

CLEARLY CANADIAN[®]

Annual report 2006

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

(ALL FIGURES BELOW AND IN THE ATTACHED SCHEDULES ARE STATED IN U.S. DOLLARS, unless otherwise stated)

The following Management Discussion and Analysis dated April 15, 2007 should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2006 as well as the reference to forward-looking statements within this report. All results in this report are presented in US dollars, unless otherwise indicated.

All Basic and diluted earnings (loss) per share figures have been adjusted in the following financial results to reflect a 10:1 share consolidation which was completed May 5, 2005.

Overview

Based in Vancouver, B.C., Clearly Canadian Beverage Corporation markets premium alternative beverages, including Clearly Canadian® sparkling flavoured waters and Clearly Canadian dailyEnergy, dailyVitamin and dailyHydration Natural Enhanced Waters which are distributed in the United States, Canada and various other countries. Since its inception, the Clearly Canadian brand has sold over 2 billion bottles worldwide. Clearly Canadian's recent acquisition of DMR Food Corporation marks the Company's debut into organic and natural products with a wide range of dried fruit and nut snacks offerings from Sundridge Farms, Naturalife, Sweet Selections, Simply by Nature and Glengrove Organics brands.

Our beverage products are considered "alternative" beverages, a category which became identifiable in the mid-1980s. Alternative beverages are distinguishable from traditional soft drinks in that they generally contain natural ingredients, less sugar and calories, and less or no carbonation. Alternative beverages are traditionally seen as healthful, premium-priced and distinctively packaged.

We are focused on creating new alternative beverage brands, developing product extensions and reformulations for existing brands and strengthening the distribution network for our products. In so doing, we have attempted to expand the availability of our existing products and to diversify our alternative beverage product line offerings.

During the year ended December 31, 2006 we repackaged and reformulated our sparkling flavoured water product lines and developed and introduced a new line of non-carbonated, functional beverages under the name Clearly Canadian Natural Enhanced Waters. We continue to develop beverage product extensions in an attempt to reverse the decline in our beverage sales and market share. To improve brand awareness of our products we have also obtained the right to utilize the name and likeness of both Steve Nash, a two-time National Basketball Association MVP and Justin Morneau, a Major League Baseball MVP.

In addition to the rollout of our repackaged and reformulated sparkling, flavoured waters and our new Natural Enhanced Waters, we have, since the beginning of 2007, been transitioning our beverage distribution system from reliance on one large distribution network to a network consisting of a multitude of distributors who are independent of any major soft drink company. We are continuing to evaluate the potential to improve the exposure of our product at the retail level by investing in shelf placement fees with selected national retailers. While we believe all of these initiatives will result in renewed growth in our beverage business, it is still too early to make any trend assessment with respect to sales.

Effective February 7, 2007, the Company acquired DMR Food Corporation, operating under the name Sweet Selection. DMR is a leading seller of organic and natural snack foods in Eastern Canada. The acquisition accelerates the Company's efforts to further establish itself as a provider of healthy, good-for-you products. The Company paid \$450,000 CDN and issued warrants to purchase 3,000,000 of the Company's common shares at a price of US\$4.00 per share to the vendors of DMR. If the vendors do not realize a gain of \$2,550,000 CDN from the exercise and sale of our common shares issuable under the warrants by February 7, 2008, they have the right to require the Company to pay any shortfall. For its latest completed fiscal year ended September 30, 2006, DMR had sales of approximately CDN \$4,100,000 and net income before tax of approximately CDN\$195,000.

With the completion of our private placements of equity stock in 2006 and 2007 to date, we have cash on hand of approximately \$7,400,000. We anticipate that it is likely we will continue to have a negative cash flow on operations for 2007 on a consolidated basis. Any major marketing initiatives will increase our cash requirements. Accordingly, management may be required to seek additional financing from the sale of stock if our current marketing and distribution plans do not indicate an imminent self-sustaining level of operations.

Operating Results

Three months ended December 31, 2006 (“Q4-2006”) compared with three months ended December 31, 2005 (“Q4-2005”)

Sales were \$1,065,000 for the three months ended December 31, 2006 compared with \$1,877,000 for the three months ended December 31, 2005, a decrease of 43.3% or \$812,000. The size of the decrease in sales was due, in part, to the timing of orders on our non-carbonated product line. A more reflective number of the general trend in the Company’s sales is a comparison of the 2006 fiscal year to the 2005 fiscal year (14.3% decrease) which improved upon recent trends (21.2% sales decline from the 2005 fiscal year compared to the 2004 fiscal year). With the introduction of new beverage product lines and acquisitions, the Company expects sales to increase in the 2007 fiscal year compared to the 2006 fiscal year.

Cost of sales expenses were \$1,023,000 for Q4-2006 compared with \$1,373,000 for Q4-2005, a decrease of \$350,000. The net of sales less cost of sales, being the gross profit margin percentage, decreased to 3.9% for Q4-2006 from 26.9% for Q4-2005. The decrease of 22.9% in gross profit margin was mainly due to the write down of inventory (9%) and the price increases in the cost of raw materials and packaging (7%). Other factors, such as the sales mix of our various products, were also factors in the lower gross profit margin for Q4-2006, however, the Company expects gross profit margins to return to more normalized levels as reflected in the gross profit margin for the 2006 fiscal year which was 23.9% (down 3.2% from the previous year due mainly to the write down of inventory). The Company has made adjustments to its selling prices and distribution model which it believes will help offset anticipated increases in raw materials and packaging.

Beginning January 1, 2006 we deduct all sales incentives paid to direct or indirect customers from gross sales in accordance with new EIC-156 of the Canadian Institute of Chartered Accountants. Sales incentives include contractual marketing payments to distributors, coupons, rebates, free product and slotting fees. The amount of such sales incentives were \$87,000 for Q4-2006, compared to \$77,000 for Q4-2005.

The decrease in sales for the three months ended December 31, 2006 compared with the three months ended December 31, 2005 was attributable to the decline in both of our carbonated and non-carbonated products in the period. Sales of our carbonated and non-carbonated beverage products were \$888,000 and \$177,000 respectively for Q4-2006 compared with \$1,036,000 and \$841,000 respectively for Q4-2005, a decrease of \$148,000 and \$664,000 respectively. Sales in any period for our non-carbonated product line are currently influenced materially by the timing and size of orders from a major customer, and during the three months ended December 31, 2006, a major customer cancelled its own planned marketing promotions, resulting in a decline in orders. We believe the decline in the carbonated product line is a result of increased competition and product alternatives in the marketplace. While the Company continues to experience a decline in sales of its carbonated products into 2007, the Company looks forward to reversing previous trends of declining sales of its Clearly Canadian branded beverages with the introduction of new package formats of its carbonated product, such as its new 1 Litre grocery pack, the introduction of new products such as its Natural Enhanced Waters and the transition, in many of its key markets in the United States effective in the first quarter of 2007, to new distributors who are focused on alternative beverages and are not affiliated with major soft drink brands.

General and administrative expenses for Q4-2006 compared with Q4-2005 were as follows:

	Three months ended December 31, 2006	Three months ended December 31, 2005	Increase (Decrease)
Remuneration and payroll cost	\$ 1,135,343	\$ 483,261	\$ 652,082
Professional fees	100,364	47,206	53,158
Corporate development and financing	-	-	-

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Investor relations and shareholder information	79,741	-	79,741
Insurance	108,166	68,895	39,271
Management Fees	-	-	-
Other general and administrative	46,386	65,638	(19,252)
	\$ 1,470,000	\$ 665,000	805,000
Portion of total paid by issuance of stock	34,000	-	34,000
Portion of total comprising amortization of previously deferred consulting fees	137,682	25,000	112,682
Portion of total comprising fair value of stock options	907,535	-	907,535

The primary reason for the increase in general and administrative expenses for Q4-2006 compared with Q4-2005 is due to the Company incurring certain remuneration and payroll expenses which include the fair value of stock options and warrants (\$1,045,000) granted for marketing and consulting services which have resulted both in the Company gaining national retail listings in 2007 and raising capital in 2006 and 2007. Approximately \$680,000 of these non cash expenses were allocated to stock compensation expenses in our financial statements for the previous three quarters of 2006 and are now being reclassified in Q4 2006. Approximately \$227,000 of these non cash expenses relate to Q4 2006. The increase in professional fees is due to the re-audit of our December 31, 2003 financial statements, amending our previously filed Annual Report for 2005, and fees associated with the registration with the US Securities Exchange Commission of stock issued in our financings. The increase in investor relations costs relates to our planned increase in shareholder awareness initiatives. The increase in insurance costs relates to the increased cost of our Directors and Officers Liability insurance coverage, however, the Company expects a significant reduction in the cost of our Directors and Officers Liability insurance in 2007.

Selling expenses were \$ 257,000 for Q4-2006 (24.1% of sales) compared with \$715,000 for Q4-2005 (38.1% of sales), a decrease of \$458,000. An analysis of selling expenses is as follows:

	Three months ended December 31, 2006	Three months ended December 31, 2005	Increase (Decrease)
Remuneration and payroll cost	\$ 186,166	\$ 364,373	\$ (178,207)
Marketing programs and retail support	70,834	350,627	(279,793)
	\$ 257,000	\$ 715,000	\$ (458,000)

Selling expenses decreased in for Q4-2006 compared to Q4-2005 primarily due to the reversal of accrued marketing program expenses of \$161,000 as a result of our review of the previously estimated liabilities to former distributors. Furthermore, an overall decrease in selling expenses of approximately \$300,000 is due to lower variable remuneration, marketing costs and retail support associated with decreased sales. A significant portion of the Company's beverage sales expenses in the United States have, for 2007, been transitioned to a variable expense model to assist the Company's working capital requirements going forward.

There was a recovery of stock based compensation expenses of \$305,000 in Q4-2006 compared with expenses of \$381,000 in Q4-2005. The recovery was a result of the recalculation and reallocation of the fair value of stock options granted for marketing and consulting services described above. The expense associated with these options for the current and previous three fiscal quarters totalling \$907,000 was reclassified from the stock based compensation line item to general and administrative expenses in Q4. Offsetting this recovery on reclassification was an increased stock compensation expense of approximately \$225,000 as a consequence of stock options granted to employees in 2006.

Restructuring costs were Nil in Q4-2006, compared with \$113,000 in Q4-2005. The 2005 restructuring costs related to the amendment of consulting contracts with former management, and premises lease obligations.

Interest income of \$62,000 in Q4-2006 represents an increase of \$62,000 over Q4-2005. The Company has its surplus cash reserves invested in short term bank interest earning deposits. These reserves were raised in private placements of stock for future working capital requirements.

The loss for the three months ended December 31, 2006 was \$1,371,000 (\$0.11 per share) compared with \$2,048,000 for the three months ended December 31, 2005 (\$0.35 per share). The decrease in the loss for the comparative fiscal quarters of \$677,000 is primarily due to the reasons detailed above.

Twelve months ended December 31, 2006 (2006) compared with the twelve months ended December 31, 2005 (2005)

Sales were \$7,462,000 for 2006 compared with \$8,712,000 for 2005, a decrease of 14.3% (\$1,250,000) which improved upon recent trends (21.2% sales decline from the 2005 fiscal year compared to the 2004 fiscal year). With the introduction of new beverage product lines and acquisitions, the Company expects sales to increase in the 2007 fiscal year compared to the 2006 fiscal year.

Cost of sales expenses were \$5,677,000 for YTD-2006 compared with \$6,349,000 for YTD-2005, a decrease of \$672,000. The net of sales less cost of sales, being the gross margin percentage, decreased to 23.9% in 2006 compared with 27.1% in 2005. The decrease in gross margin percentage was due primarily to a write down of inventory in Q4 (62.5% of the 3.2% decrease). The remainder of the decrease in gross margin represents cost escalation of product inputs of raw materials and packaging which we were unable to pass on to our customers. The Company has made adjustments to its selling prices and distribution model which it believes will help offset anticipated increases in raw materials and packaging.

Beginning January 1, 2006 we deduct all sales incentives paid to direct or indirect customers from gross sales in accordance with new EIC-156 of the Canadian Institute of Chartered Accountants. Sales incentives include contractual marketing payments to distributors, coupons, rebates, free product and slotting fees. The amount of such sales incentives were \$343,000 in 2006 and \$429,000 in 2005. The 2005 sales figures have been restated on a consistent basis, accordingly the impact on this change in required presentation is an increase in reported sales of \$86,000 in 2006 over 2005.

The decrease in sales for 2006 compared with 2005 comprised of decreases in sales of both the non-carbonated and carbonated lines. Sales of non-carbonated product were \$2,465,000 for 2006 compared with \$2,627,000 for 2005, a decrease of \$162,000. Sales of our carbonated product line decreased by \$1,089,000 to \$4,997,000 in 2006 compared with \$6,086,000 in 2005. We believe the decline in the carbonated product line is a result of increased competition and product alternatives in the marketplace. While the Company continues to experience a decline in sales of its carbonated products into 2007, the Company looks forward to reversing previous trends of declining sales of its Clearly Canadian branded beverages with the introduction of new package formats of its carbonated product, such as its new 1 Litre grocery pack, the introduction of new products such as its Natural Enhanced Waters and the transition, in many of its key markets in the United States effective in the first quarter of 2007, to new distributors who are focused on alternative beverages not affiliated with major soft drink brands. The Company expects sales of its non-branded, non-carbonated product line to be relatively stable in 2007.

General and administrative expenses for the twelve months ended December 31, 2006 compared to the twelve months ended December 31, 2005 were as follows.

	Twelve months ended December 31, 2006	Twelve months ended December 31, 2005	Increase (Decrease)
Remuneration and payroll cost	\$ 2,484,517	\$ 1,564,002	\$ 920,515
Professional fees	505,001	240,436	264,565
Corporate development and financing	190,000	-	190,000
Management fees	302,788	-	302,788
Investor relations and shareholder information	240,297	35,147	205,150
Product development	63,482	-	63,482
Insurance	332,246	260,691	71,555
Other general and administrative	306,669	307,724	(1,055)

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	\$ 4,425,000	\$ 2,408,000	\$ 2,017,000
Portion of total paid and payable by issuance of stock	773,000	-	773,000
Portion of total comprising amortization of previously deferred consulting fees	497,852	75,000	422,852
Portion of total comprising fair value of stock options	907,535	-	907,535

The primary reason for the increase in general and administrative expenses for the twelve months ended December 31, 2006 compared to the twelve months ended December 31, 2005 is due to the Company incurring certain remuneration and payroll expenses which are the fair value of stock options and warrants (\$1,405,000) granted for marketing and consulting services which have resulted both in the Company gaining national retail listings in 2007 and raising capital in 2006 and 2007. The increase in professional fees is due to the re-audit of our December 31, 2003 and December 31, 2004 financial statements, amending our previously filed Annual Report for 2005, and fees associated with the registration with the US Securities Exchange Commission of stock issued in our financings.

Corporate development and financing costs of approximately \$190,000 were paid to BG Capital Group Ltd., our controlling shareholder, in respect of reorganization and financing costs incurred on the Company's behalf, compared with Nil in 2005. Management fees of \$322,000 were paid under a contract for services with BG Capital Group Ltd. as compared with no comparable expense in 2005. The increase in investor relations costs relates to our planned increase in shareholder awareness initiatives. Product development costs in 2006 relate to the redesign and reformulation of our new sparkling water line and the creation of our Natural Enhanced Waters. The increase in insurance cost relates to the increased cost of our Directors and Officers Liability insurance coverage, however the Company expects a significant reduction in the cost of our Directors and Officers Liability insurance in 2007.

We incurred selling expenses of \$2,326,000 for the twelve months ended December 31, 2006 or 31.2% of sales, compared with \$2,755,000 or 31.7% of sales for the twelve months ended December, 2005. A comparison of selling expenses for YTD-2006 compared with YTD-2005 is as follows:

	Twelve months ended December 31, 2006	Twelve months ended December 31, 2005	Increase (Decrease)
Remuneration and payroll cost	\$ 924,005	\$ 1,201,651	(\$ 277,646)
Marketing program and retail support	1,401,995	1,553,349	(151,354)
	\$ 2,326,000	\$ 2,755,000	(\$ 429,000)

Selling expenses decreased for the twelve months ended December 31, 2006 compared to the twelve months ended December 31, 2005 primarily due to the reversal of accrued marketing program expenses of \$161,000 as a result of our review of the previously estimated liabilities to former distributors, and an overall decrease in selling expenses of approximately \$470,000 due to lower variable remuneration, marketing costs and retail support associated with decreased sales. A significant portion of the Company's beverage sales expenses in the United States have, for 2007, been transitioned to a variable expense model to assist the Company's working capital requirements going forward. Offsetting these lower costs were additional expenses in 2006 of the one-time cost of video programming of \$50,000 related to the creation of a reality TV series about the Company and new product design fees of approximately \$157,000.

Stock based compensation was \$2,426,000 in YTD-2006 compared with \$1,709,000 in YTD-2005. The increased expense of \$717,000 is due to the increased number and fair value of stock options granted for 2006 over 2005.

Lawsuit settlement costs of \$797,000 in 2006 represents an increase of \$797,000 from the previous year. This expense comprises the excess of the consideration given by the Company in common shares, the fair value of common share purchase warrants, and land, over the book value of debt extinguished on settlement of all litigation associated with the purchase of its Blue Mountain subsidiary. On settlement of this litigation the Company retains clear title to a 4 acre parcel of land containing a significant potential water source.

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Write down of property for 2006 was \$137,000, compared to \$382,000 in 2005, a decrease of \$245,000. Management reviews the carrying cost of its capital assets at least annually, and where there is an indication of an impairment in value this loss is recognized in the year.

Amortization of property, plant and equipment for 2006 was \$16,000, compared to \$122,000 for 2005, a decrease of \$106,000. The decrease was result of write down of machinery and equipment in 2006 and 2005.

Gain on sale of investments of marketable securities for 2006 was \$201,000 compared with Nil in 2005. This was due to the sale of all of the Company's holdings of a public company investment.

Restructuring costs were \$112,000 in 2006, compared with \$680,000 in 2005, for a decrease of \$568,000. The restructuring, now completed, related to the amendment of consulting contracts with former management, and premises lease obligations.

Interest income of \$132,000 in 2006 represents an increase of \$132,000 over 2005. The Company has its surplus cash reserves invested in short term bank interest earning deposits. These reserves were raised in private placements of stock for future working capital requirements.

Royalty income was \$125,000 for 2006 compared with \$76,000 for 2005, an increase of \$49,000. The royalty of \$125,000 is the maximum royalty receivable in any year, and is received pursuant to an agreement with the purchaser of the company's Washington State bottling facilities in 2002 and is based on the number co pack sales at the facility with the purchaser. Under the terms of the sale agreement, the purchaser's obligation to pay the royalty expires February 2007.

Other expense was a recovery of (\$35,000) for 2006 compared with an expense of \$231,000 for 2005, a decrease of \$266,000. The \$231,000 in other expense in 2005 related to financing and accretion costs on short term debt which was retired.

The loss for the twelve months ended December 31, 2006 was \$8,247,000 (or \$.82 per share) compared with \$6,069,000 for the twelve months ended December 31, 2005 (or \$1.06 per share). The increase in the loss for 2006 over 2005 of \$2,178,000 is primarily due to the reasons detailed above.

Selected Annual Information

(\$ in thousands, except per share data)

	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004 (Restated)
Total revenue	\$ 7,462	\$ 8,712	\$ 11,064
Net loss	8,247	6,069	5,531
Basic and diluted loss per share	0.82	1.06	7.14
Total assets	9,093	6,259	4,181
Long term debt	-	1,501	1,957
Cash dividends paid (Preferred Shares)	94	0	0

Total revenue has been reclassified in the above presentation for all comparative periods to give effect to the presentation adopted with EIC-156, whereby vendor and reseller sales incentives are deducted from gross sales.

The following is a summary of quarterly results of the Company for the eight most recently completed financial quarters ended December 31, 2006.

Amounts in Accordance with Canadian GAAP (unaudited) (\$ in thousands, except per share data)	2006 30-Dec	2006 30-Sep	2006 30-Jun	2006 31-Mar	2005 31-Dec	2005 30-Sep	2005 30-Jun	2005 31-Mar
Sales	1,065	2,022	2,673	1,702	1,878	2,797	2,418	1,640

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Cost of sales	1,023	1,402	1,910	1,342	1,373	2,008	1,776	1,192
Gross profit	42	620	763	360	505	789	642	448
Selling, general and administrative expenses	1,727	1,597	1,785	1,642	1,379	1,341	1,257	1,186
Amortization of property, plant and equipment	(62)	18	28	32	32	30	28	32
Royalty	-	-	(66)	(59)	(46)	-	-	(26)
Interest Income	4	1	68	101	58	42	57	64
Other, interest, gains, losses and writedowns	(256)	1,167	1,572	688	1,129	818	978	73
Net loss	(1,371)	(2,208)	(2,624)	(2,044)	(2,048)	(1,462)	(1,678)	(881)
Net loss per share	(0.11)	(0.19)	(0.27)	(0.29)	(0.39)	(0.27)	(0.55)	(0.81)
Weighted average shares outstanding	12,896,845	11,754,491	9,086,385	7,072,681	5,728,924	5,413,973	3,044,976	1,035,835

Total revenue has been reclassified in the above presentation for all comparative periods to give effect to the presentation adopted with EIC-156, whereby vendor and reseller sales incentives are deducted from gross sales.

Liquidity and Capital Resources

The Company improved its working capital position during the twelve months ended December 31, 2006 by issuing a total of 5,375,501 shares of common stock as follows:

- i) Three private placement equity sales of 2,850,854 shares were completed to raise \$6,108,000 cash net after costs,
- ii) \$1,425,000 cash was raised on the issue of 1,337,208 shares on the exercise of stock options and warrants,
- iii) \$1,573,000 in long term debt was extinguished by the issue of 637,719 shares under the terms of a lawsuit settlement,
- iv) \$573,000 in short term debt was converted into 228,885 common shares, and
- v) Services totalling \$773,000 otherwise payable in cash were paid by the issuance of 320,783 shares.

An additional 1,640,000 common shares were issued on the conversion of 400,000 Class B preferred shares up to December 31, 2006.

During the twelve month period ended December 31, 2006 the company increased its cash position by \$4,747,000 from \$520,000 at December 31, 2005 to \$5,267,000 at December 31, 2006.

Total cash raised by the issue of shares in the twelve months ended December 31, 2006 totalled \$7,731,000, primarily through the issue of shares in private placements of equity and on the exercise of stock options and warrants.

We also realized cash proceeds totalling \$588,000 on the sale of surplus land and water rights, and a publicly traded investment.

Operating losses for the twelve months ended December 31, 2006 used cash of \$2,856,000. We continue to operate at a loss and are currently utilizing approximately \$200,000 of our cash reserves per month to sustain operations. We are continuing to evaluate various marketing initiatives and the potential of acquiring shelf space at national retailers. Should we decide to make investments of this nature we will be required to draw down our cash reserves accordingly unless additional equity can be raised. We have no significant other potential sources of financing such as term debt facilities available to us at this time.

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At December 31, 2006 we have no material debt other than normal accounts payable to suppliers and service providers totalling \$1,629,000.

The Company's total contractual obligations at December 31, 2006 were \$1,872,000 and were comprised of various types of debt instruments, including consulting contracts, and operating leases.

The following table is a summary of the Company's contractual obligations as at December 31, 2006:

Contractual Obligations (\$ in thousands, except per share data)	Payments Due by Year Ending December 31						
	Total	2007	2008	2009	2010	2011	2012 and thereafter
Operating leases (office equipment and premises)	21	9	10	2	-	-	-
Consulting contracts	1,851	510	560	464	317	-	-
Total Contractual obligations	1,872	519	570	466	317	-	-

We have no interest bearing debt at December 31, 2006.

In connection with the acquisition of DMR Food Corporation effective February 7, 2007 the Company issued warrants to purchase 3,000,000 of the Company's common shares at a price of US\$4.00 per share to the vendors. If the vendors do not realize a gain of \$2,550,000 CDN from the exercise and sale of our common shares issuable under the warrants by February 7, 2008, they have the right to require the Company to pay any shortfall in cash. The Company has also entered into a three year employment agreement with the President of DMR, at a base salary of \$150,000 CDN per year.

In April, 2007, the company completed the non-brokered private placement of 1,166,333 common shares at \$3.00 per share raising a total of \$3,499,000. The Company is also issuing to the subscribers, warrants which vest immediately and expire in two years, to purchase 1,166,333 common shares at a purchase price of \$3.25 per share.

At April 15, 2007, our issued share capital comprises the following:

- 19,380,878 common shares;
- 1,120,000 Variable Multiple Voting Shares.
- 600,000 Class B Preferred Shares., each one Class B share is convertible into 4.1 common shares and .80 Variable Multiple Voting Shares.

In addition, at April 15, 2007, there are 2,946,389 common shares issuable upon exercise of outstanding stock options at exercise prices ranging from \$1.00 to \$10.11 and 9,852,208 common shares issuable upon exercise of outstanding share purchase warrants at exercise prices ranging from \$1.25 to \$4.00 per share.

The Variable Multiple Voting Shares rank equally with the common shares with respect to dividends and rights on liquidation. With regard to voting, each Variable Multiple Voting Share entitles the holder thereof to 10 votes for each share held or such greater number of votes for each Variable Multiple Voting Share as may be determined in accordance with the following formula:

$$V = \frac{LVS}{CS} \times 10$$

Where:

- V = the number of votes attaching to each issued Variable Multiple Voting Share
- LVS = the number of issued common shares, redesignated as Limited Voting Shares
- CS = the number of issued common shares as at March 16, 2006, which number shall be increased upon any subdivision and decrease upon any consolidation of the Limited Voting Shares after

March 16, 2006 on the same basis as that subdivision or consolidation. The number of issued common shares at March 16, 2006 was 7,229,912

The total number of Variable Multiple Voting Shares issued is 1,120,000, and an additional 480,000 Variable Multiple Voting Shares are issuable on the conversion of the remaining Class B shares. The total of 1,600,000 Variable Multiple Voting Shares available will entitle BG Capital Group Ltd. to 30,187,649 votes at meetings of shareholders based on the above formula at April 15, 2007.

Related Party Transactions

In the ordinary course of business, the Company enters into transactions with related parties. All related party transactions are recorded at their current currency exchange amounts.

In the year ended December 31, 2006, the Company:

-accrued management fees of \$322,000 in connection with a contract for services provided by BG Capital Group Ltd., our controlling shareholder. The contract was terminated on March 16, 2006. In August, 2006 the Company issued 140,000 shares at \$2.30 USD per share as settlement for services provided.

-paid \$190,000 in corporate development and financing costs and \$318,000 in private placement of stock finder's fees to BG Capital Group Ltd.

- paid \$94,000 with respect to dividend on the Class B preferred shares to BG Capital Group Ltd.

- paid \$55,000 in remaining costs associated with the lease of its former office premises to a limited partnership in which certain ex-directors of the Company had an interest. The Company terminated this lease on December 31, 2005 and has moved to different premises.

Critical Accounting Estimates

Going concern

The accompanying financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern.

While these accompanying financial statements have been prepared on the assumption that the Company is a going concern and will be able to realize its assets and discharge its liabilities in the normal course of business, certain events and conditions cast substantial doubt on this assumption. We recorded a loss of \$8,247,000 for the twelve months ended December 31, 2006 (2005 - \$6,069,000). Operations have been funded primarily from the issuance of capital stock, and we will likely continue to draw down our cash reserves for the foreseeable future until a self-sustaining level of sales is attained.

Management has continued to take steps to try to improve the Company's financial results and cash flows. These steps include the liquidation of non-core investments and pursuing equity financing to fund working capital requirements. The Company's ability to continue operations is contingent on its ability to obtain financing. Management believes that it may be able to secure the necessary financing, however, there is no assurance that management will be successful in achieving this objective.

These financial statements do not reflect adjustments to the carrying value of assets and liabilities, the reported revenues and expenses and balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

Financial instruments

a) Fair value of financial instruments

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The fair value of cash and cash equivalents, accounts receivable, bank indebtedness, and accounts payable and accrued liabilities corresponds to their carrying value due to their short-term nature. The carrying value of long-term debt approximates its fair value based upon the discount rates applied.

b) Concentration of credit risk

The Company grants credit to its customers in the normal course of business. Credit evaluations are performed on a regular basis and the financial statements take into account an allowance for bad debts. At December 31, 2006, three customers represented 64% (December 31, 2005 - two customers represented 60%) of total accounts receivable.

c) Interest rate risk

The Company's short term bank credit facility bears interest at U.S. prime plus 4%. The company has no long term debt. The Company does not use derivative instruments to manage its exposure to interest rate risk.

d) Foreign exchange rate risk

The majority of the Company's revenues and selling costs, together with a material portion of its production costs are incurred in the United States and payable in US dollars. General and administration costs, together with a material amount of production costs are incurred in Canada and the Company is therefore subject to risk due to fluctuations in exchange rates. The Company does not use derivative instruments to manage its exposure to foreign exchange rate risk.

Stock based compensation

The Company has stock-compensation plans, which are described in note 15 to the annual financial statements. The Company accounts for all stock-based payments granted to employees and non-employees on or after January 1, 2002, using the fair value based method as per CICA Handbook Section 3870, *Stock-Based Compensation and Other Stock-Based Payments* which requires entities to account for employee stock options using the fair value based method. Under the fair value method, compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period. Consideration paid by employees on the exercise of stock options is recorded as capital stock. Stock-based payments to non-employees are measured at the fair value of the consideration received and are recognized as the options are earned. Consideration paid for stock on exercise of stock options is credited to capital stock.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant areas requiring the use of management estimates relate to the assessment of the fair market value of stock options and the carrying value of and land and water sources. Actual results could differ materially from those estimates.

Changes in Accounting Policies including Initial Adoption

Effective January 1, 2006 the Company adopted EIC-156 of the Canadian Institute of Chartered Accountants concerning Accounting by A Vendor for Consideration Given to a Customer (Including a Reseller of the Vendors Products). All sales incentives to direct or indirect customers of the Company, including slotting fees, contractual marketing payments, coupons, rebates, free product and similar sales incentives are accounted for as a reduction of revenue when recognized by the Company in its Statement of Operations. Sales and selling expenses for all comparative periods presented have been reclassified to reflect such expenses in accordance with EIC-156.

Recent Canadian Accounting Developments

Recently issued Canadian accounting pronouncements from the Canadian Institute of Chartered Accountants ("CICA") are outlined below:

In April 2005, the CICA issued Section 1530 of the CICA Handbook on "Comprehensive Income". This Section applies to fiscal years beginning on or after October 1, 2006. It describes reporting and disclosure recommendations with respect to comprehensive income and its components. Comprehensive income is the change in shareholders' equity that results from transactions and events from sources other than the Company's shareholders. These transactions and events include changes in the currency translation adjustment relating to self-sustaining foreign operations and unrealized gains and losses resulting from changes in fair value of certain financial instruments. The adoption of this section on January 1, 2007 implies that the Company will in future present comprehensive income and its components in a separate financial statement.

In April 2005, the CICA issued Section 3855 of the CICA Handbook on "Financial Instruments – Recognition and Measurement Income". This Section applies to fiscal years beginning on or after October 1, 2006. It describes the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the financial statements. Financial assets available for sale, assets and liabilities held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value. The Company is currently assessing the impact on its financial reporting and disclosures that the adoption of this pronouncement on January 1, 2007 will have.

In April 2005, the CICA issued Section 3865 of the CICA Handbook on "Hedges". This Section applies to fiscal years beginning on or after October 1, 2006. The recommendations expand the guidelines exposed in Accounting Guideline 13 (AcG-13), Hedging Relationships. This Section describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from the derivative financial instruments in the same period as for those related to the hedged item. The Company does not believe that the adoption of this pronouncement on January 1, 2007 will have a material impact on its financial reporting and disclosures.

Legal Proceedings

Dispute with D. Bruce Horton and Continental Consulting Ltd.

In August 1999, a claim was filed against the Company in the Supreme Court of British Columbia by D. Bruce Horton and his company, Continental Consulting Ltd. (Continental). Mr. Horton is claiming compensation from the Company for allegedly constructively dismissing him as an officer of the Company. Continental is claiming compensation from the Company alleging that the Company terminated its management agreement without cause. Mr. Horton and Continental are claiming an aggregate of CA\$2.4 million plus interest and costs. The Company does not accept Mr. Horton's and Continental's allegations, and has filed statements of defence and has further filed counterclaims against Mr. Horton and Continental for monies owed and damages. The Company has made an accrual based on its expected costs.

Ordinary course business proceedings

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. Management is of the opinion that such claims are not likely to have a material adverse effect on the Company's future operations or financial position.

Stock Exchange

The shares of the Company trade in the United States on the OTC Bulletin Board under the trading symbol "CCBEF".

Corporate Governance

Clearly Canadian believes that quality corporate governance is essential to ensuring effective management of our Company. Clearly Canadian's corporate governance policy is substantially aligned with the guidelines set out in the report of The Toronto Stock Exchange Committee on Corporate Governance in Canada.

Disclosure Controls and Procedures and Internal Controls

Disclosure Control Risks

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Company's management has concluded, based on their evaluation of the effectiveness of the Company's disclosure controls and procedures as of December 31, 2006, that disclosure controls and procedures provide reasonable assurance that material information is made known to them by others within the Company subject to the reportable weakness identified below regarding segregation of duties. However, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Internal Control Risks

Management is responsible for certifying the design of the Company's internal control over financial reporting ("ICFR") as required by Multilateral Instrument 52-109 – "Certification of Disclosure in Issuers Annual and Interim Filings". Our ICFR is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principals (GAAP). ICFR includes those policies and procedures that establish the following:

- maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of our assets;
- reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP;
- receipts and expenditures only being made in accordance with authorizations of management and the Board of Directors; and
- reasonable assurance regarding prevention or timely detection of unauthorized collection, use or disposition of our assets that could have a material effect on the financial statements. Because of its inherent limitations, ICFR may not prevent or detect misstatements. Also, the effectiveness of ICFR is subject to the risk that controls may become inadequate because of changes in condition, or that the degree of compliance with the policies or procedures may deteriorate. Management carried out the design of the Company's internal controls over financial reporting and concluded, subject to the inherent limitations noted above, the Company has sufficient controls to meet the requirements as stated above and that one reportable weakness existed, at December 31, 2006, as detailed below.

Segregation of Duties

Segregation of duties is a basic, key internal control and one of the most difficult to achieve in a small company. It is used to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business. Due to limited resources, a complete segregation of duties within the Company's operating and accounting groups can not be fully achieved. The result is that the Company is highly reliant on the qualifications, experience and integrity of its staff and on the performance of mitigating procedures during its financial close processes in order to ensure the financial statements are presented fairly in all material respects. Any changes in the current control process will be dependant upon the growth of the Company's operations and the number of its staff to allow further segregation of duties. Management will continue to review existing mitigating controls and, if appropriate, implement changes to its internal control processes whereby more effective mitigating controls will be adopted.

Note Regarding Forward-Looking Statements

Statements herein that are not historical facts are forward-looking statements that are subject to risks and uncertainties. Words such as "expects", "intends", "may", "could", "should", "anticipates", "likely", "believes" and words of similar import also identify forward-looking statements. Forward-looking statements are based on current facts and analyses and other information that are based on forecasts of future results, estimates of amounts not yet

determined and assumptions of management, including, but not limited to, the Company's ability to raise additional debt and/or equity financing to fund operations and working capital requirements, the Company's analysis of its current and future sales and sales trends, its product distribution systems, and changes thereto, and the Company's expectations regarding the effects of its restructuring efforts, and its production distribution, promotional and marketing activities and the potential benefits of such changes, efforts and activities on its results of operations in future periods. Actual results may differ materially from those currently anticipated due to a number of factors including, but not limited to, general economic conditions, changing beverage consumption trends of consumers, the Company's ability to generate sufficient cash flows to support general operating activities and capital expansion plans, competition, pricing and availability of raw materials, the Company's ability to maintain the current and future retail listings for its beverage products and to maintain favourable supply, production and distribution arrangements, laws and regulations and changes thereto that may affect the way the Company's products are manufactured, distributed and sold and other factors beyond the reasonable control of the Company. Additional information on factors that may affect the business and financial results of the Company can be found in filings of the Company with the U.S. Securities and Exchange Commission and with the British Columbia and Ontario Securities Commissions.