

Consolidated Financial Statements
(Expressed in thousands of United States dollars, except where indicated)

CLEARLY CANADIAN BEVERAGE CORPORATION

Year ended December 31, 2007



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AUDITORS' REPORT

To the Shareholders of Clearly Canadian Beverage Corporation

We have audited the consolidated balance sheets of Clearly Canadian Beverage Corporation as at December 31, 2007 and 2006 and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements for the year ended December 31, 2005 were audited by other auditors who expressed an opinion without reservation in their report dated June 12, 2006.

Chartered Accountants

Vancouver, Canada

April 24, 2008

CLEARLY CANADIAN BEVERAGE CORPORATION

Consolidated Balance Sheets

(Expressed in thousands of United States dollars, except for share and per share amounts)

December 31, 2007, with comparative figures for 2006

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,786	\$ 5,267
Accounts receivable (note 5)	1,038	634
Inventories (note 6)	1,436	427
Prepaid expenses and other current assets	723	533
	<u>11,983</u>	<u>6,861</u>
Property, plant and equipment (note 7)	1,640	1,153
Derivative (note 11)	1,436	-
Prepaid contracts (note 14(a))	-	1,079
Intangible assets (note 8)	5,426	-
Goodwill (note 8)	1,693	-
	<u>\$ 22,178</u>	<u>\$ 9,093</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Bank indebtedness (note 4)	\$ 49	\$ -
Accounts payable and accrued liabilities (note 9)	4,273	1,608
Capital lease obligation, current portion (note 10)	36	8
	<u>4,358</u>	<u>1,616</u>
Convertible note payable (note 11)	5,442	-
Capital lease obligation, net of current portion (note 10)	155	13
	<u>9,955</u>	<u>1,629</u>
Shareholders' equity:		
Capital stock (notes 12 and 13):		
Authorized:		
Unlimited common share without par value		
Unlimited variable multiple voting shares without par value		
2,000,000 class A preferred shares		
2,000,000 class B preferred shares		
Outstanding – nil (2006 – 1,600,000) class B preferred shares	-	1,600
Issued – 23,468,087 (2006 – 13,917,153) common shares without par value	-	-
Outstanding – 23,430,787 (2006 – 13,879,853) common shares without par value	84,047	75,730
Variable multiple voting shares – 1,600,000 (2006 – 320,000)		
Contributed surplus	18,033	8,290
Accumulated other comprehensive income (loss)	56	(1,101)
Deficit	(89,913)	(77,055)
	<u>12,223</u>	<u>7,464</u>
	<u>\$ 22,178</u>	<u>\$ 9,093</u>

Going concern (note 2(a))
 Commitments and contingencies (note 14)
 Subsequent events (note 18)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

GEORGE REZNIK Director

BOBBY GENOVESE Director

CLEARLY CANADIAN BEVERAGE CORPORATION

Consolidated Statement of Operation and Comprehensive Loss

(Expressed in thousands of United States dollars, except for share and per share amounts)

Year ended December 31, 2007

	2007	2006	2005
Sales	\$ 10,623	\$ 7,462	\$ 8,712
Cost of sales	9,212	5,677	6,349
Gross profit	1,411	1,785	2,363
Expenses:			
Selling, general and administration expenses	14,528	9,177	6,872
Amortization of capital and intangible assets	875	16	122
Royalty revenue	-	(125)	(76)
Interest income	(319)	(132)	-
Other (income) expense	-	(35)	231
Financing costs	-	132	-
Interest on short-term debt	37	148	172
Interest on long-term debt	-	6	49
Interest on convertible note	520	-	-
Write-down of property, plant and equipment	-	137	382
Gain on sale of investments	-	(201)	-
Loss on settlement of lawsuit	-	797	-
Gain on financial instruments	(1,434)	-	-
Restructuring	-	112	680
	14,207	10,032	8,432
Loss for the year	(12,796)	(8,247)	(6,069)
Cumulative translation adjustment	1,157	-	-
Comprehensive loss for the year	\$ (11,639)	\$ (8,247)	\$ (6,069)
Loss per share, basic and diluted	\$ (0.63)	\$ (0.82)	\$ (1.06)
Weighted average number of shares outstanding	20,392,029	10,223,284	5,728,974

See accompanying notes to consolidated financial statements.

CLEARLY CANADIAN BEVERAGE CORPORATION

Consolidated Statement of Changes in Shareholders' Equity
(Expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

	Common shares		Share subscription receivable (payable)	Class A preferred shares		Class B preferred shares		Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Shareholders' equity (deficiency)
	Number of shares	Amount \$		Number of shares	Amount \$	Number of shares	Amount \$				
Balance, December 31, 2004	996,568	59,035	-	-	-	-	-	1,037	(1,253)	(62,334)	(3,515)
Private placement issued January 14, 2005 at CA\$2.50 per unit prior to consolidation	46,500	97	-	-	-	-	-	-	-	-	97
Class A preferred shares issued on conversion of loan May 5, 2005	-	-	-	1,000,000	1,000	-	-	-	-	-	1,000
Private placement of class A preferred shares issued May 5, 2005 at US\$1.00 per share	-	-	-	1,000,000	1,000	-	-	-	-	-	1,000
Private placement issued May 16, 2005 at US\$1.00 per share	2,260,000	2,260	-	-	-	-	-	-	-	-	2,260
Private placement issued May 24, 2005 at US\$1.00 per share	815,000	815	-	-	-	-	-	-	-	-	815
Finders fees – private placement – May 16, 2005 and May 24, 2005 issued at US\$1.42 per share	450,000	639	-	-	-	-	-	-	-	-	639
Share issue cost – private placement	-	(1,003)	-	-	-	-	-	-	-	-	(1,003)
Stock dividend on class A preferred shares issued May 24, 2005 issued at market US\$1.50 per share	7,506	11	-	-	-	-	-	-	-	(11)	-
Class A preferred shares converted to class B preferred shares	-	-	-	(2,000,000)	(2,000)	2,000,000	2,000	-	-	-	-
Stock dividend on class B preferred shares issued May 24, 2005 issued at market US\$1.50 per share	200,000	300	-	-	-	-	-	-	-	(300)	-
Private placement issued May 27, 2005 at US\$1.00 per share	635,953	634	-	-	-	-	-	-	-	-	634
Carryforward	5,411,527	62,788	-	-	-	2,000,000	2,000	1,037	(1,253)	(62,645)	1,927

CLEARLY CANADIAN BEVERAGE CORPORATION

Consolidated Statement of Changes in Shareholders' Equity, Continued
(Expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

	Common shares		Share subscription receivable (payable)	Class A preferred shares		Class B preferred shares		Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Shareholders' equity (deficiency)
	Number of shares	Amount \$		Number of shares	Amount \$	Number of shares	Amount \$				
Broughtforward	5,411,527	62,788	-	-	-	2,000,000	2,000	1,037	(1,253)	(62,645)	1,927
Shares issued on September 30, 2005 at market US\$1.17 per share	225,000	263	-	-	-	-	-	-	-	-	263
Share issued on October 17, 2005 at market US\$1.38 per share	25,000	34	-	-	-	-	-	-	-	-	34
Option exercised at US\$1.00 per share	105,000	105	-	-	-	-	-	-	-	-	105
Shares issued on November 30, 2005 at US\$2.00 per share	222,825	446	-	-	-	-	-	-	-	-	446
Shares issued on November 30, 2005 at US\$2.00 per share	75,000	150	-	-	-	-	-	-	-	-	150
Private placement issued December 28, 2005 at US\$1.25 per share	800,000	1,000	-	-	-	-	-	35	-	-	1,035
Share issue cost – private placement December 28, 2005	-	(30)	-	-	-	-	-	-	-	-	(30)
Share subscription receivable	-	-	(198)	-	-	-	-	-	-	-	(198)
Fair value of stock options issued	-	-	-	-	-	-	-	1,612	-	-	1,612
Fair value of warrants issued for consulting services	-	-	-	-	-	-	-	1,904	-	-	1,904
Restructuring cost	-	-	-	-	-	-	-	221	-	-	221
Loss for the year	-	-	-	-	-	-	-	-	-	(6,069)	(6,069)
Exchange difference	-	-	-	-	-	-	-	-	324	-	324
Balance, December 31, 2005	6,864,352	64,756	(198)	-	-	2,000,000	2,000	4,809	(929)	(68,714)	1,724
Share subscription received in January, 2006	-	-	198	-	-	-	-	-	-	-	198
Shares issued for settlement of debt on February 27, 2006 at US\$2.00 per share	100,000	238	-	-	-	-	-	-	-	-	238
Option exercised at US\$1.00 per share	1,122,500	1,122	-	-	-	-	-	-	-	-	1,122
Shares issued for settlement of services on March 1, 2006 at CA\$2.30 per share	28,260	58	-	-	-	-	-	-	-	-	58
Shares issued for settlement of debt on March 28, 2006 at US\$2.62 per share	40,000	102	-	-	-	-	-	-	-	-	102
Shares issued for settlement of services on March 31, 2006 at US\$2.39 per share	2,089	5	-	-	-	-	-	-	-	-	5
Carryforward	8,157,201	66,281	-	-	-	2,000,000	2,000	4,809	(929)	(68,714)	3,447

CLEARLY CANADIAN BEVERAGE CORPORATION

Consolidated Statement of Changes in Shareholders' Equity, Continued
(Expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

	Common shares		Share subscription receivable (payable)	Class A preferred shares		Class B preferred shares		Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Shareholders' equity (deficiency)
	Number of shares	Amount \$		Number of shares	Amount \$	Number of shares	Amount \$				
Broughtforward	8,157,201	66,281	-	-	-	2,000,000	2,000	4,809	(929)	(68,714)	3,447
Shares issued for settlement of services on March 31, 2006 at US\$2.30 per share	2,175	5	-	-	-	-	-	-	-	-	5
Shares issued for settlement of services on April 12, 2006 at US\$2.56 per share	1,954	5	-	-	-	-	-	-	-	-	5
Shares issued for settlement of services on April 12, 2006 at US\$2.56 per share	29,308	75	-	-	-	-	-	-	-	-	75
Shares issued for settlement of services on April 17, 2006 at US\$2.45 per share	20,442	50	-	-	-	-	-	-	-	-	50
Shares issued for settlement of services on April 19, 2006 at US\$2.35 per share	18,915	44	-	-	-	-	-	-	-	-	44
Shares issued for settlement of debt on May 2, 2006 at US\$2.62 per share	88,885	233	-	-	-	-	-	-	-	-	233
Option exercised at US\$1.00 per share	45,000	45	-	-	-	-	-	-	-	-	45
Shares issued for settlement of services on May 4, 2006 at US\$2.41 per share	8,300	20	-	-	-	-	-	-	-	-	20
Private placement issued May 10, 2006 at US\$2.00 per share	1,032,500	2,065	-	-	-	-	-	-	-	-	2,065
Private placement issued May 12, 2006 at US\$2.00 per share	275,000	550	-	-	-	-	-	-	-	-	550
Private placement issued May 15, 2006 at US\$2.00 per share	5,000	10	-	-	-	-	-	-	-	-	10
Share issue cost – private placement May 10, 2006 to May 15, 2006	-	(314)	-	-	-	-	-	-	-	-	(314)
Share issue cost – warrant private placement May 10, 2006 to May 15, 2006	-	(186)	-	-	-	-	-	186	-	-	-
Shares issued for settlement of services on June 7, 2006 at US\$2.05 per share	19,630	40	-	-	-	-	-	-	-	-	40
Shares issued for settlement of services on June 9, 2006 at US\$2.80 per share	4,075	11	-	-	-	-	-	-	-	-	11
Carryforward	9,708,385	68,934	-	-	-	2,000,000	2,000	4,995	(929)	(68,714)	6,286

CLEARLY CANADIAN BEVERAGE CORPORATION

Consolidated Statement of Changes in Shareholders' Equity, Continued
(Expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

	Common shares		Share subscription receivable (payable)	Class A preferred shares		Class B preferred shares		Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Shareholders' equity (deficiency)
	Number of shares	Amount \$		Number of shares	Amount \$	Number of shares	Amount \$				
Broughtforward	9,708,385	68,934	-	-	-	2,000,000	2,000	4,995	(929)	(68,714)	6,286
Shares issued for settlement of services on June 13, 2006 at US\$2.80 per share	10,715	30	-	-	-	-	-	-	-	-	30
Option exercised at US\$1.19 per share	16,106	19	-	-	-	-	-	-	-	-	19
Warrant exercised at US\$1.25 per share	30,000	37	-	-	-	-	-	-	-	-	37
Shares issued for services on July 25, 2006 at US\$3.29 per share	9,312	31	-	-	-	-	-	-	-	-	31
Shares issued for settlement of lawsuits on July 13, 2006 at US\$3.69 per share	24,314	89	-	-	-	-	-	-	-	-	89
Shares issued for settlement of lawsuits on July 13, 2006 at US\$2.40 per share	600,000	1,440	-	-	-	-	-	-	-	-	1,440
Private placement issued on July 6, 2006 to July 13, 2006 at US\$2.75 per share	1,205,000	3,314	-	-	-	-	-	-	-	-	3,314
Share issue cost – private placement July 6, 2006 to July 13, 2006	-	(397)	-	-	-	-	-	-	-	-	(397)
Share issue cost – warrant private placement July 6, 2006 to July 13, 2006	-	(162)	-	-	-	-	-	162	-	-	-
Shares issued for services on July 10, 2006 at US\$3.92 per share	4,197	16	-	-	-	-	-	-	-	-	16
Option exercised at US\$2.00 per share	75,000	150	-	-	-	-	-	-	-	-	150
Option exercised at US\$1.00 per share	30,000	30	-	-	-	-	-	-	-	-	30
Option exercised at US\$1.19 per share	16,102	19	-	-	-	-	-	-	-	-	19
Shares issued for services on August 16, 2006 at US\$3.28 per share	4,121	13	-	-	-	-	-	-	-	-	13
Shares issued for services on August 1, 2006 at US\$2.30 per share	140,000	322	-	-	-	-	-	-	-	-	322
Private placement completed August 31, 2006 at US\$3.00 per share	333,334	1,000	-	-	-	-	-	-	-	-	1,000
Share issue cost – private placement August 31, 2006	-	(120)	-	-	-	-	-	-	-	-	(120)
Share issue cost – private placement August 31, 2006	-	(825)	-	-	-	-	-	825	-	-	-
Carryforward	12,206,586	73,940	-	-	-	2,000,000	2,000	5,982	(929)	(68,714)	12,279

CLEARLY CANADIAN BEVERAGE CORPORATION

Consolidated Statement of Changes in Shareholders' Equity, Continued
(Expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

	Common shares		Share subscription receivable (payable)	Class A preferred shares		Class B preferred shares		Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Shareholders' equity (deficiency)
	Number of shares	Amount \$		Number of shares	Amount \$	Number of shares	Amount \$				
Broughtforward	12,206,586	73,940	-	-	-	2,000,000	2,000	5,982	(929)	(68,714)	12,279
Share issued for settlement of services on August 1, 2006 at US\$2.30 per share	4,395	14	-	-	-	-	-	-	-	-	14
Cash dividend on class B preferred paid on October 10, 2006	-	-	-	-	-	-	-	-	-	(94)	(94)
Conversion of \$150,000 preferred shares to common shares on November 21, 2006	615,000	150	-	-	-	(150,000)	(150)	-	-	-	-
Conversion of \$250,000 preferred shares to common shares on November 29, 2006	1,025,000	250	-	-	-	(250,000)	(250)	-	-	-	-
Shares issued for settlement of lawsuits on December 11, 2006 at US\$3.28 per share	13,477	44	-	-	-	-	-	-	-	-	44
Shares issued for services on December 8, 2006 at US\$2.38 per share	4,235	10	-	-	-	-	-	-	-	-	10
Shares issued for services on December 8, 2006 at US\$2.66 per share	4,498	12	-	-	-	-	-	-	-	-	12
Shares issued for services on December 8, 2006 at US\$2.76 per share	4,162	12	-	-	-	-	-	-	-	-	12
Option exercised at US\$1.00 per share	2,500	3	-	-	-	-	-	-	-	-	3
Paid-in capital – exercise of stock options	-	1,304	-	-	-	-	-	(1,304)	-	-	-
Fair value of stock options issued for the 12 months ended December 31, 2006	-	-	-	-	-	-	-	3,310	-	-	3,310
Fair value of warrants issued for the 12 months ended December 31, 2006	-	-	-	-	-	-	-	302	-	-	302
Loss for the 12 months ended December 31, 2006	-	-	-	-	-	-	-	-	-	(8,247)	(8,247)
Exchange difference	-	(9)	-	-	-	-	-	-	(172)	-	(181)
Balance, December 31, 2006, carryforward	13,879,853	75,730	-	-	-	1,600,000	1,600	8,290	(1,101)	(77,055)	7,464

CLEARLY CANADIAN BEVERAGE CORPORATION

Consolidated Statement of Changes in Shareholders' Equity, Continued
(Expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

	Common shares		Share subscription receivable (payable)	Class A preferred shares		Class B preferred shares		Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Shareholders' equity (deficiency)
	Number of shares	Amount \$		Number of shares	Amount \$	Number of shares	Amount \$				
Broughtforward	13,879,853	75,730	-	-	-	1,600,000	1,600	8,290	(1,101)	(77,055)	7,464
Option exercised at US\$2.00 per share on January 11, 2007	36,000	72	-	-	-	-	-	-	-	-	72
Option exercised at US\$2.10 per share on January 23, 2007	10,000	21	-	-	-	-	-	-	-	-	21
Shares issued for services on Jan 22, 2007 at US\$2.38 per share	3,874	9	-	-	-	-	-	-	-	-	9
Conversion of \$500,000 preferred shares to common shares on January 7, 2007	2,050,000	500	-	-	-	(500,000)	(500)	-	-	-	-
Conversion of \$500,000 preferred shares to common shares on January 12, 2007	2,050,000	500	-	-	-	(500,000)	(500)	-	-	-	-
Warrant exercised at US\$1.25 per share on February 23, 2007	60,000	75	-	-	-	-	-	-	-	-	75
Option exercised at US\$2.00 per share on February 25, 2007	37,500	75	-	-	-	-	-	-	-	-	75
Shares issued for services on February 25, 2007 at US\$2.91 per share	4,074	12	-	-	-	-	-	-	-	-	12
Option exercised at US\$2.00 per share on March 2, 2007	37,500	75	-	-	-	-	-	-	-	-	75
Private placement issued on March 14, 2007 to March 23, 2007 at US\$3.00 per share	833,000	2,499	-	-	-	-	-	-	-	-	2,499
Shares issued for services on May 8, 2007 at US\$2.83 per share	8,444	26	-	-	-	-	-	-	-	-	26
Private placement issued on March 30, 2007 at US\$3.00 per share	333,333	1,000	-	-	-	-	-	-	-	-	1,000
Shares issued for services on April 3, 2007 at US\$2.83 per share	9,078	26	-	-	-	-	-	-	-	-	26
Shares issued for services on May 8, 2007 at US\$2.83 per share	3,662	10	-	-	-	-	-	-	-	-	10
Shares issued for services on May 8, 2007 at US\$2.70 per share	9,465	26	-	-	-	-	-	-	-	-	26
Shares issued for services on May 8, 2007 at US\$3.00 per share	1,705	5	-	-	-	-	-	-	-	-	5
Carryforward	19,367,488	80,661	-	-	-	600,000	600	8,290	(1,101)	(77,055)	11,395

CLEARLY CANADIAN BEVERAGE CORPORATION

Consolidated Statement of Changes in Shareholders' Equity, Continued
(Expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

	Common shares		Share subscription receivable (payable)	Class A preferred shares		Class B preferred shares		Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Shareholders' equity (deficiency)
	Number of shares	Amount \$		Number of shares	Amount \$	Number of shares	Amount \$				
Broughtforward	19,367,488	80,661	-	-	-	600,000	600	8,290	(1,101)	(77,055)	11,395
Brokers warrant exercised at US\$2.25 per share on May 14, 2007	79,025	178	-	-	-	-	-	-	-	-	178
Restricted shares issued for purchase of My Organic Baby at \$2.76 per share on May 25, 2007	200,000	553	-	-	-	-	-	-	-	-	553
Non Lock Up restricted shares issued for purchase of My Organic Baby at \$2.48 per share on May 25, 2007	215,000	533	-	-	-	-	-	-	-	-	533
Option exercised at US\$1.00 per share on May 25, 2007	100,000	100	-	-	-	-	-	-	-	-	100
Option exercised at US\$1.18 per share on June 1, 2007	9,872	12	-	-	-	-	-	-	-	-	12
Option exercised at US\$1.00 per share on June 7, 2007	50,000	50	-	-	-	-	-	-	-	-	50
Shares issued for services on June 7, 2007 at US\$2.64 per share	10,135	27	-	-	-	-	-	-	-	-	27
Option exercised at US\$1.00 per share on June 7, 2007	50,000	50	-	-	-	-	-	-	-	-	50
Finders fee issued – private placement March 14 to 30, 2007 at US\$2.42 per share on June 7, 2007	90,000	218	-	-	-	-	-	-	-	-	218
Shares issued for consideration on employment contract on June 8, 2007 at US\$2.48 per share	215,000	533	-	-	-	-	-	-	-	-	533
Option exercised at US\$1.18 per share on June 18, 2007	7,922	9	-	-	-	-	-	-	-	-	9
Option exercised at US\$1.00 per share on June 20, 2007	10,000	10	-	-	-	-	-	-	-	-	10
Option exercised at US\$1.00 per share on June 20, 2007	25,000	50	-	-	-	-	-	-	-	-	50
Option exercised at US\$1.75 per share on June 20, 2007	117,500	206	-	-	-	-	-	-	-	-	206
Carryforward	20,546,942	83,190	-	-	-	600,000	600	8,290	(1,101)	(77,055)	13,924

CLEARLY CANADIAN BEVERAGE CORPORATION

Consolidated Statement of Changes in Shareholders' Equity, Continued
(Expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

	Common shares		Share subscription receivable (payable)	Class A preferred shares		Class B preferred shares		Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Shareholders' equity (deficiency)
	Number of shares	Amount \$		Number of shares	Amount \$	Number of shares	Amount \$				
Broughtforward	20,546,942	83,190	-	-	600,000	600	8,290	(1,101)	(77,055)	13,924	
Option exercised at US\$1.00 per share on June 20, 2007	10,000	10	-	-	-	-	-	-	-	10	
Cash dividend on class B preferred paid on June 20, 2007	-	-	-	-	-	-	-	-	(62)	(62)	
Option exercised at US\$2.12 per share on June 21, 2007	3,460	7	-	-	-	-	-	-	-	7	
Share issue cost – private placement March 14 to 30, 2007	-	(70)	-	-	-	-	-	-	-	(70)	
Share issue cost - Finders fees– private placement March 14 to 30, 2007	-	(218)	-	-	-	-	-	-	-	(218)	
Shares issued for services on July 4 and 5, 2007 at US\$2.85 per share	21,113	61	-	-	-	-	-	-	-	61	
Option exercised at US\$1.75 per share on July 16, 2007	32,768	58	-	-	-	-	-	-	-	58	
Shares issued for services on August 1, 2007 at US\$2.78 per share	9,635	28	-	-	-	-	-	-	-	28	
Option exercised at US\$1.75 per share on August 16, 2007	116,399	204	-	-	-	-	-	-	-	204	
Shares issued for settlement of acquisition liability – DMR Food Corporation at US\$2.90 on August 13, 2007	155,279	428	-	-	-	-	-	-	-	428	
Restricted shares cancelled for purchase of My Organic Baby at \$2.76 per share on September, 2007	(200,000)	(553)	-	-	-	-	-	-	-	(553)	
Paid-in capital – exercise of stock options for the 12 months ended September 30, 2007	-	1,449	-	-	-	-	(1,449)	-	-	-	
Fair value of stock options issued for the 12 months ended December 31, 2007	-	-	-	-	-	-	1,991	-	-	1,991	
Fair value of warrants issued for 12 months ended December 31, 2007	-	(1,651)	-	-	-	-	1,651	-	-	-	
Fair value of warrant for consulting agreement cancelled except for the warrant	-	-	-	-	-	-	1,449	-	-	1,449	
Fair value of warrant for convertible note payable	-	-	-	-	-	-	2,576	-	-	2,574	
Fair value of conversion option in convertible note payable	-	-	-	-	-	-	2,419	-	-	2,419	
Fair value of subordinated convertible note payable	-	-	-	-	-	-	1,346	-	-	1,346	
Carryforward	20,695,596	82,943	-	-	600,000	600	18,033	(1,101)	(77,117)	23,358	

CLEARLY CANADIAN BEVERAGE CORPORATION

Consolidated Statement of Changes in Shareholders' Equity, Continued
(Expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

	Common shares		Share subscription receivable (payable)	Class A preferred shares		Class B preferred shares		Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Shareholders' equity (deficiency)
	Number of shares	Amount \$		Number of shares	Amount \$	Number of shares	Amount \$				
Broughtforward	20,695,596	82,943	-	-	600,000	600	18,033	(1,101)	(77,117)	23,358	
Shares issued for services on September 10, 2007 at US\$2.47 per share	10,862	27	-	-	-	-	-	-	-	27	
Shares issued for consulting services on September 27, 2007 at US\$2.11 per share	228,310	482	-	-	-	-	-	-	-	482	
Shares issued for consulting services on October 31, 2007 at \$2.11 per share	8,657	18	-	-	-	-	-	-	-	18	
Conversion of \$600,000 preferred shares to common shares on October 15, 2007	2,460,000	600	-	-	(600,000)	(600)	-	-	-	-	
Shares cancelled for consulting services on November 15, 2007 at USD\$2.99 per share	(17,250)	(52)	-	-	-	-	-	-	-	(52)	
Shares issued for consulting services on November 15, 2007 at \$1.64 per share	14,612	24	-	-	-	-	-	-	-	24	
Shares issued for consulting services on December 6, 2007 at \$0.83 per share	30,000	25	-	-	-	-	-	-	-	25	
Loss for the 12 months ended December 31, 2007	-	-	-	-	-	-	-	-	(12,796)	(12,796)	
Cumulative translation adjustment	-	(20)	-	-	-	-	-	1,157	-	1,137	
Balance, December 31, 2007	23,430,787	84,047	-	-	-	-	18,033	56	(89,913)	12,223	

See accompanying notes to consolidated financial statements.

CLEARLY CANADIAN BEVERAGE CORPORATION

Consolidated Statement of Cash Flows

(Expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

	2007	2006	2005
Cash flows from operating activities:			
Loss for the year	\$ (12,796)	\$ (8,247)	\$ (6,069)
Items not involving cash (note 16 (a))	3,258	4,986	2,790
Changes in non-cash working capital balances related to operations (note 16(b))	3,469	414	(2,376)
	(6,069)	(5,655)	(5,655)
Cash flows from financing activities:			
Proceeds on issuance of short-term debt	-	-	1,277
Proceeds from issuance of capital stock and warrants	4,690	7,731	6,516
Proceeds from convertible notes payable	9,000	-	-
Bank indebtedness	(120)	(361)	89
Dividend paid on class B preferred shares	(61)	(94)	-
Repayment of short-term debt	-	-	(446)
Repayment of long-term debt	-	-	(1,660)
	13,509	7,276	5,776
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment	-	358	-
Proceeds from sale of long-term investment	-	230	-
Acquisition of DMR Food Corporation (note 3)	(1,743)	-	-
Acquisition of My Organic Baby Inc. (note 3)	(3,105)	-	-
Purchase of property, plant and equipment	(66)	(41)	-
	(4,914)	547	-
Effect of exchange rates on cash and cash equivalents	993	(229)	321
Increase in cash and cash equivalents	3,519	4,747	442
Cash and cash equivalents, beginning of year	5,267	520	78
Cash and cash equivalents, end of year	\$ 8,786	\$ 5,267	\$ 520
Interest paid	\$ 676	\$ 154	\$ 191

Supplementary cash flow information (note 16)

See accompanying notes to consolidated financial statements.

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

1. Nature of operations:

The Company produces, distributes and markets beverage products, flavoured beverages, organic baby food and snack food products. The Company's products are sold principally in the United States and Canada.

2. Significant accounting policies:

(a) Going concern:

The accompanying consolidated 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. The Company had a loss of \$12,796,000 for the year ended December 31, 2007. At December 31, 2007 it has working capital of \$7,625,000. Operations for the year ended December 31, 2007 have been funded primarily from cash reserves raised by the issuance of capital stock and convertible notes. Management is of the opinion that its cash and cash equivalents of \$8.7 million at December 31, 2007 will provide sufficient working capital to meet the Company's cash requirements until the fourth quarter of 2008.

Management has continued to take steps to try to improve the Company's financial results and cash flow which includes 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 will be able to secure the necessary financing, however, there is no assurance that management will be successful in achieving these objectives.

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.

(b) Principles of accounting:

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP).

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

2. Significant accounting policies (continued):

(c) Basis of presentation:

These consolidated financial statements include the accounts of Clearly Canadian Beverage Corporation (o/a Clearly Canadian Brands) and its wholly owned subsidiaries, Clearly Canadian Beverage (International) Corporation, CC Beverage (US) Corporation, Blue Mountain Springs Ltd., DMR Food Corporation (o/a Sweet Selections) and My Organic Baby Inc.

In view of the consolidated nature of these financial statements, the term "Company", as used herein, is sometimes used to refer to all of the consolidated companies collectively and, where the context or specific transactions require, is sometimes used to refer to certain of the consolidated companies individually.

(d) Foreign currency translation:

The Company uses the United States dollar as its reporting currency while the Company's functional or "measurement" currency is the Canadian dollar. The assets and liabilities of the Canadian operations are translated into United States dollars at the rates of exchange at the balance sheet dates, and revenue and expenses are translated at the average rates of exchange for the periods of operation. Unrealized gains and losses arising on translation are recorded as a separate component of shareholders' equity.

Realized gains and losses on foreign currency transactions are included in the determination of loss for the period.

(e) Revenue recognition:

Revenue is recognized at the time that shipment of product to the customer is confirmed by the shipper, which is the point at which the customer takes ownership of the product, provided that collectibility is reasonably assured. Distributors are contractually obligated to the Company for complete payment of products sold to them regardless of their ability to sell to retailers. A provision for returns is recorded in the period management becomes aware that it is probable that the product may be returned.

For bill and hold transactions, the Company recognizes revenue at the time production is complete and the sale is invoiced to the customer. Bill and hold revenue recognized must also meet the following criteria:

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

2. Significant accounting policies (continued):

(e) Revenue recognition (continued):

- (1) The risk of ownership has passed to the customer
- (2) The customer has made a fixed commitment to purchase the goods in writing
- (3) The customer requests that the transaction be on a bill and hold basis
- (4) The customer has a fixed schedule for the delivery of product
- (5) The customer has retained specific performance obligations
- (6) The products have been segregated from the Company's inventory and are not subject to being used to fill other orders
- (7) The products have been completed and ready for shipment
- (8) The company expects the customer to pay under its normal billing and credit terms
- (9) The Company does not expect risk of loss due to a decline in the market value of goods
- (10) The customer's custodial risk is insurable and insured
- (11) There are no exceptions to the customer's commitment to accept and pay for the products sold

As of the year ended December 31, 2007 there are no bill and hold transactions.

Royalty revenue is recognized as the Company is notified of the sale of the licensed product and when collectibility is reasonably assured.

Funds received in advance of revenues being recognized are recorded as customer deposits.

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.

(f) Inventories:

Inventories consist of raw materials and finished goods. Raw materials are valued at the lower of cost and market. Finished goods are valued at the lower of cost and net realizable value. Cost is determined on a first-in first-out basis.

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

2. Significant accounting policies (continued):

(g) Property, plant and equipment:

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the following periods which represent estimated useful life:

Asset	Rate
Buildings	30 years
Equipment	4 – 15 years
Packaging equipment under capital lease	Over the term of the lease
Vehicle	30% declining balance
Leasehold improvements	Term of the lease

(h) Impairment of long-lived assets:

Long-lived assets, such as property, plant and equipment subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(i) Goodwill:

Goodwill is the excess of the cost of an acquired business over the net of the amounts assigned to assets acquired less liabilities assumed. Goodwill is not subject to amortization. The carrying value is tested for impairment at least annually, and any excess over fair value will be charged to operations as impairment loss in the period.

(j) Intangible assets:

Intangible assets acquired are initially recognized and measured at cost. Intangible assets with finite useful lives are amortized over their estimated useful lives. The amortization methods and estimated useful lives of intangible assets are reviewed annually. Intangible Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

2. Significant accounting policies (continued):

(k) Stock-based compensation plan:

The Company has stock-compensation plans, which are described in note 13. 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.

(l) Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand and short-term investments with original maturities of 90 days or less at the time of purchase.

(m) 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 warrants, the allocation of proceeds to components of convertible debentures, valuation of derivatives and impairment testing of goodwill and intangible assets. Actual results could differ materially from those estimates.

(n) Financial instruments:

(i) Fair value of financial instruments:

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 and capital lease obligation approximates their fair value based upon the discount rates applied.

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

2. Significant accounting policies (continued):

(n) Financial instruments (continued):

(ii) Concentration of credit risk:

The Company grants credit to its customers in the normal course of business. Credit valuations are performed on a regular basis and the financial statements take into account an allowance for bad debts. At December 31, 2007, four customers represented 74% (December 31, 2006 – three customers represented 64%) of total accounts receivable.

(iii) Interest rate risk:

The US short-term bank credit facility bears interest at US prime rate plus 4% and the Canadian dollar short term bank credit facility bears interest at Canadian prime rate plus 1.25%.

The Company does not use derivative instruments to manage its exposure to interest rate risk.

(iv) 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 United States dollars. General and administration costs are incurred in Canadian dollars 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.

(o) Income taxes:

Income taxes are calculated using the liability method of accounting. Temporary differences arising from the difference between tax basis of an asset or a liability and its carrying value on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using income tax rates that are expected to apply to taxable income in the periods that the temporary differences are expected to reverse. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized.

(p) Advertising and marketing costs:

The Company expenses all advertising and marketing costs as incurred. For the year ended December 31, 2007, the Company incurred marketing costs of \$1,697,000 (2006 - \$2,020,943). These costs are included in selling expenses.

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

2. Significant accounting policies (continued):

(q) Loss per share:

Loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding. Diluted loss per share is computed using the treasury method by including other potential common stock from exercise of stock options and warrants in the weighted average number of common shares outstanding for a period, if dilutive. Basic and diluted loss per share have been adjusted for \$61,000 of preferred share dividends to reflect income available to shareholders.

Diluted loss per share is the same as basic loss per share since the exercise of stock options and warrants would be anti-dilutive

(r) Other significant accounting policies:

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, *Comprehensive Income*; Section 3251, *Equity*; Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3861 *Financial Instruments – Disclosure and Presentation*, and, Section 3865, *Hedges*, retroactively without restatement. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated except to redefine amounts previously presented in shareholders' equity as cumulative translation account to be accumulated other comprehensive loss. The adoption of these Handbook Sections had no impact on opening retained earnings.

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

2. Significant accounting policies (continued):

(r) Other significant accounting policies (continued):

Under Section 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

Upon adoption of these new standards, the Company designated its cash, cash equivalents, and short-term investments as held-for-trading, which are measured at fair value. Accounts receivable and income taxes receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities. The Company does not have either available-for-sale, or held-to-maturity instruments during the twelve months ended December 31, 2007. The Company has not designated any financial liabilities as held-for-trading.

3. Acquisitions:

On February 7, 2007, the Company completed the acquisition of 100% of the shares of DMR Food Corporation operating under the name of Sweet Selection ("DMR"), a leading seller of organic and natural snack foods in Eastern Canada. The Company acquired the shares of DMR for an initial payment of US\$380,000 (CA\$450,000) in cash and warrants to purchase 3,000,000 of the Company's common shares at a purchase price of US\$4.00 per share within 3 years. The DMR share purchase agreement provided that if a gain of CA\$2,550,000 was not realized by the holder from the sale of the warrant shares by February 7, 2008, the Company would be required to pay any shortfall up to a maximum of US\$2,167,000 (CA\$2,550,000). The amount of this corporate guarantee was recorded by the Company as a current and long term liability, as applicable. The results of operations of DMR Food Corporation have been consolidated from February 7, 2007.

On August 13, 2007, the Company issued 155,279 common shares at a market price of US\$2.74 per share as partial payment for the debt guaranteed by the Company.

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

3. Acquisitions (continued):

On September 25, 2007, the Company entered into a securities purchase agreement modifying the payment terms in the DMR share purchase agreement. The warrants to purchase 3,000,000 of the Company's common shares were surrendered, cash consideration of CA\$1,323,530 (US\$1,317,177) was paid and the Company issued a Subordinated Convertible Note (note 11) of CA\$725,689 (US\$723,206) with a maturity date of September 25, 2007.

The following table summarizes the purchase consideration paid or payable and the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

Purchase consideration	
Cash paid	\$ 381
Purchase price guarantee	2,167
Business combination expenses	31
	<hr/>
	\$ 2,579
<hr/>	
Allocation of purchase consideration	
Assets:	
Cash	\$ 49
Accounts receivable	642
Inventory	378
Plant and equipment	284
Other current assets	33
	<hr/>
	1,386
Liabilities:	
Accounts payable	726
Bank loan	169
Capital lease obligation	202
	<hr/>
	(1,097)
<hr/>	
Net identifiable assets	289
<hr/>	
Excess of purchase consideration over net identifiable assets - goodwill and other intangibles	2,290
	<hr/>
	\$ 2,579
	<hr/>

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

3. Acquisitions (continued):

Excess of purchase consideration over net identifiable assets consists of acquired intangible assets, which are comprised of distribution relationships, supplier agreements, trademarks, copyrights and brands, proprietary trade secrets, non-compete covenant agreements and goodwill.

On May 24th, 2007, the Company completed the acquisition of 100% of the shares of My Organic Baby Inc. ("MOB"), a leading seller of organic baby food in Canada. The Company acquired the shares of MOB for an initial payment of US\$369,000 (CA\$400,000) in cash, 415,000 common shares of the company and warrants to purchase 3,750,000 of the Company's common shares at a purchase price of US\$4.00 per share within 3 years. The MOB share purchase agreement provided that if a gain of CA\$600,000 was not realized from the sale of the common shares within two years, the Company would pay any shortfall, and if CA\$3,750,000 was not realized by the holder from the sale of the warrant shares by November 24, 2008, the Company would be required to pay any shortfall up to a maximum of CA\$3,750,000 (US\$3,459,000). The amount of this corporate guarantee was recorded by the Company as a current and long term liability, as applicable. The results of operations of My Organic Baby Inc. have been consolidated from May 24, 2007.

On September 25th, 2007, the Company entered into a securities purchase agreement modifying the payment terms in the MOB share purchase agreement. The warrants to purchase 3,750,000 of the Company's common shares and 200,000 restricted common shares were surrendered, cash consideration of CA\$2,676,470 (US\$2,663,623) was paid and the Company issued a subordinated Convertible Note (note 12) of CA\$1,564,082 (US\$1,556,574) with a maturity date of September 25, 2027. The Company also guaranteed that if a gain of CA\$600,000 is not realized by March 18, 2009, from the sale of 215,000 common shares not surrendered in the transaction, the Company will pay any shortfall.

The following table summarizes the purchase consideration paid or payable and the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

3. Acquisitions (continued):

Purchase consideration

Cash paid	\$	369
Non lock up shares – 215,000 common shares		553
Restricted shares – 200,000 common shares		533
Purchase price guarantee		3,458

\$ 4,913

Allocation of purchase consideration

Assets:		
Cash	\$	21
Accounts receivable		445
Inventory		142
Plant and equipment		21
Other current assets		131

760

Liabilities:

Accounts payable		(686)
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Net identifiable assets 74

Excess of purchase consideration over net identifiable assets - goodwill and other intangibles 4,839

\$ 4,913

Excess of purchase consideration over net identifiable assets consists of acquired intangible assets, which are comprised of distribution relationships, supplier agreements, trademarks, copyrights and brands, proprietary trade secrets, non-compete covenant agreements and goodwill.

The net impact of the securities purchase agreements which modified the DMR and MOB share purchase agreements, was the cancellation of the warrants issued under the DMR and MOB share purchase agreements, and the related guarantees by the Company and the cancellation of 200,000 common shares, collectively for consideration of cash and convertible debt. The net difference between the instruments cancelled and the consideration given is \$158,000 which was credited to the Company's income statement. The securities purchase agreements did not affect the purchase price of DMR and MOB.

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

4. Bank indebtedness:

The Company's subsidiary, CC Beverage (US) Corporation ("CC Beverage"), has an operating line of credit with an unspecified term available with a United States bank, which bears interest at US prime rate plus 4%. The borrowing facility is collateralized by a first lien on all accounts receivable and inventories of CC Beverage. CC Beverage can borrow up to the lesser of \$1,000,000 and 80% of trade accounts receivable outstanding less than 60 days (as at December 31, 2007 - \$303,839, December 31, 2006 - \$403,593). The weighted average interest rate for the period ended September 30, 2007 was 12.04% (December 31, 2006 - 11.96%). As at December 31, 2007 nil (December 31, 2006 - nil) had been drawn on this line of credit. This operating line of credit is also secured by a guarantee from the Company. As of February 29, 2008, the line of credit expired and the Company's did not renew the operating line of credit.

The Company's subsidiary, DMR, has a demand operating loan facility of CA\$250,000, bearing interest at Royal Bank of Canada prime lending rate plus 1.25% per annum. The facility is secured by a general security agreement covering all assets of DMR as well as guarantee and postponement of claims in the amount of CA\$455,000 by the Company. The weighted average interest rate from February 7, 2007 to December 31, 2007 was 5.86%. As of December 31, 2007 \$49,407 had been drawn on this line of credit.

The Company's subsidiary, MOB, has a demand operating loan facility of CA\$250,000, bearing interest at Royal Bank of Canada prime lending rate plus 1.25% per annum. The facility is secured by a general security agreement covering all assets of MOB, as well as guarantee and postponement of claims in the amount of CA\$250,000 by a former shareholder of MOB and a collateral mortgage in the amount of \$211,000 on property owned by the former shareholder. The weighted average interest rate from February 7, 2007 to December 31, 2007 was 5.90%. As of December 31, 2007 nil had been drawn on this line of credit. As of December 31, 2007, the line of credit expired and the Company's did not renew the operating line of credit.

5. Accounts receivable:

	2007	2006
Trade accounts receivable, net of allowance of \$210,000 (2006 - \$53,000)	\$ 863	\$ 597
Other receivables	175	37
	\$ 1,038	\$ 634

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

6. Inventories:

	2007		2006	
Finished goods	\$	1,226	\$	280
Raw materials		210		147
	\$	1,436	\$	427

7. Property, plant and equipment and assets:

	2007		Accumulated amortization		Write-down		2007 Net
Land and water sources	\$	1,192	\$	-	\$	-	\$ 1,192
Buildings		1,206		1,147		-	59
Equipment		1,632		1,250		-	382
Leasehold improvements		79		77		-	2
Vehicle		5		-		-	5
	\$	4,114	\$	2,474	\$	-	\$ 1,640

	2006		Accumulated amortization		Write-down		2006 Net
Land and water sources	\$	1,035	\$	-	\$	-	\$ 1,035
Buildings		1,047		996		51	-
Equipment		1,157		953		86	118
Leasehold improvements		67		67		-	-
	\$	3,306	\$	2,016	\$	137	\$ 1,153

Included in equipment are assets under capital lease having a value of \$222,643 and accumulated amortization of \$38,206 with a net book value of \$184,437 at 2007 (2006 - nil).

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

8. Goodwill and other intangible assets:

(a) Intangible assets as at December 31, 2007 are as follows:

	DMR Food Corp. 2007	My Organic Baby Inc. 2007	Accumulated amortization	2007 Net
Distributor relationships	\$ 559	\$ 715	\$ 144	\$ 1,130
Trademarks, copyright and brands	489	834	147	1,176
Other intangible assets	1,291	2,341	512	3,120
	\$ 2,339	\$ 3,890	\$ 803	\$ 5,426

Propriety trade secrets, distribution relationship, supplier agreements, trademarks, copyright and brands are amortized over a period of 6 years based on third party valuation. The amortization expense for the year ended December 31, 2007 was \$803,000 (2006 – nil).

(b) Goodwill as at December 31, 2007 is as follows:

	DMR Food Corp. 2007	My Organic Baby Inc. 2007	Total
Goodwill	\$ 364	\$ 1,329	\$ 1,693

The company performs annual impairment test for goodwill. As of December 31, 2007, the company completed its impairment tests and determined that goodwill was not impaired.

9. Accounts payable and accrued liabilities:

	2007	2006
Trade accounts payable	\$ 2,896	\$ 1,062
Marketing fees	350	304
Other accrued liabilities	1,027	242
	\$ 4,273	\$ 1,608

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

10. Capital lease obligation:

The Company has entered into lease arrangements to acquire computer equipment. The liability under the capital leases represents the minimum lease payments payable net of imputed interest at an average rate of 18% per annum and is secured by the computer equipment.

The Company's subsidiary has entered into lease arrangements to acquire packaging equipment. The liability under the capital leases represents the minimum lease payments payable net of imputed interest at an average rate of 6.70% to 6.75% per annum and is secured by the packaging equipment.

The Company's obligations under the capital leases consist of:

	2007	2006
Minimum lease payments payable	\$ 228	\$ 26
Portion representing interest to be recorded over the remaining term of the lease	(37)	(5)
	191	21
Current portion	(36)	(8)
	\$ 155	\$ 13

Future minimum annual lease payments as at December 31, 2007 under the capital lease are as follows:

2008	\$	57
2009		57
2010		57
2011		57
	\$	228

11. Convertible note payable:

	2007	2006
Senior convertible notes payable	\$ 9,360	\$ -
Subordinated convertible note payable	2,421	-
Discount on senior and subordinated convertible note payable	(6,339)	
	\$ 5,442	\$ -

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

11. Convertible note payable (continued):

On September 26, 2007, the Company entered into a securities purchase agreement with institutional investors to sell senior convertible notes for \$9.36 million maturing on September 26th, 2027 and to issue five year share purchase warrants to purchase 4,017,162 common shares of the Company (The "Series E Warrants" and the "Series F Warrants"). The 2,008,581 Series E Warrants are exercisable at an initial exercise price of \$2.33 per shares (subject to future adjustment) and the 2,008,581 Series F Warrants are exercisable at an initial exercise price of \$2.56 per share (subject to future adjustment). The Company paid an approximate 4% financing fee to the placement agent in the financing. The company received net proceeds from the financing of approximately \$9 million after the payment of the financing fee. The Company also issued to the placement agent 500,000 share purchase warrants exercisable at an initial price of \$2.33 per share on the same terms as the Series E Warrants.

The primary features of the Senior Convertible Notes are: (i) interest at 9% per annum for year 1 to 3 and at 18% per annum for year 4 to maturity, payable monthly in cash, or, subject to volume and ownership limitations and in the Company's discretion, common shares based on a 10% discount to the then market price, (ii) convertible at any time by the holders at the conversion price (initially \$2.33 per share, subject to future adjustment), (iii) during year 1 to 2, provided the market price of the company's common share is double the conversion price, the Company can, subject to volume and ownership limitations, call the Senior Convertible Notes, (iv) in year 3 and beyond, the Company can, subject to volume and ownership limitation, force conversion of the Senior Convertible Note at the lower of the initial conversion price or at a 15% discount of the then market price and so long as the Company is converting the Senior Convertible Notes, the interest rate remains at 9%; and (v) in year 4 and to maturity the Senior Convertible Notes can be called by the note holders.

The Company used the relative fair value approach to value the Senior Convertible Notes based on their value (i) without the conversion feature (ii) with the conversion option and (iii) with the warrants. Based on this volatility assumption (52%) and credit spread assumption (12%), the Company calculated the fair value of the convertible notes, the straight note value, conversion option value and call option value.

The fair value of the Senior Convertible Notes based on the above approach was \$4,365,000 (\$9,360,000 less discount on Senior Convertible Notes of \$4,995,000). The fair value of the call option (embedded derivative) was \$2,000 and \$1,436,000 at September 26 and December 31, 2007, respectively. The company amortized the discount over 3 year, and as of December 31, 2007 the company accreted \$214,000.

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

11. Convertible note payable (continued):

The Company is required to pay liquidated damages in cash to the Senior Convertible Note holders if (i) a registration statement registering the common shares underlying the Senior Convertible Notes is not declared effective by the Securities and Exchange Commission on or before January 23, 2008 (an "Effectiveness Failure") or (ii) after a registration statement has been declared effective by the Securities and Exchange Commission, sales of "registrable securities" cannot be made by a note holder (a "Maintenance Failure").

The amount of liquidated damages is calculated as follows: (A) 2% of the aggregate purchase price paid for the Senior Convertible Notes, the Series E Warrants and the Series F Warrants on each of the following dates: (i) the day of an Effectiveness Failure; (ii) the initial day of a Maintenance Failure; (iii) on the 30th day after the day of an Effectiveness Failure (pro rated for periods totaling less than 30 days); and (vi) on the 30th day after the initial day of a Maintenance Failure (pro rated for periods totaling less than 30 days) and (B) 1% of the aggregate purchase price paid for the Senior Convertible Notes, the Series E Warrants and the Series F Warrants on each of the following dates: (i) on every 30th day following the 31st first day following such Effectiveness Failure (pro rated for periods totaling less than 30 days) until such Effectiveness Failure is cured; and (ii) on every 30th day following the 31st day following such Maintenance Failure (pro rated for periods totaling less than 30 days) until such Maintenance Failure is cured. In the event we fail to timely make these liquidated damages payments, these amounts will bear interest at the rate of 1.0% per month (prorated for partial months) until paid in full.

As of January 23, 2008, the registration statement relating to the Senior Convertible Notes is still not effective by the Securities and Exchange Commission and the company will be required to pay liquidated damage. The actual amount of liquidated damages payments, if any, will depend on the actual effective date of the registration statement and may be more or less than our estimated amount.

On September 26, 2007, the company also entered into a securities purchase agreement with former shareholders of DMR and MOB to modify the share purchase agreements dated February 7, 2007 and May 24, 2007 in which the company purchased DMR and MOB respectively. Details of this modification are provided in note 3. The primary features of the subordinated convertible notes issued to those persons are the same as the Senior Convertible Notes with the exception that the interest is at 9% from year 1 to maturity and there are provisions for liquidated damages in the event of the registration statement being filed late.

The Company valued the subordinated convertible notes based on using the Black-Scholes method, volatility assumption of 52%, and credit spread of 12% over 20 years. Based on these factors the fair value is \$1,077,000 (\$2,421,000 less discount on subordinated convertible notes of \$1,344,000).

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

12. Capital stock:

Authorized:

Common shares-limited voting shares, unlimited number authorized, without par value

Preferred Shares:

- (a) 2,000,000 Class A Preferred Shares with special rights and restrictions:

The Class A Preferred Shares include the right to dividends in the amount of 10% per annum payable quarterly in advance (payable by the issuance of common shares of the Company calculated at a share price equal to the ten day average closing price of the Company's common shares on the OTC Bulletin Board market preceding the date of issuance of such dividend shares), the right to one vote for each Class A Preferred Share on any vote of the common shares of the Company, and the right of conversion into common shares of the Company at a conversion price equal to the ten day average trading price of the Company's common shares on the OTC Bulletin Board market preceding the date of conversion.

- (b) 2,000,000 Class B Preferred Shares with special rights and restrictions:

The Class B Preferred Shares includes the right to dividends in the amount of 10% per annum payable, in the first year, in advance, by the issuance of common shares of the Company at a price of US\$1.00 per share, and thereafter in advance in monthly cash installments. Each Class B Preferred Share has the right to five votes on any vote of the common shareholders. The Class B Preferred Shares are convertible, in whole but not in part, into such number of common shares of the Company as would equal 50% of the number of fully diluted common shares of the Company immediately prior to the conversion of the Class B Preferred Shares. With the agreement of the Class B shareholder, BG Capital Group Ltd., and the approval of the shareholders, on March 16, 2006, the conversion ratio was fixed at 4.1 common shares and 0.8 Variable Multiple Voting Shares for each one Class B Preferred Share.

Variable Multiple Voting Shares:

On March 16, 2006, a special general meeting of shareholders was held, and the shareholders approved (a) the re-designation of the common shares as "Limited Voting Shares" and (b) the creation of a class of "Variable Multiple Voting Shares." Holders of Variable Multiple Voting Shares are entitled to multiple votes at all meetings of common shareholders, and the number of votes attached to each Variable Multiple Voting Share is equal to the greater of (i) ten and (ii) ten times a fraction the numerator of which is the number of issued common shares and the denominator of which is the number of issued common shares on March 16, 2006. At December 31, 2007, the 1,600,000 issued and outstanding Variable Multiple Voting Shares entitles the holder to 39,232,759 votes at a meeting of shareholders.

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

12. Capital stock (continued):

On February 27, 2006, March 28, 2006 and May 2, 2006, Global (GMPC) Holdings Inc. converted \$200,000 (CA\$222,570), \$80,000 (CA\$89,250) and \$177,770 (CA\$188,000) of principal amount of loans into common shares at conversion prices ranging from US\$2.00 to US\$2.62 per share. The Company issued 100,000, 40,000 and 88,885 shares respectively.

On May 12, 2006, the Company entered into an agreement to surrender all of the Series A, B, C and D Warrants issued in connection with the December 28, 2005 private placement agreement. In consideration thereof, certain of the investors were granted Series A warrants for the purchase of a total of 4,120,000 shares at a price of US\$1.25, exercisable within two years following the effective date on which the warrants are registered pursuant to a registration statement filed with the US Securities and Exchange Commission. In September 2007, the expiration date of the Series A warrants was extended to December 2010.

In May 2006, the Company completed a brokered private placement of 1,312,500 common shares issued at US\$2.00 per share raising a total of \$2,625,000. The Company paid broker's fees of \$183,050 and granted broker warrants to purchase 91,525 common shares at US\$2.25 per share, vesting upon issuance and expiring in May, 2007. The Company paid an additional finders fee of \$130,750 to BG Capital, a controlling shareholder of the Company.

In July 2006, the Company completed a brokered private placement of 1,205,000 common shares issued at US\$2.75 per share raising a total of \$3,314,000. The Company paid broker's fees of \$259,462 and granted broker warrants to purchase 84,350 common shares at US\$3.00 per share, vesting upon issuance and expiring in July, 2007. The Company paid an additional finders fee of \$138,187 to BG Capital, a controlling shareholder of the Company.

In August 2006, the Company settled litigation with respect to its Blue Mountain Springs subsidiary. The terms of the settlement included the issuance of 624,314 shares with a fair value of \$1,529,000.

In August 2006, the Company issued 140,000 common shares at US\$2.30 per share to BG Capital, a controlling shareholder of the Company, under the terms of a management services contract now expired.

In August 2006, the Company completed a brokered private placement of 333,334 common shares issued at \$3.00 per share, together with a warrant to purchase 333,334 common shares at \$3.25 per share, vesting upon issuance and expiring in September, 2008, raising a total of \$1,000,000. The Company paid broker's fees of \$70,000 and granted broker warrants to purchase 23,333 common shares at US\$3.25 per share, vesting upon issuance and expiring in August, 2007. The Company paid an additional finders fee of \$50,000 to BG Capital, a controlling shareholder of the Company.

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

12. Capital stock (continued):

In October 2006, the Company paid \$94,246 to BG Capital in respect of dividends payable on the Class B Preferred Shares from May 12, 2006 to October 31, 2006.

In November 2006, BG Capital converted 400,000 Class B Preferred Shares for 1,640,000 common shares and 320,000 Variable Multiple Voting Shares. In January, 2007, BG Capital converted 1,000,000 Class B Preferred Shares for 4,100,000 common shares and 800,000 Variable Multiple Voting Shares.

In March, 2007, the Company completed a brokered private placement of 1,166,333 common shares issued at \$3.00 per share, together with a warrant to purchase 1,166,333 common shares at \$3.25 per share, vesting on July, 2007 and expiring in March, 2009, raising a total of \$3,499,000. The Company paid broker's fees of \$69,930 and granted broker warrants to purchase 23,333 common shares at US\$3.25 per share, vesting on July, 2007 and expiring in March, 2009. The Company also paid a finders fees by issuing 90,000 common shares at \$2.42 per share.

In May, 2007, the Company completed the acquisition of 100% of the shares of My Organic Baby Inc. and in connection therewith, the Company issued 415,000 common shares of which 200,000 were surrendered when the Company entered into a securities purchase agreement with the former shareholders of My Organic Baby Inc. (see note 3). The Company also issued 215,000 common shares in connection with employment agreements with the former officers and shareholders of My Organic Baby Inc. (see note 14(a)).

In June, 2007, the Company paid \$61,150 to BG Capital in respect of dividends payable on the Class B Preferred Shares from November 1, 2006 to June 30, 2007.

13. Stock options, warrants, shareholders' rights plan, and other commitments to issue shares:

(a) Stock options:

Under the April 29, 2005 stock plan, the Company may grant options to purchase up to 1,750,000 common shares of the Company, and under the 2006 equity incentive plan, the Company may grant options to purchase up to 10,000,000 common shares of the Company. Options may be issued under the stock option plan as determined at the sole discretion of the Company's board of directors. Options may be issued for a term of up to 10 years at an exercise price to be determined by the Company's board of directors, provided that the exercise price is not less than the average closing price of the Company's shares for the 10 trading days proceeding the date on which the options are granted. All options vest immediately on issuance, or at the discretion of the Company's board of directors.

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

13. Stock options, warrants, shareholders' rights plan, and other commitments to issue shares (continued):

(a) Stock options (continued):

A summary of stock options granted by the Company is as follows:

	Number of options (000's)		Weighted average exercise price US\$
Options outstanding at December 31, 2004	169	\$	8.70
Granted	1,709		1.21
Expired	(56)		7.24
Exercised	(105)		1.17
Surrendered	(100)		1.17
Options outstanding at December 31, 2005	1,617		1.77
Granted	2,216		1.79
Expired	(18)		3.77
Exercised	(1,307)		1.82
Options outstanding at December 31, 2006	2,508		1.96
Granted	1,869		2.51
Expired	(10)		2.35
Exercised	(653)		1.54
Surrendered	(10)		2.75
Options outstanding at December 31, 2007	3,704	\$	2.34
Options exercisable at December 31, 2007	1,815	\$	2.31

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

13. Stock options, warrants, shareholders' rights plan, and other commitments to issue shares (continued):

(a) Stock options (continued):

The number of options and their weighted average exercise price has been adjusted to reflect the ten for one consolidation of the common shares on May 2, 2005.

The following table summarizes information about options outstanding:

2007		Weighted	Weighted	Weighted	Weighted
Exercises prices US\$	Number of options outstanding (000's)	average remaining contractual life (years)	average exercise price US\$	average number exercisable (000's)	average exercise price US\$
\$ 13.34	2	3.6	\$ 13.34	2	\$ 13.34
12.35	27	4.1	12.35	27	12.35
11.36	17	3.2	11.36	17	11.36
9.88	4	4.7	9.88	4	9.88
6.42 - 6.92	49	3.95	6.56	49	6.56
2.55 - 2.9	1,593	2.13	2.75	422	2.39
2.00 – 2.44	523	2.83	2.08	523	2.08
1.50-1.75	1,059	3.7	1.69	341	1.57
1.00 – 1.25	430	2.80	1.15	430	1.15
\$ 1.00 – 13.34	3,704	3.0	\$ 2.34	1,816	\$ 2.31

The total intrinsic value of options exercised during the year ended December 31, 2007 was \$795,823. The aggregate intrinsic value of options outstanding and exercisable at December 31, 2007 is nil respectively.

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

13. Stock options, warrants, shareholders' rights plan, and other commitments to issue shares (continued):

(a) Stock options (continued):

For the year ended December 31, 2007, the Company granted 1,869,000 options (December 31, 2006 – 2,216,000) under its stock option plans, of which options to acquire 704,658 shares (December 31, 2006 – 2,146,000) were granted to members of its Advisory Board, board of directors and management. Stock based compensation expense of \$1,780,000 has been recorded for the year ended December 31, 2007. (December 31, 2006 - \$2,426,000). Stock based compensation of an additional \$1,471,000 (December 31, 2006 - \$88,331) attributed to these grants has been allocated to services to be provided in the future. This amount will be recorded to contributed surplus and charged to operations over a one year period based on the estimated service life inherent in the grants.

The Company has estimated the fair value of each option on the date of grant using the Black-Scholes Options Pricing model and based on the following assumptions:

	2007	2006	2005
Risk-free interest rate	3.34% to 4.92%	4.38% to 5.06%	2.77% to 3.30%
Expected life of options	1 to 5 years	1 to 5 years	5 years
Expected volatility in the market price of the shares	48% to 95%	107% to 185%	234% to 236%
Expected dividend yield	0.0%	0.0%	0.0%
Weighted average grant date fair value	\$0.95	\$1.09	\$0.94

(b) Stock based compensation:

	2007	2006	2005
Stock based compensation (note 12 (a))	\$ 1,685	\$ 2,426	\$ 1,612
Stock based compensation – warrant (note 14 (a))	1,449	-	-
Stock based compensation – option (note 14 (a))	188	907	-
Reversal of stock based compensation on warrant issued in December 2005	-	(23)	-
	\$ 3,322	\$ 3,310	\$ 1,612

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

13. Stock options, warrants, shareholders' rights plan, and other commitments to issue shares (continued):

(c) Warrants:

The following table summarizes information about common share purchase warrants granted in equity financings and acquisitions to date which remain outstanding at December 31, 2007. Each warrant entitles the holder to purchase one common share at the exercise price indicated.

Exercise price per share	Balance, December 31, 2006					Balance, December 31, 2007		Expiry date
	Granted	Cancelled	Expired	Exercised				
US\$2.25 (CA\$2.25)	-	-	-	(91,525)	-	-	May 2007	
US\$3.00 (CA\$3.01)	-	-	(84,350)	-	-	-	July 2007	
US\$3.25 (CA\$3.26)	356,667	-	-	-	356,667	356,667	September 2008	
US\$3.25 (CA\$3.26)	-	856,333	-	-	-	856,333	July, 2009	
US\$3.25 (CA\$3.26)	-	333,333	-	-	-	333,333	April, 2009	
US\$4.00 (CA\$4.01)	-	3,000,000	(3,000,000)	-	-	-	February 2010	
US\$4.00 (CA\$4.01)	-	3,750,000	(3,750,000)	-	-	-	May, 2010	
US\$2.00 (CA\$2.00)	1,000,000	-	-	-	-	1,000,000	October 2010	
US\$1.25 (CA\$1.25)	4,090,000	-	-	-	(60,000)	4,030,000	December 2010	
US\$2.00 (CA\$2.00)	100,000	-	-	-	-	100,000	July 2011	
US\$2.33 (CA\$2.33)	-	2,508,581	-	-	-	2,508,581	September 2012	
US\$2.56 (CA\$2.57)	-	2,008,581	-	-	-	2,008,581	September 2012	
	5,722,542	12,456,828	(6,750,000)	(96,850)	(139,025)	11,193,495		

Warrants activity during the years ended December 31, 2006 and 2005 is as follows:

	Number of warrants
Balance, January 1, 2005	81,500
Granted	21,000,000
Expired	(56,500)
Balance, December 31, 2005	21,025,000
Granted	4,752,542
Expired	(25,000)
Cancelled	(20,000,000)
Exercised	(30,000)
Balance, December 31, 2006	5,722,542
Granted	12,456,828
Expired	(96,850)
Cancelled	(6,750,000)
Exercised	(139,025)
Balance, December 31, 2007	11,193,495

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

13. Stock options, warrants, shareholders' rights plan, and other commitments to issue shares (continued):

(c) Warrants (continued):

In the year ended December 31, 2007, the Company granted warrants to acquire 1,189,666 shares in a private placement described in note 12. These warrants had a fair value of \$1,651,000, which amount has been charged as a cost of the share capital raised. The Company also granted warrants to acquire 3,000,000 shares and 3,750,000 at a price of \$4.00 per share, having a fair value of \$5,625,000 due to the Company's guarantee of the acquisition price, in connection with its acquisitions of DMR Food Corporation and My Organic Baby Inc. These warrants were all surrendered in September, 2007 when the Company entered into a share purchase agreement with the former shareholders of DMR Food Corporation and My Organic Baby Inc. as described in note 3. The Company granted warrants to institutional investors to acquire 4,017,162 shares and to the placement agent in the financing to acquire 500,000 shares at a price as described in note 11. In September, 2007, the Company also extended the warrant to acquire 4,030,000 at a price of \$1.25 from December, 2007 to December, 2010.

(d) Shareholders' rights plan:

The Company has a Shareholders' Rights Plan which is contained within a Rights Agreement dated October 1, 1990, and a Supermajority Amendment, which forms part of the Company's articles. The Rights Plan expires on December 31, 2009.

In general terms, the rights issuable under the Rights Plan permit shareholders to purchase the Company's shares at 50% of the market price at the time of the occurrence of certain Triggering Events. Generally, a Triggering Event is where a party (Acquiring Person) endeavours to merge, amalgamate, acquire assets or acquire greater than 20% of the voting shares of the Company without the approval of the Company's directors. An Acquiring Person who causes the Triggering Event to occur is specifically excluded from acquiring shares under the adjustment formula provided for in the Rights Agreement. The rights adjustment does not occur where an offer to acquire shares is determined to be a Qualified Offer. A Qualified Offer is an offer for all outstanding shares on terms determined by a majority of the Company's directors as being in the best interest of the Company and its shareholders.

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

14. Commitments and contingencies:

(a) Consulting contracts:

On November 1, 2005, the Company entered into a consulting agreement with a five-year term and recognized the expense related to the consulting agreement over the five-year term. As partial consideration under the consulting agreement, we issued warrants to purchase 1,000,000 of our common shares at an exercise price of \$2.00 per share. The fair value of these warrants was \$1,904,000, as determined using the Black-Scholes valuation method.

On May 24, 2007, both parties terminated the consulting agreement and as result of the termination of agreement, the Company expensed \$1,459,800. However, the cancellation of the consulting agreement did not cancel the warrants issued in connection with the consulting agreement. These warrants remain outstanding until October 31, 2010. We determined that the fair value of the outstanding warrants was \$1,449,000, as determined using the Black-Scholes valuation method. We expensed the fair value of the warrants, and recorded the corresponding amount in equity.

On June 5, 2006, the Company entered into marketing and consulting agreement with a term of three years. As partial consideration under this agreement, the Company issued options to purchase 1,075,000 common shares at \$1.75 per share. The Company has recognized the expense related to this agreement over the three year term of the agreement. During the year ended December 31, 2007, the Company revalued the options and had a gain of \$188,000 (2006 – expensed \$907,000) with respect to these options.

On May 24, 2007, the Company entered into employment agreements with former officers and shareholders of My Organic Baby Inc. for a term of three years. As partial consideration under these agreements, the Company issued 215,000 common shares at \$2.48 per share as consideration. The Company expensed \$533,200 relating to these agreements.

(b) 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 \$2,060,000 (CA\$2,400,000) 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 recorded an accrual based on its expected costs.

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

14. Commitments and contingencies (continued):

(c) 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 will not have a material adverse effect on the Company's future operations or financial position.

(d) With respect to the long-term indebtedness assumed by the purchaser of the private label co-pack bottling business during the year ended December 31, 2001, the Company's subsidiary, CC Beverage, still remains as the primary borrower; however, the purchaser is under an obligation to obtain a release of such indebtedness. The purchaser holds a letter of credit with a United States bank to secure the long-term indebtedness. The Company has assessed its liability under this guarantee and determined the fair value to be nil.

15. Corporate income taxes payable:

(a) The following table reconciles income taxes calculated at a combined Canadian federal/provincial tax rate with the income tax recovery in the consolidated financial statements:

	2007	2006	2005
Combined statutory rate	35%	35%	35%
Income taxes at statutory rate	\$ (4,480)	\$ (2,867)	\$ (2,124)
Tax effect of future tax asset not recognized	4,480	2,867	2,124
Income taxes	\$ -	\$ -	\$ -

The Company has non-capital losses totalling approximately \$44,497,000 that may be applied against future taxable income. The potential tax benefits arising from these losses have not been recorded in the financial statements as the Company believes the probability of realization of the future tax benefit does not meet a more likely than not criterion. The availability of these losses may be limited due to the change in control of the Company. The right to claim these losses expire annually from 2008 to 2026.

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

15. Corporate income taxes payable (continued):

(b) The net future income tax balance comprises the following:

	2007	2006
Future income tax assets:		
Non-capital losses	\$ 14,800	\$ 10,065
Distribution rights	940	842
Share issue costs	417	135
Property, plant and equipment	212	145
Interest accretions on debts	2,079	-
Total future income tax assets	18,448	11,187
Valuation allowance	(16,262)	(11,187)
Net future income tax asset	2,186	-
Future income tax liabilities:		
Intangible assets	1,683	-
Derivative	503	-
	2,186	-
Net future tax	\$ -	\$ -

16. Supplementary cash flow information:

	2007	2006	2005
(a) Items not involving cash:			
Investment written down	\$ -	\$ -	\$ 28
Property, plant and equipment written down	-	137	382
Amortization of property, plant and equipment and intangibles	875	16	122
Gain on sale of investment	-	(201)	-
Services paid in stock	269	772	-
Stock-based compensation (note 13(b))	3,310	3,310	1,709
Stock issued on restructuring	-	-	448
Loss on settlement of lawsuit	-	797	-
Loss on settlement of debt	-	35	-
Gain on financial instruments	(1,434)	-	-
Interest accretion on convertible debenture and short-term debt	238	120	101
	\$ 3,258	\$ 4,986	\$ 2,790

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

16. Supplementary cash flow information (continued):

	2007	2006	2005
(b) Changes in non-cash working capital balances related to operations:			
Accounts receivable, net of lawsuit settlement	\$ 518	\$ (131)	\$ (73)
Inventories	(355)	354	(257)
Prepaid expenses and other current assets	(946)	270	(156)
Prepaid contracts	3,007	398	(69)
Accounts payable and accrued liabilities	1,245	(477)	(1,821)
Customer deposits	-	-	-
	\$ 3,469	\$ 414	\$ (2,376)

	2007	2006	2005
(c) Non-cash investing and financing activities:			
Conversion of class B preferred shares to common shares	\$ (1,600)	\$ (600)	\$ -
Equipment acquired under capital lease	-	15	13
Fair value of warrants issued for consulting services	-	-	1,904
Fair value of common shares issued for finders fees	-	-	639
Fair value of common shares issued for restructuring	-	-	448
Debt converted to preferred shares	-	-	(1,000)
Fair value of warrants issued for private placements	1,651	1,173	-
Long-term debt extinguished on lawsuit settlement	-	(1,547)	-
Fair value of common shares issued for payment of acquisition liability – DMR Food Corp.	427	-	-
Fair value of common shares issued as partial consideration of employment agreements with former officers and shareholders of My Organic Baby Inc,	533	-	-
Mortgage assigned on lawsuit settlement	-	(155)	-
Book value of land transferred on lawsuit settlement	-	594	-
Ascribed value of warrants granted in lawsuit settlement	-	303	-
Common shares issued for settlement of lawsuit	-	1,573	-
Settlement of debt paid in stock	-	573	-
Repayment of short-term debt from issuance of stock	-	(584)	-
	\$ 1,011	\$ 1,345	\$ 2,004

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

17. Segmented information:

The presentation of the segmented information is based on the way that management organizes the business for making operating decisions and assessing performance. The Company operates solely as a beverage, snack food and organic baby food business, selling flavoured water, carbonated beverages, natural and organic snack foods and organic baby foods products. Management uses geographic areas to monitor the business. The "other" segment represents sales outside North America. Management evaluates the performance of each segment based on the earnings (loss) from operations before the write-down of property, plant and equipment.

The transactions between segments are measured at the exchange value, which is the amount of consideration established and agreed to by each segment.

	2007	2006	2005
Sales:			
Canada:			
Total sales	\$ 6,545	\$ 1,310	\$ 1,658
United States:			
Total sales	4,078	6,152	7,054
Sales to other segments	(110)	(192)	(326)
Sales to external customers	3,968	5,960	6,728
Other:			
Sales to external customers	110	192	326
Total sales to external customers	\$ 10,623	\$ 7,462	\$ 8,712
Sales to external customers by product line:			
Beverage	\$ 5,603	\$ 7,462	\$ 8,712
Snack products	3,896	-	-
Organic baby products	1,124	-	-
	\$ 10,623	\$ 7,462	\$ 8,712
Interest and financing cost on short-term and long-term debt:			
Canada	\$ 549	\$ 129	\$ 177
United States	8	25	44
	\$ 557	\$ 154	\$ 221
Amortization:			
Canada	\$ 875	\$ 16	\$ 122
United States	-	-	-
	\$ 875	\$ 16	\$ 122

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

17. Segmented information (continued):

	2007	2006	2005
Loss before income taxes, write-down of property, plant and equipment and settlement of lawsuits:			
Canada	\$ (12,659)	\$ (6,254)	\$ (3,773)
United States	(137)	(1,059)	(1,912)
	(12,796)	(7,313)	(5,685)
Write-down of property, plant and equipment	-	(137)	(382)
Write-down of distribution rights	-	-	-
Settlement of lawsuits	-	(797)	-
Loss for the year before income taxes	\$ (12,796)	\$ (8,247)	\$ (6,067)

	2007	2006
Assets:		
Canada	\$ 21,051	\$ 8,366
United States	1,099	699
Other	28	28
Total assets	\$ 22,178	\$ 9,093
Property, plant and equipment additions:		
Canada	\$ 66	\$ 41
Goodwill:		
Canada	\$ 1,693	-

With respect to third parties, the Company has four customers (2006 - two customers) that represent more than 10% of sales as noted below. Sales are on an unsecured open account basis under specific credit terms. The agreements allow the Company to make alternative distribution arrangements within the relevant territories under certain conditions, including a business failure of a distributor.

	2007	2006
Customer A	24%	30%
Customer B	-	19%
Customer C	15%	-
Customer D	12%	-
Customer E	23%	-

CLEARLY CANADIAN BEVERAGE CORPORATION

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where indicated)

Year ended December 31, 2007

18. Subsequent events:

- (a) During the year end, the Company became aware that certain baby cereal products were damaged as a result of the supplier's packaging. The company appointed a third party lab to test the products on December 21, 2007; and the tests were not completed until late January, 2008, at which time the company recalled product relating to sales of \$409,878 during the year ended December 31, 2007. The Company accrued the product recall as of the year ended December 31, 2007.
- (b) The Company entered into a senior convertible note (see note 11) with conversion price of at \$2.33 per share. The number of shares to be issued upon conversion of the Notes will depend on the actual dollar amount of principal and interest being converted. The company also issued 4,017,162 Series E and Series F Warrants and 500,000 Lane Warrants to purchase our common shares. The Series E Warrants and Lane Warrants are exercisable at an initial exercise price of \$2.33 per common share and the Series F Warrants are exercisable at an initial exercise price of \$2.56 per common share. The conversion of the Notes and the exercise of the Series E and Series F Warrants and Lane Warrants will dilute our shareholders.

Each Note and Warrant carries a full ratchet anti-dilution provision. If we issue any convertible or equity securities at any time in the future (subject to certain exceptions including stock option grants and issuances in connection with certain acquisition transactions) at a price less than the applicable conversion price or exercise price, then the conversion price and exercise price will be automatically adjusted down to that lesser price. Any such adjustment will further dilute our shareholders.

The Company is currently involved in a dispute with the institutional investor as to whether the full-ratchet anti-dilution provision has been triggered and whether the company is obligated to adjust the conversion price of the Notes and the exercise price of the Series E Warrants, Series F Warrants and Lane Warrants to \$0.46 per share. If the full-ratchet anti-dilution provision is determined to have been triggered, this will result in a significant additional number of shares issuable upon conversion of the Notes and upon exercise of the Warrants, which will significantly dilute our shareholders.

- (c) The Company may be required to pay cash penalties to the institutional investors in connection with the senior convertible notes if the securities underlying such notes are not filed in a registration statement with the SEC and such registration is not declared effective by the SEC within certain time periods. Up to February 1, 2008, the Company has paid the investors \$187,200 on account of these penalties. The potential penalties thereafter are in an amount equal to 1% of the aggregate purchase price of such notes (\$9,360,000) for every 30 day period in which the registration statement is not declared effective or the securities otherwise become unrestricted. As of April 24, 2008, the registration statement has not been declared effective.
- (d) The Company, on April 14, 2008, announced it had signed a letter of intent to acquire Baldwin Street Kosher, a company in the business of producing gourmet hot dogs, sausages, salami's and other Kosher/Gluten free meat products.