

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

CLEARLY CANADIAN BEVERAGE CORPORATION

Year ended December 31, 2006



KPMG LLP
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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of Clearly Canadian Beverage Corporation as at December 31, 2006 and the consolidated statements of earnings, changes in shareholders' equity and cash flows for the year 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, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2004 and December 31, 2005 and for the years then ended were audited by other auditors, who expressed an opinion without reservation on those statements in their report, dated June 12, 2006.

KPMG LLP

Chartered Accountants

Vancouver, Canada

March 9, 2007

CLEARLY CANADIAN BEVERAGE CORPORATION

Consolidated Balance Sheets

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

December 31, 2006, with comparative figures for 2005

| | 2006 | 2005 |
|---|----------|----------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 5,267 | \$ 520 |
| Accounts receivable (note 5) | 634 | 475 |
| Inventories (note 6) | 427 | 781 |
| Prepaid expenses and other current assets | 533 | 803 |
| | 6,861 | 2,579 |
| Long-term investments (note 10) | - | 29 |
| Assets held for sale (note 7) | - | 343 |
| Property, plant and equipment (note 7) | 1,153 | 1,831 |
| Prepaid contracts (note 18(a)) | 1,079 | 1,477 |
| | \$ 9,093 | \$ 6,259 |
| Liabilities and Shareholders' Equity | | |
| Bank indebtedness (note 4) | \$ - | \$ 361 |
| Accounts payable and accrued liabilities (note 8) | 1,608 | 2,094 |
| Capital lease obligation, current portion (note 11) | 8 | 3 |
| Short-term debt (note 9) | - | 567 |
| | 1,616 | 3,025 |
| Capital lease obligation, net of current portion (note 11) | 13 | 9 |
| Long-term debt (note 12) | - | 1,501 |
| | 1,629 | 4,535 |
| Shareholders' equity: | | |
| Capital stock (notes 14 and 15): | | |
| Authorized: | | |
| Unlimited common shares 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 – 1,600,000 (2005 – 2,000,000) class B preferred shares | 1,600 | 2,000 |
| Issued – 13,917,153 (2005 – 6,901,652) common shares without par value | | |
| Outstanding – 13,879,853 (2005 – 6,864,352) common shares without par value | 75,730 | 64,756 |
| Variable multiple voting shares – 320,000 (2005 - nil) | | |
| Share subscription receivable | - | (198) |
| Contributed surplus | 8,290 | 4,809 |
| Cumulative translation account | (1,101) | (929) |
| Deficit | (77,055) | (68,714) |
| | 7,464 | 1,724 |
| Going concern (note 2(a)) | | |
| Commitments and contingencies (note 18) | | |
| Subsequent events (note 24) | | |
| | \$ 9,093 | \$ 6,259 |

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Director

Director

CLEARLY CANADIAN BEVERAGE CORPORATION

Consolidated Statement of Earnings

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

Year ended December 31, 2006

| | 2006 | 2005 | 2004 |
|--|------------|------------|------------|
| Sales | \$ 7,462 | \$ 8,712 | \$ 11,064 |
| Cost of sales | 5,677 | 6,349 | 8,048 |
| Gross profit | 1,785 | 2,363 | 3,016 |
| Expenses: | | | |
| Selling, general and administration expenses | 6,751 | 5,163 | 5,065 |
| Amortization of property, plant and equipment | 16 | 122 | 130 |
| Royalty revenue | (125) | (76) | (133) |
| Interest income | (132) | - | - |
| Other (income) expense | (35) | 231 | 270 |
| Financing costs | 132 | - | 653 |
| Interest on short-term debt (note 9) | 148 | 172 | 174 |
| Interest on long-term debt (note 12) | 6 | 49 | 52 |
| Loss on sale of assets held for sale (note 7) | - | - | 56 |
| Stock-based compensation (note 15) | 2,426 | 1,709 | 23 |
| Write-down of property, plant and equipment (note 7) | 137 | 382 | 721 |
| Gain on sale of investments | (201) | - | - |
| Write-down of distribution rights | - | - | 1,536 |
| Loss on settlement of lawsuit (note 19) | 797 | - | - |
| Restructuring (note 23) | 112 | 680 | - |
| | 10,032 | 8,432 | 8,547 |
| Loss for the year | \$ (8,247) | \$ (6,069) | \$ (5,531) |
| Loss per share, basic and diluted | \$ (0.82) | \$ (1.06) | \$ (7.14) |
| Weighted average number of shares outstanding | 10,223,284 | 5,728,974 | 775,012 |

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, 2006

| | Common shares | | Share subscription receivable (payable) | Class A preferred shares | | Class B preferred shares | | Contributed surplus | Cumulative translation account | Deficit | Shareholders' equity (deficiency) |
|---|---------------------|---------|--|-----------------------------|---------|-----------------------------|--------|------------------------|--------------------------------------|----------|---|
| | Number of shares | Amount | | Number of shares | Amount | Number of shares | Amount | | | | |
| | | \$ | \$ | | \$ | | \$ | \$ | \$ | \$ | \$ |
| Balance, December 31, 2003 | 679,568 | 58,272 | - | - | - | - | - | 1,008 | (1,352) | (56,803) | 1,125 |
| Issued during the year – bonus shares on short-term debt - \$2.70 per share | 213,500 | 547 | - | - | - | - | - | - | - | - | 547 |
| Share purchase warrant granted in connection with short-term debt | - | - | - | - | - | - | - | 29 | - | - | 29 |
| Private placement issued December 10, 2004 at CA\$2.50 per unit | 103,500 | 216 | - | - | - | - | - | - | - | - | 216 |
| Loss for the year | - | - | - | - | - | - | - | - | - | (5,531) | (5,531) |
| Exchange difference | - | - | - | - | - | - | - | - | 99 | - | 99 |
| 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, 2006

| | Common shares | | Share subscription receivable (payable) | Class A preferred shares | | Class B preferred shares | | Contributed surplus | Cumulative translation account | 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, 2006

| | Common shares | | Share subscription receivable (payable) | Class A preferred shares | | Class B preferred shares | | Contributed surplus | Cumulative translation account | 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, 2006

| | Common shares | | Share subscription receivable (payable) | Class A preferred shares | | Class B preferred shares | | Contributed surplus | Cumulative translation account | 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, 2006

| | Common shares | | Share subscription receivable (payable) | Class A preferred shares | | Class B preferred shares | | Contributed surplus | Cumulative translation account | 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 | 13,879,853 | 75,730 | - | - | - | 1,600,000 | 1,600 | 8,290 | (1,101) | (77,055) | 7,464 |

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, 2006

| | 2006 | 2005 | 2004 |
|---|-----------------|----------------|----------------|
| Cash flows from operating activities: | | | |
| Loss for the year | \$ (8,247) | \$ (6,069) | \$ (5,531) |
| Items not involving cash (note 20(a)) | 4,986 | 2,790 | 2,979 |
| Changes in non-cash working capital balances related to operations (note 20(b)) | 414 | (2,376) | 1,094 |
| | <u>(2,847)</u> | <u>(5,655)</u> | <u>(1,458)</u> |
| Cash flows from financing activities: | | | |
| Proceeds on issuance of short-term debt | - | 1,277 | 1,943 |
| Proceeds from issuance of capital stock and warrants | 7,731 | 6,516 | 216 |
| Increase (decrease) in bank indebtedness | (361) | 89 | (206) |
| Dividend paid on class B preferred shares | (94) | - | - |
| Repayment of short-term debt | - | (446) | (1,081) |
| Repayment of long-term debt | - | (1,660) | - |
| | <u>7,276</u> | <u>5,776</u> | <u>872</u> |
| Cash flows from investing activities: | | | |
| Proceeds from sale of property, plant and equipment | 358 | - | 543 |
| Proceeds from sale of long-term investment | 230 | - | 85 |
| Purchase of property, plant and equipment | (41) | - | (44) |
| | <u>547</u> | <u>-</u> | <u>584</u> |
| Effect of exchange rates on cash and cash equivalents | (229) | 321 | (47) |
| Increase (decrease) in cash and cash equivalents | 4,747 | 442 | (49) |
| Cash and cash equivalents, beginning of year | 520 | 78 | 127 |
| Cash and cash equivalents, end of year | \$ 5,267 | \$ 520 | \$ 78 |
| Interest paid | \$ 154 | \$ 191 | \$ 226 |
| Income taxes paid | \$ - | \$ - | \$ - |

Supplementary cash flow information (note 20)

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, 2006

1. Nature of operations:

The Company produces, distributes and markets beverage products and flavoured beverages. 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 \$8,247,000 for the twelve months ended December 31, 2006. At December 31, 2006 it has working capital of \$5,245,000. Operations for the twelve months ended December 31, 2006 have been funded primarily from the issuance of capital stock.

Management has continued to take steps to try to improve the Company's financial results and cash flows. These steps include liquidation of non-core investments and pursuing equity financing to fund working capital requirements. The Company's ability to continue operations is contingent on its ability to obtain financing. Management believes that it 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). These principles differ in certain respects from those accounting principles and practices that the Company would have followed had its consolidated financial statements been prepared in accordance with accounting principles generally accepted in the United States (US GAAP). The differences as they affect the Company are described in note 22.

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, 2006

2. Significant accounting policies (continued):

(c) Basis of presentation:

These consolidated financial statements include the accounts of Clearly Canadian Beverage Corporation and its wholly owned subsidiaries, Clearly Canadian Beverage (International) Corporation, CC Beverage (US) Corporation and Blue Mountain Springs Ltd.

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.

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.

(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, 2006

2. Significant accounting policies (continued):

(g) Long-term investments:

Long-term investments are recorded at cost less write-downs for impairments in value that are other than temporary.

(h) 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 | 5 – 15 years |
| Leasehold improvements | Term of the lease |

(i) 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.

(j) Stock-based compensation plan:

The Company has stock-compensation plans, which are described in note 15. 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.

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, 2006

2. Significant accounting policies (continued):

(k) 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.

(l) Use of estimates:

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

(m) 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.

(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, 2006, three customers represented 64% (2005 - two customers represented 60%) of total accounts receivable.

(iii) Interest rate risk:

The short-term bank credit facility bears interest at US prime rate plus 4%.

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.

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, 2006

2. Significant accounting policies (continued):

(n) 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 the asset will not be realized.

(o) Advertising and marketing costs:

The Company expenses all advertising and marketing costs as incurred. For the twelve months ended December 31, 2006, the Company incurred marketing costs of \$2,020,943 (2005 - \$1,358,628; 2004 - \$1,493,213). These costs are included in selling expenses.

(p) Loss per share:

Loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding. The loss per share for comparative periods reflects the ten for one consolidation of the common shares during 2005. 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 \$94,000 of preferred share dividends to reflect income available to common 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.

3. New accounting policy:

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

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, 2006

3. New accounting policy (continued):

| | | 2005 | | 2004 |
|-------------------------------|----|-------|----|--------|
| Sales, as previously reported | \$ | 9,141 | \$ | 11,586 |
| Adjustment | | (429) | | (522) |
| Sales, as reported | \$ | 8,712 | \$ | 11,064 |

| | | 2005 | | 2004 |
|--|----|-------|----|-------|
| Selling expenses, as previously reported | \$ | 5,592 | \$ | 5,587 |
| Adjustment | | (429) | | (522) |
| Selling expenses, as reported | \$ | 5,163 | \$ | 5,065 |

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, 2006 - \$403,593, December 31, 2005 - \$456,000). The weighted average interest rate for the year ended December 31, 2006 was 11.96% (December 31, 2005 - 10.19%; 2004 - 8.495%); As at December 31, 2006 nil (December 31, 2005 - \$361,000) has been drawn on this line of credit. This operating line of credit is also secured by a corporate guarantee from the Company.

5. Accounts receivable:

| | | 2006 | | 2005 |
|--|----|------|----|------|
| Trade accounts receivable, net of allowance of \$53,000 (2005 - \$36,000) | \$ | 597 | \$ | 435 |
| Other receivables | | 37 | | 40 |
| | \$ | 634 | \$ | 475 |

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, 2006

6. Inventories:

| | 2006 | 2005 |
|----------------|--------|--------|
| Finished goods | \$ 280 | \$ 586 |
| Raw materials | 147 | 195 |
| | \$ 427 | \$ 781 |

7. Property, plant and equipment and assets held for sale:

| | 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 |
| Assets held for sale | - | - | - | - |
| | \$ 3,306 | \$ 2,016 | \$ 137 | \$ 1,153 |

On April 17, 2006, the Company entered into an agreement of purchase and sale with Fern Brook Springs Bottled Water Company Limited relating to the sale, for \$349,000 (CA\$400,000) of certain water equipment assets owned by the Company and used in connection with its Thornton, Ontario well site, which the Company is no longer using and in respect of which the Company has terminated its lease as of July, 2007.

In 2006, the Company wrote down water storage facilities by \$51,000 and machinery and equipment by \$86,000 to its estimated net recoverable amount. The carrying value represents management's best estimate of the net future recoverable amount of the buildings and equipment. If the assumptions used by management are not borne out, the net recoverable amount of the assets may differ materially from the recorded amount.

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, 2006

7. Property, plant and equipment and assets held for sale (continued):

Refer to note 19 for particulars of land disposed of in settlement of the Blue Mountain Springs lawsuit.

| | 2005 | Accumulated amortization | Write-down | 2005 Net |
|------------------------|----------|-----------------------------|------------|-------------|
| Land and water sources | \$ 1,603 | \$ - | \$ - | 1,603 |
| Buildings | 1,326 | 996 | 280 | 50 |
| Equipment | 1,116 | 938 | - | 178 |
| Leasehold improvements | 67 | 67 | - | - |
| | 4,112 | 2,001 | 280 | 1,831 |
| Assets held for sale: | | | | |
| Land and water sources | 445 | - | 102 | 343 |
| | \$ 4,557 | \$ 2,001 | \$ 382 | \$ 2,174 |

Included in the table above are changes arising from the fluctuation in the exchange rate between the Canadian and US dollar.

In 2005, the Company wrote down building, land and water source by \$280,000 and \$102,000 respectively to its estimated net future recoverable amount. In 2004, land and water sources, buildings and equipment were written down by \$721,000.

8. Accounts payable and accrued liabilities

| | 2006 | 2005 |
|---------------------------|----------|----------|
| Trade accounts payable | \$ 1,062 | \$ 1,303 |
| Marketing fees | 304 | 474 |
| Other accrued liabilities | 242 | 317 |
| | \$ 1,608 | \$ 2,094 |

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, 2006

9. Short-term debt:

| | 2006 | 2005 |
|--|------|--------|
| Mortgage payable with land and buildings pledged as collateral, bearing interest at 3.95%, repayable at CA\$1,125 per month, maturing in August 2006 (see note 19) | \$ - | \$ 139 |
| Global (GMPC) Holdings Inc. (CA\$500,000), bearing no interest, repayable May 2006 | - | 428 |
| | \$ - | \$ 567 |

10. Long-term investments:

| | 2006 | 2005 |
|--|------|-------|
| Public company common shares (quoted market value nil; 2005 - \$223,000) | \$ - | \$ 29 |

11. 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 obligation under the capital lease consists of:

| | 2006 | 2005 |
|---|-------|-------|
| Minimum lease payments payable | \$ 26 | \$ 15 |
| Portion representing interest to be recorded over the remaining term of the lease | (5) | (3) |
| | 21 | 12 |
| Current portion | (8) | (3) |
| | \$ 13 | \$ 9 |

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, 2006

11. Capital lease obligation (continued):

Future minimum annual lease payments as at December 31, 2006 under the capital lease are as follows:

| | | |
|------|----|----|
| 2007 | \$ | 12 |
| 2008 | | 12 |
| 2009 | | 2 |
| | \$ | 26 |

12. Long-term debt:

| | 2006 | 2005 |
|---|------|----------|
| Convertible promissory notes of CA\$1,750,000, unsecured, non-interest bearing, repayable in cash or equivalent value of common shares at the option of the Company | \$ - | \$ 1,501 |

13. Convertible debenture:

During the year ended December 31, 2002, the Company issued 670 debenture units, raising gross proceeds of \$424,000 (CA\$670,000). Each debenture unit consists of a convertible debenture of CA\$1,000 and 1,250 share purchase warrants at CA\$8.00 per share exercisable until December 2, 2004. The debenture units were originally repayable by December 1, 2003 and bear interest at 10% per annum. The debenture units are convertible into common shares at the option of the holder any time prior to repayment at CA\$8.00 per share.

During the year ended December 31, 2003, the debenture holders consented to extend the term of the debenture to December 1, 2006. For accounting purposes, the term extension has been accounted for as a settlement and the difference in the fair value of the original terms of the debenture and the modified terms of \$81,000 was recorded as a gain in the statement of operations for the year ended December 31, 2003. The corresponding discount on the carrying value of the debenture will be accreted on a straight-line basis over the extended term of the debenture units. During the year ended December 31, 2005, \$30,000 was accreted (2004 - \$25,000). During the year ended December 31, 2005, the debenture was fully paid.

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, 2006

14. Capital stock:

On January 14, 2005 the Company completed a private placement of 465,000 pre-consolidated shares at a price of CA\$0.25 per share (46,500 shares at a price of \$2.50 per share, on a post consolidated basis). The shares were issued as part of the Company's 1,500,000 pre-consolidation share private placement announced in December 2004.

At a special and general shareholder meeting held on April 29, 2005, the Company's shareholders approved the Company's corporate restructuring plan and, in connection therewith:

1. The Company's authorized share structure, its Notice of Articles and its Articles were altered by:
 - (a) increasing the 200,000,000 common shares without par value to an unlimited number of common shares without par value;
 - (b) eliminating the 10,000,000 preferred shares with a par value of \$1.00 per share, none of which preferred shares were issued and outstanding; and
 - (c) deleting the special rights and restrictions contained in Part 26 of the Articles of the Company.
2. The Company's authorized share structure, its Notice of Articles and its Articles were also altered by:
 - (d) creating a class of 2,000,000 class A Preferred Shares with special rights and restrictions (1); and
 - (e) creating a class of 2,000,000 class B Preferred Shares with special rights and restrictions (2).
 - (1) 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.

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, 2006

14. Capital stock (continued):

2. (e) (continued):

- (2) The class B Preferred Shares include 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 instalments. Each class B Preferred Share has the right to five votes on any vote of the common shareholders. The class B Preferred Shares were 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 shares.

Effective May 2, 2005, the Company effected a reverse split (share consolidation) on a ten (10) old for one (1) new share basis.

On May 5, 2005, BG Capital Group Ltd. ("BG Capital") converted its \$1,000,000 loan with the Company into 1,000,000 class A Preferred Shares at \$1.00 per preferred share and concurrently the Company issued BG Capital an additional 1,000,000 class A Preferred Shares for cash of \$1.00 per preferred share.

On May 16, 2005, the Company completed a brokered private placement of 1,010,000 common shares of the Company at a price of \$1.00 per share with Standard Securities Capital Corporation. The Company also completed a non-brokered private placement of 2,065,000 common shares of the Company. The non-brokered private placement was completed in two issuances, with the first issuance of 1,250,000 shares on May 16, 2005 and the second issuance of 815,000 shares on May 25, 2005, all such shares were issued at a price of \$1.00 per share.

On May 24, 2005, an aggregate of 207,506 common shares were issued to BG Capital in respect of dividends payable on the class A and the class B Preferred Shares. Also, on May 24, 2005, 450,000 shares were issued to BG Capital as a finder's fee in connection with the Company's recently completed private placements.

On the same date, BG Capital exchanged all of its class A preferred shares of the Company for 2,000,000 class B shares.

The Company completed an additional non-brokered private placement for gross proceeds of \$635,953. In that respect, a total of 635,953 common shares were issued on May 27, 2005 at \$1.00 per share. Directors, officers, and employees of the Company subscribed for 585,953 shares. Prior to this additional financing, the Company redeemed all of its outstanding convertible debentures and debenture holders who held a majority of the debentures reinvested their debenture redemption proceeds in this private placement.

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, 2006

14. Capital stock (continued):

As part of its 2005 corporate restructuring and to reduce future obligations and cost, the Company negotiated certain amendments to consulting agreements and the Company's office lease. In connection with these amendments, the Company issued 225,000 shares at a market value of \$1.17 per share, \$117,000 in cash, and 25,000 shares at a market value of \$1.38 per share.

On November 30, 2005, Global (GMPC) Holdings Inc. converted CA\$500,000 of principal amount of loan into common shares at conversion price of US\$2.00 per share and extended the maturity date of the loan to May 2, 2006 for the balance of CA\$500,000 of principal amount of loan. The Company issued 75,000 common shares to Global at market price of \$2.00 per share for extending the maturity date to May 2, 2006 and amending the agreement that no interest will be payable on the remaining principal amount of loan.

On December 28, 2005, the Company completed a private placement of 800,000 units at \$1.25 per unit raising \$1,000,000. Each unit consisted of one common share of the Company and six and a quarter share purchase series A warrant at vested price of \$1.25, six and a quarter share purchase series B warrant at vested price of \$1.50, six and a quarter share purchase series C warrant at vested price of \$2.00, and six and quarter share purchase series D warrant at vested price of \$4.00. Series A warrants must be exercised by December 31, 2006. Series B warrants will be fully vested if Series A warrants are fully exercised and exercised by December 31, 2007, Series C warrants will be fully vested if Series B warrants are fully exercised and exercised by December 31, 2008, Series D warrants will be fully vested if Series C warrants are fully exercised and exercised by December 31, 2009.

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 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, 2006, the 320,000 issued and outstanding Variable Multiple Voting Shares entitles the holder to 5,455,261 votes of 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, 2006

14. Capital stock (continued):

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 therefore 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 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, BG Capital has the right until May 2007 to convert any or all of the finder's fee into shares at a price of US\$2.00 per share (maximum of 65,375 shares).

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, BG Capital has the right until July, 2007 to convert any or all of the finder's fee into shares at a price of US\$2.75 per share (maximum of 50,250 shares).

In August 2006, the Company settled litigation with respect to its Blue Mountain Springs subsidiary. The terms of the settlement detailed in Note 19 include the issuance of 624,314 shares in fiscal 2006 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, BG Capital has the right until August, 2007 to convert any or all of the finder's fee into shares at a price of US\$3.00 per share (maximum of 16,666 shares).

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, 2006

14. Capital stock (continued):

In October 2006, the Company paid \$94,246 to BG Capital in respect of dividends payable on 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 Multiple voting shares.

15. 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 Board of Directors.

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, 2003 | 162 | \$ | 9.10 |
| Granted | 10 | | 4.00 |
| Expired | (3) | | 7.90 |
| 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 |
| Surrendered | - | | - |
| Options outstanding at December 31, 2006 | 2,508 | | 1.96 |
| Options exercisable at December 31, 2006 | 1,334 | \$ | 2.12 |

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, 2006

15. 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:

| 2006 | Number of options outstanding (000's) | Weighted average remaining contractual life (years) | Weighted average exercise price US\$ | Weighted average number exercisable (000's) | Weighted average exercise price US\$ |
|-----------------------|---------------------------------------|---|--------------------------------------|---|--------------------------------------|
| Exercises prices US\$ | | | | | |
| 11.58 | 2 | 4.6 | 11.58 | 2 | 11.58 |
| 10.72 | 27 | 5.4 | 10.72 | 27 | 10.72 |
| 9.86 | 17 | 4.1 | 9.86 | 17 | 9.86 |
| 8.58 | 4 | 5.7 | 8.58 | 4 | 8.58 |
| 6.00 | 14 | 6.1 | 6.00 | 14 | 6.00 |
| 5.57 | 35 | 3.9 | 5.57 | 35 | 5.57 |
| 2.75 | 210 | 2.7 | 2.75 | 210 | 2.75 |
| 1.75 – 2.40 | 1,531 | 2.8 | 1.84 | 357 | 1.84 |
| 1.00 – 1.25 | 668 | 3.9 | 1.09 | 668 | 1.09 |
| 1.00 – 11.58 | 2,508 | 3.7 | 1.95 | 1,334 | 2.14 |

The total intrinsic value of options exercised during the year ended December 31, 2006 was \$2,113,752. The aggregate intrinsic value of options outstanding and exercisable at December 31, 2006 is \$1,034,502 and \$348,637 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, 2006

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

(a) Stock options (continued):

For the year ended December 31, 2006, the Company granted 2,216,000 options (2005 - 1,707,500) under its stock option plans, of which options to acquire 2,146,000 shares (2005 - 1,707,500) were granted to members of its Advisory Board, Directors and management. The fair value of the options granted for the year ended December 31, 2006 is approximately \$1.79 per share (2005 - \$1.21; 2004 - \$3.32). Stock based compensation expense of \$2,426,000 (2005 - \$1,612,000; 2004 \$23,300) has been recorded for the year ended December 31, 2006. Stock based compensation of an additional \$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 three 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 using the following assumptions:

| | 2006 | 2005 | 2004 |
|---|----------------|----------------|----------|
| Risk-free interest rate | 4.38% to 5.06% | 2.77% to 3.30% | 3.00% |
| Expected life of options | 1 to 5 years | 5 years | 10 years |
| Expected volatility in the market price of the shares | 107% to 185% | 234% to 236% | 120.5% |
| Expected dividend yield | 0.0% | 0.0% | 0.0% |
| Weighted average grant date fair value | \$1.09 | \$0.94 | \$1.94 |

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

Year ended December 31, 2006

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

(b) Warrants:

The following table summarizes information about common share purchase (the holder of one warrant is entitled to purchase one common share at the exercise price per share) warrants granted in equity financings to date which remain outstanding at December 31, 2006:

| Exercise price per share | Balance, December 31, 2005 | | | | Expired | Exercised | Balance, December 31, 2006 | | Expiry date |
|--------------------------|----------------------------|--------------|-----------|-----------|----------|-----------|----------------------------|----------------|-------------|
| | Cancelled | Granted | Expired | Exercised | | | Cancelled | Granted | |
| US\$2.80 (CA\$3.40) | - | - | (25,000) | - | - | - | - | March 2006 | |
| US\$1.25 (CA\$1.46) | (5,000,000) | - | - | - | - | - | - | December 2006 | |
| US\$1.50 (CA\$1.76) | (5,000,000) | - | - | - | - | - | - | December 2007 | |
| US\$2.00 (CA\$2.34) | (5,000,000) | - | - | - | - | - | - | December 2008 | |
| US\$4.50 (CA\$5.27) | (5,000,000) | - | - | - | - | - | - | December 2009 | |
| US\$2.25 (CA\$2.51) | - | 91,525 | - | - | - | 91,525 | - | May 2007 | |
| US\$3.00 (CA\$3.35) | - | 84,350 | - | - | - | 84,350 | - | July 2007 | |
| US\$3.25 (CA\$3.62) | - | 356,667 | - | - | - | 356,667 | - | September 2008 | |
| US\$1.25 (CA\$1.39) | - | 4,120,000 | - | (30,000) | - | 4,090,000 | - | December 2007 | |
| US\$2.00 (CA\$2.34) | - | 100,000 | - | - | - | 1,000,000 | - | October 2010 | |
| US\$2.00 (CA\$2.23) | - | - | - | - | - | 100,000 | - | July 2011 | |
| | 21,025,000 | (20,000,000) | 4,752,542 | (25,000) | (30,000) | 5,722,542 | - | | |

Warrants activity during the years ended December 31, 2005 and 2004 is as follows:

| | Number of warrants |
|----------------------------|--------------------|
| Balance, January 1, 2004 | 152,750 |
| Granted | 25,000 |
| Expired | (96,250) |
| Balance, December 31, 2004 | 81,500 |
| Granted | 21,000,000 |
| Expired | (56,500) |
| Balance, December 31, 2005 | 21,025,000 |

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Year ended December 31, 2006

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

(c) 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.

16. 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:

| | 2006 | 2005 | 2004 |
|---|------------|------------|------------|
| Combined statutory rate | 35% | 35% | 39% |
| Income taxes at statutory rate | \$ (2,867) | \$ (2,124) | \$ (2,157) |
| Tax effect of future tax asset not recognized | 2,867 | 2,124 | 2,157 |
| Income taxes | \$ - | \$ - | \$ - |

The Company has non-capital losses totalling approximately \$31,691,903 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 2007 to 2025.

CLEARLY CANADIAN BEVERAGE CORPORATION

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Year ended December 31, 2006

16. Corporate income taxes payable (continued):

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

| | 2006 | 2005 |
|-------------------------------|-----------|----------|
| Future income tax assets: | | |
| Non-capital losses | \$ 10,065 | \$ 9,381 |
| Distribution rights | 842 | 1,065 |
| Share issue costs | 135 | (50) |
| Property, plant and equipment | 145 | 1,820 |
| Net future income tax asset | 11,187 | 12,216 |
| Valuation allowance | (11,187) | (12,216) |
| | \$ - | \$ - |

17. Related party transactions:

In the ordinary course of business, the Company enters into transactions with related parties. All related party transactions are recorded at their exchange amounts. Related party transactions not disclosed elsewhere in these financial statements are as follows:

In the year ended December 31, 2006, the Company paid \$55,000 in remaining costs associated with the lease of its former office premises to a limited partnership in which certain ex-directors of the Company had an interest. The Company terminated this lease on December 31, 2005 and has moved to different premises.

In the year ended December 31, 2006 the Company recorded management fees of \$322,000 in connection with a contract for service provided by BG Capital Group Ltd., our controlling shareholder. The contract was terminated on March 15, 2006. In August, 2006 the Company issued 140,000 shares at \$2.30 per share as settlement of services provided.

In the year ended December 31, 2006 the Company paid \$190,000 in corporate development and financing costs and \$318,937 in private placement of stock finder's fees to BG Capital Group Ltd.

In the year ended December 31, 2006 the Company paid \$94,246 in dividends on the class B preferred shares held by BG Capital Group Ltd.

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

Year ended December 31, 2006

18. Commitments and contingencies:

(a) Consulting contracts:

On November 1, 2005, the Company entered into a consulting agreement with a term of five years. The Company issued a warrant to purchase 1,000,000 common shares of the Company at \$2.00 per share as consideration. The fair value of the warrant as determined using the Black-Scholes method was \$1,904,000. The Company is recognizing the expense related to the agreement over the five year term of the agreement. During the year ended December 31, 2006, the Company expensed \$380,800 (2005 - \$63,400) and recorded \$380,400 as a current prepaid item leaving a balance of \$1,079,000 as a long-term prepaid contract.

On June 5, 2006, the Company entered into marketing and consulting agreement with a term of three years. The Company issued options to purchase 1,075,000 common shares of the Company at \$1.75 per share as consideration. The fair value of the option as determined using the Black-Scholes method was \$2,548,812. The Company is recognizing the expense related to the agreement over the three year term of the agreement. During the year ended December 31, 2006, the Company expensed \$907,534.

(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.

(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.

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19. Lawsuit settlement (continued):

The litigation which the Company has settled relates to all claims surrounding its subsidiary, Blue Mountain Springs Ltd (Blue Mountain). This litigation commenced in 1997 and involved a claim against the Company and Blue Mountain to repay an outstanding CA\$1.75 million debt owed by the Company to the former owners of Blue Mountain. The Company had withheld payment of this debt in order to set off another claim against the Company by a third party for entitlement to shares in Blue Mountain.

The terms of the settlement concluded in the third quarter of 2006 required the Company to issue 624,314 common shares, issue a common share purchase warrant expiring July 14, 2011 for the purchase of a further 100,000 shares at a price of \$2.00 per share, transfer 42 acres of residential land in Ontario to a plaintiff, grant a plaintiff the right of first refusal to purchase 4 acres of land with a water source in Ontario, and issue a further approximately 14,000 shares of the Company.

In consideration of the above and the settlement of the litigation the CA\$1.75 million debt was extinguished, and the plaintiff assumed a mortgage registered against the 42 acre parcel of land above.

Full provision has been made in these financial statements for the settlement of the litigation, as follows:

| | | |
|--|-----------|--------------|
| Long-term debt extinguished | \$ | 1,547 |
| Mortgage assigned to plaintiffs and discharged | | 155 |
| Fair value of 624,314 shares and warrants issued into escrow | | (1,529) |
| Fair value of 13,477 shares issued | | (45) |
| Fair value of warrants granted | | (303) |
| Book value of land transferred | | (594) |
| Write-down of receivable | | (28) |
| Loss on settlement of lawsuit | \$ | (797) |

The 624,314 shares and the share purchase warrant have been issued into escrow, to be released in scheduled tranches beginning on the earlier of three months from the date the securities are registered by an effective registration statement filed with the US Securities Exchange Commission, or July 29, 2007 (the "First Release Date"), and ending 24 months thereafter. The settlement terms includes a provision that requires the Company to issue additional shares to ensure that the initial 624,314 shares issued into escrow have a value of \$1,100,000 (approximately \$2.59 per share) based on the average trading price of the shares for the 10 day period preceding the First Release Date. In the event that there is a shortfall, the Company will be required to issue additional shares at the average trading price above to meet the \$1,100,000 value. At the balance sheet date, there were no additional shares issuable.

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Year ended December 31, 2006

20. Supplementary cash flow information:

| | 2006 | 2005 | 2004 |
|---|----------|----------|----------|
| (a) Items not involving cash: | | | |
| Write-down of distribution rights | \$ - | \$ - | \$ 1,536 |
| Loss on sale of assets held for sale | - | - | 56 |
| Investment written down | - | 28 | - |
| Property, plant and equipment written down | 137 | 382 | 721 |
| Amortization of property, plant and equipment | 16 | 122 | 130 |
| Gain on sale of investment | (201) | - | - |
| Services paid in stock | 772 | - | - |
| Stock-based compensation | 3,310 | 1,709 | 23 |
| Stock issued on restructuring | - | 448 | - |
| Stock issued to replace short-term debt | - | - | 445 |
| Loss on settlement of lawsuit | 797 | - | - |
| Loss on settlement of debt | 35 | - | - |
| Interest accretion on convertible debenture and short-term debt | 120 | 101 | 68 |
| | \$ 4,986 | \$ 2,790 | \$ 2,979 |
| (b) Changes in non-cash working capital balances related to operations: | | | |
| Accounts receivable, net of lawsuit settlement | \$ (131) | \$ (73) | \$ 263 |
| Inventories | 354 | (257) | 106 |
| Prepaid expenses and other current assets | 270 | (156) | (15) |
| Prepaid contracts | 398 | (69) | 141 |
| Accounts payable and accrued liabilities | (477) | (1,821) | 697 |
| Customer deposits | - | - | (98) |
| | 414 | (2,376) | 1,094 |

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

Year ended December 31, 2006

20. Supplementary cash flow information (continued):

| | 2006 | 2005 | 2004 |
|--|----------|---------|-------|
| (c) Non-cash investing and financing activities: | | | |
| Conversion of class B preferred shares to common shares | \$ (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 | 1,173 | - | - |
| Long-term debt extinguished on lawsuit settlement | (1,547) | - | - |
| 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) | - | - |
| Related party liability reclassified to short-term debt | - | - | (200) |
| Stock options | - | - | 523 |
| Equity component of shares issued with short-term debt | - | - | 102 |
| Equity component of warrants issued with short-term debt | - | - | 6 |

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21. 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 in the beverage industry, selling flavoured water and carbonated beverages, and 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.

| | 2006 | 2005 | 2004 |
|---|-----------------|-----------------|------------------|
| Sales: | | | |
| Canada: | | | |
| Total sales | \$ 1,310 | \$ 1,658 | \$ 2,063 |
| United States: | | | |
| Total sales | 6,152 | 7,054 | 10,283 |
| Sales to other segments | (192) | (326) | (1,942) |
| Sales to external customers | 5,960 | 6,728 | 8,341 |
| Other | | | |
| Sales to external customers | 192 | 326 | 660 |
| Total sales to external customers | \$ 7,462 | \$ 8,712 | \$ 11,064 |
| Sales to external customers by product line: | | | |
| Carbonated product | \$ 4,997 | \$ 6,085 | \$ 7,948 |
| Non-carbonated product | 2,465 | 2,627 | 3,116 |
| | 7,462 | 8,712 | 11,064 |
| Interest and financing cost on short-term and long-term debt | | | |
| Canada | \$ 129 | \$ 177 | \$ 605 |
| United States | 25 | 44 | 66 |
| | 154 | 221 | 671 |
| Amortization: | | | |
| Canada | \$ 16 | \$ 122 | \$ 52 |
| United States | - | - | 78 |
| | 16 | 122 | 130 |

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

Year ended December 31, 2006

21. Segmented information (continued):

| | 2006 | 2005 | 2004 |
|---|-------------------|-------------------|-------------------|
| Loss before income taxes, write-down of property, plant and equipment and settlement of lawsuits: | | | |
| Canada | \$ (6,254) | \$ (3,773) | \$ (1,613) |
| United States | (1,059) | (1,912) | (1,661) |
| | (7,313) | (5,685) | (3,274) |
| Write-down of property, plant and equipment | (137) | (382) | (721) |
| Write-down of distribution rights | - | - | (1,536) |
| Settlement of lawsuits | (797) | - | - |
| Loss for the year before income taxes | \$ (8,247) | \$ (6,067) | \$ (5,531) |

| | 2006 | 2005 |
|--|-----------------|-----------------|
| Assets: | | |
| Canada | \$ 8,366 | \$ 5,505 |
| United States | 699 | 383 |
| Other | 28 | 28 |
| | 9,093 | 5,916 |
| Assets held for sale: | | |
| Canada | - | 343 |
| Total assets | \$ 9,093 | \$ 6,259 |
| Property, plant and equipment additions: | | |
| Canada | \$ 41 | \$ 13 |

With respect to third parties, the Company has two customers (2005 - 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.

| | 2006 | 2005 |
|------------|------|------|
| Customer A | 30% | 24% |
| Customer B | 19% | 21% |

CLEARLY CANADIAN BEVERAGE CORPORATION

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Year ended December 31, 2006

22. Reconciliation to accounting principles generally accepted in the United States of America:

As disclosed in the summary of significant accounting policies, these consolidated financial statements are prepared in accordance with Canadian GAAP which differs in certain respects from those principles and practices the Company would have followed had its consolidated financial statements been prepared in accordance with US GAAP.

Under US GAAP, the Company would report its consolidated financial statements as follows:

| | 2006 | | 2005 | |
|--|------------------------|------------------|------------------------|------------------|
| | Canadian GAAP \$ | US GAAP \$ | Canadian GAAP \$ | US GAAP \$ |
| Consolidated balance sheets | | | | |
| Assets: | | | | |
| Current assets | 6,861 | 6,861 | 2,579 | 2,579 |
| Non-current assets (note a) | 2,232 | 2,232 | 3,680 | 3,874 |
| | 9,093 | 9,093 | 6,259 | 6,453 |
| Liabilities: | | | | |
| Bank indebtedness | - | - | 361 | 361 |
| Accounts payable and accrued liabilities | 1,608 | 1,608 | 2,094 | 2,094 |
| Capital lease obligation | 8 | 8 | 3 | 3 |
| Short-term debt | - | - | 567 | 567 |
| | 1,616 | 1,616 | 3,025 | 3,025 |
| Capital lease obligation | 13 | 13 | 9 | 9 |
| Long-term debt (note b) | - | - | 1,501 | 1,501 |
| | 1,629 | 1,629 | 4,535 | 4,535 |
| Shareholder's equity (deficiency): | | | | |
| Capital stock | 77,330 | 77,330 | 66,756 | 66,756 |
| Share subscription receivable | - | - | (198) | (198) |
| Contributed surplus (note b) | 8,290 | 8,574 | 4,809 | 5,093 |
| Cumulative translation account | (1,101) | (1,101) | (929) | (929) |
| Deficit | (77,055) | (77,339) | (68,714) | (68,804) |
| | 7,464 | 7,464 | 1,724 | 1,918 |
| | 9,093 | 9,093 | 6,259 | 6,453 |

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, 2006

22. Reconciliation to accounting principles generally accepted in the United States of America (continued):

| | 2006 | 2005 | 2004 |
|---|------------|------------|------------|
| Loss for the year under Canadian GAAP | \$ (8,247) | \$ (6,069) | \$ (5,531) |
| Difference in interest accretion under US GAAP (note b) | - | 62 | 60 |
| Loss for the year under US GAAP | (8,247) | (6,007) | (5,471) |
| Gain on long-term investment (note a) | (195) | 195 | 14 |
| Foreign currency translation adjustments | (4) | (467) | 6 |
| Comprehensive loss under US GAAP (note c) | \$ (8,446) | \$ (6,279) | \$ (5,451) |
| Basic and diluted loss per share under US GAAP | \$ (0.81) | \$ (1.05) | \$ (7.03) |
| Weighted average number of shares outstanding | 10,223,284 | 5,728,974 | 775,012 |

No differences arise between US and Canadian GAAP in the presentation of the cash flow statement.

(a) Unrealized holding gains (losses):

Under US GAAP, the long-term investments in publicly traded companies would be shown at fair market value. Unrealized holding gains or losses are recorded in other comprehensive income. Under Canadian GAAP, such long-term investments are recorded at cost less any impairment in value that is other than temporary. The difference between the carrying value and the fair market value of these investments was nil at December 31, 2006 (2005 - \$195,000; 2004 - \$14,000), as the gain was realized during the year ended December 31, 2006.

(b) Convertible debentures:

During 2002, under US GAAP, the proceeds of \$424,000 for the convertible debenture were allocated between the debt and detachable warrants based upon fair value using the Black-Scholes model. The fair value of the warrants, \$155,000, and the balance of \$269,000 were allocated to the liability component and the beneficial conversion feature.

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

Year ended December 31, 2006

22. Reconciliation to accounting principles generally accepted in the United States of America (continued):

(b) Convertible debentures (continued):

Value was allocated to the beneficial conversion feature associated with the convertible debenture. Based upon the allocated proceeds, the intrinsic conversion price was less than the commitment price. As a result, \$155,000 was attributed to the beneficial conversion feature and the balance of \$115,000, at the date of issuance of the convertible debenture, was recorded as the liability component. The amount was fully accreted in the prior year. The conversion feature expired December 2004 and \$155,000 has been reclassified to contributed surplus as a result.

On December 1, 2003, the terms of the convertible debenture were modified; refer to note 13. As a result of the modification and the differences in allocations, as discussed above, a loss on settlement of \$104,000 resulted under US GAAP. The discount accreted over the term of the modified debt resulting in an interest recovery of \$34,666 in the year ended December 31, 2005 (2004 - \$34,000).

(c) Comprehensive income (loss):

Comprehensive income is defined as the change in equity from transactions and other events and circumstances other than those resulting from investments by owners and distributions to owners. Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). The accumulated balance of other comprehensive income is included in the equity section of the balance sheets. The Company's other comprehensive income consists of foreign exchange adjustments.

(d) Stock-based compensation:

Effective January 1, 2005, the Company adopted FAS 123, *Share-Based Payment*, using the modified prospective application transition method. Under this transition method, the fair value basis of accounting for stock based compensation has been applied to all new grants after January 1, 2005, and to prior grants only in the case where the grants awarded are modified, repurchased or cancelled. There are no grants with unearned service life as at the adoption date.

Effective January 1, 2006, the Company adopted FAS 123(R), *Share-Based Payment*. FAS 123(R) requires the Company to estimate forfeitures of stock-based awards at the time the award is issued. Under Canadian GAAP, the Company accounts for forfeitures as they occur. For the year ended December 31, 2006, this difference did not have a material impact on recognized compensation expense.

CLEARLY CANADIAN BEVERAGE CORPORATION

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

Year ended December 31, 2006

22. Reconciliation to accounting principles generally accepted in the United States of America (continued):

(d) Stock-based compensation (continued):

For 2004, had recognized compensation expense for the Company's stock option plans been determined based on the fair value at the grant date for awards under those plans consistent with the provisions of FAS 123(R), the Company's loss for the year and loss per share under US GAAP would have been as follows:

| | | 2004 |
|---|----|---------|
| Loss in accordance with US GAAP, as reported | \$ | (5,471) |
| Employee stock option expense | | (23) |
| Proforma loss in accordance with US GAAP | \$ | (5,494) |
| Proforma loss per share, basic and diluted in accordance with US GAAP, in dollars | \$ | 7.09 |

Under Canadian GAAP, the Company adopted the new provisions of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3870 on *Stock-Based Compensation and Other Stock-Based Payments*, which requires companies to adopt the fair value based method for all stock-based awards granted on or after January 1, 2002. As a result, the Company is required to expense stock options issued to employees and directors. The Company has applied the new provisions retroactively by a charge to retained earnings and a corresponding increase to contributed surplus in the amount of \$525,000 on January 1, 2004 with respect to employee stock options granted in 2003 and 2002.

(e) Rental paid under operating leases:

US GAAP requires disclosure of the total expense related to rentals paid under operating leases. The total amount included in the operating statements for the years ended December 31, 2006, 2005 and 2004 was \$68,751, \$215,418, and \$217,115 respectively.

(f) Recent accounting pronouncements:

In February, 2006, the FASB issued FAS 155, *Accounting for Certain Hybrid Financial Instruments*, effective for FAS 155 amends FAS No. 140, *Accounting for transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. This Statement resolves issued addressed in Statement 133 implementation Issue No. D1, *Application of Statement 133 to Beneficial Interest in Securitized Financial Assets*. The Company does not believe the adoption of FAS 155 will have a material effect on its consolidated financial position or results of operations.

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22. Reconciliation to accounting principles generally accepted in the United States of America (continued):

(f) Recent accounting pronouncements (continued):

In March 2006, the FASB issued FAS 156, *Accounting for Servicing of Financial Assets - an amendment of FASB 140*, effective as of the beginning of our 2007 fiscal year. FAS 156 amends FASB 140, *Accounting for Transfer and Servicing Assets and Extinguishment of Liabilities*, with respect to the accounting for separately recognized assets and servicing liabilities. The Company does not believe the adoption of FAS 156 will have a material effect on its consolidated financial position or results of operations.

In September 2006, the FASB issued FAS 157, *Fair Value Measurements*, effective for financial statements for fiscal years beginning after November 15, 2007. FAS 157 defines value, establish a framework for measuring fair value in generally accepted accounting principles (GAAP) and expands disclosure about fair value measurement. This Statement applies under other accounting pronouncements that require or permit fair value measurements. The Company does not believe the adoption of FAS 157 will have a material effect on its consolidated financial position or results of operations.

On February 2007, the FASB issued FAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115*, effective for financial statements for fiscal years beginning after November 15, 2007. FASB 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. The Company does not believe the adoption of FAS 159 will have a material effect on its consolidated financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertainty in tax positions including whether to file or not to file a return in a particular jurisdiction. This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The provisions of FIN 48 are effective as of the beginning of our 2007 fiscal year, with any cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We are currently evaluating the impact, if any, of adopting FIN 48 on our financial position, results of operations and cash flows.

CLEARLY CANADIAN BEVERAGE CORPORATION

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

Year ended December 31, 2006

22. Reconciliation to accounting principles generally accepted in the United States of America (continued):

(f) Recent accounting pronouncements (continued):

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108), to address diversity in practice in quantifying financial statement misstatements. SAB 108 requires the quantification of misstatements based on their impact to both the balance sheet and the income statement to determine materiality. The guidance provides for a one-time cumulative effect adjustment to correct for misstatements for errors that were not deemed material under the Company's prior approach but are material under the SAB 108 approach. SAB 108 is effective for the fiscal year ending December 31, 2006. The adoption of SAB 108 did not have a material effect on the Company's financial position or results of operations.

23. Restructuring cost:

The restructuring expenses for the year ended December 31, 2006 represent the cost of management contract settlements of \$142,000 less a recovery of \$30,000 on the settlement of a contract with a computer software supplier. For the year ended December 31, 2005, restructuring cost of \$680,000 related to the cost of settling management contracts and a related party lease. All amounts have been paid as at December 31, 2006.

24. Subsequent events:

(a) Acquisition of DMR Food Corporation:

Subsequent to December 31, 2006, the Company completed the acquisition 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 \$450,000 (CA\$380,000) in cash and 3,000,000 warrants to purchase the Company's common shares at a purchase price of US\$4.00 per share. If a gain of \$2,550,000 is not realized by the holder from the sale of the warrant shares within one year of issuing the warrant shares, the Company will pay any shortfall, up to a maximum of \$ 2,550,000.

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24. Subsequent events (continued)::

(b) Private placement:

Subsequent to December 31, 2006, the Company completed the non-brokered private placement of 1,166,333 common shares issued at \$3.00 per share raising a total of \$3,499,000. The Company is also issuing to the subscribers, warrants which vest immediately and expire in two years, to purchase 1,166,333 common shares at a purchase price of \$3.25 per share. The Company is also paying finders' fees by issuing warrants, vesting immediately and expiring in two years, to purchase 23,333 common shares at a purchase price of \$3.25 and paying cash of US\$69,930.

(c) Conversion of preferred shares:

Subsequent to December 31, 2006, BG Capital converted 1,000,000 class B preferred shares for 4,100,000 common shares and 800,000 Multiple voting shares.