before interest, taxes, depreciation and amortization of the subsidiaries less their proportionate share of the interest and taxes.
- C. Proportionate maintenance capital represents capital expenditures that are related to sustaining existing assets rather than expansion or productivity improvement.
- D. Gains and losses on property, plant and equipment are added back (deducted) as during the course of operating the business Clearwater will typically realize gains and losses from the turnover of assets, which occurs frequently due to Clearwater's focus on innovation. During the second and third quarters of 2005 gains of \$5.6 million were deducted from the calculation of distributable cash as it pertains to the sale of a licence that did not relate to the typical turnover of assets.
- E. There have been no distributions for the first quarter of 2006. 2005 first quarter distributions consisted of payments of 21 cents/unit on 43,436,356 unsubordinated units (no payments were made on 9,352,487 subordinated units).

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

### Gross Profit

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

CLEARWATER SEAFOODS SEAFOODS INCOME FUND

**CONSOLIDATED BALANCE SHEETS**

(IN THOUSANDS OF DOLLARS)

	April 1, 2006 (UNAUDITED)	December 31, 2005 (AUDITED)
<b>ASSETS</b>		
<b>Current Assets</b>		
Interest receivable from Clearwater Seafoods Limited Partnership	\$ 877	\$ -
Investment in Clearwater Seafoods Limited Partnership (note 2)	331,344	329,921
	<b>\$ 332,221</b>	<b>\$ 329,921</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Interest payable	\$ 875	\$ -
Convertible debentures (note 3)	49,310	49,278
<b>UNITHOLDERS' EQUITY</b>		
Trust units (note 4)	299,336	299,336
Cumulative earnings	77,928	76,535
Cumulative distributions	(95,228)	(95,228)
	<b>282,036</b>	<b>280,643</b>
	<b>\$ 332,221</b>	<b>\$ 329,921</b>

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS SEAFOODS INCOME FUND

CONSOLIDATED STATEMENTS OF EARNINGS AND CUMULATIVE EARNINGS

(IN THOUSANDS OF DOLLARS)

(UNAUDITED)	13 weeks ended April 1, 2006	13 weeks ended April 2, 2005
Equity in net earnings of Clearwater Seafoods		
Limited Partnership	\$ 1,422	\$ 927
Interest income	878	878
Interest expense	(907)	(903)
Net earnings	1,393	902
Cumulative earnings at beginning of period	76,535	66,877
Cumulative earnings at end of period	\$ 77,928	\$ 67,779
Basic and diluted net earnings per trust unit	\$ 0.05	\$ 0.03

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS SEAFOODS INCOME FUND

CONSOLIDATE STATEMENTS OF CASH FLOWS

(IN THOUSANDS OF DOLLARS)

(UNAUDITED)	13 weeks ended April 1, 2006	13 weeks ended April 2, 2005
<b>Cash flows from operating activities</b>		
Net earnings	\$ 1,393	\$ 902
Items not involving cash		
Equity in net earnings of Clearwater Seafoods Limited		
Partnership, net of cash distributions received		
of \$nil, (2005 – \$ 6,176)	(1,422)	5,249
Other	29	25
	-	6,176
<b>Cash flows (used in) from financing activities</b>		
Distributions to unitholders	-	(6,176)
Increase (decrease) in cash	-	-
Cash - beginning of period	-	-
Cash - end of period	\$ -	\$ -

See accompanying notes to consolidated financial statements



## CLEARWATER SEAFOODS INCOME FUND

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

#### 1 Basis of Presentation

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

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

statements and the accompanying notes included in the Fund's 2005 Annual Report.

These consolidated financial statements consolidate the accounts of the Fund and its subsidiary, Clearwater Seafoods Holdings Trust ("CSHT"). CSHT owns 55.71% (December 31, 2005 – 55.71%) of the units of Clearwater. However, as the Fund does not have the right to nominate the majority of the board of directors, it does not consolidate the results of Clearwater's operations but rather accounts for the investment using the equity method. Under this method, the cost of the investment is increased by the Fund's proportionate share of Clearwater's earnings and reduced by any distributions paid to the Fund by Clearwater and amortization of the purchase price discrepancy. Due to the limited amount of information that this provides on the underlying operations of Clearwater the financial statements of Clearwater are also enclosed.

#### 2 Investment in Clearwater Seafoods Limited Partnership

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

	April 1, 2006	December 31, 2005
Investment in Class A Partnership units, at cost	\$ 298,454	\$ 298,454
Investment in Class C Partnership units	50,000	50,000
Add: Cumulative equity in net earnings	78,118	76,695
Less: Cumulative distributions received	(95,228)	(95,228)
	<b>\$ 331,344</b>	<b>\$ 329,921</b>

Included in equity in net earnings for the quarter is income of \$631,000 (April 2, 2005 - \$11,000) for amortization and other adjustments relating to purchase price discrepancies recognized by the Fund in accounting for its investment in Clearwater using the equity method.

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

	April 1, 2006	December 31, 2005
Intangible assets		
Licences – indefinite lives	189,260	189,260
Customer relationships and other	563	578
Goodwill	14,240	14,240
Long-term liabilities	582	606
Cumulative foreign currency translation account	(6,765)	(7,435)
	<b>\$ 197,880</b>	<b>\$ 197,249</b>

### 3 Convertible Debentures

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

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

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

The estimated fair value of the Fund's convertible debentures at April 1, 2006 was \$46,450,000 based on the quoted market value of the debentures Clr.db on the Toronto Stock Exchange.

### 4 Trust Unites and Special Trust Units

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

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

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

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

	Units	Special Trust Units	Total \$ (in 000's)
Balance December 31, 2005, no change to April 1, 2006	29,407,626	23,381,217	\$ 299,336

As at April 1, 2006 there were in total 52,788,843 units outstanding (December 31, 2005 – 52,788,843).

## 5 Guarantees

The Fund guarantees Clearwater's term credit facility (see note 3(d) to Clearwater's financial statements). The guarantee is limited to the value of the convertible debentures and the value of the units held in Clearwater. As of April 1, 2006 and December 31, 2005 there was no balance outstanding on the term credit facility.

## 6 Comparative Figures

The comparative figures have been reclassified in accordance with the current year presentation for interest income and interest expense in the consolidated statement of earnings and cumulative earnings.

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS OF DOLLAR)	April 1, 2006 (UNAUDITED)	December 31, 2005 (AUDITED)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash (note 3(d))	\$ 23,738	\$ 9,726
Accounts receivable	48,782	54,912
Inventories	41,962	43,419
Prepays and other	4,989	6,458
	<u>119,471</u>	<u>114,515</u>
Other long-term assets	9,325	10,397
Property, plant and equipment	155,656	151,945
Licences and licence agreements	103,181	103,181
Goodwill	10,378	10,378
	<u>\$ 398,011</u>	<u>\$ 390,416</u>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 43,861	\$ 36,597
Income taxes payable	3,860	2,144
Current portion of long-term debt (note 3)	985	1,008
	<u>48,706</u>	<u>39,749</u>
Long-term debt (note 3)	186,778	192,024
Future income taxes	8,054	7,958
Due to joint venture partner	2,088	2,023
Minority interest	3,058	2,181
<b>UNITHOLDERS' EQUITY</b>		
Partnership units (note 4)	173,133	173,133
Cumulative earnings	152,474	151,053
Cumulative distributions	(162,620)	(162,620)
Cumulative foreign currency translation account (note 5)	(13,660)	(15,085)
	<u>149,327</u>	<u>146,481</u>
	<u>\$ 398,011</u>	<u>\$ 390,416</u>

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

CONSOLIDATED STATEMENTS OF EARNINGS AND CUMULATIVE EARNINGS

(IN THOUSANDS OF DOLLARS) (UNAUDITED)	13 weeks ended April 1, 2006	13 weeks ended April 2, 2005
Sales	\$ 70,349	\$ 67,359
Cost of goods sold	49,043	51,211
Gross profit	21,306	16,148
Administration and selling	8,690	8,661
(Gain) loss on disposal and other, net	116	(80)
Other income	(1,597)	(328)
Foreign exchange loss (income)	764	(1,499)
Bank interest and charges	221	162
Interest on long-term debt	3,334	2,942
Depreciation and amortization	3,971	3,891
Reduction in foreign currency translation account (note 5)	1,352	198
	16,851	13,947
Earnings before the undernoted	4,455	2,201
Income taxes	1,588	15
Earnings before minority interest	2,867	2,186
Minority interest	1,446	541
Net earnings	1,421	1,645
Cumulative earnings at beginning of period	151,053	130,013
Cumulative earnings at end of period	\$ 152,474	\$ 131,658
Basic and diluted net earnings per unit	\$ 0.03	\$ 0.03

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS OF DOLLARS) (UNAUDITED)	13 weeks ended April 1, 2006	13 weeks ended April 2, 2005
<b>Cash flows from (used in) operating activities</b>		
Net earnings	\$ 1,421	\$ 1,645
Items not involving cash		
Depreciation and amortization	3,971	3,891
Foreign exchange on long-term debt	(5,187)	510
Future income tax (recovery) expense	(385)	386
Reduction in foreign currency translation account	1,352	198
Minority interest	1,446	541
Unrealized foreign exchange on currency option contracts	2,462	1,079
Unrealized loss on currency and interest rate swap contracts	5,472	-
Loss on disposal and other, net	146	398
	<u>10,698</u>	<u>8,648</u>
Change in non-cash operating working capital	10,100	11,248
	<u>20,798</u>	<u>19,896</u>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from long-term debt	-	5,171
Reduction of long-term debt	(112)	(125)
Other	185	(125)
Distributions to minority partners	(569)	(869)
Distributions to unitholders	-	(9,123)
	<u>(496)</u>	<u>(5,071)</u>
<b>Cash flows from (used in) investing activities</b>		
Decrease in other long-term assets and other	1,187	598
Purchase of property, plant and equipment, licences and other	(7,521)	(14,973)
Proceeds on disposal and other, net	44	284
	<u>(6,290)</u>	<u>(14,091)</u>
Increase in cash	14,012	734
Cash - beginning of period	9,726	(572)
Cash - end of period	\$ 23,738	\$ 162
<b>Supplementary cash flow information</b>		
Interest paid	\$ 2,557	\$ 1,531
Income taxes paid	811	1,828
<b>Change in non-cash working capital consists of changes in the following accounts:</b>		
Accounts receivable	6,130	15,242
Inventories	1,457	6,662
Unrealized foreign exchange on currency contracts	(2,462)	(1,079)
Unrealized loss on currency and interest rate swap contracts	(5,472)	-
Prepays and other	1,469	(640)
Accounts payable and accrued liabilities	7,262	(7,204)
Income taxes payable	1,716	(1,733)
	<u>\$ 10,100</u>	<u>\$ 11,248</u>

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

# CLEARWATER SEAFOODS LIMITED PARTNERSHIP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABULAR AMOUNTS EXPRESSED IN THOUSANDS OF DOLLARS)

(UNAUDITED)

### 1 Basis of Presentation

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

The unaudited interim period consolidated financial statements have been prepared by Clearwater in accordance with Canadian Generally Accepted Accounting Principles (GAAP). The preparation of financial data is based on accounting policies and practices consistent with those used in the preparation of the audited annual consolidated financial statements. These unaudited interim period consolidated financial statements do not contain all the disclosures required in annual audited financial statements by Canadian GAAP, and accordingly should be read together with the audited annual consolidated financial statements and the accompanying notes included in Clearwater Seafoods Income Fund's (the "Fund") 2005 Annual Report.

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

### 2 Seasonality

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

### 3 Long-Term Debt

	April 1, 2006	Dec. 31, 2005
Notes payable (a)		
Canadian	\$ 63,000	\$ 63,000
United States dollars	23,360	23,296
Class C Partnership Units (b)	49,310	49,280
Bond payable (c)	40,147	45,460
Marine mortgage, due in 2017 (e)		
Canadian	2,792	2,792
Danish Kroner	1,828	1,771
Yen	1,575	1,570
Term loan, due in 2091 (f)	3,500	3,500
Other loans	2,251	2,363
	<b>187,763</b>	193,032
Less current portion	985	1,008
	<b>\$ 186,778</b>	\$ 192,024

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

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

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

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

\$5,000,000 U.S. dollar Series D Notes issued in 2005, bearing interest at 6.12% payable semi-annually, maturing December 8, 2013. Clearwater has an additional \$20,000,000 U.S. dollar available to draw on this facility until December 31, 2007.

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

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

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

Clearwater had previously entered into swap agreements to minimize the interest rate exposure related to the term credit facility, which was paid down in the third quarter of 2005, these agreements have not been unwound. The effect of leaving the following contracts in place when combined with the previous contracts is to effectively minimize the interest rate exposure for the periods covered by the agreements ranging from June 16, 2008 to June 1, 2010.

Clearwater has no intention to unwind the above contracts, however the agreements do not qualify for hedge accounting and therefore the gains and losses related to the fair value of these hedges are taken into income during the period.

The swap agreements have effectively resulted in the following:

\$25,000,000 Canadian dollar liability with an effective interest rate of 8.50%

\$5,000,000 U.S. dollar liability with an effective interest rate of 8.91%

\$4,707,502 U.S. dollar liability with an effective interest rate of 8.51%

3,000,000 Pound Sterling liability with an effective interest rate of 9.63%

2,500,000 Euro liability with an effective interest rate of 8.01%



(d) Term credit facility with available credit of up to \$60 million (December 31, 2005 \$115 million), maturing in May 2008. In May 2007 the banking syndicate, at the request of Clearwater, may extend the credit for an additional two years until May 2009. This facility is part of a master netting agreement and on April 1, 2006 was in a net cash position of CDN \$20,392,000 (December 31, 2005 CDN \$7,859,000). The facility bears interest at rates ranging from prime plus 0.5 – 1.25% and Libor plus 1.5 - 2.25% and has no scheduled repayments. The facility is secured by mortgages and charges on all of the present and future property and assets of Clearwater and of certain of its wholly-owned subsidiaries, the interests of the Fund in CSHT, the interests of CSHT in Clearwater and all the issued shares of CS ManPar Inc., and is subject to the maintenance of certain financial covenants. As part of the master netting arrangement, bank account balances associated with the facility are netted with the term credit facility balance.

(e) Marine mortgage payable in the principal amount of CDN \$5,583,000 (December 31, 2005 - \$5,583,000), DKK 19,262,000 (December 31, 2005 – DKK 19,262,000) and YEN 317,516,000 (December 31, 2005 – 317,516,000) bearing interest at UNIBOR plus 1% payable semi-annually, 50% of which represents Clearwater's proportionate share. Principal payments are required annually with CDN \$517,000, DKK 1,391,000 and YEN 19,845,000 due in 2006-2007, CDN \$776,000, DKK 2,087,000 and YEN 29,767,000 due in 2008-2012, CDN \$669,000 due in 2013, DKK 2,087,000 and YEN 29,767,000 due in 2013-2014, DKK 1,871,000 due in 2015, YEN 29,767,000 due in 2015-2016 and YEN 9,923,000 due in 2017, 50% of which represents Clearwater's proportionate share. The loan matures in 2017 and is secured by a first mortgage over the related vessel and covenants concerning certain fishing licences.

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

Clearwater's debt facilities contain various covenants. Clearwater is in compliance with all debt covenants at April 1, 2006.

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

2006	\$	985
2007		865
2008		61,436
2009		1,091
2010		90,385

#### 4 Partnership Units

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

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

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

with their component parts: the value ascribed to the holder's option to convert to units has been classified as equity and the remaining portion of the units has been classified as debt.

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

	Class A Units	Class B Units	\$ (in 000's)
Balance December 31, 2005, no change			
to April 1, 2006	29,407,626	23,381,217	\$ 173,133

As at April 1, 2006 there were in total 52,788,843 units outstanding (December 31, 2005 - 52,788,843).

## 5 Cumulative Foreign Currency Translation Account

The reduction in the foreign currency translation account is a non-cash adjustment, which relates to the reduction of Clearwater's net investment in its 80% owned subsidiary in Argentina. The cumulative translation account largely arose because of the significant devaluation of the peso in Argentina versus the Canadian dollar in 2001. It is Clearwater's desire to continue to manage its exposure to Argentine pesos by repatriating its capital as quickly as possible while not impairing local operations. Dividends declared have resulted in a reduction in Clearwater's net investment in that subsidiary and accordingly, a proportionate share of the cumulative translation account has been recognized in earnings. Clearwater anticipates that continued repayments of its advances to and the payment of dividends from the subsidiary in Argentina may result in additional reduction of the cumulative translation account in the future. The cumulative translation account is included in the Unitholders Equity section of the balance sheet and the remaining balance at April 1, 2006 is \$13,660,000 (December 31, 2005 - \$15,085,000).

Although Clearwater has no intention of settling these contracts, at April 1, 2006, if it settled these contracts it would have received a payment of \$1,924,000 (December 31, 2005 - \$7,850,000). Clearwater accounts for these contracts as fully effective hedges and no amount is included in the accounts until such time as the maturity of the hedge.

## 6 Financial Instruments

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

### (a) Hedging

#### Qualifying contracts

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

April 1, 2006 and December 31, 2005 Clearwater had outstanding contracts as follows (as converted to Canadian dollars at contracted rates):

Currency	Notional Amount Amount	Average Rate Exchange	Maturity	Fair Value Asset (liability)
<b>United States dollar</b>				
April 1, 2006	16,000	1.240	2006	1,435
	10,000	1.134	2007	(228)
December 31, 2005	62,000	1.257	2006	6,516
<b>Euro</b>				
April 1, 2006	12,000	1.481	2006	706
	4,000	1.431	2007	11
December 31, 2005	12,000	1.498	2006	1,334

### Non-qualifying contracts

Clearwater has also entered into foreign currency options and expandable forward contracts as at April 1, 2006 and December 31, 2005 with estimated quoted market values as follows:

Although Clearwater has no intention of settling these contracts prior to maturity, at April 1, 2006, if it settled these

Currency	Notional Amount Amount	Average Rate Exchange	Maturity	Fair Value Asset (liability)
<b>United States dollar</b>				
April 1, 2006	111,500	1.172 – 1.222	2006	(1,354)
	20,000	1.135 – 1.180	2007	121
	41,000 – 87,000	1.153 – 1.271	2006	774
	17,500 – 35,000	1.187 – 1.202	2007	330
December 31, 2005	170,000	1.172 – 1.255	2006	(1,214)
	20,000	1.180 – 1.135	2007	161
	22,500 – 45,000	1.229 – 1.271	2006	1,951
	17,500 – 35,000	1.187 – 1.202	2007	315
<b>Japanese Yen</b>				
April 1, 2006	1,000,000	0.01125	2006	(3)
	1,000,000	0.01047	2007	(186)
December 31, 2005	1,000,000	0.01125	2006	(12)
<b>Euro</b>				
April 1, 2006	29,000	1.215 – 1.478	2006	(794)
December 31, 2005	29,000	1.215 – 1.478	2006	(741)
<b>Sterling</b>				
April 1, 2006	10,000	2.020 – 2.05	2006	(160)
	15,700	2.013 – 2.033	2007	(887)
December 31, 2005	5,000	2.020	2006	(157)

contracts it would have made a payment of \$2,159,000 (December 31, 2005 - received a payment of \$303,000). The above market values represent the potential net asset/liability in the event the contracts were closed. The liability or asset recorded is included in accounts payable and accrued liabilities or prepaids and other, as appropriate and the resulting loss or gain is included in income.

## **(b) Credit risk**

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

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

## **(c) Interest rate risk and fair values**

As indicated in the note entitled "Long-Term Debt" Clearwater uses cross currency and interest rate swaps to hedge its exposures to changes in foreign currencies and interest rates. These agreements do not qualify for hedge accounting. Although Clearwater has no intention of settling these contracts prior to maturity, at April 1, 2006, if it settled these contracts it would have made a payment of \$6,076,000 (December 31, 2005 made a payment of \$563,000). The liability is included in accounts payable and accrued liabilities and the resulting non-cash loss is included in income.

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

## 7 Segmented Information

### (a) General Information

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

### (b) Net sales to customers by product category

	April 1, 2006	April 2, 2005
Scallops	\$ 26,143	\$ 19,556
Lobster	14,528	13,471
Clams	14,046	10,870
Cold water shrimp	7,290	10,487
Groundfish and other	4,568	8,800
Crab	1,088	1,286
Hedging program	2,686	2,889
	\$ 70,349	\$ 67,359

### (c) Geographic information

	April 1, 2006	April 2, 2005
<b>Sales</b>		
United States	\$ 17,037	\$ 19,362
Europe		
France	17,832	10,077
UK	4,819	4,469
Denmark	2,188	4,888
Other	4,415	4,475
Asia		
Japan	5,421	5,692
Other	5,526	5,423
Canada	10,014	9,680
Other, including hedging program	3,097	3,293
	\$ 70,349	\$ 67,359
	April 1, 2006	December 31, 2005
<b>Property, plant, equipment, licences and goodwill</b>		
Canada	\$ 250,028	\$ 246,503
Argentina	18,144	18,295
Other	1,043	706
	\$ 269,215	\$ 265,504

## 8 Related Party Transactions

Clearwater had the following transactions and balances with CFFI during the first quarter of 2006 and 2005.

	April 1, 2006	April 2, 2005
<b>Transactions</b>		
Charge by CFFI for use of a corporate airplane	\$ 52	\$ 12
Charged to CFFI for rent and other services	54	21
Charged by CFFI for management fees	50	-
	April 1, 2006	December 31, 2005
<b>Balances, as at April 1, 2006 and December 31, 2005</b>		
Receivable from CFFI	\$ 568	\$ 63
Distribution payable to CFFI	-	982

In addition Clearwater was charged approximately \$37,300 for vehicle leases in 2006 (2005 - \$41,700) and approximately \$10,000 for other services (2005 - \$19,200) by companies controlled by a relative of an officer of Clearwater. The receivable balance in 2006 relates to payments Clearwater remitted on behalf of CFFI and subsequently recharged the amounts to CFFI for certain professional services. The majority of the payments are for professional services from suppliers that are shared by both CFFI and Clearwater.

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

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

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

## FINANCIAL INFORMATION

### QUARTERLY AND UNIT INFORMATION

#### Clearwater Seafoods Limited Partnership

	2006				2005			2004	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
(\$000's except per unit amounts)									
Sales	70,349	84,220	93,548	69,712	67,359	98,845	88,835	85,038	72,741
Net earnings (loss)	1,421	5,888	12,136	1,371	1,645	16,553	15,138	8,760	(2,978)
Distributable cash	8,294	7,970	11,694	612	6,929	18,018	12,457	11,728	11,963
Distributions	-	-	9,123	9,121	9,123	14,139	12,482	12,483	15,171
Per unit data									
Basic and diluted net earnings (loss)	0.03	0.11	0.23	0.03	0.03	0.31	0.29	0.17	(0.06)

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

	2006				2005			2004	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
(\$000's except per unit amounts)									
<b>Trading price range</b>									
<b>of units</b> (board lots)									
High	4.25	6.10	6.43	8.29	9.40	10.13	11.97	12.48	12.95
Low	3.35	2.25	5.65	6.21	7.92	8.10	9.35	10.31	11.80
Close	4.05	3.75	6.02	6.53	8.20	8.78	9.65	11.41	12.40
<b>Trading volumes</b> (000's)									
Total	4,311	11,243	11,641	4,338	7,142	6,493	2,352	5,428	4,704
Average daily	67	181	185	68	113	105	37	87	71
<b>Units outstanding at end of quarter</b>									
Units	29,407,626	29,407,626	29,407,626	29,407,626	29,407,626	29,407,626	29,407,626	29,407,626	29,407,626
Special	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217
Total	52,788,843	52,788,843	52,788,843	52,788,843	52,788,843	52,788,843	52,788,843	52,788,843	52,788,843

## CORPORATE INFORMATION

### TRUSTEES OF CLEARWATER SEAFOODS INCOME FUND

**Purdy Crawford**  
Counsel, Osler,  
Hoskin and Harcourt LLP

**James W. Gogan**  
President,  
High Street Investments Limited

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

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

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

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

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

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

**John C. Risley**  
Chairman, CS ManPar Inc.

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

### OFFICERS OF CS MANPAR INC.

**John C. Risley**  
Chairman

**Colin E. MacDonald**  
Chief Executive Officer

**Eric R. Roe**  
Chief Operating Officer

**Michael D. Pittman**  
Vice-President, Fleet

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

**Stan Spavold**  
Corporate Secretary

### INVESTOR RELATIONS

**Tyrone D. Cotie, C.A.**  
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### AUDITORS

KPMG LLP  
Halifax, Nova Scotia

### UNITS LISTED

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

### TRANSFER AGENT

Computershare Investor Services Inc.