CLEARWATER SEAFOODS INCOME FUND

2010 Second Quarter Financial Statements

LETTER TO UNITHOLDERS

- Clearwater reported second quarter sales of $65.2 million and EBITDA of $7.1 million versus 2009 comparative figures of $70.2 and $8.5 million

- Year-to-date sales were $127.9 million and EBITDA was $13.6 million versus $141.2 million and $17.9 million in 2009.

- First half volumes remain healthy versus 2009 and planned pricing and productivity gains largely overcame the impact of foreign exchange on 2010 top line revenue and EBITDA

Clearwater reported second quarter EBITDA of $7.1 million on sales of $65.2 million versus 2009 comparative figures of $8.5 and $70.2 million. During the second quarter of 2010 strong sales volumes, selling prices, lower costs and lower selling, general and administrative expenses offset 83% of the negative impact of a stronger Canadian dollar as compared to 2009.

Year-to-date, Clearwater reported EBITDA of $13.6 million on sales of $127.9 million versus $17.9 million and $141.2 million in 2009. In 2010, strong sales volumes, selling prices and lower costs offset 74% of the negative impact of a stronger Canadian dollar as compared to 2009.

In both the second quarter and first half of 2010 sales volumes have remained healthy with 2^{nd} quarter volumes up 12% from 2009 and year-to-date volumes up 4%. Strong and accelerating demand for core products has allowed Clearwater management to execute planned price increases in the majority of species including scallops, clams and cooked and peeled shrimp and plans are in place to implement further increases in the remainder of the year.

Rolling four quarter EBITDA as of the second quarter of 2010 was $35.0 million as compared to $40.5 million in the comparative period in 2009. This decrease is a result of fiscal 2009 not exhibiting the typical seasonal pattern for the business, which is to realize higher EBITDA levels in the second half of the year as compared to the first half. In 2009, the first half EBITDA levels were higher than normal due largely to favourable exchange rates (for example the average exchange rate on the US dollar was 1.196 in the first half of 2009 versus 1.038 in the first half of 2010). In contrast, the second half of 2009 EBITDA levels were lower than seasonal norms due in part to soft market conditions for live lobster, which reduced demand and sales throughout the fourth quarter of 2009.

Looking forward to the balance of 2010, management believes that 2010 results will reflect a more typical pattern with the second half results showing greater strength than the first half, with improving annual EBITDA performance versus the prior year despite the continued negative impact of foreign exchange. This is based on expectations for continued strong sales volumes, planned price increases as well as the realization of additional cost savings and productivity gains in both operations and selling, general and administrative expenses. This expectation for higher second half EBITDA is dependent upon stable economic conditions in Asia, North America and Europe and a measure of stability in exchange rates.

In addition, Management and the Board will continue to focus on reducing debt levels and leverage. During the 12 months since the second quarter of 2009, Clearwater reduced its net debt by $10.5 million to $209.5 million versus $220.0 million at July 4, 2009. In the second quarter of 2010 net debt levels increased by $4.2 million due to the planned seasonal investment in inventories, primarily lobster. In the latter part of the year Clearwater will reduce this investment in working capital as these inventories are sold down. Clearwater's strategy for maintaining liquidity and reducing leverage includes carefully managing its working capital and capital expenditures and liquidating assets that do not achieve an adequate return on capital. Clearwater will continue to focus on reducing its leverage by improving earnings and using the positive cash flow of the business to reduce debt. This should enable Clearwater to lower interest costs over time.

Clearwater has two near-term loans for which it has been reviewing refinancing options. This includes approximately 1.3 billion in ISK denominated bonds (including CPI and accrued interest) that mature on September 27, 2010 (approximately Canadian $11.3 million) and $45 million of Class C Units that mature on December 31, 2010. Clearwater expects to be able to refinance these loans prior to their respective maturity dates.

While foreign currency headwinds masked the underlying strength of operations in the first half of 2010 I am encouraged by our continued volume strength in the second quarter and the increasing global consumer and customer demand for our premium, wild, eco-labeled seafood. Taken in combination with our recent pricing, cost savings and other productivity initiatives, I believe Clearwater is poised to deliver markedly improved operating margins and earnings performance through the balance of 2010. Furthermore, I believe that our strategies of:

- Expanding access to and supply of core species
- Targeting profitable and growing markets;
- Positioning our products as high quality, premium offerings;
- Capitalizing on our investments in innovation;
- Preserving the long-term sustainability of our resources; and
- Improving the organizational capacity, talent, diversity and engagement

will result in improved results in the near-term and provide us with a sustainable competitive advantage in the mid to longer term.

Ian Smith
Chief Executive Officer
Clearwater Seafoods Limited Partnership
August 13, 2010

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared effective August 13, 2010.

The Audit Committee and the Board have reviewed and approved the contents of this MD&A and the financial statements as well as the related 2010 second quarter news release.

This MD&A should be read in conjunction with the 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.

Clearwater Seafoods Limited Partnership ("Clearwater") has established and maintains disclosure controls and procedures over financial reporting, as defined under the rules adopted by the Ontario Securities Commission in multilateral instrument 52-109. The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have evaluated the design and effectiveness of Clearwater's disclosure controls and procedures as of December 31, 2009 and have concluded that such procedures are adequate and effective to provide reasonable assurance that the material information relating to Clearwater and its consolidated subsidiaries would be made known to them by others within those entities to allow for accurate and complete disclosures in annual filings.

The Management team of Clearwater, with the participation of the Chief Executive Officer and the Vice President, Finance and Chief Financial Officer (collectively "Management"), are responsible for establishing and maintaining adequate internal controls over financial reporting. Clearwater's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management evaluated the design and effectiveness of Clearwater's internal controls over financial reporting as at December 31, 2009. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in its report “Internal Control – Integrated Framework (1992)”. This evaluation included reviewing controls in key risk areas, assessing the design of these controls, testing these controls to determine their effectiveness, reviewing the results and then developing an overall conclusion. Based on management’s evaluation, the Chief Executive Officer and the Vice President, Finance and Chief Financial Officer have concluded that, as at December 31, 2009, Clearwater’s internal controls over financial reporting are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no significant changes in Clearwater’s internal controls over financial reporting or in other factors that occurred during the period from April 4, 2010 to July 3, 2010 or subsequent to the date of management’s evaluation, that have materially affected, or are reasonably likely to materially affect the company’s internal controls over financial reporting.

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, fuel and other input costs that could cause actual results to differ materially from those expressed in the forward-looking statements. Clearwater Seafoods Income Fund (“The Fund”) and Clearwater do not assume responsibility for the accuracy and completeness of the forward-looking statements.

OVERVIEW OF THE FUND AND CLEARWATER

Clearwater is recognized for its consistent quality, wide diversity, and reliable delivery of premium seafood, including scallops, lobster, clams, coldwater shrimp, crab and ground fish. Our key competitive advantages include our ownership of significant quotas in key species, our innovations in harvesting and processing technologies, and our vertical integration, which allows Clearwater to manage marketing, sales and distribution in-house. Since it’s founding in 1976, Clearwater has invested in science, people, technology, resource ownership and resource management to preserve and grow its seafood resource. This commitment has allowed Clearwater to remain a leader in the global seafood market.

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”).

EXPLANATION OF YEAR-TO-DATE SECOND QUARTER 2010 RESULTS

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

Overview

The statements of earnings disclosed below reflect the earnings (loss) of Clearwater for the 26 weeks ended July 3, 2010 and July 4, 2009.

(in 000's of Canadian dollars)	July 3 2010	July 4 2009
Sales	$ 127,875	$ 141,188
Cost of goods sold	97,715	108,855
	30,160	32,333
Selling and administrative and depreciation expense	12,040	11,923
Gross margin	18,120	20,410
Gross margin percentage	*14.2%*	*14.5%*
Administration and selling	12,643	12,999
Gain on disposal of property, plant and equipment and quota	(1,886)	(7,451)
Other expense	1,074	2,957
Foreign exchange and derivative contracts (income)	3,380	(30,872)
Interest on long-term debt and bank charges	11,661	13,236
Depreciation and amortization	475	81
Reduction in foreign currency translation account	214	468
	27,561	(8,582)
(Loss) earnings before income taxes and minority interest	(9,441)	28,992
Income taxes	889	728
(Loss) earnings before minority interest	(10,330)	28,264
Minority interest	391	374
Net (loss) earnings	$ (10,721)	$ 27,890

Net (loss) earnings

Net earnings decreased by $38.6 million compared to 2009, due primarily to large unrealized non-cash foreign exchange gains in 2009:

26 weeks ended In (000's of Canadian dollars)	July 3, 2010	July 4, 2009	Change
Net earnings (loss)	$ (10,721)	$ 27,890	$ (38,611)
Explanation of changes in earnings:			
Higher unrealized non-cash foreign exchange expense			(43,107)
Lower realized foreign exchange losses			8,855
Lower gain on sale of property, plant and equipment and quotas			(5,565)
Lower gross margin on product sales			(2,290)
Lower other expenses			1,883
Lower interest on long term debt			1,575
All other			38
			$ (38,611)

Clearwater reported year-to-date EBITDA of $13.6 million on sales of $127.9 million versus $17.9 million and $141.2 million in 2009. Similar to the second quarter, in the year-to-date 2010 period strong sales volumes, selling prices and lower costs offset 75% of the $16.8 million negative impact of a stronger Canadian dollar as compared to 2009.

The, $16.8 million exchange impact reduced sales by 11.6% in the year-to-date period. However, gross margins as a percentage of sales only declined 0.3% over the first half of 2010, as price increases and cost improvements offset 86% of the exchange impact to gross margin. Price increases in the majority of species including scallops, clams, lobster and cooked and peeled shrimp, along with improved catch rates for sea scallops, a reduction in total harvesting and production costs for clams, and a reduction in inshore raw material costs for lobsters reduced the impact on gross margin from foreign exchange rates. In addition volumes sold for clams, and frozen-at-sea shrimp continued to recover during the first half of 2010.

Fuel costs for the first half of 2010, increased $321,000 from $9.1 million in 2009 to $9.4 million in 2010, due to a $.05 increase in the average price per litre, partially offset by lower volumes consumed. Clearwater's vessels used approximately 33 million litres of fuel in 2009. Based on 2009 fuel consumption, a one-cent per litre change in the price of fuel impacts harvesting costs by approximately $330,000.

Year to date sales by region were as follows:

In 000's of Canadian dollars 26 weeks ended	July 3 2010	July 4 2009	Change	%
Europe	$ 45,649	$ 47,561	$ (1,912)	(4.0)
United States	28,302	39,270	(10,968)	(27.9)
Canada	15,795	20,245	(4,450)	(22.0)
Asia				
Japan	15,820	13,894	1,926	13.9
China	10,088	10,734	(646)	(6.0)
Other Asia	11,406	8,546	2,860	33.5
Other	815	938	(123)	(13.1)
	$ 127,875	$ 141,188	$ (13,313)	(9.4)

Analysis By Region:

The Canadian dollar continued to strengthen for the 26 weeks ended July 3, 2010, impacting selling prices when converted to Canadian dollars, causing a decline of $16.8 million (11.6%) in sales dollars in comparison to foreign exchange rates for the same period of 2009. However, price increases for the majority of species including sea and bay scallops, clams and cooked and peeled shrimp and well as increases in sales volumes for clams, turbot and lobster in the Japan region (which offset lower volumes in Europe, the United States and Canada) partly offset for the impact of weakening foreign exchange rates on sales.

Europe

Europe is Clearwater's largest scallop region and it is an important market for coldwater shrimp products. It has been a growth area for several years as Clearwater has diversified away from being dependent upon the United States region.

European sales declined by $1.9 million, or 4.0%, for the first half of 2010 due to a weakening European Euro and UK Pound in comparison to the Canadian dollar and to a lesser extent, by lower volumes, partially offset by price increases. An increase in sales volumes for shrimp partially offset the decline in sales in Europe. The higher shrimp sales were as a result of an increase in the number of landings as both vessels were fishing in the second quarter of 2010, as a refit was performed on the Atlantic Enterprise during the second quarter of 2009. In addition sale prices for shrimp, when converted to Canadian dollars, remained consistent despite the significant affect on sales from foreign exchange.

Foreign exchange rates for the European Euro declined 15.1% from 1.606 in 2009 to 1.363 in 2010, while the UK pound declined 12.4% from 1.794 to 1.572 over the same period.

Sales volumes for scallops declined due to a lower number of landings during the period for Argentine scallops. In addition, average sales prices for sea scallops were lower due to a change in sales mix for product that was weighted towards small sizes that have lower average selling prices.

Price increases for the majority of species including clams, sea and bay scallops and shrimp served to partly compensate for the strengthening Canadian dollar and lower volumes.

United States

The United States is our largest lobster market and is an important market for scallops, coldwater shrimp and for some of our clam products. It is our most diverse market, where a wide variety of product is sold.

Sales within the United States declined by $11.0 million, or 27.9%, during the first half of 2010 primarily as a result of the affect of the weakening US dollar against the Canadian dollar, and a decrease in supply volumes of coldwater shrimp and Argentine scallops. Coldwater shrimp volumes were down because of low levels of production in 2009 that resulted in lower inventory levels beginning in the first half of 2010. Average foreign exchange rates for the US dollar declined by 13.2% from 1.196 in the first half of 2009 to 1.038 in the same period of 2010. Selling prices for sea and bay scallops increased during the period to partially offset the affect of the weakening US dollar.

Canada

Sales within Canada decreased $4.5 million to $15.8 million in the first half of 2010 primarily as a result of a decline in sales volumes for sea scallops and lobster as the company carried lower volumes of inventory in Canada at the end of the fourth quarter of 2009, reducing amounts available for sale. In addition, a difference between size mixes harvested and consumer demand within the region for sea scallops reduced sales volumes during the period.

Pricing of lobster was lower in the first half of 2010 but the company was able to implement general price increases for both sea and bay scallops.

Japan

Japan is our largest clam market and it is also an important market for lobster.

Sales to Japan increased $1.9 million to $15.8 million in the first quarter of 2010, primarily as a result of an increase in volumes for frozen-at-sea clams, turbot and lobster. Lobster and clam volumes increased because of changes in timing between customer sales during the second and third quarter, while sales volumes for turbot increased during the period as a result of timing of landings as there were no landings in the second quarter of 2009. Continued declines in foreign exchange rates served to reduce sales, as the Japanese Yen declined from 0.013 in 2009 to 0.011 in the first half of 2010. In addition the increase in sales was partially offset by changes in sales mix for clams that was weighted towards products with lower selling prices.

Other Asia

Sales within the other Asia region include sales to Hong Kong, Korea, Taiwan, Singapore and other Asian countries. Other Asian countries are an important market for clams, shrimp and turbot. Sales within other Asia increased 33.5% to $11.4 million in the first half of 2010, as a result of an increase in sales volumes for clams and sea scallops as consumer demand increased for the period. The increase in volumes for clams was partially offset by changes in sales mix for clams that were weighted towards products with lower selling prices

Year-to-date sales by product category were as follows:

In 000's of Canadian dollars 26 weeks ended	July 3 2010	July 4 2009	Change	%
Scallops	$ 47,193	$ 56,916	$ (9,723)	(17.1)
Lobster	29,590	32,516	(2,926)	(9.0)
Clams	29,608	28,030	1,578	5.6
Coldwater shrimp	15,457	19,568	(4,111)	(21.0)
Crab	3,341	3,515	(174)	(5.0)
Ground fish and other	2,686	643	2,043	317.7
	$ 127,875	$ 141,188	$ (13,313)	(9.4)

Analysis By Species:

Sales

The decrease in scallop sales was primarily a result in lower volumes in Argentine scallops due lower harvesting volumes, and the strengthening Canadian dollar. Price increases for Argentine and sea scallops partially offset the affect from foreign exchange and volumes.

Lobster sales decreased as a result of a decline in sales prices that were a result of the continued soft US market conditions and the strengthening Canadian dollar.

Clam sales increased as a result of an increase in volumes that was partially offset by a decline in sales prices from a change in sales mix that was weighted towards products with lower selling prices, and weakening foreign exchange rates.

Coldwater shrimp sales declined in the first half of 2010 due to lower foreign exchange rates and weaker global market conditions that served to reduce volume sold as consumer demand was affected by the global downturn of the economy and competitive pressures.

Ground fish and other sales increased in the first half of 2010 primarily from the timing of turbot landings. In 2009, landings occurred in the third quarter while sales began in June for 2010.

Cost of Goods Sold (note that commentary is on a per pound basis)

Gross margin as a percentage of sales only declined from 14.5% to 14.2%, despite the $16.8 million impact of foreign exchange, as improved catch rates for sea scallops, and a reduction in total harvesting and production costs for clams and lobsters, reduced overall costs of production.

Costs for sea scallops improved in the second quarter of 2010 in comparison to the same period of 2009 from lower total harvesting costs and improved catch rates, while costs for Argentine scallops remained consistent during the period.

Costs for lobster improved in the first half of 2010 as compared to the same period in 2009. Clearwater harvests approximately 20% of the lobster supply and procures the balance from Canadian inshore lobster suppliers. Procurement provided Clearwater with an opportunity to offset some of the impact of changes in market prices by adjusting the prices we pay to our inshore lobster suppliers. In addition offshore catch rates were more favourable and harvesting costs improved during the first half of 2010.

Cost of goods sold for shrimp declined during the first half of 2010 as a result of an improvement in both harvesting costs for frozen-at-sea shrimp and production costs for cooked and peeled shrimp.

Gross Margin

Clearwater had gross margins of $18.1 million and $20.4 million for the 26 weeks ended July 3, 2010 and July 4, 2009, respectively, a decline of $2.3 million or approximately 0.3%. Overall, gross margin was negatively impacted by foreign exchange rates which resulted in a reduction of sales and gross margin by $16.8 million or 11.6% in comparison to the 26 weeks ended July 4, 2009.

Clearwater was able to offset 86% of the exchange impact through price increases for the majority of species including scallops, clams, lobster and cooked and peeled shrimp, improved catch rates for sea scallops, and a reduction in total harvesting and production costs for clams and lobsters. In addition total volumes sold for clams, and frozen-at-sea shrimp continued to recover during the first half of 2010.

Foreign exchange rates, in particular lower average exchange rates on US dollars, Euros and UK pounds decreased the value of sales and margins by approximately $16.8 million (11.6% of sales) in the first half of 2010 compared to the rates received in the same period of 2009. Despite this, gross profits declined by only $2.3 million, or .03%, as most of the exchange impact was offset by price increases and improved costs.

26 weeks ended	July 3 2010		July 4 2009	
Currency	% sales	Average rate realized	% sales	Average rate realized
US dollars	42.7%	1.038	41.3%	1.196
Euros	22.6%	1.363	22.5%	1.606
Japanese Yen	11.9%	0.011	9.5%	0.013
UK pounds	5.1%	1.572	5.6%	1.794
Canadian dollar and other	17.7%		21.2%	
	100.0%		100.1%	

Administration and selling costs. Total administrative and selling expenses increased by 0.4% or $76,000 to $17.9 million in the first half of 2010 primarily as a result of an increase in consulting fees. Certain administration and selling costs are classified as cost of goods sold (refer to the table below).

In 000's Canadian dollars 26 weeks ended	July 3 2010	July 4 2009
Administration and selling costs classified in cost of goods sold	$ 5,292	$ 4,860
Costs classifed as administration and selling	12,643	12,999
	$ 17,935	$ 17,859

Gain on disposal of property, plant and equipment and quotas. During the first half of 2010 Clearwater realized a gain of $1.9 million on disposals of surplus non-core licences, vessels and equipment with the majority related to gains of $1.2 million on the sale of non-core ground fish quotas. The gain of $7.5 million in the first half of 2009 primarily related to gains on the sale of non-core ground fish quotas.

Other expense (income)

In 000's Canadian dollars 26 weeks ended		July 3 2010		July 4 2009
Restructuring expenses	$	1,772	$	4,325
Quota rental and royalties		(938)		(332)
Investment income		(5)		(111)
Vessel research and development expense		1,128		513
Export rebate		(108)		(210)
Other		(775)		(1,228)
	$	1,074	$	2,957

Other expense improved $1.9 million from $3.0 million in the first half of 2009 to $1.1 million in the same period of 2010. The improvement was primarily a result of a $2.6 million reduction in restructuring expenses. The refinancing and restructuring expense of $4.3 million in 2009 related to the refinancing of Clearwater's senior debt facility, including make-whole penalties and fees. In 2010, refinancing and restructuring expense includes $1.1 million related to employee restructuring activities and $670,000 relate to refinancing activities related to convertible debentures and ISK bonds due in 2010.

Quota rental and royalties income increased during the first half of 2010 by $606,000, to $938,000 primarily as a result of a rental of a non-core license during the second quarter.

Vessel research and development relates to new technology and research into ocean habitats and fishing grounds. Research and development can vary year-to-year depending on the scope, timing and volume of research completed. In the first half of 2010, expenses increased to $1.1 million as a result of a number of active projects.

Other includes income related to commissions, rental income, processing fees and other miscellaneous income and expense that varies based upon the operations of the business.

Foreign exchange loss (gain)

26 weeks ended In (000's of Canadian dollars)		July 3 2010		July 4 2009
Realized loss (gain)				
Foreign exchange and derivatives	$	-	$	8,659
Other realized including sales and balance sheet translation		2,453		2,649
		2,453		11,308
Unrealized (gain) loss				
Balance sheet translation		1,579		(6,183)
Mark to market on foreign exchange derivative contracts		-		(23,056)
Mark to market on interest and currency swap contracts		(652)		(12,941)
		927		(42,180)
Total loss (gain)	$	3,380	$	(30,872)

Clearwater does not account for its derivative contracts as accounting hedges, and therefore records the mark-to-market value of the contracts each reporting period, recording the non-cash impacts of foreign exchange on the outstanding contracts as income or expense.

Foreign exchange loss (gain) was a net loss of $3.4 million in the first half of 2010 as compared to a gain of $30.9 million in the first half of 2009. The change was primarily the result of significant volatility in exchange rates applied to exchange contracts outstanding during the first half of 2009 that resulted in realized and unrealized exchange gains and losses during the first half of 2009. All outstanding foreign exchange contracts were settled during the first half of 2009.

Realized losses were $2.5 million in 2010 versus $11.3 million in 2009. This includes realized losses on derivative contracts of $8.7 million in 2009, which decreased to $Nil in 2010 as there were no foreign exchange contracts outstanding throughout the first half of 2010. Also included in realized losses are realized losses related to working capital of $2.5 million in 2010 versus $2.6 million in 2009.

Unrealized gains/losses include an unrealized loss of $927,000 in 2010 versus a $42.2 million unrealized gain in 2009. Clearwater had unrealized losses of $1.6 million in the first half of 2010 for balance sheet translation. These unrealized gains in 2009, primarily relate to the translation of Clearwater’s mostly US dollar denominated long-term debt. The mark to market adjustments in 2010 related to cross-currency interest rates swaps, whereas in 2009 they related to the same cross-currency interest rates swaps as well as foreign exchange contracts.

Please refer to the section Transactions with Glitnir later in this document for further discussion regarding derivative contracts for which Glitnir is the counter party including cross-currency interest rates swaps.

Interest on long-term debt declined $1.5 million from $13.0 million for the first half of 2009 to $11.4 million for the same period in 2010 due primarily to lower average interest rates and lower debt balances, offset partially by higher non-cash amortization of deferred financing charges.

The decline in interest rates was primarily due to the fact that in of the first half of 2009 Clearwater had a number of short-term loan facilities in place at relatively high interest rates which contributed to higher interest costs. Interest rates on the short-term facilities in place in 2009 related to maturing term debt facilities which had interest rates that escalated 1% per month from December 2008 to as high as 15% by June 2009.

Clearwater's outstanding debt declined $9.1 million to $217.7 million at July 3, 2010 from $226.8 million at July 4, 2009, but increased $3.6 million from $214.1 million at December 31, 2009. The increase in total debt for Clearwater was expected and forecasted as it is a result of the beginning of the inshore lobster buy season.

Partially offsetting this decline in interest costs is higher non-cash amortization of deferred financing charges. In 2010 interest expense includes approximately $2.8 million of amortization of deferred financing charges compared to $1.9 million in the first half of 2009 (refer to table below). Excluding these non-cash charges, actual cash interest expense paid declined to $8.9 million in 2010 versus $11.3 million in 2009.

26 weeks ended In (000's of Canadian dollars)	July 3, 2010	July 4, 2009
Interest on long term debt and bank charges	11,661	13,236
Less amortization of non-cash interest	(2,769)	(1,909)
	8,892	11,327

Depreciation and amortization. Including the allocation of depreciation to cost of goods sold, depreciation and amortization expense was $7.2 million for the first half of 2010, an increase of 1.1% from the same period in 2009.

In 000's Canadian dollars 26 weeks ended	July 3 2010	July 4 2009
Depreciation in COGS from the sale of inventory	$ 6,748	$ 7,063
Costs classifed as depreciation and amortization	475	81
	$ 7,223	$ 7,144

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

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

LIQUIDITY AND CAPITAL RESOURCES

Current market conditions

Management continuously evaluates various aspects of Clearwater's business and financial circumstances that could be affected by economic conditions. A summary of the results of this evaluation is as follows:

- Cash flow from operations when normalized[1] continues to remain positive, despite softened global market conditions and weaker foreign exchange rates. Average foreign exchange rates for the US dollar and European Euro declined from 1.196 in the second quarter of 2009 to 1.038 in 2010, and 1.606 in 2009 to 1.363 in 2010, respectively.

- During the 12 months since the second quarter of 2009, Clearwater reduced its net debt by $10.5 million to $209.5 million versus $220.0 million at July 4, 2009. In the second quarter of 2010 net debt levels increased by $4.2 million due to the seasonal investment in inventories, primarily lobster. In the latter part of the year Clearwater will reduce its investment in working capital as it sells down these inventories. Repayments of $3.6 million (excluding repayments on revolving debt) were made in 2010 partially offsetting the investment in working capital. These higher debt levels, when combined with lower rolling four quarter EBITDA levels have resulted in an increase in leverage ratios[2] to 5.99 at July 3, 2010 from 5.22 at December 31, 2009. Total debt and leverage is expected to decline in the fourth quarter of 2010 as Clearwater reduces it investment in working capital and improves its rolling four quarter EBITDA.

1 - Refer to page 56 for definition and calculation of normalized cash flow

2 - Refer to page 55 for definition of leverage

($000's of Candian dollars)	July 3, 2010	December 31, 2009	July 4, 2009
EBITDA [1]	34,991	39,317	40,524
Net debt (per below)	209,498	205,285	219,955
Net debt leverage	5.99	5.22	5.43
Senior debt (per below)	82,905	80,859	91,749
Senior debt leverage	2.37	2.06	2.26
Debt per balance sheet	217,673	214,117	226,765
Less cash	(8,175)	(8,832)	(6,810)
Net debt	209,498	205,285	219,955
Less subordinated debt	126,593	124,426	128,206
Senior debt	82,905	80,859	91,749
Senior Debt			
Senior notes payable			
Revolver	30,710	26,873	36,095
Amortizing Term Debt	35,973	37,935	39,764
Non - Amortizing Term Debt	16,222	16,051	15,890
	82,905	80,859	91,749

1 – Refer to page 54 for definition and calculation of EBITDA

- The relatively stronger Canadian dollar exchange rates as compared to exceptionally strong foreign exchange rates in the first half of 2009 has had a significant impact on year-to-date results, reducing sales and margins by $16.8 million.

  The US dollar, Japanese Yen and European Euro currencies weakened relative to the Canadian dollar in the first quarter of 2010. Sales in these currencies in the first quarter of 2010 were US$52.5 million, Euro 21.2 million and Yen 1.3 billion and the average exchange rates realized in 2010 were 1.038 for the US dollar, 1.363 for the Euro and 0.011 for the Yen (refer to table in the annual overview section).

  Clearwater currently has no exchange contracts in place and therefore any short-term volatility in market exchange rates will directly impact Clearwater's earnings, either positively or negatively.

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

These new debt facilities together with the improved operations of Clearwater and less capital spending will allow Clearwater to generate positive free cash flow. It is the intention of Clearwater that this cash flow be used to reduce its debt levels.

In December 2010 Clearwater Seafoods Income Fund has $45 million of convertible debentures that come due. These funds were invested by the Fund in Class C Units issued by Clearwater with similar terms and conditions, including maturity in December 2010. Clearwater also has approximately 1.3 billion in ISK denominated bonds, including CPI and accrued interest that come due in September 2010 (approximately Canadian $11.3 million at July 3, 2010). Clearwater is currently investigating refinancing alternatives and plans to refinance both before the respective maturity dates.

- The weighted average of the interest rate on the new debt facilities obtained in June 2009 is approximately 8.1% versus a rate of approximately 7% on the refinanced notes that matured in December 2008. Clearwater continues to pursue a strategy of keeping its cost of capital as low as possible by focusing on reducing its overall debt levels.

- Clearwater has a focused, multi-faceted strategy for maintaining liquidity and reducing debt:

  - **Managing working capital** – this includes lowering its investment in trade receivables through a combination of tighter collection terms, discounting, limiting its investment in inventories through tight review of any slow moving items and improving integration of its fleet and sales force;

  - **Limit capital spending**. Clearwater's capital program focus over the next few years will be to maintain its existing fleet and complete any necessary repairs and maintenance. Clearwater's capital expenditures will be limited to planned and required refits and capital maintenance requirements, which are estimated to cost up to $10 million in 2010.

  - **Liquidating under performing and non-core assets.** Clearwater has and will continue to review and liquidate underperforming and non-core assets. In the first half of 2010, Clearwater realized proceeds of $2.2 million from the sale of non-core quotas. This substantially completes the program of selling on-core quotas that management had undertaken in the last several years.

- o **Limiting distributions**. No distributions will be paid for the foreseeable future as management will focus on using cash flow to reduce senior debt. Lending agreements prevent distributions through June 2012.

A continued focus on debt repayment and improved efficiencies has allowed Clearwater to improve operations, reduce costs and maintain strong and positive liquidity to operate the business.

Income Trust Legislation

In 2006 the Canadian Federal government announced tax changes for income trusts that will take effect on January 1, 2011. On March 12, 2009 the Federal government enacted rules to allow trusts to convert to a corporation on a tax-free basis prior to 2013.

Clearwater has reviewed its corporate structure in light of these changes in tax legislation.

Clearwater's structure is a limited partnership (Clearwater Seafoods Limited Partnership) owned by a trust (Clearwater Seafoods Income Fund). Currently the Fund's portion of the taxable earnings of Clearwater, if any, flow through to the Fund and are allocated to unitholders regardless of whether the Fund pays distributions.

In recent years, the Fund has not been allocated taxable earnings from Clearwater. Further, Clearwater has significant tax assets to shield future taxable income. Clearwater's management estimates that Clearwater has or can generate approximately $75 million of currently deductible tax shield which can provide shelter for future taxable earnings allocated to the Fund.

Clearwater anticipates that there will continue to be no taxable earnings allocated to the Fund through the 2012 fiscal year as it will be able utilize this tax shield.

Under the new tax rules starting in 2011, certain trusts will be required to pay taxes on any distribution of taxable earnings they allocate to their unitholders. The tax to be paid by these trusts is equivalent to the corporate tax rates and the recipient of the distributions of taxable income will be taxed on those distributions as taxable dividends.

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

The Fund has not paid distributions since December 2007. In addition, no distributions will be paid for the foreseeable future as lending agreements prevent distributions through June 2012. Clearwater will instead focus its cash flow on the retirement of senior debt.

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

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

Capital Structure

Clearwater's capital structure includes a combination of equity and various classes of long-term debt. Clearwater's objective when managing its capital structure is to obtain the lowest cost of capital available, while maintaining flexibility and reducing exchange risk by borrowing when possible in currencies other than the Canadian dollar.

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

The new debt facilities bear floating interest rates, with a weighted average of approximately 8.1%. The Term portion of the facility includes two tranches with one having partial amortization over the three-year term of the loan and the other to be paid in full at the end of the term. These new facilities carry covenants that prevent future distributions and include restrictions on annual capital expenditures to amounts approved by lenders and minimum EBITDA to Debt targets. Clearwater is in compliance with all of it debt covenants at July 3, 2010.

Clearwater uses leverage, in particular senior revolving and term debt, and subordinated debt to lower its cost of capital. The amount of senior debt available to Clearwater is a function of earnings that can be impacted by known and unknown risks, uncertainties, and other factors outside Clearwater's control including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs. Clearwater maintains flexibility in its capital structure by regularly reviewing forecasts of future results and making any required changes on a timely basis. These changes can include early repayment of debt, repurchasing units, issuing new debt or equity, extending the term of existing debt, selling assets to repay debt and if required, limiting distributions paid.

While Clearwater's leverage levels have come down they remain high and it is Management's intention that it will direct cash flow from operations to reduce its leverage.

As at July 3, 2010, 54.27% (December 31, 2009 – 54.27%) of the outstanding partnership units of Clearwater were owned by the Fund. However, as Clearwater Fine Foods Incorporated ("CFFI") continues to maintain the right to nominate the majority of the board of directors of Clearwater since the time of the initial investment by the Fund, the assets and liabilities of Clearwater, when acquired by the Fund, were recorded using the book values as recorded by CFFI.

As at July 3, 2010, the Fund and Clearwater had similar equity/convertible debt structures as illustrated in the table below:

	Fund	**Clearwater**
Units		
Publicly Listed Trust Units	27,745,695	
Class A Partnership Units		27,745,695
Units Held solely by Clearwater Fine Foods Incorporated		
Special Trust Units	23,381,217	
Class B Partnership Units		23,381,217
	51,126,912	51,126,912
Convertible debentures/Class C Partnership Units (face value)		
Convertible debentures due December 2010	$45,000,000	
Class C Partnership Units		$45,000,000
Convertible debentures/Class D Partnership Units (face value)		
Convertible debentures due March 2014	$44,389,000	
Class D Partnership Units		$44,389,000

As of August 14, 2010, there have been no changes to the number of units outstanding.

Clearwater's total capital structure is as follows as at July 3, 2010 and December 31, 2009:

In (000's of Canadian dollars)		July 3 2010		December 31 2009
a. Equity – Partnership units	$	164,770	$	164,770
b. Convertible debt, Class C units, due in 2010		44,662		44,338
c. Convertible debt, Class D units, due in 2014		42,207		41,967
d. Non-amortizing debt				
Bond payable, due in 2010		11,297		10,519
Bond payable, due in 2013		29,513		28,345
Term debt, due in 2012		16,222		16,051
Term loan, due in 2091		3,500		3,500
		60,532		58,415
e. Amortizing debt				
Revolving debt, matures in 2012		30,710		26,873
Term debt, matures in 2012		35,973		37,935
Marine mortgage, matures in 2017		3,128		4,004
Other loans		460		585
		70,271		69,397
Deficit		(127,790)		(117,069)
Contributed surplus		1,816		1,816
	$	256,468	$	263,634

a. Equity consists of Class A Limited Partnership units, Class B General Partnership units and an equity portion of both Class C Partnership units and Class D Partnership units. Both Class A and Class B units are equally eligible for any distributions that are declared by Clearwater. The Class B Partnership units were issued concurrent with **Special Trust Units** that were issued by the Fund solely to provide voting rights to Clearwater Class B Partnership units held by CFFI.

b. Convertible debt - In June 2004, 4,081,633 **Class C units** were issued by Clearwater (indirectly) to the Fund concurrently with the issue by the Fund of $50 million of convertible debentures ($45 million in principal outstanding as at July 3, 2010 and December 31, 2009 due to buybacks under a normal course issuer bid). 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. The **convertible debentures** issued by the Fund are unsecured and subordinated, bear interest at 7%, and are due on December 31, 2010. They are convertible at any time up to maturity, at the option of the holder into trust units of the Fund at a conversion price of $12.25 per trust unit. The debentures pay interest semi-annually in arrears on June 30 and December 31. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering that number of trust units equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash.

c. Convertible debt - In 2007 8,142,712 Class D units were issued for proceeds of $48 million. **Class D units** were issued by Clearwater (indirectly) to the Fund concurrently with the issue by the Fund of $48 million of convertible debentures, ($44.4 million in principal outstanding as at December 31, 2009 and July 3, 2010 due to buybacks under a normal course issuer bid). The Class D units are non-voting, redeemable and retractable at a price of $5.90 per unit. These units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the convertible debentures of the Fund and in a manner that ensures that the distributions on the Class D units will be able to fund the ongoing interest payments on the convertible debentures. The **convertible debentures** issued by the Fund are unsecured and subordinated, bear interest at 7.25%, and are due on March 31, 2014. They are convertible at any time up to maturity, at the option of the holder, into trust units of the Fund at a conversion price of $5.90 per trust unit. The debentures pay interest semi-annually in arrears on March 31 and September 30. The debentures are not redeemable before March 31, 2010. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering that number of trust units equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash.

d. Non-Amortizing debt consists of:
   - ISK denominated bonds;
   - $17 million in term debt; and;
   - $3.5 million term loan due in 2091.

During 2008 Clearwater renewed its ISK denominated bonds by issuing ISK 3 billion of five-year bonds with a coupon of 11% and interest payable annually each August, adjusted for changes in the Icelandic consumer price index (CPI), maturing in August 2013. Proceeds from these bonds were used to pay all but ISK 647 million in principal of ISK bonds, which come due on September 27, 2010. The total outstanding on the ISK bonds as of July 3, 2010 including CPI and accrued interest was ISK 5.1 billion, (approximately $43.7 million Canadian, net of deferred financing charges of $635,000).

	July 3, 2010			December 31, 2009		
	Due 2010	Due 2013	Total	Due 2010	Due 2013	Total
Principal	649,033	2,926,500	3,575,533	647,150	2,917,218	3,564,368
Accrued interest	235,122	335,777	570,899	206,889	136,906	343,795
Accrued CPI	440,255	533,465	973,720	404,206	473,296	877,502
Total ISK	1,324,410	3,795,742	5,120,152	1,258,245	3,527,420	4,785,665
Canadian	11,297	32,378	43,675	10,519	29,489	40,008

The bond payable in 2010 (ISK 1.3 billion or $11.3 million Canadian) includes principal, CPI and accrued interest, all of which are due at maturity.

The bond due in 2013 (ISK 3.8 billion or $32.4 million Canadian) includes accrued interest of $2.9 million which is included accounts payable and accrued liabilities as it is paid annually with the balance of $29.5 million (consisting of principal and CPI) included in long-term debt.

The non-amortizing term loan entered into in June 2009 has a principal with a face value of $17 million, with a current interest rate of 9.35%, ($16.2 million, net of deferred financing) that is due in full on June 17, 2012 and is secured by priority charges over licenses and quotas as well as Clearwater's investment in, its Argentine subsidiary, Glaciar Pesquera S.A., with a secondary charge over the collateral of the new amortizing term loan (as described in section e), and a third charge on the collateral of the new revolving term loan.

e. Amortizing debt consists of a revolving loan and other term loans, which mature in 2012 as well as a marine mortgage that matures in 2017.

During the second quarter of 2009 Clearwater refinanced maturing term notes as well as some short-term debt facilities with both term and revolving debt facilities, some of which are amortizing (as described below).

The revolving term loan is based on 85% of eligible receivables and 75% of eligible inventory to a maximum of $60 million, bearing interest at Bank Prime plus 2.5%, currently denominated in both Canadian $4.6 million and United States dollars $28.1 million for a total of $32.7 million ($30.7 million net of deferred financing charges of $2.0 million) with any outstanding balance due on June 12, 2012. The loan is secured by a priority charge on accounts receivable, cash and cash equivalents subject to certain limitations, and inventory, a third charge on the collateral of the new amortizing term loan and on the non-amortizing term loan.

The new amortizing Term loan, which currently has a balance of $37.2 million ($36.0 net of deferred financing charges), bears interest at Bank Prime plus 6% convertible to BA plus 7% at the request of Clearwater, is due in quarterly payments of $1.3 million with a final payment due on June 17, 2012 of $27.9 million and is secured by a priority charge on Marine Vessels, all other assets except for that collateral attributed to the Revolving Loan in (d) above and Clearwater's investment in Glacier Pesquara S.A., a second charge on the collateral of facility B, and a third charge on the collateral of the new revolving term loan.

Clearwater is in compliance with all of the non-financial and financial covenants associated with its debt facilities. Clearwater's debt facilities have covenants that include, but are not limited to, leverage ratios against earnings (excluding most significant non-cash items and non-recurring items from earnings) and fixed charge ratios that limit the amount of distributions, and capital expenditures to amounts approved by lenders, and loan repayments that can be paid. In addition, the debt related to these facilities takes priority over the securities in Clearwater held by the Fund.

Clearwater's outstanding debt declined $9.1 million to $217.7 million at July 3, 2010 from $226.8 million at July 4, 2009, but increased $3.6 million from $214.1 million at December 31, 2009. The increase in total debt for Clearwater was expected and forecasted as it is a result of the beginning of the inshore lobster buy season. Payments of $3.6 million (excluding financing charges) were made during the period.

Some entities provide information on debt to equity ratios. We do not believe that this ratio would provide useful information about Clearwater and its capital structure due a large portion of historical earnings having been paid out in distributions and a significant amount of assets being recorded at historical cost since the IPO in 2002 rather than at fair value.

Working capital and cash flows

As of July 3, 2010 Clearwater had $8.2 million in cash, net of bank advances and a revolving asset-backed operating loan facility with an outstanding balance of $30.7 million (excluding deferred financing charges). The cash balance, together with available credit on the asset-backed loan, is used to manage working capital needs.

CASH FLOWS

In (000's of Canadian dollars)	13 weeks ended July 3 2010	13 weeks ended July 4 2009	26 weeks ended July 3 2010	26 weeks ended July 4 2009
Cash flow (used in) from operating activities				
Net earnings (loss)	(4,474)	11,290	(10,721)	27,890
Other non-cash operating items	4,435	(20,704)	9,186	(39,977)
Change in non-cash operating working capital	(10,058)	(5,501)	422	7,586
	(10,097)	(14,915)	(1,113)	(4,501)
Cash flows from (used in) financing activities				
Reduction from long-term debt	(195)	(107,345)	(10,370)	(109,205)
Proceeds from long-term borrowings	10,125	99,692	10,125	99,581
Other	-	(1,024)	(179)	(851)
	9,930	(8,677)	(424)	(10,475)
Cash flows from (used in) investing activities				
Proceeds on disposal of property, plant, equipment, licences and other	953	9,277	3,259	9,280
Purchase of property, plant, and equipment	(965)	(2,588)	(1,991)	(3,700)
Other	(439)	1,106	(388)	692
	(451)	7,795	880	6,272
(Decrease) increase in cash	(618)	(15,797)	(657)	(8,704)
Cash - beginning of period	8,793	22,607	8,832	15,514
Cash - end of period	8,175	6,810	8,175	6,810

For the first half of 2010 Clearwater's net cash position increased to $8.2 million from $6.8 million for the same period of 2009. Cash flows from operating activities declined from $7.6 million in the first half of 2009 to $422,000 in 2010 as a result of an improvement in accounts receivable trade balances and inventory levels. Significant improvements in inventory management and accounts receivable aging have reduced outstanding balances and improved cash management. Inventories have declined from $61.6 million at July 4, 2009 to $55.2 million at July 3, 2010, while current accounts receivable aging has improved by 2% since July 4, 2010.

Total proceeds from long term borrowings, for the second quarter 2010, were $10.1 million primarily due to the seasonal investment in inventories, primarily lobster. In the latter part of the year, Clearwater will reduce its investment in working capital as it sells down these inventories, reducing total debt. Repayments of $3.6 million (excluding repayments on revolving debt) were made in 2010 partially offsetting the investment in working capital.

Cash flows generated by Clearwater's operations along with cash on deposit and the revolving asset-backed loan are used to fund current operations, seasonal working capital demands, capital expenditures, and other commitments. Due to the seasonality in Clearwater's business, sales and gross profit are typically higher in the third and fourth quarter of the calendar year than in the first half of the year.

Cash flow from operations when normalized continues to remain positive, despite softened global market conditions and weaker foreign exchange rates. Average foreign exchange rates for the US dollar and European Euro declined from 1.196 in the second quarter of 2009 to 1.038 in 2010, and 1.606 in 2009 to 1.363 in 2010, respectively.

CAPITAL EXPENDITURES

Clearwater grades investments in property, plant, equipment and licences as either return on investment ("ROI") or maintenance capital and tracks each on a project-by-project basis. Significant expenditures that are expected to have an average return in excess of average cost of capital are classified as ROI, and expenditures that have less than the average cost of capital are classified as maintenance as are all refits.

Capital expenditures were $2.0 million for the first half of 2010 (2009 - $3.7 million). Clearwater's capital program focus over the next few years will be maintaining its existing fleet and completing any necessary repairs and maintenance to its plants.

TRANSACTIONS WITH GLITNIR BANKI HF

On October 7, 2008 the Icelandic Financial Services Authority ("FME") took control of Glitnir Banki hf ("Glitnir") and subsequently placed it into receivership. Prior to Glitnir's receivership Clearwater had derivative contracts with Glitnir including foreign exchange forwards and options and cross currency and interest rate swaps.

During the course of refinancing the debt facilities that matured in June 2009, Clearwater and Glitnir Banki hf reached an agreement, in the second quarter of 2009, to resolve issues concerning any potential liability associated with foreign exchange derivative contracts entered into with Glitnir. Under the agreement all outstanding derivative contracts were closed, to remove any uncertainty going forward, and the potential liability under these contracts was capped at $13.97 million.

In November 2009 Clearwater commenced litigation on its position that these contracts are null and void. If Clearwater is successful, there is a minimum settlement of $2.9 million represented by a note secured by a subordinated charge on all of Clearwater's assets. The note is due September 15, 2012. To the extent Clearwater is not successful in its position Clearwater will become liable for the difference between the final amount due, subject to the $13.97 million cap, less the $2.9 million minimum, under a second secured note due the later of September 15th, 2012 and 30 days after the final court ruling. Both notes will bear interest at Libor plus 7% until such time as they are settled. Interest is accrued annually and will be payable upon maturity of the notes. Both notes are subject to a subordination agreement with the senior lenders. As of July 3, 2010 Clearwater has included in other long term liabilities an estimated $15.0 million (2009 – $14.5 million) liability associated with these contracts, including accrued interest pending completion of expected legal proceedings against Glitnir.

In addition, Clearwater has a number of interest rate and cross currency swap contracts with Glitnir. Clearwater has consulted with external legal counsel and has received advice that these contracts may become declared null and void. These contracts would allow Clearwater to receive 1.2 billion ISK and pay $25 million Canadian, US $9.7 million, 3 million Pounds Sterling and Euro 2.5 million. The terms of the swap agreements also economically hedge the changes in the Icelandic Consumer Price Index ("CPI"). As of July 3, 2010 Clearwater has included in other long-term liabilities an estimated $10.6 million (2009 - $11.2 million) liability associated with these contracts pending completion of expected legal proceedings with Glitnir.

Clearwater also has approximately Canadian $3.8 million at July 3, 2010 (2009 - $3.8 million) recorded as a deposit with Glitnir for the purpose of settling a similar amount of ISK denominated bonds. This amount is included in other assets. Clearwater expects it will receive the full value of this deposit through the settlement of related contracts.

In the fourth quarter of 2009, Clearwater commenced litigation with Glitnir in relation to the above outstanding derivative contracts (including cash held on deposit at Glitnir, damages related to the financing term sheet for the failed privatization in October 2008, foreign exchange forwards and options and cross currency and interest rate swaps).

While the assumptions reflect management's best estimates, they are subject to the measurement uncertainty associated with the specifics of the contracts, the inactive market for these contracts and the status of ongoing litigation process with Glitnir. As a result, material revisions could be required to these estimates in future periods.

DISTRIBUTIONS

The Fund was set up to make monthly cash distributions, based upon cash receipts of the Fund after satisfaction of administrative and other expenses (including reasonable reserves for such expenses), any debt service obligations (principal and interest) and any amounts payable by the Fund in connection with any cash redemptions or repurchases of Units. The Fund can make additional distributions in excess of the monthly distributions during the year in the discretion of the Trustees. All of the Fund's distributions are at the discretion of the Trustees and are subject to certain conditions imposed by lending agreements.

Clearwater was set up to make monthly distributions to the Fund based upon its cash earnings less any debt service obligations (principal and interest) and any amounts payable by the Fund in connection with any cash redemptions or repurchases of Units. Clearwater can make additional distributions in excess of the monthly distributions during the year in the discretion of the Board. All of the Partnership's distributions are at the discretion of the Trustees and are subject to certain conditions imposed by lending agreements.

When reviewing the status of the distributions, the Directors of Clearwater and the Trustees of the Fund consider the operations of Clearwater including lending covenants, earnings levels, on-going capital expenditure requirements, leverage and expectations regarding future earnings. .

Clearwater and the Fund have not declared any distributions since December 2007 and no distributions will be paid for the foreseeable future as management will focus on using cash flow to reduce senior debt and lending agreements prevent distributions through June 2012.

EXPLANATION OF SECOND QUARTER RESULTS

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

Overview

The statements of earnings disclosed below reflect the earnings of Clearwater for the 13 weeks ended July 3, 2010 and July 4, 2009.

(in 000's of Canadian dollars)	July 3 2010	July 4 2009
Sales	$ 65,215	$ 70,176
Cost of goods sold	50,736	55,362
	14,479	14,814
Selling and administrative and depreciation expense	4,637	5,523
Gross margin	9,842	9,291
Gross margin percentage	*15.1%*	*13.2%*
Administration and selling	5,849	6,137
Gain on disposal of property, plant and equipment and quotas	(522)	(7,449)
Other expense	1,341	2,642
Foreign exchange and derivative contracts	457	(11,433)
Interest on long-term debt and bank charges	5,845	6,801
Depreciation and amortization	169	-
Reduction in foreign currency translation account	-	468
	13,139	(2,834)
Earnings before income taxes and minority interest	(3,297)	12,125
Income taxes	727	514
Earnings before minority interest	(4,024)	11,611
Minority interest	450	321
Net earnings	$ (4,474)	$ 11,290

Net Loss

In 2009 Clearwater reported a net gain in the second quarter primarily due to non-cash foreign exchange income. In 2010 Clearwater reported a net loss for the second quarter, which reflects the seasonal nature of the business in the first half of the year. Details of the larger changes in earnings from year to year are as follows:

13 weeks ended In (000's of Canadian dollars)	July 3, 2010	July 4, 2009	Change
Net (loss) earnings	$ (4,474)	$ 11,290	$ (15,764)
Explanation of changes in earnings:			
Higher unrealized non-cash foreign exchange expense			(18,700)
Lower gain on disposal of property, plant equipment and quota			(6,927)
Lower realized foreign exchange expense			6,810
Lower other income expense			1,301
Lower interest on long term debt			956
Lower gross margin on product sales			551
All other			245
			$ (15,764)

Clearwater reported second quarter EBITDA of $7.1 million on sales of $65.2 million versus 2009 comparitive figures of and $8.5 million and $70.2 million, respectively. During the second quarter of 2010 strong sales volumes, selling prices, lower costs and lower selling, general and administrative expenses offset $6.4 million or 82% of the $7.8 million negative impact of a stronger Canadian dollar as compared to 2009.

The $7.8 million exchange impact reduced sales by 10.7%. However, gross margin as a percentage of sales increased 1.9% from the second quarter of 2009 and the first quarter of 2010, due to price increases in the majority of species including scallops, clams, and cooked and peeled shrimp, improved catch rates for sea scallops, a reduction in harvesting and production costs for clams, and a reduction in raw material costs for lobsters. In addition total volumes sold for clams, and frozen-at-sea shrimp continued to recover during the second quarter of 2010. All of these factors, when combined, completely offset the reduction in gross margin from the strengthening Canadian dollar. Gross margin as a percentage of sales is expected to continue to improve throughout the third and fourth quarter of 2010, consistent with the seasonal nature of operations.

Fuel costs increased $1.1 from $3.7 million in the second quarter of 2009 to $4.8 million in same period of 2010, due to a $.10 increase in the average price per litre and an increase in litres consumed. Clearwater's vessels used approximately 33 million litres of fuel in 2009. Based on 2009 fuel consumption, a one-cent per litre change in the price of fuel impacts harvesting costs by approximately $330,000.

Second quarter sales by region were as follows:

In 000's of Canadian dollars 13 weeks ended		July 3 2010		July 4 2009		Change	%
Europe	$	21,645	$	23,868	$	(2,223)	(9.3)
United States		14,669		18,748		(4,079)	(21.8)
Canada		8,737		10,087		(1,350)	(13.4)
Asia							
Japan		8,430		7,052		1,378	19.5
China		5,142		5,665		(523)	(9.2)
Other Asia		6,130		4,474		1,656	37.0
Other		462		282		180	63.8
	$	65,215	$	70,176	$	(4,961)	(7.1)

Analysis By Region:
The Canadian dollar continued to strengthen in the second quarter, impacting selling prices when converted to Canadian dollars, causing a decline of $7.8 million (10.7%) in sales dollars in comparison to foreign exchange rates for the second quarter of 2009. However, price increases for the majority of species including sea and bay scallops, clams and cooked and peeled shrimp partly offset the impact of weakening foreign exchange rates on sales.

Europe
Sales within Europe declined by $2.2 million, or 9.3% during the second quarter of 2010 due to a weakening of the European Euro and UK pound in comparison to the Canadian dollar and lower volumes, offset partially by price increases. European sales were significantly affected by the continued strengthening Canadian dollar relative to the European Euro and UK pound. Foreign exchange rates for the European Euro declined 18.2% from 1.583 in the second quarter of 2009 to 1.295 in 2010, while the UK pound declined 14.8% from 1.802 in 2009 to 1.535 over the same period.

The decline in volumes resulted from a lower number of landings during the period for Argentine scallops. In addition a decrease in sales price for sea scallops resulted from the change in sales mix that was weighted towards lower selling prices.

Price increases, primarily for Argentine scallops, partly offset for impact of exchange and lower volumes.

United States
Sales within the United States declined $4.1 million, or 21.8%, during the second quarter of 2010 primarily as a result of the affect of the weakening US dollar against the Canadian dollar and a decrease in sale volumes for Argentine scallops and lobster due to lower inventory levels within the region. Average foreign exchange rates for the US dollar declined by 10.5% from 1.157 in 2009 to 1.036 in the same period of 2010. Selling prices for Argentine scallops increased to partially offset the affect of the weakening US dollar.

Canada
Sales within Canada declined $1.4 million, or 13.4%, during the second quarter of 2010 primarily as a result of a decline in sales volume for lobster and sea scallops. Sales volumes for lobster declined for the second quarter in comparison to the same period in 2009 as Clearwater carried lower inventory levels than in 2009, reducing available inventory for the region for sea scallops. Price increases for both lobster and sea scallops partially offset the decline in sales volume.

Japan
Sales to Japan increased $1.4 million, or 19.5%, in the second quarter of 2010 as a result of an increase in sales volumes for clams and lobster mainly from timing of sales. The increase was partially offset by changes in sales mix for clams weighted towards products with lower selling prices. Foreign exchange rates partially offset the increase in sales as the Japanese Yen continued to decline from 0.012 in 2009 to 0.011 in 2010.

Other Asia
Sales within other Asia include sales to Hong Kong, Korea, Taiwan, Singapore and other Asian countries. Sales to other Asia increased $1.7 million, or 37.0%, in the second quarter of 2010, despite the strengthening Canadian dollar, as a result of an increase in sales volumes for clams and sea scallops as consumer demand increased for the period. The increase in volumes for clams was due to selling products with lower prices as we focus on improving inventory turnover.

Year-to-date sales by product category were as follows:

13 weeks ended	July 3 2010	July 4 2009	Change	%
Scallops	$ 22,486	$ 28,002	$ (5,516)	(19.7)
Lobster	16,162	17,178	(1,016)	(5.9)
Clams	14,747	14,414	333	2.3
Coldwater shrimp	6,585	7,309	(724)	(9.9)
Crab	3,232	2,842	390	13.7
Ground fish and other	2,003	431	1,572	364.7
	$ 65,215	$ 70,176	$ (4,961)	(7.1)

Analysis by Species:

Sales

The decrease in scallop sales was primarily a result of weakening foreign exchange rates and a decline in sales volumes for Argentine scallops due to a lower number of landings partially offset by increases in selling prices for Argentine scallops,

Lobster sales decreased as a result of a decline in sales prices that were a result of the strengthening Canadian dollar.

Clam sales remained relatively consistent with the second quarter of 2009. This was a result of an increase in sales volumes due to an improvement in inventory turnover during the period that also resulted in changes in sales mix for clams that was weighted towards products with lower selling prices.

Shrimp sales decreased primarily from a decline in cooked and peeled shrimp as lower production levels in 2009 reduced available inventory levels for the first and second quarter of 2010. Weakening foreign exchange rates also served to reduce selling prices when translated into Canadian dollars.

Crab and Ground fish sales increased during the period primarily as a result of timing of landings for snow crab and turbot, respectively.

Cost of goods sold (note that commentary is on a per pound basis)

Costs for sea scallops increased in the second quarter of 2010 in comparison to the same period of 2009 due to higher total harvesting costs, while costs for Argentine scallops remained consistent during the period.

Costs for lobster improved in the second quarter of 2010 as compared to the same period in 2009. Clearwater harvests approximately 20% of the lobster supply and procures the balance from inshore lobster suppliers. Procurement provided Clearwater with an opportunity to offset some of the impact of changes in market prices by adjusting the prices we pay to our inshore lobster suppliers. In addition offshore catch rates were more favourable during the second quarter of 2010 than in the previous period reducing cost per pound.

Costs for shrimp declined during the second quarter as a result of an improvement in both harvesting costs for frozen-at-sea shrimp and production costs for cooked and peeled shrimp.

Gross margin

For the thirteen weeks ended July 3, 2010 Clearwater had gross margin of $9.8 million versus $9.3 million in the same period ended July 4, 2009, an increase of $551,000 or approximately 5.9%.

Gross margin was negatively impacted by foreign exchange rates which resulted in a reduction of sales and gross margin by $7.8 million or 10.7% in comparison to the 13 weeks ended July 4, 2009.

Clearwater was able to fully offset the impact of exchange through price increases to the majority of species including scallops, clams, lobster and cooked and peeled shrimp, improved catch rates for sea scallops and a reduction in total harvesting and production costs for clams and lobsters. In addition volumes sold for clams, and frozen-at-sea shrimp continued to recover during the first half of 2010.

Foreign exchange. The Canadian dollar strengthened against the US dollar, Euro, Japanese Yen and UK pound in the second quarter of 2010 in comparison to the same period in 2009. As a result, this served to reduce the value of sales and gross margins by approximately $7.8 million in the second quarter of 2010.

13 weeks ended	July 3 2010		July 4 2009	
Currency	% sales	Average rate realized	% sales	Average rate realized
US dollars	44.0%	1.036	42.6%	1.157
Euros	20.3%	1.295	23.7%	1.583
Japanese Yen	11.2%	0.011	7.7%	0.012
UK pounds	5.5%	1.535	5.3%	1.802
Canadian dollar and other	19.0%		20.7%	
	100.0%		100.0%	

Administration and selling costs. Administrative and selling expenses remained consistent with the second quarter of 2009. Certain administration and selling costs are classified as cost of goods sold (refer to the table below).

13 weeks ended In 000's of Canadian dollars	July 3 2010	July 4 2009
Administration and selling costs classified in cost of goods sold	1,932	2,211
Costs classifed as administration and selling	5,849	6,137
	$ 7,781	$ 8,348

The loss (gain) on disposal of property, plant, equipment and quota. During the second quarter of 2010 Clearwater realized a gain of $522,000 on disposals of surplus equipment. The gain of $7.4 million in the second quarter of 2009 primarily relates to gains on the sale of non-core groundfish quotas.

Other expense

In 000's Canadian dollars 13 weeks ended		July 3 2010		July 4 2009
Refinancing and restructuring expenses	$	1,406	$	3,064
Quota rental and royalties	$	(158)	$	(335)
Vessel research and development expense		518		386
Export rebate		(2)		(104)
Other		(423)		(369)
	$	1,341	$	2,642

Other expense improved by $1.3 million from $2.6 million in the second quarter of 2009 to $1.3 million in the second quarter of 2010. The improvement was primarily a result of $1.7 million reduction in restructuring expenses. The refinancing and restructuring expense of $3.0 million in the second quarter of 2009 related to the refinancing of Clearwater's senior debt facilities, including make-whole penalties and fees. In 2010, refinancing and restructuring expense includes $1.0 million related to employee restructuring activities and $300,000 relate to refinancing activities related to convertible debentures due in 2010.

Vessel research and development relates to new technology and research into ocean habitats and fishing grounds. Research and development can vary year to- year depending on the scope, timing and volume of research completed. In the second quarter of 2010, expenses increased to $518,000 as a result of a number of active projects.

Other includes income related to commissions, rental income, processing fees and other miscellaneous income and expense that varies based upon the operations of the business.

Foreign exchange loss (gain)

13 weeks ended In (000's of Canadian dollars)		July 3 2010		July 4 2009
Realized loss (income)				
Foreign exchange derivative contracts	$	-	$	4,976
Other realized including sales and balance sheet translation		96		1,930
		96		6,906
Unrealized (gain) loss				
Balance sheet translation		3,085		(7,223)
Mark to market on foreign exchange derivative contracts		-		(13,085)
Mark to market on interest and currency swap contracts		(2,724)		1,969
		361		(18,339)
Total loss (gain)	$	457	$	(11,433)

Clearwater does not account for its derivative contracts as accounting hedges, and therefore records the mark-to-market value of the contracts each reporting period, recording the non-cash impacts of foreign exchange on the outstanding contracts as income or expense.

Foreign exchange loss (gain) was a net loss of $457,000 in the second quarter of 2010 as compared to a gain of $11.4 million in the second quarter of 2009. The change was primarily the result of significant volatility in exchange rates applied to exchange contracts outstanding during the second quarter of 2009 that resulted in realized and unrealized exchange gains during the second quarter of 2009. All outstanding foreign exchange contracts were settled during the first half of 2009.

Realized losses were $96,000 in 2010 versus $6.9 million in 2009. This includes realized losses on derivative contracts decreased of $6.9 million in the second quarter of 2009 which decreased to $Nil in 2010 as there were no foreign exchange contracts outstanding throughout the second quarter of 2010. Also included in realized losses are realized losses related to working capital of $96,000 in 2010 versus $1.9 million in 2009.

Unrealized gains/losses include a loss of $361,000 in 2010 versus of gain of $18.3 million in 2009. Clearwater had unrealized losses of $3.0 million in the second quarter of 2010 for balance sheet translation. These unrealized losses primarily relate to the translation of Clearwater’s mostly US dollar denominated long-term debt. The mark to market adjustments in 2010 related to cross-currency interest rates swaps, whereas in 2009 they related to the same cross-currency interest rates swaps as well as foreign exchange contracts.

Please refer to the section Transactions with Glitnir later in this document for further discussion regarding derivative contracts for which Glitnir is the counter party including cross-currency interest rate swaps.

Interest on long-term debt declined by $1.3 million from $6.7 million in the first quarter of 2009 to $5.4 million for the same period in 2010 due primarily to lower average interest rates and lower debt balances, partially offset by higher non-cash amortization of deferred financing charges.

The decline in interest rates was primarily due to the fact that in of the first half of 2009 Clearwater had a number of short-term loan facilities in place at relatively high interest rates which contributed to higher interest costs. Interest rates on the short-term facilities in place in 2009 related to maturing term debt facilities which had interest rates that escalated 1% per month from December 2008 to as high as 15% by June 2009.

Clearwater's outstanding debt declined $9.1 million to $217.7 million at July 3, 2010 from $226.8 million at July 4, 2009, but increased $3.6 million from $214.1 million at December 31, 2009. The increase in total debt for Clearwater was expected and forecasted as it is a result of the beginning of the inshore lobster buy season.

Partially offsetting this decline in interest costs is higher non-cash amortization of deferred financing charges. In 2010 interest expense includes approximately $1.4 million of amortization of deferred financing charges compared to $1.0 million in the second quarter of 2009 (refer to table below). Excluding these non-cash charges, actual cash interest expense paid declined to $4.5 million in 2010 versus $5.8 million in 2009.

Interest expense 13 weeks ended In (000's of Canadian dollars)	July 3, 2010	July 4, 2009
Interest on long term debt and bank charges	5,845	6,801
Less amortization of non-cash interest	(1,371)	(1,030)
	4,474	5,771

Depreciation and amortization. Including the allocation of depreciation to cost of goods sold, depreciation and amortization expense was $2.9 million for 2010, an decline of $438,000, which is consistent with the same period in 2009.

In 000's Canadian dollars 13 weeks ended	July 3 2010	July 4 2009
Depreciation in COGS from the sale of inventory	$ 2,705	$ 3,312
Costs classifed as depreciation and amortization	169	-
	$ 2,874	$ 3,312

Reduction in foreign currency translation account is a non-cash adjustment related to a reduction of Clearwater's net investment in its subsidiary in Argentina due to the payment of dividends from Argentina to Canada.

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

OUTLOOK

Clearwater reported second quarter EBITDA of $7.1 million on sales of $65.2 million versus 2009 comparative figures of $8.5 and $70.2 million. During the second quarter of 2010 strong sales volumes, selling prices, lower costs and lower selling, general and administrative expenses offset 83% of the negative impact of a stronger Canadian dollar as compared to 2009.

Year-to-date, Clearwater reported EBITDA of $13.6 million on sales of $127.9 million versus $17.9 million and $141.2 million in 2009. In 2010, strong sales volumes, selling prices and lower costs offset 74% of the negative impact of a stronger Canadian dollar as compared to 2009.

In both the second quarter and first half of 2010 sales volumes have remained healthy with 2nd quarter volumes up 12% from 2009 and year-to-date volumes up 4%. Strong and accelerating demand for core products has allowed Clearwater management to execute planned price increases in the majority of species including scallops, clams and cooked and peeled shrimp and plans are in place to implement further increases in the remainder of the year.

Rolling four quarter EBITDA as of the second quarter of 2010 was $35.0 million as compared to $40.5 million in the comparative period in 2009. This decrease is a result of fiscal 2009 not exhibiting the typical seasonal pattern for the business, which is to realize higher EBITDA levels in the second half of the year as compared to the first half.

Looking forward to the balance of 2010, management believes that 2010 results will reflect a more typical pattern with the second half results showing greater strength than the first half, with improving annual EBITDA performance versus the prior year despite the continued negative impact of foreign exchange. This is based on expectations for continued strong sales volumes, planned price increases as well as the realization of additional cost savings and productivity gains in both operations and selling, general and administrative expenses. This expectation for higher second half EBITDA is dependent upon stable economic conditions in Asia, North America and Europe and a measure of stability in exchange rates.

In addition, Management and the Board will continue to focus on reducing debt levels and leverage. During the 12 months since the second quarter of 2009, Clearwater reduced its net debt by $10.5 million to $209.5 million versus $220.0

million at July 4, 2009. In the second quarter of 2010 net debt levels increased by $4.2 million due to the planned seasonal investment in inventories, primarily lobster. In the latter part of the year Clearwater will reduce this investment in working capital as these inventories are sold down. Clearwater's strategy for maintaining liquidity and reducing leverage includes carefully managing its working capital and capital expenditures and liquidating assets that do not achieve an adequate return on capital. Clearwater will continue to focus on reducing its leverage by improving earnings and using the positive cash flow of the business to reduce debt. This should enable Clearwater to lower interest costs over time.

Clearwater has two near-term loans for which it has been reviewing refinancing options. This includes approximately 1.3 billion in ISK denominated bonds (including CPI and accrued interest) that mature on September 27, 2010 (approximately Canadian $11.3 million) and $45 million of Class C Units that mature on December 31, 2010. Clearwater expects to be able to refinance these loans prior to their respective maturity dates.

While foreign currency headwinds masked the underlying strength of operations in the first half of 2010 management are encouraged by our continued volume strength in the second quarter and the increasing global consumer and customer demand for our premium, wild, eco-labeled seafood. Taken in combination with our recent pricing, cost savings and other productivity initiatives, management believe Clearwater is poised to deliver markedly improved operating margins and earnings performance through the balance of 2010. Furthermore, management believe that Clearwater's strategies of:

- Expanding access to and supply of core species
- Targeting profitable and growing markets;
- Positioning our products as high quality, premium offerings;
- Capitalizing on our investments in innovation;
- Preserving the long-term sustainability of our resources; and
- Improving the organizational talent, diversity and engagement

will not only result in improved results in the near-term but, provide Clearwater with a sustainable competitive advantage in the mid to longer term.

RISKS AND UNCERTAINTIES

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

Leverage

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

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

Clearwater's credit facilities contain restrictive covenants of a customary nature, including covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Clearwater to incur additional indebtedness, to pay distributions or make certain other payments and to sell or otherwise dispose of assets. In addition, they contain a number of financial covenants that require Clearwater to meet certain financial ratios and financial condition tests. A failure to comply with the covenants could result in an event of default, which, if not cured or waived, could permit acceleration of the relevant indebtedness. If indebtedness under the credit facilities were to be accelerated, there can be no assurance that the assets of Clearwater would be sufficient to repay in full that indebtedness. There can also be no assurance that the credit facilities would be able to be refinanced. As of July 3, 2010 Clearwater is not in violation of the restrictive covenants.

Resource supply

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

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

Foreign exchange

Over 80% of Clearwater's sales are in United States dollars, European Euros and Japanese Yen and other currencies, whereas the majority of expenses are in Canadian dollars. As a result, foreign currency fluctuations may have a material impact on Clearwater's financial results.

Risks associated with foreign exchange are partially mitigated by the fact that Clearwater operates internationally which reduces the impact of any country-specific economic risks on its business. Clearwater currently has no foreign exchange contracts outstanding. Once Clearwater does re-establish a foreign exchange management program, it will only use forward contracts in managing its foreign exchange risk, thereby lowering the potential volatility in cash flows from derivative contracts.

Clearwater's sales denominated in U.S. dollars were approximately 42.7% of second quarter sales in 2010. Based on 2009 sales, a change of 1% in the U.S.

dollar rate converted to Canadian dollars would result in a $1.1 million change in sales and gross profit. In addition, approximately 22.6% of sales in the second quarter of 2010 were denominated in Euros. Based on 2009 sales, a change of 1% the Euro rate as converted to Canadian dollars would result in a $.7 million change in sales and gross profit. Also, 11.9% of sales in the second quarter of 2010 were denominated in Japanese Yen. Based on 2009 annual sales, change of 1% the Yen rate as converted to Canadian dollars would result in a change of $0.3 million in sales and gross profit.

The US dollar, Japanese Yen and European Euro currencies all weakened on average relative to the Canadian dollar during the first quarter of 2010. This environment of weakening exchange rates has a significant impact on sales receipts.

Food processing risks

Clearwater's food processing operations are subject to federal, provincial and local food processing controls, and may be impacted by consumer product liability claims, product tampering, and the possible unavailability and/or expense of liability insurance. A determination by applicable regulatory authorities that any of Clearwater's plants are not in compliance with any such controls in any material respect may allow regulators to shut down plant operations and may have a material adverse effect on Clearwater's financial condition and results of operations. In addition, negative publicity, significant decreases in demand, or increased costs associated with any of these circumstances may have a material adverse effect on Clearwater's financial condition and results of operations. Clearwater's operation of its facilities involves some risks, including the failure or substandard performance of equipment, suspension of operations and new governmental statutes, regulations, guidelines and policies.

There can be no assurance that as a result of past or future operations, there will be no claims of injury by employees or members of the public.

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

Suppliers, Customers and Competition

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

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

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

Risk associated with suppliers is mitigated through diversification of suppliers. Risk associated with customers is mitigated through diversification of the customer base. Clearwater has approximately 1,300 customers worldwide with no individual customer representing more than 5% of sales. Clearwater uses a combination of credit reporting agencies, credit insurance, letters of credit and secured forms of payment to mitigate credit risk associated with its customers.

Input costs

Clearwater’s factory vessels used approximately 33 million litres of marine fuel oil in 2009. A change of one cent in the price of marine fuel oil would result in a change of approximately $330,000 to annual harvesting expenses.

CRITICAL ACCOUNTING POLICIES

Clearwater's critical accounting policies are those that are important to the portrayal of Clearwater's financial position and operations and may require management to make judgments based on underlying estimates and assumptions about future events and their effects. These estimates can include but are not limited to estimates regarding inventory valuation, accounts receivable valuation allowances and estimates of future cash flows for impairment tests. Underlying estimates and assumptions are based on historical experience and other factors that are believed by management to be reasonable under the circumstances. These estimates and assumptions are subject to change as new events occur, as more experience is acquired, as additional information is obtained, and as the operating environment changes. Clearwater has considered recent market conditions including changes to its cost of capital in making these estimates. Refer to the notes to the annual financial statements for a complete listing of critical accounting policies and estimates used in the preparation of the consolidated financial statements.

Clearwater reviewed all new accounting standards issued by the CICA in order to determine the impact of the new standards and has addressed them in the section entitled "International Financial Reporting Standards" that follows. :

International Financial Reporting Standards

In February 2008, the CICA announced that the International Financial Reporting Standards ("IFRS") would replace Canadian GAAP for publicly accountable enterprises for fiscal years beginning on or after January 1, 2011. Accordingly, Clearwater will be required to begin reporting under IFRS for the first quarter of 2011 and in addition will be required to show comparatives for 2010 using IFRS.

Clearwater has formally engaged third party advisors to aid in the transition to IFRS and to aid in the planning and implementation of IFRS within the organization. Significant work has been done to identify the key areas impacted during the transition to IFRS, identify necessary resources and outline the major differences between current Canadian standards and the adoption of international standards going forward.

The key elements of Clearwater's plan include assessing the impact on information technology and internal control and disclosure systems, ensuring directors and employees receive appropriate training, assessing the impact on business activities, including but not limited to, debt covenants and ensuring Clearwater has a robust internal and external communication process. Please refer to the following chart for a summary of the plan. Clearwater continues to work closely with all stakeholders and monitor all new announcements being made by the International Accounting Standards Board during this transition and any significant impacts will be reported on a timely basis.

Key Activity	Milestone / Target Dates	Progress to August 13, 2010
Project Management: ▪ Steering Committee ▪ Project Resourcing ▪ Progress reporting	Completed: Q4 2008 Target: Quarterly progress reporting to the committee throughout 2010.	▪ A formal IFRS steering committee has been established and a conversion team has been established ▪ Resources for the conversion team are in place and working. ▪ Updates are provided to all members of the IFRS conversion team. ▪ Updates of steering committee activities are distributed to the Audit Committee quarterly
Financial Statement Preparation: ▪ Identification of Differences in Canadian GAAP / IFRS accounting	• Completed: Q1 2009	• All material areas of difference between Canadian GAAP and IFRS have been identified by the conversion

policies and choices		team and have been reviewed by the steering committee and communicated to the audit committee
▪ Selection of Clearwater's ongoing IFRS policies	• Target: Finalization of accounting policies during the second and third quarters of 2010.	• The potential impact of each material difference between Canadian GAAP and IFRS has been assessed and ranked as either high, medium, low, or no impact, to determine the need for further investigation • Differences that have been identified as potentially having a high impact to Clearwater's statements are being reviewed first and are currently in process. Refer below for further discussion on high impact accounting changes.
▪ Quantification of any accounting policy changes	• Comparative figures for Q1 2010 complete during Q3 2010 (moved back from Q2 2010) and within 45 days of all other subsequent quarters.	• To be performed in combination with the completion and approval of changes in accounting policies.
Selection of IFRS 1 accounting policy choices And quantification of IFRS 1 disclosures for 2010	• Target: To be finalized in combination with the completion of the high impact accounting policies during the second quarter of 2010.	• Preliminary Recommendations regarding IFRS 1 policy choices and other accounting policy choices have been presented to the steering committee for approval. Quantification of IFRS 1 disclosures to be performed in combination with preparation of the presentation of the Financial statements
▪ Develop Financial Statement Presentation and Changes in Note Disclosures	• Start Date: Q3 2010 (moved back from Q2 2010) • All work, including financial statements, notes and	• We are currently assessing the impact on the financial statement presentation including changes in notes, disclosure and additional information requirements but

	comparative figures, complete in time for reporting Q1 2011.	the majority of the work is expected to be completed in the third and fourth quarter of 2010.
Training and Human Capital: • Retraining of key finance and operational staff	• Conversion team staff began attending external training programs in 2007 and will continue to attend updates on an as needed basis.	• The conversion team has attended a two-day workshop specific to Clearwater as well as other external training programs on IFRS. Operational staff attended a one-day workshop specific to Clearwater in Q4 2008 and have been provided with periodic updates on IFRS. The team receives and reviews new training materials on an as needed basis.
• Education of management and audit committee	• Completed: Q4 2008 for operational team training • Additional training to be completed during Q2 and Q3 2010 as accounting policy changes are finalized, on an as needed basis.	• Management and the audit committee have been provided with periodic updates on IFRS as well as training materials provided by external service providers.
• Progress updates with the audit committee	• Audit Committee is ongoing as part of project status updates on a quarterly basis.	• The Audit Committee will continue to receive regular updates on the status of the project as well as changes to IFRS standards that may impact Clearwater.
• Assess the need for additional resources	• As needed.	• Additional and appropriate resources have been identified to complete the analysis of changes in accounting policies. This resources were put in placein the second quarter of 2010.
Business Implications Assessment: • Effect on financial	Completed: Q2 2009.	• Clearwater is required to meet

covenants	Will continue to review as accounting changes are finalized to ensure that there is no impact on financial covenants.	various financial covenants as part of its various lending agreements. These include limitations on capital expenditures, a ratio of EBITDA to fixed charges, a vessel to loan ratio (based on annual valuations of certain secured vessels), debt to EBITDA ratios and an equity to total assets ratio. Changes in our policies for property, plant and equipment and changes in standards for joint ventures will impact amounts recorded as capital expenditures, equity and total assets but they should not impact EBITDA calculations, external valuations of vessels and debt. Once Clearwater has determined the impact from these changes it will approach lenders and request amendments if any are required. • We have provisions built into lending agreement that recognize and provide for transition periods to address any impacts caused by the conversion to IFRS. Currently Clearwater has not identified any accounting policy changes that would impact the calculation of any covenants.
• Effect on any other business contracts	As needed.	• We are not aware of any other business contracts that changes in GAAP would have an impact on but we continue to assess.
Infrastructure: • Information technology changes required in order to gather the appropriate data	Target: Q3 2010 (moved back from Q2 2010)	• We are in the late stages and largely complete our assessment of the impact of IT requirements and resourcing.

• Determine the requirements needed to run both Canadian GAAP and IFRS for 2010	Target: Q2 2010 (moved back from Q2 2010)	• We are currently in the process of determining the process for running a parallel consolidation to accommodate both Canadian GAAP and IFRS in 2010. • We are testing the running of two fixed asset sub ledgers and two general ledgers to accommodate both Canadian GAAP and IFRS in 2010.
Control Environment: • For all new accounting policies and changes assess control design and effectiveness including disclosure and presentation of financials	Ongoing, CEO/CFO will approve and sign-off all changes as part of certification process for Q4 2010.	• As we implement new accounting policies and disclosures there is ongoing Management oversight to ensure that appropriate consideration is given to implementing effective internal controls over financial reporting and disclosure controls. • Assessment is ongoing during the completion and approval of accounting policy change and the majority of the new controls are expected to be implemented during the third quarter of 2010.
External Communication: • Assess the impact of changes in policies on external communications including the MD&A and the Investor relations team's ability to address any incoming questions.	Every quarter until implementation in 2011	• IFRS disclosures in the MD&A will be updated quarterly throughout this project. • All critical finance and investor relations staff are engaged on the IFRS steering committee.

Accounting Policies – High Impact

There are 36 relevant standards that comprise IFRS. We have completed an initial assessment of the impact of the various standards (as they are currently written) on Clearwater as follows:

- Significant impact or review required – 7 standards

- Moderate to minimal impact – 10
- Low to no impact – 16
- Not applicable to Clearwater – 3

Those standards that have significant impact or review is required include IFRS 1 Adoption of IFRS, IAS 16 Property, Plant and Equipment, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 27 Consolidated and Separate Financial Statements, IAS 36 Impairment of Assets, IAS 37 Provisions, Contingencies Liabilities and Contingent Assets and IAS 38 Intangible Assets.

Standards expected to have a moderate to minimal impact include IFRS 2 Share-based Payment, IFRS 3 Business Combinations, IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosure, IFRS 8 Operating Segments, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, IAS 12 Income Taxes, IAS 23 Borrowing Costs, IAS 31 Interests in Joint Ventures (as currently written) and IAS 39 Financial Instruments: Recognition and Measurement.

Standards expected to have a moderate to minimal impact include IAS 1 Presentation of Financial Statements, IAS 2 Inventories, IAS 7 Statement of Cash Flows, IAS 10 Events After the Reporting Period, IAS 17 Leases, IAS 18 Revenue, IAS 19 Employee Benefits, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, IAS 24 Related Party Transactions, IAS 26 Accounting and Reporting by Retirement Benefit Plans, IAS 28 Investments in Associates, IAS 29 Financial Reporting in Hyperinflationary Economies, IAS 32 Financial Instruments: Presentation, IAS 33 Earnings Per Share, IAS 34 Interim Financial Reporting and IAS 40 Investment Property.

Standards that are not applicable to Clearwater include IFRS 4 Insurance Contracts, IFRS 6 Exploration for and Evaluation of Mineral Resources and IAS 11 Construction Contracts.

We are in the process of completing a more detailed review of each of the above standards, which we expect to have largely completed in the third quarter of 2010.

To date, we have identified two significant differences between Canadian GAAP and IFRS that will impact our financial reporting, (i) property, plant and equipment; and (ii) joint ventures.

Property, plant and equipment

We are currently reviewing our property, plant and equipment, in particular vessels and plants, with respect to the level of componentization we do for purposes of depreciation. As a result, we expect that we will refine the level to which we componentize these assets. Componentization involves breaking down an asset by identifying significant individual components and separately depreciating those individual components over their useful lives. This will impact depreciation expense, the carrying value of property, plant and equipment and unitholder's equity. Specifically, we expect the carrying value of certain property, plant and equipment may decrease upon conversion to IFRS compared to the carrying value under Canadian GAAP. The decrease may result from increased depreciation expense due to asset componentization. This policy may result in decreased volatility in earnings as certain components that were expensed in the past, will now be capitalized and amortized over their useful lives.

In addition, as this new policy requires a greater breakdown of the components of property, plant and equipment, additional controls will need to be designed and implemented to ensure that the amounts recorded are fairly stated at each reporting period. It is anticipated that such controls will include defined policies including the category of breakdown required for new assets and the inclusion of more input from vessel and plant managers in estimating components to be depreciated. Currently we are in the process of determining the total affect of this componentization. Once the final components have been determined additional training will be provided to key personnel to continue to track all new additions and disposals appropriately, which is expected to be completed in the third quarter of 2010.

In addition, this new policy will require additional information technology resources to run a parallel system between Canadian GAAP and IFRS throughout 2010. It is anticipated that the IFRS conversion will be run and reconciled within 45 days of each quarter end of 2010 beginning in the third quarter.

Joint ventures

The IASB expects to issue a final standard shortly on joint ventures that would eliminate the option to use proportionate consolidation. This would impact the amounts we have recorded as revenue, expense, assets and liabilities but it should not impact our net earnings or unitholder equity, as we would be required to discontinue the use of proportionate consolidation accounting and move to the use of equity accounting.

As a result, under this new standard, we would no longer record our proportionate share of the joint venture revenues, expenses, assets and liabilities in our consolidated financial statements but rather would use the equity method for these joint ventures and only record our proportionate share of their net earnings as a one-line item in the statement of earnings and our related investment in one location in the balance sheet (where we would record our share of earnings and any distributions paid as adjustments to the value of investment in joint ventures).

In fiscal 2009 our proportionate share of these items included in our consolidated financials was as follows:

- Income statement
  - Sales - $26.3 million
  - Expenses - $23.4 million
  - Earnings before taxes - $2.6 million (under new standard will show up as one line entitled equity in earnings).

- Balance sheet
  - Current assets - $12.4 million
  - Property, plant and equipment - $36.9 million
  - Current liabilities - $3.6 million
  - Long-term liabilities - $3.4 million
  - Deferred gain - $10.1 million

Clearwater's 2009 financial statements contain a note entitled "Joint Ventures" which provides greater detail on the amounts recorded in both 2009 and 2008 on a proportionate basis.

SUMMARY OF QUARTERLY RESULTS

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2010				
Sales	$ 62,661	$ 65,215		
Net (loss) income	(6,247)	(4,474)		
Basic (loss) income per unit	(0.12)	(0.09)		
Fiscal 2009 *(as restated)*				
Sales	$ 71,012	$ 70,176	$ 74,483	$ 68,394
Net earnings (loss) *	16,600	11,290	418	(2,191)
Basic earnings (loss) per unit	0.32	0.22	0.01	(0.04)
Fiscal 2008 *(as restated)*				
Sales	59,037	71,711	84,397	86,059
Net earnings (loss) **	(21,770)	11,333	(10,233)	(81,734)
Basic earnings (loss) per unit	(0.43)	0.22	(0.20)	(1.60)

* In January 2009, the CICA issued EIC Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The EIC required the standard to be adopted retrospectively without restatement of prior periods. Clearwater adopted the standard on a prospective basis. The comparative figures for 2009 have been recast for this prior period immaterial error on the application of EIC 173, which resulted in a $1,276, net of tax, decrease to opening deficit at January 1, 2009.

**In order to be consistent with presentation adopted in 2009, 2008 figures have been restated to remove freight expenses previously netted against sales. As a result, both sales and cost of good sold have increased by $9.0 million from the figures previously reported for 2008. There was no change in gross margins.

The impact of the foreign exchange rates can have a significant impact on the volatility of earnings in the quarterly results, which include large cash and non-cash gains or losses related to foreign exchange derivatives.

For a more detailed analysis of each quarter's results, please refer to our quarterly reports and our annual reports.

In general, sales increase with each successive quarter with the largest increase coming in the third quarter of each year. This is best illustrated by looking at the 2009 quarterly results and the results for the first two quarters of 2010. 2009 was an exception to that trend as exceptional high exchange rates in the first half of the year and softer market conditions in the second half of the year disrupted that trend.

In addition, volatility in exchange rates can have a significant impact on earnings. The volatility in earnings for the last 10 quarters is largely driven by exchange rates and the resulting realized and unrealized gains and losses that resulted on Clearwater's derivative and currency and interest rate swaps. Net losses of $21.8 million and $81.7 million in the first and fourth quarters of 2008 and net earnings of $16.6 million and $11.3 million for the first and second quarter of 2009 primarily related to significant unrealized and realized gains and losses from mark to market on exchange derivatives and interest and currency swap contracts. All outstanding foreign exchange contracts were settled during the first half of 2009 and as a result there has been less exchange rate volatility.

DEFINITIONS AND RECONCILIATIONS

Gross Profit

Gross profit consists of sales less harvesting, distribution, direct manufacturing costs, manufacturing overhead, certain administration expenses and depreciation related to manufacturing operations.

Earnings before interest, tax, depreciation and amortization

Foreign exchange losses and gains have been backed out of the calculation of EBITDA due to the variability in these gains and losses. In addition one-time non-recurring items such as severance charges, provisions on property, plant and equipment, gain on quota sales, and reorganization costs are excluded from the calculation of EBITDA.

Earnings before interest, tax, depreciation and amortization is not a recognized measure under Canadian GAAP, and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes that in addition to net income and cash provided by operating activities, EBITDA is a useful supplemental measure from which to determine the Fund's ability to generate cash available for debt service, working capital, capital expenditures, income taxes and distributions. In addition, as EBITDA is a measure frequently analyzed for public companies, Clearwater has calculated EBITDA in order to assist readers in this review. EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of performance, as a measure of liquidity, or as a measure of cash flows and management does not use this measure as a performance measure of earnings.

Reconciliation for the second quarter of 2010 and 2009 along with the rolling 12 month period ending July 3, 2010 and July 4, 2009:

	Quarter ended		Year to Date		12 Month Rolling ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Net earnings (loss)	(4,474)	11,290	(10,721)	27,890	(12,495)	(64,078)
Add (deduct):			-		-	
Minority interest	450	321	391	374	1,056	2,230
Income taxes	727	514	889	728	2,029	4,426
Reduction in foreign currency translation	-	468	214	468	482	468
Depreciation and amortization	169	-	475	81	630	302
Interest on long-term debt and bank charges	5,846	6,801	11,662	13,236	23,766	23,341
	2,718	19,394	2,910	42,777	15,468	(33,311)
Add (deduct) other non-routine items						
Foreign exchange and derivative income unrealized	361	(18,339)	927	(43,456)	(1,890)	4,351
Application of EIC 173 - on unrealized derivative income	-	-	-	1,276	-	1,276
Restructing and refinancing	1,234	3,422	1,772	4,848	3,425	12,928
Realized foreign exchange on derivative instruments	96	6,906	2,454	11,308	5,500	40,029
Provision for underutilized plant	-	-	-	-	1,273	6,028
Gain on sale of quota, land, property, plant and equipment	-	(6,221)	(1,210)	(5,893)	(3,161)	(6,311)
Depreciation and amortization included in cost of good sold	2,705	3,312	6,748	7,063	14,376	15,534
EBITDA	**7,114**	**8,474**	**13,601**	**17,923**	**34,991**	**40,524**

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 and does monitor and manage leverage. In addition, as leverage is a measure frequently analyzed for public companies, Clearwater has calculated the amount in order to assist readers in this review. Leverage should not be construed as an indicator of performance, as a measure of liquidity or as a measure of cash flows, and management does not use this measure as a performance measure of earnings.

Leverage is calculated by dividing the current and preceding three quarters' EBITDA by the total debt on the balance sheet adjusted for cash reserves and subordinated debt (convertible debentures and ISK bonds).

Leverage for banking purposes differs from the above calculations in that it provides for certain adjustments to EBITDA, the inclusion of mark to market liabilities on foreign exchange contracts in debt and the exclusion of certain subordinated debt. Clearwater is in compliance with all of the non-financial and financial covenants associated with its debt facilities.

($000's of Candian dollars)	July 3, 2010	December 31, 2009	July 4, 2009
EBITDA [1]	34,991	39,317	40,524
Net debt (per below)	209,498	205,285	219,955
Net debt leverage	5.99	5.22	5.43
Senior debt (per below)	82,905	80,859	91,749
Senior debt leverage	2.37	2.06	2.26
Debt per balance sheet	217,673	214,117	226,765
Less cash	(8,175)	(8,832)	(6,810)
Net debt	209,498	205,285	219,955
Less subordinated debt	126,593	124,426	128,206
Senior debt	82,905	80,859	91,749
Senior Debt			
Senior notes payable			
Revolver	30,710	26,873	36,095
Amortizing Term Debt	35,973	37,935	39,764
Non - Amortizing Term Debt	16,222	16,051	15,890
	82,905	80,859	91,749

Normalized cash flow

Realized foreign exchange losses and gains have been backed out of the calculation of normalized cash flow due to the variability and reorganization costs have been backed out as management does not expect to incur similar amounts of cost in future periods.

Normalized cash flow is not a recognized measure under Canadian GAAP, and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes that in addition to net income and cash provided by operating activities, normalized cash flow is a useful supplemental measure from which to determine the Fund's ability to generate cash available for debt service, working capital, capital expenditures, income taxes and distributions. Normalized cash flow 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 periods ended July 3, 2010 and July 4, 2009:

	Quarter Ended		Year to Date		12 Month Rolling ended	
($000's)	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Cash flows from operating activities	(10,097)	(14,915)	(1,113)	(4,503)	7,320	(13,762)
Add (deduct):						
Change in non-cash operating working capital	10,058	5,501	(422)	(7,586)	(2,421)	(20,330)
Paid severance	31	30	62	61	118	61
Realized foreign exchange	96	6,906	2,454	11,309	5,500	40,029
Reorganization and other non-routine costs	472	3,064	838	4,324	925	12,404
Normalized cash flow from operating activities before changes in working capital	560	586	1,819	3,605	11,442	18,402

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice to this effect. These interim consolidated financial statements have been prepared by management of the Fund. Management have compiled the unaudited interim consolidated balance sheet of Clearwater Seafoods Income Fund as at July 3, 2010, the audited consolidated balance sheet as at December 31, 2009 and the unaudited interim consolidated statements of earnings and deficit, comprehensive income, and cash flows for the three months ended July 3, 2010 and July 4, 2009. The Fund's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the July 3, 2010 and July 4, 2009 consolidated interim financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

CLEARWATER SEAFOODS INCOME FUND

Consolidated Balance Sheets
(In thousands of Canadian dollars)

	July 3, 2010 (unaudited)	December 31, 2009 (audited)
Assets		
Current Assets		
Distributions and interest receivable from Clearwater Seafoods Limited Partnership	831	807
Investment in Clearwater Seafoods Limited Partnership (note 3)	53,446	59,281
	$ 54,277	$ 60,088
Liabilities and Unitholders' Equity		
Current Liabilities		
Distributions and interest payable	$ 781	$ 781
Convertible Debentures due 2010 (note 4)	44,924	44,851
	45,705	45,632
Convertible debentures (note 4)	43,501	43,402
Unitholders' Equity		
Trust units (note 5)	283,839	283,839
Deficit	(327,713)	(321,730)
Contributed surplus	8,945	8,945
	(34,929)	(28,946)
	$ 54,277	$ 60,088

Basis of Presentation (Note 1)

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS INCOME FUND

Consolidated Statements of Loss and Deficit
(In thousands of Canadian dollars)
(unaudited)

	13 weeks ended		26 weeks ended	
	July 3 2010	July 4 2009	July 3 2010	July 4 2009
Equity in net earnings (loss) of ClearwaterSeafoods Limited Partnership (2009 - net of provision of 5,979 and 15,681 for the 13 and 26 weeks ended, respectively)	$ (2,447)	$ 148	$ (5,819)	$ (544)
Interest income	1,596	1,597	3,193	3,194
Interest expense	(1,679)	(1,673)	(3,357)	(3,344)
Net loss	$ (2,530)	$ 72	$ (5,983)	$ (694)
Deficit at beginning of period	$ (325,183)	$ (320,532)	$ (321,730)	$ (319,766)
Deficit end of period	$ (327,713)	$ (320,460)	$ (327,713)	$ (320,460)
Loss per unit, basic and diluted (note 6)	(0.09)	-	$ (0.21)	$ (0.03)

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS INCOME FUND

Consolidated Statements of Comprehensive Loss
(In thousands of Canadian dollars)
(unaudited)

	13 weeks ended		26 weeks ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Comprehensive Income (loss)				
Net loss	$ (2,530)	$ 72	$ (5,983)	$ (694)
Other comprehensive income, net of tax, unrealized gains and losses on translating financial statements of self-sustaining foreign operations	(177)	576	176	1,121
Comprehensive loss	$ (2,707)	$ 648	$ (5,807)	$ 427

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS INCOME FUND

Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)
(unaudited)

	13 weeks ended		26 weeks ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Cash flows from (used in) operating activities				
Net loss	$ (2,530)	$ 72	$ (5,983)	$ (694)
Items not involving cash:				
Equity in net earnings of Clearwater Seafoods Limited Partnership	2,447	(148)	5,819	544
Other	83	76	164	150
	-	-	-	-
Cash flows from (used in) financing activities	-	-	-	-
Cash flows from (used in) investing activities	-	-	-	-
(Decrease) increase in cash	-	-	-	-
Cash - beginning of period	-	-	-	-
Cash - end of period	$ -	$ -	$ -	$ -

See accompanying notes to consolidated financial statements

(All amounts expressed in thousands of dollars unless otherwise noted)

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. The 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") 2009 Annual Report.

The Fund does not have the right to nominate the majority of the Board of Directors of Clearwater, so it does not consolidate the results of Clearwater's operations, but accounts for the investment using the equity method. The Fund has issued convertible debentures that are due on December 31, 2010 and used the funds to invest in Class C units of Clearwater. While management expects to be able to satisfy the obligation at maturity, if unable to do so, the debentures would be converted to trust units in the manner outlined in note 4 and the Class C units in Clearwater would be converted to Class A units in Clearwater at a similar price to the trading price of the Fund's units. If this were to occur, given current trading prices for the Fund's units, the conversion would result in the issue of a substantial number of Class A units by Clearwater, a dilution of the existing Partnership unitholders and Clearwater Seafoods Income Fund consolidating Clearwater.

2. CORRECTION OF PRIOR PERIOD IMMATERIAL ERRORS

Certain comparative figures have been recast in the current year to reflect prior period immaterial errors.

(a) In the first quarter of 2010 Clearwater determined that a license and the related future income tax liability attributed to a foreign subsidiary should have been denominated in the foreign subsidiary's functional currency and re-translated into Canadian dollars at each balance sheet date with the translation adjustment flowing through accumulated other comprehensive income. An immaterial error was also noted in the determination of the reduction in the accumulated other comprehensive loss. The comparative figures for 2009 have been recast for these prior period immaterial errors, with, the changes summarized in the table below.

(b) In January 2009, the CICA issued EIC Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The EIC requires Clearwater to take into account Clearwater's own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. The EIC required the standard to be adopted retrospectively without restatement of prior periods. Clearwater initially adopted the standard on a prospective basis. The comparative figures for 2009 have been recast for this prior period immaterial error, with, the changes summarized in the table below.

	Amounts prior to recast	Adjustment for translation	Adjustment for EIC 173	Amount per Interim Financial statements
Consolidated statement of loss and deficit, for the 26 weeks ended July 4, 2009				
Equity in net earnings (loss) of Clearwater Seafoods Limited Partnership	-	148	(692)	(544)
Net Earnings (loss)	(150)	148	(692)	(694)
Opening Deficit	(320,458)	-	692	(319,766)
Loss per unit	(0.01)	-	(0.02)	(0.03)
Consolidated statement of loss and deficit, for the 13 weeks ended July 4, 2009				
Equity in net earnings (loss) of Clearwater Seafoods Limited Partnership	-	148	-	148
Net Earnings (loss)	(76)	148	-	72
Consolidated statement of comprehensive loss, for the 26 weeks ended July 4, 2009				
Other comprehensive income, net of tax, unrealized gains and losses on translating financials statements of self-sustaining foreign operations	461	660	-	1,121
Comprehensive income (loss)	311	116	-	427
Consolidated statement of comprehensive loss, for the 13 weeks ended July 4, 2009				
Other comprehensive income, net of tax, unrealized gains and losses on translating financials statements of self-sustaining foreign operations	230	346	-	576
Comprehensive income (loss)	154	494	-	648
Consoliated statement of cash flows, for the 26 weeks ended July 4, 2009				
Net earnings (loss)	(150)	148	(692)	(694)
Equity in net earnings (loss) of Clearwater Seafoods Limited Partnership	-	148	(692)	(544)
Consoliated statement of cash flows, for the 13 weeks ended July 4, 2009				
Net earnings (loss)	(76)	148	-	72
Equity in net earnings (loss) of Clearwater Seafoods Limited Partnership	-	148	-	148

3. INVESTMENT IN CLEARWATER SEAFOODS LIMITED PARTNERSHIP

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

	July 3,2010	December 31, 2009
Investment in Class A Partnership units, at cost	$ 281,587	$ 281,587
Investment in Class C Partnership units	45,000	45,000
Investment in Class D Partnership units	44,389	44,389
Add: Cumulative equity in net earnings	48,833	54,668
Less: Cumulative distributions received	(121,522)	(121,522)
Less: Provision for impairment of investment in Clearwater Seafoods Limited Partnership	(244,841)	(244,841)
	$ 53,446	$ 59,281

The Fund analyzes the carrying value of its investment in Clearwater by considering both the market price of the Fund’s units and the underlying value of the business as if the Fund had consolidated Clearwater. In 2008, as a result of an exaggerated monetary decline and extended timeframe that the market value of the Fund’s units was below the carrying value, it was concluded that the Fund should no longer assess fair value based on the underlying business and should only make reference to the market price of the Fund's units on a go-forward basis. As a result, a provision was recorded in 2008 at the Fund level to reduce the value of the Fund's investment in Clearwater to the December 31, 2008 closing values on the Toronto Stock Exchange.

On August 14, 2008 the Fund entered into an acquisition agreement with CS Acquisition Limited Partnership ("CS Acquisition"), a partnership consortium led by Clearwater Fine Foods Incorporated ("CFFI"), the controlling unitholder of Clearwater Seafoods Limited Partnership. As a result of this offer and the recommendation by the Board of Trustees of the Fund that such offer be accepted, a writedown of $126,716 of the investment was recorded to reflect the values offered for Clearwater. Subsequently, this offer was withdrawn by CS Acquisition as a result of unprecedented uncertainty and volatility in global financial markets and, in particular, Glitnir Banki hf being placed into receivership shortly before the anticipated closing in October 2008. In addition the Fund recorded a provision of $102,444 during the fourth quarter of 2008 to reflect a decline in the market value of Clearwater, for a total provision of $229,160 at December 31, 2008. During the first and second quarters of 2009 the Fund recognized additional provisions for impairment in its investment in Clearwater of $15,681.

In 2004, 4,081,633 Class C units were issued by Clearwater to the Fund concurrently with the issue by the Fund of an equivalent dollar amount of Convertible Debentures. The Class C units are convertible at any time and are redeemable and retractable at a price of $12.25 per unit. These units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the Convertible Debentures of the Fund and in a manner that ensures that the distributions on the Class C units will be able to fund the ongoing interest payments on the Convertible Debentures. In 2007 Clearwater repurchased $5 million of the Class C units leaving $45 million outstanding at December 31, 2009 and July 3, 2010.

In 2007, 8,142,712 Class D units were issued concurrently by Clearwater with the issue by the Fund of $48.0 million of Convertible Debentures and are held by the Fund through CSHT. The Class D units are redeemable and retractable at a price of $5.90 per unit. In 2007 and 2008 Clearwater repurchased $3.6 million of the Class D units leaving $44.4 million outstanding at December 31, 2009 and July 3, 2010.

During 2008 Clearwater repurchased 500,000 Class A Units from the Fund for $2,337 leaving 27,745,695 Class A Units outstanding at December 31, 2009 and July 3, 2010.

4. CONVERTIBLE DEBENTURES

On June 15, 2004, the Fund completed an offering for $50 million of 7% convertible unsecured subordinated debentures, which are due December 31, 2010 and are classified within current liabilities. 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. 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. In 2007 Clearwater repurchased $5 million of the Class C units leaving $45 million outstanding at December 31, 2009 and July 3, 2010.

In 2007, the Fund completed an offering for $48 million of 7.25% convertible unsecured subordinated debentures, which are due March 31, 2014. The convertible debentures are convertible at any time up to maturity at the option of the holder into trust units of the Fund at a conversion price of $5.90 per trust unit. The debentures pay interest semi-annually in arrears on

March 31 and September 30. The debentures are not redeemable before March 31, 2010. On and after March 31, 2010, but before March 31, 2012, the debentures may be redeemed at the option of the Fund provided that the market price of the trust units is not less than 125% of the conversion price. On and after March 31, 2012, the debentures may be redeemed at the option of the Fund at a price equal to their principal amount plus accrued interest. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering that number of trust units equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash. The convertible debentures are classified in accordance with their component parts: the value ascribed to the holder's option to convert to units has been classified as equity and the remaining portion of the convertible debenture has been classified as debt. In 2007 Clearwater repurchased $3.6 million of the Class D units leaving $44.4 million outstanding at December 31, 2009 and July 3, 2010.

5. TRUST UNITS AND SPECIAL TRUST UNITS

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

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

	Units	Special Trust Units	Total $ (in 000's)
Balance January 1, 2008	28,245,695	23,381,217	288,913
Cancellation of Class A units	(500,000)	-	(5,074)
Balance December 31, 2008	27,745,695	23,381,217	283,839
Balance December 31, 2009, and at July 3, 2010	27,745,695	23,381,217	283,839

As at July 3, 2010 there were in total 51,126,912 units outstanding (2009 - 51,126,912).

6. EARNINGS PER UNIT

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

	13 weeks ended		26 weeks ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Basic				
Net loss	(2,530)	72	(5,983)	(694)
Weighted average number	27,746	27,746	27,746	27,746
Loss per unit	(0.09)	-	(0.21)	(0.03)

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

7. COMPARATIVE FIGURES

Certain 2009 comparative figures have been reclassified to conform to the financial statement presentation adopted in 2010.

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice to this effect. Management of the Partnership has prepared these interim consolidated financial statements. Management have compiled the unaudited interim consolidated balance sheet of Clearwater Seafoods Limited Partnership as at July 3, 2010, the audited consolidated balance sheet as at December 31, 2009 and the unaudited interim consolidated statements of earnings and deficit, comprehensive income, and cash flows for the three months ended July 3, 2010 and July 4, 2009. The partnership's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the July 3, 2010 and July 4, 2009 consolidated interim financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

Consolidated Balance Sheets
(In thousands of Canadian dollars)

	July 3, 2010 (unaudited)	December 31, 2009 (audited)
Assets		
Current Assets		
Cash	$ 8,175	$ 8,832
Accounts receivable	33,629	29,489
Inventories	55,201	56,051
Prepaids and other	4,532	4,148
	101,537	98,520
Other long-term assets (note 3)	12,754	11,991
Property, plant and equipment	108,329	113,965
Licences	104,998	106,571
Goodwill	7,043	7,043
	$ 334,661	$ 338,090
Liabilities and Unitholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 35,993	$ 31,630
Income taxes payable	997	468
Current portion of long-term debt (note 5)	61,294	59,906
Derivative financial instruments (note 4 (a))	10,590	11,242
	108,874	103,246
Long-term debt (note 5)	156,378	154,211
Future income taxes	3,890	4,143
Other long-term liabilities	27,537	27,741
Minority interest	3,688	3,623
Unitholders' Equity		
Partnership units (note 6)	164,770	164,770
Deficit	(127,790)	(117,069)
Contributed surplus	1,816	1,816
Accumulated other comprehensive loss	(4,502)	(4,391)
	34,294	45,126
	$ 334,661	$ 338,090

Basis of Presentation (Note 1)

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

Consolidated Statements of Operations and Deficit
13 and 26 week periods ended
July 3, 2010 and July 4, 2009
(In thousands of Canadian dollars)
(unaudited)

	13 weeks ended		26 weeks ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Sales	$ 65,215	$ 70,176	$ 127,875	$ 141,188
Cost of goods sold	55,373	60,885	109,755	120,778
	9,842	9,291	18,120	20,410
Administration and selling	5,849	6,137	12,643	12,999
Gain on disposal of property, plant, equipment and quota	(522)	(7,449)	(1,886)	(7,451)
Other expense (income) (note 7)	1,341	2,642	1,074	2,957
Foreign exchange and derivative contracts (note 4(b))	457	(11,433)	3,380	(30,872)
Bank interest and charges	117	96	237	279
Interest on long-term debt	5,728	6,705	11,424	12,957
Depreciation and amortization	169	-	475	81
Reduction in foreign currency translation account	-	468	214	468
	13,139	(2,834)	27,561	(8,582)
Earnings (loss) before income taxes and minority interest	(3,297)	12,125	(9,441)	28,992
Income taxes	727	514	889	728
Earnings (loss) before minority interest	(4,024)	11,611	(10,330)	28,264
Minority interest	450	321	391	374
Net earnings (loss)	$ (4,474)	$ 11,290	$ (10,721)	$ 27,890
Deficit at beginning of period	(123,316)	(126,617)	(117,069)	(143,217)
Deficit end of period	$ (127,790)	$ (115,327)	$ (127,790)	$ (115,327)
Basic earnings (loss) per unit (note 8)	$ (0.09)	$ 0.22	$ (0.21)	$ 0.55
Diluted earnings (loss) per unit (note 8)	$ (0.09)	$ 0.22	$ (0.21)	$ 0.55

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

Consolidated Statements of Comprehensive Income (Loss) and Accumulated Other Comprehensive (Loss)
(In thousands of Canadian dollars)
(unaudited)

	13 weeks ended		26 weeks ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Comprehensive Income (loss)				
Net earnings (loss)	$ (4,474)	$ 11,290	$ (10,721)	$ 27,890
Other comprehensive income, net of tax, unrealized gains and losses on translating financial statements of self-sustaining foreign operations	(327)	1,062	325	2,066
Comprehensive income (loss)	$ (4,801)	$ 12,352	$ (10,396)	$ 29,956
Accumulated other comprehensive loss				
Balance beginning of period	$ (4,829)	$ (2,604)	$ (4,391)	$ (1,600)
Reduction in cumulative foreign currency translation account	-	468	214	468
Unrealized gain (loss) on translation of self-sustaining foreign operation	327	(1,062)	(325)	(2,066)
Balance end of period	$ (4,502)	$ (3,198)	$ (4,502)	$ (3,198)

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS LIMITED PARTNERSHIP

Consolidated Statements of Cash Flows
For the 13 and 26 week period ended
July 3, 2010 and July 4, 2009
(In thousands of Canadian dollars)
(unaudited)

	13 weeks ended		26 weeks ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Cash flows from (used in) operating activities				
Net earnings (loss)	$ (4,474)	$ 11,290	$ (10,721)	$ 27,890
Items not involving cash:				
Depreciation and amortization	2,874	3,312	7,223	7,144
Unrealized foreign exchange on long term debt	3,085	(7,223)	1,579	(6,183)
Amortization of long term debt	1,398	1,030	2,821	1,911
Future income tax expense (recovery)	(130)	(49)	(508)	(243)
Minority interest	450	321	391	374
Reduction in foreign currency translation account	-	468	214	468
Unrealized (gain) loss on derivative contracts	-	(13,085)	-	(23,056)
Unrealized (gain) loss on currency and interest rate swap contracts	(2,724)	1,969	(652)	(12,941)
Gain on disposal of property, plant and equipment and quota	(522)	(7,449)	(1,886)	(7,451)
Other	4	2	4	-
	(39)	(9,414)	(1,535)	(12,087)
Change in non-cash operating working capital	(10,058)	(5,501)	422	7,586
	(10,097)	(14,915)	(1,113)	(4,501)
Cash flows from (used in) financing activities				
Reduction of long-term debt and swap contracts	-	(107,345)	(10,370)	(109,205)
Proceeds from long-term debt	10,125	99,581	10,125	99,581
Other	(195)	111	(179)	173
Distributions to minority partners	-	(1,024)	-	(1,024)
	9,930	(8,677)	(424)	(10,475)
Cash flows from (used in) investing activities				
Increase in other long-term assets	(439)	1,106	(388)	692
Purchase of property, plant, equipment, licences and other	(965)	(2,588)	(1,991)	(3,700)
Proceeds on disposal of property, plant, equipment, quota and other	953	9,277	3,259	9,280
	(451)	7,795	880	6,272
(Decrease) increase in cash	(618)	(15,797)	(657)	(8,704)
Cash - beginning of period	8,793	22,607	8,832	15,514
Cash - end of period	$ 8,175	$ 6,810	$ 8,175	$ 6,810
Supplementary cash flow information				
Interest paid	$ 5,095	$ 7,002	$ 10,297	$ 11,172
Income taxes paid	$ 672	$ 268	$ 1,062	$ 797

See accompanying notes to consolidated financial statements

(All amounts expressed in thousands of dollars unless otherwise noted)

1. BASIS OF PRESENTATION

Clearwater Seafoods Limited Partnership ("Clearwater") is a limited partnership that acquired the seafood business of Clearwater Fine Foods Incorporated ("CFFI") on July 30, 2002. As CFFI maintained the right to nominate the majority of the board of directors both before and after the acquisition of its seafood business by Clearwater the acquisition was accounted for using the book values of the assets and liabilities as recorded by CFFI.

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. The 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") 2009 Annual Report.

Clearwater has issued Class C Partnership Units that are due on December 31, 2010. While management expects to be able to satisfy the obligation at maturity, if unable to do so, the units would be converted to Class A units in the manner outlined in note 5(c) at similar values of the units of Clearwater Seafoods Income Fund. If this were to occur, given current trading prices for the units, the conversion would result in the issue of a substantial number of Class A units by Clearwater, a dilution of the existing Partnership unitholders and Clearwater Seafoods Income Fund consolidating Clearwater.

2. CORRECTION OF PRIOR PERIOD IMMATERIAL ERRORS

Certain comparative figures have been recast in the current year to reflect prior period immaterial errors.

(a) In the first quarter of 2010 Clearwater determined that a license and the related future income tax liability attributed to a foreign subsidiary should have been denominated in the foreign subsidiary's functional currency and re-translated into Canadian dollars at each balance sheet date with the translation adjustment flowing through accumulated other comprehensive income. An immaterial error was also noted in the determination of the reduction in the accumulated other comprehensive loss. The comparative figures for 2009 have been recast for these prior period immaterial errors, with, the changes summarized in the table below (in 000's of Canadian dollars).

(b) In January 2009, the CICA issued EIC Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The EIC requires Clearwater to take into account Clearwater's own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. The EIC required the standard to be adopted retrospectively without restatement of prior periods. Clearwater initially adopted the standard on a prospective basis. The comparative figures for 2009 have been recast for this prior period immaterial error, with, the changes summarized in the table below (in 000's of Canadian dollars). .

	Amount prior to recast	Adjustment for translation	Adjustment for EIC 173	Amount per Interim Financial Statements
Consolidated Balance Sheet at December 31, 2009				
Licenses	112,287	(5,716)	-	106,571
Future Income Taxes	5,420	(1,277)	-	4,143
Ending Deficit	(106,415)	(10,654)	-	(117,069)
Accumulated other comprehensive income	(10,606)	6,215	-	(4,391)
Consolidated statement of operations and deficit, for the 26 weeks ended July 4, 2009				
Foreign exchange on derivative contracts	(32,148)	-	1,276	(30,872)
Reduction in foreign currency translation account	740	(272)	-	468
Net earnings (loss)	28,894	272	(1,276)	27,890
Opening Deficit	(133,534)	(10,959)	1,276	(143,217)
Ending Deficit	(104,640)	(10,687)		(115,327)
Earnings per unit	0.51	-	0.04	0.55
Consolidated statement of operations and deficit, for the 13 weeks ended July 4, 2009				
Reduction in foreign currency translation account	740	(272)	-	468
Net earnings (loss)	11,018	272	-	11,290
Opening Deficit	(115,658)	(10,959)		(126,617)
Ending Deficit	(104,640)	(10,687)	-	(115,327)
Earnings per unit				
Consolidated statement of comprehensive income, for the 26 weeks ended July 4, 2009				
Other comprehensive income, net of tax, unrealized gains and losses on translating financial statements of self-sustaining foreign operations	849	1,217	-	2,066
Comprehensive income (loss)	29,743	1,489	(1,276)	29,956
Consolidated statement of comprehensive income, for the 13 weeks ended July 4, 2009				
Other comprehensive income, net of tax, unrealized gains and losses on translating financial statements of self-sustaining foreign operations	423	639	-	1,062
Comprehensive income (loss)	11,441	911		12,352
Consolidated statement of accumulated other comprehensive income (loss), for the 26 weeks ended July 4, 2009				
Opening accumulated other comprehensive loss	(10,100)	8,500		(1,600)
Unrealized gain (loss) on translation of self-sustaining foreign operations	(849)	(1,217)		(2,066)
Ending accumulated other comprehensive loss	(10,209)	7,011		(3,198)
Consolidated statement of accumulated other comprehensive income (loss), for the 13 weeks ended July 4, 2009				
Opening accumulated other comprehensive loss	(10,526)	7,922		(2,604)
Unrealized gain (loss) on translation of self-sustaining foreign operations	(423)	(639)		(1,062)
Ending accumulated other comprehensive loss	(10,209)	7,011		(3,198)
Consoliated statement of cash flows, for the 26 weeks ended July 4, 2009				
Net earnings (loss)	28,894	272	(1,276)	27,890
Unrealized (gain) loss on currency and interest rate swap contracts	(14,217)		1,276	(12,941)
Reduction in foreign currency translation account	740	(272)	-	468
Consoliated statement of cash flows, for the 13 weeks ended July 4, 2009				
Net earnings (loss)	11,018	272	-	11,290
Reduction in foreign currency translation account	740	(272)	-	468

3. OTHER LONG TERM ASSETS

In (000's)		July 3 2010		December 31 2009
Cash on deposit	$	3,839	$	3,762
Advances to fishermen		3,093		3,305
Advances to minority interest shareholder		3,185		2,947
Assets held for sale		1,500		1,500
Future tax asset		368		460
Other		769		17
	$	12,754	$	11,991

Cash on deposit of $3,839 at July 3, 2010 (2009 – $3,762) relates to funds, denominated in ISK, held at Glitnir for the purpose of settling a similar amount of ISK denominated bonds. Refer to note 11.

Advances to fishermen include amounts advanced to various fishermen and are payable from proceeds of the related catches. The advances bear interest at prime plus 3%, are due on demand, and are secured by an assignment of catch, a marine mortgage on the vessels, related equipment and licenses.

Advances to minority interest shareholder include funds that are advanced and repaid as dividends are paid. The funds are non-interest bearing with no set repayment terms.

Assets held for sale include surplus processing equipment recorded at net book value.

4. FINANCIAL INSTRUMENTS

a) Forward exchange contracts, interest rate swaps and cross currency swaps have been used in the past by Clearwater in the management of its foreign currency and interest rate exposures.

As at July 3, 2010 and December 31, 2009 Clearwater does not have any forward exchange contracts outstanding.

As at July 3, 2010 and December 31, 2009 Clearwater had interest rate and cross currency swap contracts with Glitnir Banki that are subject to dispute (see Note 11 for more details). The liability recorded in relation to these contracts was $10,590 as of July 3, 2010 ($11,242 as of December 31, 2009).

b) Foreign exchange and derivative contract gains and losses

In (000's)	13 weeks ended July 3, 2010	13 weeks ended July 4, 2009	26 weeks ended July 3, 2010	26 weeks ended July 4, 2009
Realized loss (gain)				
Foreign exchange and other derivative loss	$ -	$ 4,976	$ -	$ 8,659
Realized losses on working capital, net of revolving loans	96	1,930	2,453	2,649
	96	6,906	2,453	11,308
Unrealized (gain) loss				
Unrealized foreign exchange gain on long term debt	3,085	(7,223)	1,579	(6,183)
Mark-to-market on foreign exchange contracts	-	(13,085)	-	(23,056)
Mark-to-market on interest and currency swaps	(2,724)	1,969	(652)	(12,941)
	361	(18,339)	927	(42,180)
Total (gain) loss	$ 457	$ (11,433)	$ 3,380	$ (30,872)

5. LONG-TERM DEBT

In (000's)	July 3 2010	December 31 2009
Revolving Loan, due in 2012 (a)	$ 30,710	$ 26,873
Term loans, due in 2012 (b)		
Facility A	35,973	37,935
Facility B	16,222	16,051
Class C Partnership Units, due in 2010 (c)	44,662	44,338
Class D Partnership Units, due in 2014 (d)	42,207	41,967
Bond payable (e)	40,810	38,864
Marine mortgage, due in 2017 (f)	3,128	4,004
Term loan, due in 2091 (g)	3,500	3,500
Other loans	460	585
	217,672	214,117
Less current portion	(61,294)	(59,906)
	$ 156,378	$ 154,211

(a) Revolving term loan based on 85% of eligible receivables and 75% of eligible inventory to a maximum of $60 million, denominated in both Canadian ($4,590 CAD at July 3, 2010) and United States dollars ($26,364 USD at July 3, 2010) less financing charges of $1,955, bearing interest at Bank Prime plus 2.5% that is convertible to short term 3 month interest rates at BA plus 4.5% for Canadian currency debt and Libor plus 4.5% for US currency debt at the request of Clearwater. Any outstanding balances due are on June 12, 2012 and secured by a priority charge on accounts receivable, cash and cash equivalents subject to certain limitations, and inventory, a third charge on the collateral of the amortizing term loan and a third charge on collateral of the non-amortizing term loan (i.e. Term facility A & B in (b)).

(b) Term loans (consisting of facility A and B) issued by a syndicate of lenders, both facilities bear interest at Bank Prime plus 6% convertible to BA rate plus 7% at the request of Clearwater. Interest payments are made quarterly for fixed rates and monthly for short term variable interest rates. The effective interest rates (cash interest plus amortization of deferred financing charges) at July 3, 2010 were 14.35% for Facility A and 11.98% for Facility B. Facility A, the amount of $37.2 million is due in 7 consecutive quarterly payments of $1,328,125 with a final payment due on June 17, 2012 of $27,890,625 and is secured by a priority charge on Marine Vessels, and all other assets except for that collateral attributed to the Revolving Loan in (a) above and Clearwater's investment in Glacier Pesquara S.A., and a second charge on the collateral of facility B and a third charge on the collateral of the revolving term loan. Facility B, in the amount of $17 million is due in full on June 17, 2012 and is secured by priority charges over licenses and quotas as well as Clearwater's investment in Glaciar Pesquera S.A. and a secondary charge over the collateral of facility A and a third charge on the collateral of the revolving term loan.

(c) In June 2004, 4,081,633 Class C units were issued concurrently with the issue by the Fund of $50 million of Convertible Debentures and are held by the Fund through CSHT. The Class C units are redeemable and retractable at a price of $12.25 per unit and are due December 31, 2010. These units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the Convertible Debentures of the Fund and in a manner that ensures that the distributions on the Class C units will be able to fund the ongoing interest payments on the Convertible Debentures. The Class C units are classified in accordance with their component parts: the value ascribed to the holders' option to convert to Class A units has been classified as equity and the remaining portion of the units has been classified as debt. Interest on the debt is calculated by applying an interest rate of approximately 8.56% to the outstanding debt component. The difference between actual cash payments, which will approximate 7.02% and interest expense, is added to the debt component of the units. In 2007 Clearwater repurchased $5 million of the Class C units leaving $45 million outstanding at July 3, 2010. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering that number of trust units equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash.

(d) In 2007, 8,142,712 Class D units were issued concurrently with the issue by the Fund of $48.0 million of Convertible Debentures and are held by the Fund through CSHT. The Class D units are redeemable and retractable at a price of $5.90 per unit and are due on March 31, 2014. These units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the Convertible Debentures of the Fund and in a manner that ensures that the distributions on the Class D units will be able to fund the ongoing interest payments on the Convertible Debentures. The Class D units are classified in accordance with their component parts: the value ascribed to the holders' option to convert to Class A units has been classified as equity and the remaining portion of the units has been classified as debt. Interest on the debt is calculated by applying an effective interest rate of approximately 8.81% to the outstanding debt component. The difference between actual cash payments, which will approximate 7.27% and interest expense, is added to the debt component of the units. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering that number of trust units equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash.

In 2007 Clearwater repurchased $3.6 million of the Class D units leaving $44.4 million outstanding at July 3, 2010 and December 31, 2009.

(e) During 2008 Clearwater renewed the ISK bonds by issuing an additional ISK 3 billion of five-year bonds with a coupon of 11%, adjusted for changes in the Icelandic consumer price index (CPI) and which mature in August 2013. Proceeds from these bonds were used to pay all but ISK 647 million of the previous issue of ISK bonds that were due to mature in 2010. The total outstanding on the ISK bonds as of July 3, 2010 was ISK 5.1 billion, including CPI and accrued interest (approximately $43.7 million Canadian) of which $40.8 million is recorded in long-term debt and $2.9 million in accounts payable and accrued liabilities.

	July 3, 2010			December 31, 2009		
	Due 2010	Due 2013	Total	Due 2010	Due 2013	Total
Principal	649,033	2,926,500	3,575,533	647,150	2,917,218	3,564,368
Accrued interest	235,122	335,777	570,899	206,889	136,906	343,795
Accrued CPI	440,255	533,465	973,720	404,206	473,296	877,502
Total ISK	1,324,410	3,795,742	5,120,152	1,258,245	3,527,420	4,785,665
Canadian	11,297	32,378	43,675	10,519	29,489	40,008

(f) Marine mortgage payable in the principal amount at July 3, 2010 of CDN $1,705,072, DKK 10,218,338 and YEN 188,525,199 bearing interest at UNIBOR plus 1% payable semi-annually, 54% of which represents Clearwater's proportionate share. Principal payments are required annually with CDN $775,601, DKK 2,087,106 and YEN 29,767,137 due in 2011-2012, CDN $153,870 due in 2013, DKK 2,087,106 and YEN 29,767,137 due in 2013-2014, DKK 1,869,914 due in 2015, YEN 29,767,137 due in 2015-2016 and YEN 9,922,377 due in 2017, 54% 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 over certain fishing licences.

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

Clearwater's debt facilities contain various non-financial and financial covenants. They include, but are not limited to, leverage ratios and fixed charge ratios (which exclude most significant non-cash items and non-recurring items from earnings) that limit distributions paid, capital expenditures and the amount of allowable debt outstanding. The debt facilities also contain material adverse change clauses which entitle the lenders to demand partial or full loan repayment when there are material adverse changes in Clearwater's financial position. Management has determined that circumstances that could trigger action by the lenders under these clauses are unlikely. In addition, payments related to these debt facilities take priority over payments on securities held in Clearwater by the Fund. Clearwater is in compliance with all debt covenants as at December 31, 2009 and July 3, 2010.

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

Year 1	$61,294
Year 2	4,671
Year 3	75,451
Year 4	72,124
Year 5	374

The current portion of the long-term debt is net of $1,277 in deferred financing charges.

6. PARTNERSHIP UNITS

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

In June 2004, 4,081,633 Class C units in the amount of $50 million were issued concurrently with the issue by the Fund of $50 million of Convertible Debentures and are held by the Fund through CSHT. The Class C units are more fully described in Note 5(c).

In 2007, 8,142,712 Class D units were issued concurrently with the issue by the Fund of $48.0 million of Convertible Debentures and are held by the Fund through CSHT. The Class D units are more fully described in Note 5(d).

On January 24, 2007, the Fund received approval for a normal course issuer bid which enabled it to purchase up to 2.5 million outstanding trust units (the “Units”), of the public float. Units purchased by the Fund for cancellation were accompanied by a similar repurchase of units by Clearwater. During 2007, The Fund purchased and cancelled 1,162,000 Class A units for proceeds of $5,583. The units had an original book value of $6,807 thus the excess of book value over the redemption proceeds resulted in an increase of $1,224 in contributed surplus. During 2008, the Fund purchased and cancelled 500,000 Class A units for proceeds of $2,336. The units had an original book value of $2,928 thus the excess of the book value over the redemption proceeds resulted in an increase of $592 in contributed surplus. The total units purchased under this plan since January 24, 2007 is 1,662,000.

	Class A Units	Class B Units	$ (in 000’s)
Balance January 1, 2008	28,245,695	23,381,217	167,698
Cancellation of Class A Units	(500,000)	-	(2,928)
Balance December 31, 2008	27,745,695	23,381,217	164,770
Balance December 31, 2009; unchanged to April 3, 2010	27,745,695	23,381,217	164,770

At July 3, 2010 and December 31, 2009 there were in total 51,126,912 units outstanding.

As CFFI controlled Clearwater’s seafood business both before and after the initial public offering, the acquisition of the seafood business by Clearwater was accounted for using the book values of the assets and liabilities as recorded by CFFI. The excess of the capital contributions of $267,728,000 over book values of the assets of $180,533,000, being $87,195,000, was debited to partnership units.

7. OTHER EXPENSE (INCOME)

Other expense (income) detail	13 weeks ended		26 weeks ended	
In 000's	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Refinancing and restructuring expenses	$ 1,406	$ 3,064	$ 1,772	$ 4,325
Quota rental and royalties	(158)	(335)	(938)	(332)
Vessel research and development expense	518	386	1,128	513
Export rebate	(2)	(104)	(108)	(210)
Other	(423)	(369)	(780)	(1,339)
	$ 1,341	$ 2,642	$ 1,074	$ 2,957

8. EARNINGS (LOSS) PER UNIT

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

	13 weeks ended		26 weeks ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Basic				
Net earnings (loss)	$ (4,474)	$ 11,290	$ (10,721)	$ 27,890
Weighted average number of units outstanding	51,127	51,127	51,127	51,127
Earnings (loss) per unit	$ (0.09)	$ 0.22	$ (0.21)	$ 0.55
Diluted				
Net earnings (loss)	$ (4,474)	$ 11,290	$ (10,721)	$ 27,890
Weighted average number of units outstanding	62,324	62,324	62,324	62,324
Earnings (loss) per unit	$ (0.09)	$ 0.22	$ (0.21)	$ 0.55

The effect of potential dilutive securities, being the Class C and Class D Partnership Units, were not included for July 3, 2010 and July 4, 2009, in the calculation of diluted earnings per unit as the result would be anti-dilutive.

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, Europe, Asia, and Canada.

b) Sales by product category

	13 weeks ended		26 weeks ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Scallops	$ 22,486	$ 28,002	$ 47,193	$ 56,916
Lobster	16,162	17,178	29,590	32,516
Clams	14,747	14,414	29,608	28,030
Coldwater shrimp	6,585	7,309	15,457	19,568
Ground fish and other	2,003	431	2,686	643
Crab	3,232	2,842	3,341	3,515
	$ 65,215	$ 70,176	$ 127,875	$ 141,188

c) Sales by geographic region

	13 weeks ended		26 weeks ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
United States	$ 14,669	$ 18,748	$ 28,302	$ 39,270
Europe				
France	9,288	12,950	20,547	23,444
Denmark	485	1,032	1,210	2,074
UK	4,383	3,679	8,166	9,660
Other	7,489	6,207	15,726	12,383
Asia				
Japan	8,430	7,052	15,820	13,894
China	5,142	5,665	10,088	10,734
Other	6,130	4,474	11,406	8,546
Canada	8,737	10,087	15,795	20,245
Other	462	282	815	938
	$ 65,215	$ 70,176	$ 127,875	$ 141,188

d) Geographic information

	July 3 2010	December 31 2009
Property, plant, equipment, licences and goodwill		
Canada	$ 207,419	$ 213,203
Argentina	12,759	14,148
Other	192	228
	$ 220,370	$ 227,579

10. RELATED PARTY TRANSACTIONS

Clearwater had the following transactions and balances with CFFI, the controlling shareholder of Clearwater, for the 13 and 26 weeks ended July 3, 2010 and July 4, 2009.

	13 weeks ended		26 weeks ended	
In 000's	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Transactions				
Charged by/(to) CFFI for rent and other services (net)	$ (174)	$ 72	$ (250)	$ 97
Balances				
Due from CFFI	$ 1,436	$ -	$ 1,436	$ -

In addition Clearwater was charged approximately $62 for vehicle leases for the 26 weeks ended July 3, 2010 (July 4, 2009 - $32) and approximately $71 for other services for the 26 weeks ended July 3, 2010 (July 4, 2009 - $5) by companies controlled by a relative of an officer of Clearwater. There was also a management fee charged to a joint venture partner for the 26 weeks ended July 3, 2010 of $178 (July 4, 2009 – $176).

At July 3, 2010 Clearwater had a long-term receivable of $3,185 (December 31, 2009 - $2,947), included in other long term assets, for advances on dividends made to a minority shareholder in a subsidiary (refer to note 3).

These transactions have been recorded at the exchange amount agreed to between the parties.

11. Transactions with Glitnir Banki hf:

On October 7, 2008 the Icelandic Financial Services Authority ("FME") took control of Glitnir Banki hf ("Glitnir") and subsequently placed it into receivership. Prior to Glitnir's receivership Clearwater had derivative contracts with Glitnir including foreign exchange forwards and options and cross currency and interest rate swaps (refer to note 4).

During the course of refinancing the debt facilities that matured in June 2009, Clearwater and Glitnir Banki hf reached an agreement, in the second quarter of 2009, to resolve issues concerning any potential liability associated with foreign exchange derivative contracts entered into with Glitnir. Under the agreement all outstanding derivative contracts were closed, to remove any uncertainty going forward, and the potential liability under these contracts was capped at $13.97 million.

In November 2009 Clearwater has commenced litigation on its position that these contracts are null and void. If Clearwater is successful, there is a minimum settlement of $2.9 million represented by a note secured by a subordinated charge on all of Clearwater's assets. The note is due September 15, 2012. To the extent Clearwater is not successful in its position Clearwater will become liable for the difference between the final amount due, subject to the $13.97 million cap, less the $2.9 million minimum, under a second secured note due the later of September 15th, 2012 and 30 days after the final court ruling. Both notes will bear interest at Libor plus 7% until such time as they are settled. Interest is accrued annually and will be payable upon maturity of the notes. Both notes are subject to a subordination agreement with the senior lenders. As of July 3, 2010 Clearwater has included in other long term liabilities an estimated $15.0 million (2009 - $14.5 million) liability associated with these contracts, including accrued interest pending completion of expected legal proceedings against Glitnir.

In addition, Clearwater has a number of interest rate and cross currency swap contracts with Glitnir. Clearwater has consulted with external legal counsel and has received advice that these contracts may become declared null and void. These contracts would allow Clearwater to receive a net of 1.2 billion ISK and pay $25 million Canadian, US $9.7 million, 3 million Pounds Sterling and Euro 2.5 million. The terms of the swap agreements also economically hedge the changes in the Icelandic Consumer Price Index ("CPI"). As of July 3, 2010 Clearwater has included in derivative financial instruments an estimated $10.6 million (2009 – $11.2 million) liability associated with these contracts pending completion of expected legal proceedings with Glitnir (refer to note 4(a)).

Clearwater also has approximately Canadian $3.8 million at April 3, 2010 (2009 - $3.8 million) recorded as a cash deposit with Glitnir for the purpose of settling a similar amount of ISK denominated bonds. This amount is included in other long term assets (refer to note 3). Clearwater believes it will receive the full value of this deposit through the settlement of the issues with Glitnir.

In November 2009, Clearwater commenced litigation with Glitnir in relation to the above outstanding derivative contracts (including cash held on deposit at Glitnir, damages related to the financing term sheet for the failed privatization in October 2008, foreign exchange forwards and options and cross currency and interest rate swaps). Currently there has been no response from Glitnir.

While the assumptions reflect management's best estimates, they are subject to the measurement uncertainty associated with the specifics of the contracts, the inactive market for these contracts and the status of ongoing negotiations with Glitnir. As a result, material revisions could be required to these estimates in future periods.

12. CONTINGENCIES

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

13. COMPARATIVE FIGURES

Certain 2009 comparative figures have been reclassified to conform to the financial statement presentation adopted in 2010.

Quarterly and unit information

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

	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	65,215	62,661	68,394	74,483	70,176	71,012	86,059	84,397
Net earnings (loss)	(4,474)	(6,247)	(2,191)	418	11,018	16,600	(81,734)	(10,234)
Per unit data								
Basic net earnings (loss)	(0.09)	(0.12)	(0.04)	0.01	0.22	0.32	(1.60)	(0.20)

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

	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Trading price range of units (board lots)								
High	1.13	1.03	1.09	1.26	1.30	0.89	4.42	4.48
Low	0.80	0.80	0.75	0.93	0.67	0.41	0.50	3.22
Close	0.87	0.84	0.92	1.05	1.00	0.65	0.85	4.44
Tranding volumes (000's)								
Total	752	695	1,342	1,247	1,302	1,513	7,953	6,090
Average daily	13	13	25	23	19	17	86	91
Units outstanding at end of quarter								
Units	28,245,695	28,245,695	27,745,695	27,745,695	27,745,695	27,745,695	27,745,695	27,745,695
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
Total	51,626,912	51,626,912	51,126,912	51,126,912	51,126,912	51,126,912	51,126,912	51,126,912

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

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