



Strategies for the long term

CLEARWATER SEAFOODS INCOME FUND



2006 Third Quarter Report

Letter to Unit Holders

- Year-to-date cash available for distribution is \$35.1 million versus \$19.2 million in 2005. Declared distributions of \$7.9 million related to the third quarter 2006.
- Gross profit margins improved to 28.0% of sales in the third quarter versus 24.4% in 2005 despite weaker exchange rates.
- Strong results from the scallop business year-to-date 2006.
- Improved leverage of 2.6 times debt to earnings before interest, tax, depreciation and amortization (EBITDA) as at September 30th, down from 3.3 times as of December 31, 2005.

Year-to-date 2006 Clearwater's sales and net earnings were \$231.6 million and \$20.6 million respectively versus sales of \$230.6 million and net earnings of \$15.1 million in 2005. During the third quarter of 2006 Clearwater's sales and net earnings were \$80.0 million and \$8.1 million respectively versus sales of \$93.5 million and net earnings of \$12.1 million in 2005. Sales have declined during the quarter primarily due to the reduced sales and processing of low margin groundfish and crab along with the continuing negative impact of foreign exchange. Gross margin as a percentage of sales has increased both on a quarterly and year-to-date basis as a result of sales mix.

Gross profit for the third quarter of 2006 was \$22.4 million, consistent with 2005, despite foreign exchange reducing sales and margins in the current

quarter by \$4.9 million (versus \$5.5 million in 2005). Year-to-date the gross profit has increased by \$13.5 million to reach \$67.1 million. The most significant factor contributing to the improvement in gross profit percentage in 2006 is the sales mix, as more sales were in species that are vertically integrated within Clearwater and more profitable, such as scallops and clams.

Distributable cash generated year-to-date has increased to \$35.1 million, \$15.9 million greater than 2005. Distributable cash generated in the third quarter of 2006 was \$10.4 million versus \$11.7 million in 2005. The main reason for the decrease was the result of increases in administrative and selling expenses of \$1.5 million and lower cash foreign exchange income of \$3.5 million.

As previously indicated, Clearwater's intention is to continue to reduce debt levels in a measured manner over time. Leverage has improved at the end of the third quarter to 2.6 times EBITDA from 3.3 times EBITDA as of December 31, 2005. As part of its strategy to reduce debt levels Clearwater Seafoods Income Fund (the "Fund") filed a normal course issuer bid by which it can acquire up to \$5 million principal amount of convertible debentures in the 12-month period commencing August 2006. During the quarter Clearwater repurchased and cancelled \$1.0 million of the convertible debentures and an additional \$1.0 million were purchased in October 2006.

A number of challenges including foreign exchange and high fuel costs continued to impact 2006 and are expected to be on going. We continue to reorganize the clam business in anticipation of the new vessel delivery in 2007, with the plant closure in North Sydney during the second quarter resulting in a non-cash write down of \$2.2 million. Returns on scallops have been strong during the year with the remainder of the core business operating normally, which is evident in the results. 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 continues to have a long-term focus, developing and maintaining the strong foundations Clearwater was built upon.

On October 31, 2006 the Department of Finance (Canada) announced the "Tax Fairness Plan" whereby the income tax rules applicable to publicly traded trusts and partnerships will be significantly modified. Key points for unitholders of the Fund to understand include:

- These proposals, if brought into legislation, would not be effective until the 2011 taxation year and therefore would not impact distributions from the Fund for another four years.
- Distributions from the Fund that are determined to be return of capital or dividends for tax purposes will not be impacted by this legislation. Remaining distributions will be taxed in the Fund in a manner similar to income earned by a corporation with the rate for 2011 set at 31%.
- The Fund estimates that the breakdown for Canadian residents of taxable income, interest and return of capital relating to cash distributions declared in the 2006 calendar year will be approximately 30% return of capital, which is non-taxable, and 70% other income, which is taxable.

For a history of the taxation of distributions from the Fund please refer to the Distributable Cash section of the Management's Discussion and Analysis included in the third quarter of 2006.

The Fund is considering this announcement and the possible impact of the proposed rules to the Fund. The proposed rules 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 proposed rules apply to the Fund, the distributable cash of the Fund may be impacted. To the extent that it is possible to mitigate the impact of the rules, the Fund intends to explore all options available for doing so.

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

FINANCIAL HIGHLIGHTS

CLEARWATER				
	13 weeks ended	13 weeks ended	39 weeks ended	39 weeks ended
(\$000's except per unit amounts)	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Sales	\$ 79,939	\$ 93,548	\$ 231,600	\$ 230,619
Net earnings	8,106	12,136	20,592	15,152
Basic and diluted net earnings per unit	0.15	0.23	0.39	0.29
Distributable cash ¹	\$ 10,362	\$ 11,694	\$ 35,114	\$ 19,235
Distributions paid or payable ²	7,918	9,123	7,918	27,367
Distributions paid per unit on unsubordinated units	0.15	0.21	0.15	0.63
Weighted Average Units outstanding				
Limited Partnership Units	52,788,843	52,788,843	52,788,843	52,788,843
Fully diluted	56,863,003	56,870,476	56,848,058	56,870,476
The Fund	13 weeks ended	13 weeks ended	39 weeks ended	39 weeks ended
(\$000's except per unit amounts)	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Net earnings	\$ 4,424	\$ 4,730	\$ 12,085	\$ 6,444
Basic and diluted net earnings per unit	0.15	0.16	0.41	0.22
Distributable cash ¹	\$ 4,411	\$ 6,170	\$ 4,411	\$ 18,525
Distributions paid or payable	4,411	6,170	4,411	18,525
Weighted Average Units outstanding				
Trust Units ³	29,407,626	29,407,626	29,407,626	29,407,626
Special Trust Units	23,381,217	23,381,217	23,381,217	23,381,217

1. Please refer to the Distributable cash definition in the MD&A for detailed reconciliations of these amounts. The Fund receives distributions from Clearwater and in turn distributes them to its unitholders. As such, distributable cash for the Fund is equal to the distributions received and paid.
2. Subordination on 9,352,487 units expired on December 31, 2005. No distributions were paid on these units in 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 CFFI 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
November 13, 2006

2006 THIRD QUARTER CONFERENCE CALL AND WEBCAST

Clearwater will review its third quarter financial results via conference call on Monday November 13, 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 416-644-3418. A replay will be available through December 11, 2006 at 877-289-8525 or 416-640-1917 using pass code 21206712 (pound key). To listen to the web cast of this event, please enter <http://www.newswire.ca/en.webcast/viewEvent.cgi?eventID=1627120> 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.

Since its founding in 1976 Clearwater has invested in science, people, technology, resource ownership and resource management to preserve and grow its seafood resource. This commitment has allowed it to remain a leader in the North American seafood industry for almost three decades.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared effective November 13, 2006.

The Audit Committee and the Board have reviewed and approved the contents of this MD&A as well as the related 2006 third 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 as well as Clearwater's website, www.clearwater.ca.

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

A news release was made on November 13, 2006 with regards to the third quarter 2006 results and a copy of both the news release and the third quarter 2006 report can be obtained, free of charge, by requesting a copy from the Investor Relations department of Clearwater via phone at 902-443-0550 or email at investorinquiries@clearwater.ca.

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COMMENTARY REGARDING FORWARD-LOOKING STATEMENTS

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

EXPLANATION OF YEAR-TO-DATE RESULTS

Consolidated operating results for the 39-week periods ended September 30, 2006 and October 1, 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 interim earnings of Clearwater for the 39-week periods ended September 30, 2006 and October 1, 2005.

	2006	2005
Sales	\$ 231,600	\$ 230,619
Cost of goods sold	164,545	177,092
Gross profit	67,055	53,527
	29.0%	23.2%
Administration and selling	27,329	25,799
Loss (gain) on disposal and other, net	2,198	(2,952)
Other income	(4,760)	(2,107)
Foreign exchange and derivative contracts income	(10,807)	(9,542)
Bank interest and charges	696	574
Interest on long-term debt	9,888	8,974
Depreciation and amortization	11,198	11,561
Reduction in foreign currency translation account	1,697	1,236
	37,439	33,543
Earnings before income taxes and minority interest	29,616	19,984
Income taxes	4,295	2,145
Earnings before minority interest	25,321	17,839
Minority interest	4,729	2,687
Net earnings	\$ 20,592	\$ 15,152

NET EARNINGS

Net earnings increased by \$5.4 million in 2006 due primarily to stronger gross profit margins and other income.

	2006	2005	Change
Net earnings	\$ 20,592	\$ 15,152	\$ 5,440
Explanation of changes in earnings:			
Higher gross profit			13,528
Higher cash foreign exchange and derivative income			3,487
Higher other income			2,653
Lower gains on disposal and other			(5,150)
Higher non-cash foreign exchange and derivative expense			(2,222)
Higher income tax expense			(2,150)
Higher minority interest expense			(2,042)
Higher administration and selling expense			(1,530)
Higher interest expense			(1,036)
All other			(98)
			\$ 5,440

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

	2006	2005	Change	%
Scallops	\$ 83,582	\$ 70,474	\$ 13,108	19%
Lobster	53,795	51,333	2,462	5%
Clams	45,966	36,180	9,786	27%
Cold water shrimp	26,046	30,193	(4,147)	(14%)
Groundfish and other	10,787	22,589	(11,802)	(52%)
Crab	5,678	12,530	(6,852)	(55%)
Hedging program	5,746	7,320	(1,574)	(22%)
	\$ 231,600	\$ 230,619	\$ 981	-0%

Scallops, which represent one of our more profitable species, have grown to represent 36% of sales year-to-date compared to 31% of the comparative year-to-date 2005 sales. 2006 has been a strong year for the scallop business with sales increasing primarily due to 19% higher volumes and increases in the selling price. Despite the higher cost of fuel, vessel operational costs were lower in part due to higher catch rates.

Lobster sales increased compared to the prior year due to higher 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 with stable selling prices in Canadian dollars. In 2005 there were significant disruptions and refit costs incurred in the clam business as well as the repositioning of the sales channels away from a single importer in the Chinese market affecting volumes and costs. The business has operated without these disruptions in 2006. In 2004 we began a process of reorganizing our clam business to respond to the challenges of currency and to take advantage of opportunities that will arise when the new vessel arrives and is operational in 2007. As a result we may continue to see some short-term disruptions in this business. We are focused on increasing customer value to offset the impact of foreign exchange, reducing our costs through harvesting and processing efficiencies and growing our volumes.

Coldwater shrimp sales are lower compared to the prior year due to lower selling prices.

Both crab and groundfish sales are down in 2006 as our plant in Glace Bay, Nova Scotia has not operated since March 2006. In the first quarter of 2006 we began negotiations on a new collective agreement with the Union at this plant and these negotiations are currently at a standstill. The disruption has and will impact groundfish and crab sales for 2006 but will not have a material impact on earnings.

Our total year-to-date sales levels are relatively consistent with 2005, but with a higher mix of vertically integrated products such as scallops and clams, year-to-date 2006 gross profit is greater than in 2005 by \$13.5 million, despite the weaker exchange rates and higher average fuel costs as explained below.

Foreign exchange reduced sales and margins by approximately \$16.3 million year-to-date in 2006.

Currency	2006		2005	
	% sales	Rate	% sales	Rate
US dollars	41.1%	1.192	48.2%	1.306
Japanese Yen	9.9%	0.010	7.9%	0.011
Euros	25.6%	1.427	18.3%	1.518
UK pounds	5.6%	2.062	4.9%	2.247
Canadian dollar and other	17.8%		20.7%	
	100.0%		100.0%	

Clearwater maintains an active currency management program to provide a higher degree of certainty to future Canadian dollar cash flows with respect to sales. As of September 30, 2006 the following economic hedges were in place:

Economic Hedge	Year scheduled to expire	Amount	Average rate	% of 2005 sales for related period
US	2006	\$23 million	1.12	85%
Euro	2006	€ 6 million	1.47	47%
US	2007	\$54.5 million	1.14	47%
Euro	2007	€ 10 million	1.44	25%

Clearwater utilizes a number of financial instruments as part of its hedging strategy, please refer to the notes to the financial statements for a list of the contracts outstanding at quarter end.

Due to the increasing complexity of applying the accounting standards as well as the coming requirement to report the change in the mark to market as other comprehensive income once the Comprehensive Income Accounting standard is adopted in 2007; as of April 1, 2006 Clearwater no longer designated contracts as hedges for accounting purposes. All contracts thereafter opened have been marked to market each reporting period and any gains or losses, both realized and unrealized, have been included in foreign exchange income. This has the impact of reducing sales and margins compared to the prior year as gains included below the gross profit line as opposed to included in sales.

Clearwater's fleet of 21 vessels used approximately 32 million litres of marine fuel oil in 2005. Based on these volumes a change of one cent in the price of marine fuel oil results in a change of approximately \$320,000 to annual harvesting expenses. The average quarterly cost of marine fuel oil per litre has increased approximately 20% in the third quarter of 2006 as compared to the average for 2005.

Administration and selling costs were \$1.5 million higher in 2006 as we continue to invest in developing markets for our products, particularly in Asia and have higher professional and consulting fees.

Loss (gain) on disposal of licenses and other is an expense in 2006 versus income in 2005. The 2006 figure includes a non-cash write down of the plant and related assets in North Sydney of approximately \$2.2 million and a provision for the related exit costs of

approximately \$0.9 million. This loss is partially offset by a gain of approximately \$1.2 million on the sale of non-core fishing quotas this compares to a gain on sale of quotas of approximately \$2.5 million in 2005 and a gain of approximately \$3.2 million on the sale of non-core properties in Lunenburg, Nova Scotia. 2005 also included an impairment loss of \$1.6 million associated with the shrimp harvesting contracts in the Canadian FAS shrimp business unit.

Other income is higher in 2006 as it includes approximately \$1.5 million in additional royalty income from the rental of quota along with increased export rebates and investment income.

Foreign exchange and derivative contracts produced income of \$10.8 million in 2006 versus \$9.5 million in 2005. Year to date in 2006, foreign exchange includes approximately \$565,000 of unrealized exchange gains compared to \$2.8 million in 2005. From a cash perspective, the business generated \$10.2 million of cash from foreign exchange management in 2006 versus \$6.8 million in 2005. A significant portion of realized foreign exchange income relates to option income. Please refer to note 6 in the financial statements for a detailed listing of all derivatives and their fair values. As of September 30, 2006, if all derivative contracts were settled by Clearwater, for which there is no intention to do so, Clearwater would have made a payment of \$4.4 million (December 31, 2005 we would have received a payment of \$8.2 million). Please refer to note 6, sections a and c in the financial statements for a detailed listing of outstanding contracts at period end.

Schedule of other income

	2006	2005
Quota rental and royalties	\$ 2,082	\$ 624
Export rebate	1,271	844
Investment income	991	386
Other	416	253
	\$ 4,760	\$ 2,107

Detail schedule of foreign exchange and derivative contract income:

	2006	2005
Realized (gain) loss		
Foreign exchange cash option income	(11,268)	(5,118)
Other realized	1,026	(1,637)
	(10,242)	(6,755)
Unrealized loss (gain)		
Balance sheet translation	(7,382)	(1,007)
Mark to market on exchange option contracts	4,444	(1,620)
Mark to market on interest and currency swap contracts	2,373	(160)
	(565)	(2,787)
Total gain	\$ (10,807)	\$ (9,542)

Bank interest and interest on long-term debt increased due to higher average interest charges on outstanding debt balances in 2006, in particular on the ISK denominated bonds. As explained in note 3 (c) of the financial statements these bonds have been swapped out and as a result foreign exchange and other derivative income includes offsetting expenses which effectively reduces the interest by 3-5 percentage points. As of September 30, 2006 Clearwater has used economic hedges to term out and fix substantially all its interest rate exposures. Included in interest expense in 2006 is \$3.6 million of interest related to the impact of interest and inflation risks on the Iceland bonds. Interest exposure on these bonds has been hedged and the cash payment on the related swaps was \$2.8 million.

Until such time as construction is complete on the new clam vessel the related interest costs are being capitalized. Year-to-date in 2006 \$1,872,500 of interest was capitalized (2005 - \$1,189,000).

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 due to higher earnings in taxable entities.

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. This provides guidance to readers seeking to assess the sustainability of distributions by comparing distributions paid to the amount of distributable cash. As distributable cash is a measure frequently 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.

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

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.

In the third quarter of 2006 Clearwater generated \$10.4 million of distributable cash (2005 - \$11.7 million) and declared distributions of \$7.9 million (2005 - \$9.1 million). Year-to-date 2006, Clearwater generated \$35.1 million of distributable cash compared to \$19.2 million in 2005 and declared distribution of \$7.9 million (2005 - \$27.4 million). Please refer to the distributable cash reconciliation included in this document for detailed reconciliations of these amounts.

The most significant factor contributing to the decrease in the quarter from 2005 is the increase in administration and selling.

In August 2006 Clearwater reinstated distributions to unit holders on record as of August 31, 2006 at a rate of \$0.05 per month, \$0.60 when annualized. In making this decision we considered the financial results, on-going capital expenditure requirements, leverage, expectations regarding future earnings and cash on hand, which has been reserved to complete funding of the vessel under construction. Future earnings can be impacted by a number of factors including but not limited to, total allowable catch levels, selling prices, weather, exchange rates and fuel costs.

- Current financial results - Earnings have improved in 2006 compared to 2005 with the rolling four quarters EBITDA and distributable cash as of the third quarter 2006 reaching \$67 million and \$43 million respectively as compared to \$56 million and \$27 million realized in calendar 2005.

- Capital expenditures - Clearwater currently has two significant capital projects – the clam vessel it expects to have completed and operational in 2007 and an Argentine vessel it plans to construct for 2008. Clearwater has retained cash over the past quarters to reduce leverage and has sufficient cash to fully fund the new clam vessel. It intends to use some of the excess cash on its balance sheet going forward to complete the construction of the clam vessel. It plans to fund construction of a possible replacement for an Argentine vessel through cash reserves prior to delivery, which will fully fund construction of that vessel and with the delivery of that vessel, will result in a fleet of freezer processor vessels that has an average age of approximately 8 years with long remaining life spans.
- Leverage - Leverage has been decreasing over the past few quarters and now stands at 2.6 times EBITDA as compared to 3.3 times at December 31, 2005. Please see the definitions and reconciliations section at the end of this report for the calculation of leverage.
- Expectations regarding future earnings – Clearwater expects that despite the ongoing challenge of foreign exchange, the short-term negative impact of making continued improvements in the clam business and the potential for lower scallop volumes in 2007, a positive outlook for the business and fewer vessel disruptions should provide for stable distributions.

The following table summarizes the history of the taxation of distributions.

Taxation Year	Return to Capital	Dividend Income	Other Income
2002	62%	4%	34%
2003	45%	20%	35%
2004	62%	3%	35%
2005	52%	-	48%
2006 estimate	30%	-	70%

LIQUIDITY AND CAPITAL RESOURCES

Earnings before interest, tax, depreciation and amortization (EBITDA) and leverage are not recognized measures under Canadian GAAP and therefore are unlikely to be comparable to similar measures presented by other companies. Management believes EBITDA and leverage to be useful terms when discussing liquidity. In addition, as EBITDA and leverage are measures frequently analysed for public

companies we have calculated the amount in order to assist readers in facilitating this review. EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of performance, as a measure of liquidity or as a measure of cash flows and management does not use this measure as a performance measure of earnings. Please refer to the section on definitions and reconciliations for calculation of the EBITDA and leverage referred to in this document.

Liquidity can be impacted by known and unknown risks, uncertainties, and other factors outside management's control including but not limited to total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs as well as capital expenditures and distributions paid.

As at September 30, 2006 the Fund owns 55.71% (October 1, 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 September 30, 2006 the Fund and Clearwater had similar capital structures as illustrated in the table below:

	Fund	Clearwater
Units		
Publicly Listed Trust Units	29,407,626	
Class A Partnership Units		29,407,626
Units Held solely by Clearwater Fine Foods Incorporated		
Special Trust Units	23,381,217	
Class B Partnership Units		23,381,217
	<u>52,788,843</u>	<u>52,788,843</u>
Convertible debentures/Class C Partnership Units		
Convertible debentures	\$ 48,381,000	
Class C Partnership Units		\$ 48,381,000

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, 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. On August 25, 2006 Clearwater received approval from

the Toronto Stock Exchange ("TSX") for a normal course issuer bid for a 12-month period. The authorized normal course issuer bid allows Clearwater to purchase for cancellation up to 10% per annum and 2% over any 30-day period. Purchases may be made during the 12-month period commencing on or about August 31, 2006 through the facilities of the TSX, in accordance with all regulatory requirements. During the third quarter of 2006 \$1 million of the Class C units were cancelled at a loss of approximately \$5,000, of which \$22,000 was charged to other expense in the statement of earnings and \$17,000 (representing the portion attributed to the option to convert) was credited directly to unitholder's equity. Unitholders of the Fund can obtain a copy of the Notice of Intention to make a normal course issuer bid, without charge, by contacting the Investor Relations department of Clearwater via phone at 902-443-0550 or email at investorinquiries@clearwater.ca.

The \$49 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.

As previously indicated, Clearwater's intention is to continue to reduce debt levels in a measured manner over time. Leverage has improved from 3.3 times EBITDA as of December 31, 2006 to 2.6 times EBITDA as of the end of the third quarter 2006. As part of its strategy to reduce debt levels the Fund filed a normal course issuer bid by which it can acquire up to \$5 million principal amount of convertible debentures in the 12-month period commencing August 2006. This repurchase at the Trust level will be accompanied by a similar repurchase of Class C Partnership units by Clearwater. During the quarter Clearwater repurchased and cancelled \$1.0 million Class C units and an additional \$1.0 million were purchased in October 2006.

In addition to the Convertible Debentures/Class C Partnership units, Clearwater has three additional primary debt facilities. These facilities include approximately \$85 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 \$44 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 \$44 million as of September 30, 2006 including accrued interest) from the Icelandic bond market. The bonds yield 6.7%, are adjusted for changes in the Iceland consumer price index (CPI), have a face value of 2,460 million ISK, mature in 2010 and are unsecured. These bonds have been fully swapped into Canadian, US, Euro and Pound Sterling debt with floating interest rates. The bonds are measured at fair value for changes in foreign exchange, interest rates and CPI valued using the effective interest rate method. The non-cash accrual for the interest and inflation adjustment are

recorded using the effective interest rate method with the expense being recorded as interest expense on long term debt on the income statement and as an increase to the value of the bond on the balance sheet. The cash interest paid along with the change in the mark-to-market value of the related swaps are classified as foreign exchange and derivative contracts on the income statement and as a net liability on the balance sheet. Please refer to note 3 of the financial statements on long term debt and note 6 on financial instruments. The currency and inflation swap effectively hedge this liability from an economic perspective and move the liability from a fixed ISK debt to floating mixed currencies as mentioned above. As a result of these swap agreements the estimated value of the debt is approximately \$46 million as at September 30, 2006 (see Definitions and Reconciliations section).

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 \$20 million is available to be drawn at market rates until 2007.

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 \$19,671,000 as at September 30, 2006. The cash position was a result of the positive operating results, the timing of capital expenditures and the previous suspension of distributions from the fourth quarter of 2005 to the end of the second quarter 2006.

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.

Summarized cash flow information

For the 13 and 39 week periods ending September 30, 2006 and October 1, 2005. See statements of cash flows for more detail

Inflow (outflow)	13 weeks ended 2006	13 weeks ended 2005	39 weeks ended 2006	39 weeks ended 2005
Cash flow from operations				
(before change in working capital)	\$ 12,720	\$ 13,935	\$ 41,530	\$ 25,136
Investing, Financing, and other activities				
Capital expenditures (net of proceeds on sale)	(980)	2,404	(15,906)	(17,886)
Distributions to unitholders	(7,918)	(9,121)	(7,918)	(27,365)
Distributions to minority partners	(2,133)	(1,238)	(4,551)	(2,108)
(Investment) reduction in working capital	5,094	(3,354)	(1,773)	3,023
Other investing activities	(638)	(556)	266	(7)
Other	761	389	857	77
	(5,814)	(11,476)	(29,025)	(44,266)
Decrease (Increase) in long term debt, net of cash	\$ 6,906	\$ 2,459	\$ 12,505	\$ (19,130)

During the quarter funded debt (net of cash balances) has decreased by approximately \$6.9 million. Solid operating cash flow net of distributions paid, the repurchase of debt and capital expenditures are the significant reasons for the decrease in net long-term debt. Year-to-date capital expenditures have been fully funded by cash flows and in addition debt levels have been reduced by \$12.5 million. This has resulted in leverage levels improving from 3.3 times EBITDA at December 31, 2005 to 2.6 times as at September 30, 2006.

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

Capital expenditures were \$17.7 million year-to-date (2005 - \$26.8 million). Of this amount, \$16.5 million (2005 - \$24.6 million) was considered return on investment (ROI) capital and \$1.2 million (2005 - \$2.2 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 a return less than the cost of capital are classified as maintenance.

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 \$39.9 million has been spent to date. Clearwater expects the new vessel to be delivered and begin harvesting in 2007. This is approximately three months later than previously disclosed and we are using the extra time to further plan its integration into the fleet. 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. Construction costs required to complete the vessel will be funded by drawing down cash balances or on debt facilities as required. Clearwater is reviewing a replacement for one of the vessels in Argentina that will occur in 2008.

EXPLANATION OF THIRD QUARTER RESULTS

Consolidated Operating Results for the thirteen weeks comprising the third quarter, in thousands of Canadian dollars.

The results of operations of the Fund are entirely related to Clearwater's performance and therefore the commentary below is on the operations of Clearwater. The statement of earnings disclosed below reflects the unaudited interim earnings of Clearwater for the 13-week periods ended September 30, 2006 and October 1, 2005.

	2006	2005
Sales	\$ 79,939	\$ 93,548
Cost of goods sold	57,520	70,721
Gross profit	22,419	22,827
	28.0%	24.4%
Administration and selling	9,708	8,433
Loss (gain) on disposal of licenses and other, net	(733)	(1,178)
Other income	(1,063)	(1,147)
Foreign exchange and derivative income	(3,139)	(6,352)
Bank interest and charges	259	229
Interest on long-term debt	3,052	3,233
Depreciation and amortization	3,525	3,943
Reduction in foreign currency translation account	-	710
	11,609	7,871
Earnings before income taxes and minority interest	10,810	14,956
Income taxes	1,201	1,340
Earnings before minority interest	9,609	13,616
Minority interest	1,503	1,480
Net earnings	\$ 8,106	\$ 12,136

NET EARNINGS

Net earnings decreased by \$4.0 million in the third quarter of 2006 due primarily to lower foreign exchange income and higher administration and selling expenses as outlined below.

	2006	2005	Change
Net earnings	\$ 8,106	\$ 12,136	\$ (4,030)
Explanation of changes in earnings:			
Lower non-cash foreign exchange income			(2,605)
Higher administration and selling expense			(1,275)
Lower cash foreign exchange income			(608)
All other			458
			\$ (4,030)

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

	2006	2005	Change	%
Scallops	\$ 29,211	\$ 31,273	\$ (2,062)	(7%)
Lobster	19,185	18,139	1,046	6%
Clams	16,212	14,340	1,872	13%
Cold water shrimp	10,484	11,352	(868)	(8%)
Groundfish and other	2,066	7,933	(5,876)	(74%)
Crab	1,405	7,760	(6,355)	(82%)
Hedging program	1,376	2,751	(1,375)	(50%)
	\$ 79,939	\$ 93,548	\$ 13,609	(15%)

Scallop sales, which represent one of our more profitable species, were relatively consistent with 2005.

Lobster sales were consistent with the third quarter of 2005 with a slight increase in volumes and constant or lower selling prices. 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 in the quarter compared to the third quarter in 2005 due to increased volumes and higher

prices in Canadian dollars. We have been able to increase selling prices in part due to improving product value to the customer, which has offset the negative impact of lower exchange rates for U.S. dollars and Japanese Yen against the Canadian dollar. Higher volumes over the past year related to the fact that in 2005 there were significant disruptions and refit costs incurred in the clam business as well as the repositioning of the sales channels away from a single importer in the Chinese market. The business operated without these disruptions in 2006. In 2005 we began a process of reorganizing our clam business to respond to the challenges of currency and to take advantage of opportunities that will arise when the new

vessel arrives and is operational in 2007. As a result we may continue to see some short-term disruptions in this business. As previously disclosed, we are focused on increasing prices to offset the impact of foreign exchange, reducing our costs through harvesting and processing efficiencies and growing our volumes with results expected to be realized over time.

Coldwater shrimp sales are consistent as a result of higher volumes offset by lower selling prices.

Both crab and groundfish sales are lower in 2006 as our plant in Glace Bay, Nova Scotia has not operated since March 2006. In the first quarter of 2006 we began

negotiations on a new collective agreement with the Union at this plant and we are currently at a standstill. The disruption has and will impact groundfish and crab sales for 2006 but will not have a material impact on earnings.

In summary for the quarter, sales levels were lower than 2005 however with a higher mix of vertically integrated products such as scallops and clams; gross profit was relatively stable for the quarter despite the continued negative impact of foreign exchange.

Foreign exchange reduced sales and margins by approximately \$4.9 million in the third quarter of 2006.

Currency	2006		2005	
	% sales	Rate	% sales	Rate
US Dollars	40.4%	1.160	46.7%	1.292
Japanese Yen	11.9%	0.010	8.0%	0.011
Euros	24.0%	1.446	21.8%	1.458
UK pounds	6.4%	2.100	4.3%	2.146
Canadian dollar and other	17.3%		19.2%	
	100.0%		100.0%	

Clearwater maintains an active hedging program to provide a higher degree of certainty to future Canadian dollar cash flows. For additional detail please refer to the year-to-date analysis as well as note 6 in the financial statements.

Loss (gain) on disposal of licences and other, net was \$813,000 lower in 2006 versus 2005. The 2006 figure includes a gain of approximately \$0.8 million on the sale of non-core fishing quotas. 2005 included a gain of approximately \$3.2 million on the sale of non-core

properties in Lunenburg, Nova Scotia that was offset by an impairment loss of \$1.6 million associated with the shrimp harvesting contracts in the Canadian FAS shrimp business unit.

Foreign exchange and derivative contract produced \$3.1 million of income in 2006 versus \$6.4 million of income in 2005. From a cash perspective, the business generated \$2.1 million of cash from foreign exchange management in 2006 versus \$2.7 million in 2005.

Detailed schedule of foreign exchange and derivative contract income

	2006	2005
Realized (gain) loss		
Foreign exchange cash option income	\$ (2,959)	(1,443)
Other realized	895	(1,229)
	(2,064)	(2,672)
Unrealized (gain)/loss		
Balance sheet translation	3,274	(199)
Mark to market on options contracts	396	(2,609)
Mark to market on interest and currency swap contracts	(4,745)	(872)
	(1,075)	(3,680)
Total gain	\$ (3,139)	\$ (6,352)

OUTLOOK

Clearwater's gross profit for 2006 has improved compared to 2005. Improvements are due in part to the fact the business has operated without disruption during the year and has had strong results in the scallop business. In 2005 we experienced a number of one-time negative impacts including vessel disruptions and refits, repositioning of the sales channel in the Chinese market as well as the late delivery and maintenance required for the two new FAS scallop vessels. Our clam business is improving but will continue to face challenges until the new clam vessel is operational. In the meantime, Clearwater will continue to operate two older clam vessels that are nearing the end of their useful lives, and consequently are expected to incur higher than normal maintenance costs.

Distributable cash generated has improved compared to 2005 with \$35.1 million of distributable cash generated year-to-date in 2006 versus \$19.2 million in 2005. Clearwater is focused on maintaining stable distribution levels despite the ongoing challenge of foreign exchange, fuel costs, leverage and the potential for lower volumes in 2007 and we are looking forward to the delivery of the new clam vessel that will have been under construction for more than two years when we take delivery in 2007.

The core business is healthy and with the strength of our quota ownership and effective and efficient harvesting and production processes the long-term outlook for the business is positive. Our strategy is for the long-term health and growth of the company continuing to develop and maintain the strong foundations Clearwater was built upon.

SUMMARY OF QUARTERLY RESULTS

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

(IN 000'S EXCEPT PER UNIT AMOUNTS)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2006				
Sales	\$ 70,349	\$ 81,312	\$ 79,939	
Net earnings	979	11,507	8,106	
Basic earnings per unit	0.02	0.22	0.15	
Fiscal 2005				
Sales	\$ 67,359	\$ 69,712	\$ 93,548	\$ 84,220
Net earnings	1,645	1,371	12,136	4,721
Basic earnings per unit	0.03	0.03	0.23	0.09
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

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

DEFINITIONS AND RECONCILIATIONS

Distributable Cash

Distributable cash is not a recognized measure under Canadian Generally Accepted Accounting Principles (GAAP) and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes that distributable cash is a useful supplemental measure as it provides an indication of cash available for distribution to readers seeking to assess the sustainability of distributions by comparing distributions paid to the

amount of distributable cash. In addition, as distributable cash is a measure frequently analyzed for income trusts we have calculated the amount in order to assist readers in facilitating this review. Distributable cash should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of performance, as a measure of liquidity or as a measure of cash flows and management does not use this measure as a performance measure of earnings.

Reconciliation of distributable cash

	13 weeks ended	13 weeks ended	39 weeks ended	39 weeks ended
((\$000's except per unit amounts))	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Cash flow from operating activities	\$ 17,814	\$ 10,581	\$ 39,757	\$ 28,159
Add (deduct):				
Change in non-cash working capital ^A	(5,094)	3,354	1,773	(3,023)
Minority share EBITDA, int., taxes ^B	(1,793)	(1,300)	(5,918)	(2,974)
Proportionate maint. capital ^C	(550)	(631)	(1,272)	(2,227)
Gain (loss) on disposal P,P,E /licenses, other ^D	(15)	(310)	774	(700)
Distributable cash	\$ 10,362	\$ 11,694	\$ 35,114	\$ 19,235
Distributions ^E	\$ 7,918	\$ 9,123	\$ 7,918	\$ 27,367
Payout ratio	76%	78%	23%	143%

- A. Change in non-cash working capital is excluded as changes in working capital are due to seasonality of operations and 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) unless they are unusual, non-recurring transactions 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 2006 gains of \$1.2 million and \$3.1 million of losses associated with exiting of a plant (2005 gains of \$5.6 million) were excluded from the calculation of distributable cash as they pertained to the sale of assets that did not relate to the typical turnover of assets.
- E. There were no distributions for the first or second quarter of 2006. Distributions paid in the first three quarters of 2005 consisted of payments of 21 cents/unit on 43,436,356 unsubordinated units (no payments were made on 9,352,487 subordinated units).

GROSS PROFIT

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

Earnings before interest, tax, depreciation and amortization (EBITDA)

Earnings before interest, tax, depreciation and amortization (EBITDA) is not a recognized measure under Canadian GAAP and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes EBITDA to be a useful

term when discussing liquidity. In addition, as EBITDA is a measure frequently analysed for public companies we have calculated the amount in order to assist readers in facilitating this review. EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of performance, as a measure of liquidity or as a measure of cash flows and management does not use this measure as a performance measure of earnings.

Reconciliation of the current quarter and preceding three quarters EBITDA

(\$000's)	September 30, 2006	December 31, 2005
Net earnings	\$ 25,202	\$ 19,873
Add:		
Minority interest	5,439	3,398
Income taxes	5,235	2,975
Reduction in foreign currency translation	1,697	1,236
Depreciation and amortization	15,037	15,400
Interest on long term debt	13,364	12,450
Bank interest and charges	908	786
EBITDA	\$ 66,882	\$ 56,118

LEVERAGE

Leverage is not a recognized measure under Canadian GAAP and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes leverage to be a useful term when discussing liquidity. In addition, as leverage is a measure frequently analysed for public companies we have calculated the amount in order to assist readers in facilitating this review. Leverage should not be construed

as an indicator of performance, as a measure of liquidity or as a measure of cash flows and management does not use this measure as a performance measure of earnings.

Leverage is calculated by dividing the current and preceding three quarters EBITDA by the total debt on the balance sheet adjusted for cash reserves, cash and currency hedges for the Iceland debt for the period.

(\$000's except per unit amounts)	September 30, 2006	December 31, 2005
EBITDA	\$ 66,882	\$ 56,118
Total debt (per below)	176,206	183,601
Leverage	2.6	3.3
Debt per balance sheet	188,251	194,445
Adjust ISK denominated bond to swapped value: (44,008)		(46,873)
Less Iceland bond 45,653		45,755
Estimated payment for Iceland bond	1,645	(1,118)
Less cash balance (21,690)		(9,726)
Less cash reserved for new vessel 8,000		-
Reduce by unreserved cash (13,690)		(9,726)
Net debt for leverage	176,206	183,601

Estimated payment for Iceland bond when considering currency swaps for September 30, 2006 and December 31, 2005

September 30, 2006			
Currency	Amount	Current rate	Canadian \$
Canadian	\$ 25,000	1.000	\$ 25,000
US	\$ 9,708	1.118	10,854
Euro	2,500	1.415	3,538
Sterling	3,000	2.087	6,261
			\$ 45,653
December 31, 2005			
Currency	Amount	Current rate	Canadian \$
Canadian	\$ 25,000	1.000	\$ 25,000
US	\$ 9,708	1.163	11,290
Euro	2,500	1.381	3,453
Sterling	3,000	2.004	6,012
			\$ 45,755

CONSOLIDATED BALANCE SHEET

(IN THOUSANDS OF DOLLARS)

	September 30, 2006 (UNAUDITED)	December 31, 2005
ASSETS		
Current Assets		
Distributions and interest receivable from Clearwater		
Seafoods Limited Partnership	\$ 2,331	\$ -
Investment in Clearwater Seafoods		
Limited Partnership (note 2)	336,044	329,271
	<u>\$ 338,375</u>	<u>\$ 329,271</u>
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities		
Distribution and interest payable to unitholders	\$ 2,327	\$ -
Convertible debentures (note 3)	48,381	49,278
Unitholders' Equity		
Trust units (note 4)	299,319	299,336
Deficit	(11,652)	(19,343)
	<u>287,667</u>	<u>279,993</u>
	<u>\$ 338,375</u>	<u>\$ 329,271</u>

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT

13 AND 39 WEEK PERIODS ENDED SEPTEMBER 30, 2006 AND OCTOBER 1, 2005
(IN THOUSANDS OF DOLLARS)
(UNAUDITED)

	13 weeks ended		39 weeks ended	
	2006	2005	2006	2005
Equity in earnings of Clearwater Seafoods				
Limited Partnership	\$ 4,452	\$ 4,757	\$ 12,169	\$ 6,523
Interest income	872	877	2,627	2,632
Interest expense	(900)	(904)	(2,711)	(2,711)
Net earnings	\$ 4,424	\$ 4,730	\$ 12,085	\$ 6,444
Deficit beginning of period	(11,682)	(20,467)	(19,343)	(9,826)
Distributions paid during the period	(4,411)	(6,170)	(4,411)	(18,525)
Adjustment for cancellation of convertible				
Debentures (note 3)	17	-	17	-
Deficit at end of period	\$ (11,652)	\$ (21,907)	\$ (11,652)	\$ (21,907)
Basic and diluted net earnings per trust unit	\$ 0.15	\$ 0.16	\$ 0.41	\$ 0.22

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

13 AND 39 WEEK PERIODS ENDED SEPTEMBER 30, 2006 AND OCTOBER 1, 2005
(IN THOUSANDS OF DOLLARS)
(UNAUDITED)

	13 weeks ended		39 weeks ended	
	2006	2005	2006	2005
Cash flows from operating activities				
Net earnings	\$ 4,424	\$ 4,730	\$ 12,085	\$ 6,444
Items not involving cash				
Equity in earnings of Clearwater Seafoods Limited Partnership, net of cash distributions received of \$4,411, 39 weeks - \$4,411 (2005 - \$6,170, 39 weeks - \$18,525)	(63)	1,413	(7,780)	12,002
Other	28	27	84	79
	4,389	6,170	4,389	18,525
Cash flows used in financing activities				
Repurchase of Class C units	1,013	-	1,013	-
Repurchase of convertible debentures	(991)	-	(991)	-
Distributions to unitholders	(4,411)	(6,170)	(4,411)	(18,525)
	(4,389)	(6,170)	(4,389)	(18,525)
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)
(UNAUDITED)

1. BASIS OF PRESENTATION

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

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

	September 30, 2006	December 31, 2005
Investment in Class A Partnership units, at cost	\$ 298,454	\$ 298,454
Investment in Class C Partnership units	49,000	50,000
Add: Cumulative equity in net earnings	88,212	76,045
Add: Adjustment for cancellation of convertible Debentures	17	-
Less: Cumulative distributions received	(99,639)	(95,228)
	<u>\$ 336,044</u>	<u>\$ 329,271</u>

Included in equity in earnings in the quarter is \$40,000, 39 weeks – \$721,000 (2005 – \$2,003,000, 39 weeks - \$1,917,000) 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:

	September 30, 2006	December 31, 2005
Intangible assets		
Licences – indefinite lives	\$ 189,260	\$ 189,260
Customer relationships and other	533	578
Goodwill	14,240	14,240
Long-term liabilities	533	606
Cumulative foreign currency translation account	(6,596)	(7,435)
	\$ 197,970	\$ 197,249

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 Fund filed a normal course issuer bid by which it can acquire up to \$5 million principle amount of convertible debentures in the 12-month period commencing August 2006. During the third quarter of 2006, the Fund purchased on the open market and cancelled \$1 million of its convertible debentures for a net loss of approximately \$5,000, of which \$22,000 was charged to equity in earnings of Clearwater Seafoods Income Fund in the statement of earnings and \$17,000 (representing the portion attributed to the option to convert) was credited directly to unitholder's equity.

The estimated fair value of the Fund's convertible debentures at September 30, 2006 was \$48,975,500 based on the quoted market value of the debentures Clr.db on the Toronto Stock Exchange.

4. TRUST UNITS AND SPECIAL TRUST UNITS

The Declaration of Trust provides that an unlimited number of units and an unlimited number of Special Trust Units may be issued. Each unit is transferable and represents an equal undivided beneficial interest in any distributions of the Fund and in the net assets of the Fund in the event of termination or winding up of the Fund. All units have equal rights and privileges. Each unit entitles the holder thereof to participate equally in the distributions and to one vote at all meetings of unitholders for each whole unit held. The issued units are not subject to future calls or assessments. Units are redeemable at any time at the option of the holder at amounts related to market price at the time, subject to a maximum of \$50,000 in aggregate cash redemptions by the Fund in any particular month. This limitation may be waived at the

discretion of the Trustees of the Fund. Redemption in excess of this amount, assuming no waiving of the limitation, shall be paid by way of a distribution in specie of assets of the Fund, namely notes of Clearwater Seafoods Holdings Trust.

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

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

CSLP Exchangeable Units that 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.

The Fund filed a normal course issuer bid by which it can acquire up to \$5 million principle amount of convertible debentures in the 12-month period commencing August 2006. During the third quarter of 2006, the Fund purchased on the open market and cancelled \$1 million of its convertible debentures for a net loss of approximately \$5,000, of which \$22,000 was charged to equity in earnings of Clearwater Seafoods Income Fund in the statement of earnings and \$17,000 (representing the portion attributed to the option to convert) was credited directly to unitholder's equity.

\$17,000 was charged against the value of the units outstanding related to the equity component of the convertible debentures that were cancelled.

	Units	Special Trust Units	Total \$ (in 000's)
Balance December 31, 2005,			
no change to July 1, 2006	29,407,626	23,381,217	\$ 299,336
Cancellation of \$1 million Convertible Debentures			(17)
Balance September 30, 2006			\$ 299,319

As at September 30, 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(f) 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 September 30, 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 deficit. In addition, the cumulative earnings and cumulative distributions have been presented on a net basis on the balance sheet and statement of earnings and deficit.

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS OF DOLLARS)

	September 30, 2006 (UNAUDITED)	December 31, 2005
ASSETS		
Current Assets		
Cash	\$ 21,690	\$ 9,726
Accounts receivable	50,194	54,912
Inventories	56,488	43,419
Prepays and other	7,797	6,458
	136,169	114,515
Other long-term assets	10,157	10,643
Property, plant and equipment	156,970	151,945
Licences	102,722	103,181
Goodwill	10,378	10,378
	\$ 416,396	\$ 390,662
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities		
Cheques issued in excess of funds on deposit	\$ 1,937	\$ -
Accounts payable and accrued liabilities	46,098	36,597
Distributions payable	2,639	-
Income taxes payable	4,591	2,144
Current portion of long-term debt (note 3)	855	1,008
	56,120	39,749
Long-term debt (note 3)	187,396	193,437
Future income taxes	8,175	7,958
Due to joint venture partner	2,097	2,023
Minority interest	2,930	2,181
UNITHOLDERS' EQUITY		
Partnership units (note 4)	173,116	173,133
Deficit	(43)	(12,734)
Cumulative foreign currency translation account (note 5)	(13,395)	(15,085)
	159,678	145,314
	\$ 416,396	\$ 390,662

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT

13 AND 39 WEEK PERIODS ENDED SEPTEMBER 30, 2006 AND OCTOBER 1, 2005
(IN THOUSANDS OF DOLLARS)
(UNAUDITED)

	13 weeks ended		39 weeks ended	
	2006	2005	2006	2005
Sales	\$ 79,939	\$ 93,548	\$ 231,600	\$ 230,619
Cost of goods sold	57,520	70,721	164,545	177,092
Gross profit	22,419	22,827	67,055	53,527
Administration and selling	9,708	8,433	27,329	25,799
Loss (gain) on disposal of licences and other	(733)	(1,178)	2,198	(2,952)
Other income (note 7)	(1,063)	(1,147)	(4,760)	(2,107)
Foreign exchange and derivative contracts (note 8)	(3,139)	(6,352)	(10,807)	(9,542)
Bank interest and charges	259	229	696	574
Interest on long-term debt	3,052	3,233	9,888	8,974
Depreciation and amortization	3,525	3,943	11,198	11,561
Reduction in foreign currency translation account (note 5)	-	710	1,697	1,236
	11,609	7,871	37,439	33,543
Earnings before the undernoted	10,810	14,956	29,616	19,984
Income taxes	1,201	1,340	4,295	2,145
Earnings before minority interest	9,609	13,616	25,321	17,839
Minority interest	1,503	1,480	4,729	2,687
Net earnings	\$ 8,106	\$ 12,136	\$ 20,592	\$ 15,152
Deficit at beginning of period	\$ (248)	\$ (20,470)	\$ (12,734)	\$ (5,242)
Distributions paid during the period	(7,918)	(9,121)	(7,918)	(27,365)
Adjustment for cancellation of Class C units (note 4)	17	-	17	-
Deficit at end of period	\$ (43)	\$ (17,455)	\$ (43)	\$ (17,455)
Basic and diluted net earnings per unit	\$ 0.15	\$ 0.23	\$ 0.39	\$ 0.33

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

CONSOLIDATED STATEMENTS OF CASH FLOWS

13 AND 39 WEEK PERIODS ENDED SEPTEMBER 30, 2006 AND OCTOBER 1, 2005
(IN THOUSANDS OF DOLLARS) (UNAUDITED)

	13 weeks ended		39 weeks ended	
	2006	2005	2006	2005
Cash flows from (used in) operating activities				
Net earnings	\$ 8,106	\$ 12,136	\$20,592	\$ 15,152
Items not involving cash				
Depreciation and amortization	3,525	3,943	11,198	11,561
Unrealized foreign exchange gain on long-term debt	3,274	10	(7,382)	(87)
Future income taxes (recovery)	225	558	(720)	576
Reduction in foreign currency translation account	-	710	1,697	1,236
Minority interest	1,503	1,480	4,729	2,687
Unrealized foreign exchange loss (gain) on option contracts	396	(3,690)	4,444	(2,700)
Unrealized(gain)loss on currency and interest swap contracts	(4,745)	-	2,373	-
Accrued interest and inflation on long-term bonds payable	1,198	-	3,572	-
Loss (gain) on disposal of property, plants, equipment, licences and other	(762)	(1,212)	1,027	(3,289)
	12,720	13,935	41,530	25,136
Change in non-cash operating working capital	5,094	(3,354)	(1,773)	3,023
	17,814	10,581	39,757	28,159
Cash flows from financing activities				
Proceeds from long-term debt	-	52,112	-	52,016
Reduction of long-term debt	(320)	(46,935)	(1,487)	(26,320)
Other	191	389	287	77
Repurchase of Class C units	(991)	-	(991)	-
Investment by partner	570	-	570	-
Distributions to minority partners	(2,133)	(1,238)	(4,551)	(2,108)
Distributions to unitholders	(7,918)	(9,121)	(7,918)	(27,365)
	(10,601)	(4,793)	(14,090)	(3,700)
Cash flows from (used in) investing activities				
(Increase) decrease in other long-term assets	(638)	(556)	266	(7)
Purchase of property, plant, equipment, licences and other	(1,878)	(3,509)	(17,741)	(26,804)
Proceeds on disposal of property, plant, equipment, licences and other	898	5,913	1,835	8,918
	(1,618)	1,848	(15,640)	(17,893)
Increase in cash	5,595	7,636	10,027	6,566
Cash - beginning of period	14,158	(1,642)	9,726	(572)
Cash - end of period	\$ 19,753	\$ 5,994	\$ 19,753	\$ 5,994
Cash consists of cash and checks issued in excess of funds on deposit.				
Supplementary cash flow information				
Interest paid	\$ 2,327	\$ 1,903	\$ 9,627	\$ 7,653
Income taxes (received) paid	879	1,367	1,650	5,285
Change in non-cash working capital consists of changes in the following accounts:				
Accounts receivable	(922)	(8,270)	4,718	11,911
Inventories	3,427	11,615	(13,069)	(3,351)
Foreign exchange on option contracts	396	3,690	4,444	2,700
Prepays and other	(676)	(1,306)	(1,340)	(2,730)
Accounts payable and accrued liabilities	2,282	(9,420)	1,026	(3,753)
Income taxes payable	587	337	2,448	(1,754)
	\$ 5,094	\$ (3,354)	\$ (1,773)	\$ 3,023

There were no material non-cash transactions during the quarters.

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

	September 30, 2006	December 31, 2005
Notes payable (a)		
Canadian dollars	\$ 63,000	\$ 63,000
United States dollars	22,354	23,296
Class C Partnership Units (b)	48,381	49,280
Bond payable, including accrued interest (c)	44,008	46,873
Marine mortgage, due in 2017 (d)		
Canadian	2,275	2,792
Danish Kroner	1,703	1,771
Yen	1,411	1,570
Term loan, due in 2091 (e)	3,500	3,500
Other loans	1,619	2,363
	188,251	194,445
Less current portion	855	1,008
	\$ 187,396	\$ 193,437

(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 (f) 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.

The Fund filed a normal course issuer bid by which it can acquire up to \$5 million principal amount of convertible debentures in the 12-month period commencing August 2006 which will be accompanied by a similar repurchase of class C units by Clearwater. During the third quarter of 2006 \$1 million of the Class C units were repurchased and cancelled for a net loss of approximately \$5,000 of which \$22,000 was included in other expenses and \$17,000 (representing the portion attributed to the option to convert) was included as an adjustment to unitholder's equity.

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

Clearwater has no intention to unwind the swap agreements, 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 8.60%
- \$5,000,000 U.S. dollar liability with an effective interest rate of 9.32%
- \$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 9.98%
- 2,500,000 Euro liability with an effective interest rate of 8.39%

The value of the repayment based on the spot rates as of September 30, 2006 is \$45.8 million.

Interest expense on the bond is recorded using the effective interest rate method that takes into account estimated future Icelandic inflation rates. Interest accrued is \$3.6 million year-to-date (nil 2005). As previously noted interest exposure on this bond has been hedged and the cash payment on the related swaps was \$2.8 million year to date (nil 2005).

Refer to note 6(c) for further information on the related swaps.

- (d) Marine mortgage payable in the principal amount of CDN \$4,549,000 (December 31, 2005 - \$5,583,000), DKK 17,871,000 (December 31, 2005– DKK 19,262,000) and YEN 297,671,000 (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 2007, CDN \$776,000, DKK 2,087,000 and YEN 29,767,000 due in 2008-2012, CDN \$152,000 due in 2013, DKK 2,087,000 and YEN 29,767,000 due in 2013-2014, DKK 1,871,000 due in 2015, YEN 29,767,000 due in 2015-2016 and YEN 9,923,000 due in 2017, 50% of which represents Clearwater's proportionate share. The loan matures in 2017 and is secured by a first mortgage over the related vessel and covenants concerning certain fishing licences.
- (e) Term loan, payable in 2091. In connection with this loan Clearwater makes a royalty payment of \$275,000 per annum in lieu of interest.
- (f) 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 September 30, 2006 was in a net cash position of CDN \$19,671,000, (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.

Clearwater's debt facilities contain various covenants. Clearwater is in compliance with all debt covenants at September 30, 2006.

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

2006	855
2007	1,088
2008	60,851
2009	959
2010	93,213

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.

The Fund filed a normal course issuer bid by which it can acquire up to \$5 million principle amount of convertible debentures in the 12-month period commencing August 2006 which will be accompanied by a similar repurchase of class C units by Clearwater. \$1 million of the units were purchased and cancelled during the third quarter of 2006 for a net loss of approximately \$5,000, of which \$22,000 was charged to other income in Clearwater in the statement of earnings and \$17,000 (representing the portion attributed to the option to convert) was credited directly to unitholder's equity.

\$ 17,000 was charged against the value of the units outstanding related to the equity component of the Class C units that were cancelled.

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 July 1, 2006	29,407,626	23,381,217	\$ 173,133
Cancellation of \$1 million Class C units			(17)
Balance September 30, 2006			\$ 173,116

As at September 30, 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 September 30, 2006 is \$13,395,000 (December 31, 2005 - \$15,085,000).

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.

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.

As at September 30, 2006 and December 31, 2005 Clearwater had outstanding forward contracts as follows (as converted to Canadian dollars at contracted rates):

Currency	Notional Amount	Average Exchange Rate	Maturity	Fair Value Asset (liability)
United States dollar				
September 30, 2006	23,000	1.118	2006	53
	18,000	1.135	2007	298
December 31, 2005	62,000	1.257	2006	6,516
Euro				
September 30, 2006	6,000	1.465	2006	273
	10,000	1.441	2007	180
December 31, 2005	12,000	1.498	2006	1,334

Although Clearwater has no intention of settling these contracts, at September 30, 2006, if it settled these contracts it would have received a payment of \$804,000 (December 31, 2005 - \$7,850,000). 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.

Clearwater has also entered into foreign currency options and expandable forward contracts as at September 30, 2006 and December 31, 2005 with estimated quoted market values as follows:

Currency	Notional Amount	Average Exchange Rate	Maturity	Fair Value Asset (liability)
United States dollar				
September 30, 2006	11,500	1.140 – 1.198	2006	(14)
	140,000	1.100 – 1.252	2007	(1,264)
	0– 10,000	1.127 – 1.264	2006	(7)
	36,500 – 84,000	1.131 – 1.202	2007	768
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
Japanese Yen				
September 30, 2006	2,000,000	0.009 – 0.011	2007	(209)
December 31, 2005	1,000,000	0.01125	2006	(12)
Euro				
September 30, 2006	15,000	1.215 – 1.485	2006	(97)
	31,000	1.390 – 1.552	2007	(931)
December 31, 2005	29,000	1.215 – 1.478	2006	(741)
Sterling				
September 30, 2006	25,700	2.101 – 2.258	2007	(1,339)
December 31, 2005	5,000	2.020	2006	(157)

Although Clearwater has no intention of settling these contracts prior to maturity, at September 30, 2006, if it settled these contracts it would have made a payment of \$3,093,000 (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. The terms of the swap agreements related to the Icelandic bonds also effectively hedge the changes in the CPI. These agreements do not qualify for hedge accounting. Although Clearwater has no intention of settling these contracts prior to maturity, at September 30, 2006, if it settled these contracts it would have made a payment of \$2,944,000 (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. See note 3(c) for additional information relating to the swaps. The Icelandic Krona has declined substantially and reduced the value of the Iceland bond in Canadian currency and has had a corresponding impact on the related swaps.

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

(d) Commodity contracts

As of September 30, 2006, Clearwater had crude oil options for 25,000 barrels per month effective for the period of October 1, 2006 to February 28, 2007 with a strike price of \$68 US per barrel. Although Clearwater has no intention of settling these contracts prior to maturity, if it settled these contracts it would have made a payment of \$659,000 (December 31, 2005 – nil).

7. OTHER INCOME

	13 weeks ended		39 weeks ended	
	2006	2005	2006	2005
Quota rental and royalties	\$ 767	\$ 109	\$ 2,082	\$ 624
Export rebate	413	387	1,271	844
Investment income	214	73	991	386
Other (income)/expense	(331)	578	416	253
	<u>\$ 1,063</u>	<u>\$ 1,147</u>	<u>\$ 4,760</u>	<u>\$ 2,107</u>

8. FOREIGN EXCHANGE AND DERIVATIVE CONTRACTS

Foreign exchange and derivative contract detail:

	13 weeks ended		39 weeks ended	
	2006	2005	2006	2005
Realized (gain) loss				
Foreign exchange cash option income	\$ (2,959)	\$ (1,443)	\$ (11,268)	\$ (5,118)
Other	895	(1,229)	1,026	(1,637)
	\$ (2,064)	\$ (2,672)	\$ (10,242)	(6,755)
Unrealized (gain)/loss				
Foreign exchange on long-term debt	3,274	(199)	(7,382)	(1,007)
Mark to market on option contracts	396	(2,609)	4,444	(1,620)
Mark to market on interest and currency swaps	(4,745)	(872)	2,373	(160)
	(1,075)	(3,680)	(565)	(2,787)
Total gain	\$ (3,139)	\$ (6,352)	\$ (10,807)	\$ (9,542)

9. 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 customer by product category

	13 weeks ended		39 weeks ended	
	2006	2005	2006	2005
Scallops	\$ 29,211	\$ 31,273	\$ 83,582	\$ 70,474
Lobster	19,185	18,139	53,795	51,333
Clams	16,212	14,340	45,966	36,180
Cold water shrimp	10,484	11,352	26,046	30,193
Groundfish and other	2,066	7,933	10,787	22,589
Crab	1,405	7,760	5,678	12,530
Hedging program	1,376	2,751	5,746	7,320
	\$ 79,939	\$ 93,548	\$ 231,600	\$ 230,619

(c) Geographical information

	13 weeks ended		39 weeks ended	
	2006	2005	2006	2005
Sales				
United States	\$ 22,527	\$ 29,071	\$ 62,651	\$ 73,288
Europe				
France	14,401	18,347	49,326	36,662
UK	6,473	4,759	16,626	13,658
Denmark	2,191	4,745	9,024	10,953
Other	4,436	5,542	11,532	14,618
Asia				
Japan	9,934	8,409	22,701	22,187
Other	7,167	6,216	20,800	15,582
Canada	11,077	13,311	32,111	35,440
Other, including hedging program	1,733	3,148	6,829	8,231
	\$ 79,939	\$ 93,548	\$ 231,600	\$ 230,619

	September 30, 2006	December 31, 2005
Property, plant, equipment, licences and goodwill		
Canada	\$ 251,208	\$ 246,503
Argentina	17,883	18,295
Other	979	706
	\$ 270,070	\$ 265,504

10. RELATED PARTY TRANSACTIONS

Clearwater had the following transactions and balances with CFFI during the third quarter and year-to-date periods of 2006 and 2005.

	13 weeks ended		39 weeks ended	
	2006	2005	2006	2005
Transactions				
Charge by CFFI for use of a corporate airplane	42	15	143	49
Charged to CFFI for rent and other services	63	52	171	159
Charged by CFFI for management fee	50	-	150	-
Balances, as at September 30, 2006 and December 31, 2005				
Receivable from (payable to) CFFI			(665)	639

In addition Clearwater was charged approximately \$31,000 for vehicle leases in the third quarter of 2006 (2005 - \$37,000) and year-to-date \$98,000 (2005 - \$ 139,000) and approximately \$36,000 for other services (2005 - \$8,000) by companies controlled by a relative of an officer of Clearwater, year-to-date \$55,000 (2005 – \$37,000). The payable to CFFI relates to distributions on Class B units payable to CFFI, net of amounts owing from CFFI.

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

11. DISTRIBUTIONS

Clearwater declares distributions on a monthly basis with the current distribution set at a rate of \$0.05 per month, \$0.60 on an annualized basis (for total distributions when annualized of approximately \$31.7 million). The amounts are determined by the Board of Directors. In making this decision they consider the financial results, on-going capital expenditure requirements and cash on hand that has been reserved to complete funding of the vessel under construction, leverage and expectations regarding future earnings. Future earnings can be impacted by a number of factors including but not limited to, total allowable catch levels, selling prices, weather, exchange rates and fuel and other input costs. For additional information please refer to the Distributable Cash, Liquidity and Capital Resource and Definitions and Reconciliations sections of the Management Discussion and Analysis for the third quarter of 2006.

12. COMPARATIVE FIGURES

The cumulative earnings and deficit have been presented on a net basis on the balance sheet and statement of earnings and deficit.

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 or at its website (www.clearwater.ca).

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

FINANCIAL INFORMATION

QUARTERLY AND UNIT INFORMATION

The financial information disclosed below was derived from the unaudited interim earnings statements of Clearwater for periods from January 1, 2004 to September 30, 2006.

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

	2006			2005				2004			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	79,939	81,312	70,349	84,220	93,548	69,712	67,359	98,845	88,835	85,038	72,741
Net earnings (loss)	8,106	9,787	1,421	5,888	12,136	1,371	1,645	16,553	15,138	8,760	(2,978)
Distributable cash	10,362	16,459	8,294	7,970	11,694	612	6,929	18,018	12,457	11,728	11,963
Distributions	7,918	-	-	-	9,123	9,121	9,123	14,139	12,482	12,483	15,171
Per unit data											
Basic and diluted net earnings (loss)	0.15	0.19	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			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Trading price range of units (board lots)											
High	5.68	4.60	4.25	6.10	6.43	8.29	9.40	10.13	11.97	12.48	12.95
Low	4.20	3.93	3.35	2.25	5.65	6.21	7.92	8.10	9.35	10.31	11.80
Close	5.33	4.32	4.05	3.75	6.02	6.53	8.20	8.78	9.65	11.41	12.40
Trading volumes (000's)											
Total	2,794	4,051	4,311	11,243	11,641	4,338	7,142	6,746	2,352	5,428	4,704
Average daily	45	64	67	181	185	68	113	107	37	87	71
Units outstanding at end of quarter											
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	29,407,626	29,407,626
Special	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	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	52,788,843	52,788,843

CORPORATE INFORMATION

TRUSTEES OF CLEARWATER SEAFOODS INCOME FUND

Bernard Wilson

Former Vice Chairman
Pricewaterhouse Coopers

Brian Crowley

Founding President
Atlantic Institute for Market Studies

Thomas D. Traves

President and Vice-Chancellor,
Dalhousie University

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

Bernard Wilson

Former Vice Chairman
Pricewaterhouse Coopers
Chairman, Audit Committee

Hugh K. Smith

Vice-President,
Municipal Group of Companies
Chairman, Corporate Governance and
Compensation Committee

Thomas D. Traves

President and Vice-Chancellor,
Dalhousie University

Brian Crowley

Founding President
Atlantic Institute for Market Studies

Brendan Paddick

Chief Executive Officer
Columbus Communications Inc.

John C. Risley

Chairman, CS ManPar Inc.

Colin E. MacDonald

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.

Director of Corporate Finance
and Investor Relations
(902) 457-8181
tcotie@clearwater.ca

AUDITORS

KPMG LLP
Halifax, Nova Scotia

UNITS LISTED

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

TRANSFER AGENT

Computershare Investor Services Inc.