

CLEARLY CANADIAN®

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MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

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

The following Management Discussion and Analysis dated April 24, 2008 should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2007 as well as the reference to forward-looking statements within this report. All results in this report are presented in US dollars, unless otherwise indicated.

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

Overview

Based in Vancouver, B.C., Clearly Canadian Beverage Corporation markets premium alternative beverages, including Clearly Canadian® sparkling flavoured waters and Clearly Canadian dailyEnergy, dailyVitamin and dailyHydration Natural Enhanced Waters which are distributed primarily in the United States and Canada. Since its inception, the Clearly Canadian brand has sold over 2 billion bottles worldwide. Clearly Canadian's recent acquisition of DMR Food Corporation and My Organic Baby Inc. marks the Company's debut into organic and natural products and organic baby food, with a wide range of dried fruit and nut snacks offerings from SunRidge Farms, Naturalife, Sweet Selections, Simply by Nature, Glengrove Organics brands, and wide range of organic baby products for toddlers under the name My Organic Toddler and My Organic Baby. We believe that the health focussed nature of our beverage, baby products and snack product lines complement each other and will provide opportunities for synergy in marketing and distribution in the future.

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

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

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

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

Recent Financing

On September 26, 2007, we completed a \$9.36 million senior debt financing (the "Financing") from institutional investors through the sale of senior convertible notes (the "Senior Convertible Notes") and the issuance of five-year share purchase warrants to purchase 4,017,162 common shares (the "Series E Warrants" and the "Series F Warrants"). The 2,008,581 Series E Warrants are exercisable at an initial exercise price of \$2.33 per share (subject to future adjustment) and the 2,008,581 Series F warrants are exercisable at an initial exercise price of \$2.56 per share (subject to future adjustment).

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We received net proceeds from the Financing of approximately \$9 million, after payment of a 4% fee paid to Lane Capital Markets as placement agent in the Financing. In addition, we issued to Lane Capital Markets 500,000 share purchase warrants exercisable at an initial exercise price of \$2.33 per share on the same terms as the Series E Warrants.

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

In addition, the Senior Convertible Notes, and the Series E Warrants, Series F Warrants and the Lane Capital warrants, carry a full ratchet anti-dilution provision. If we issue any convertible or equity securities at any time in the future (subject to certain exceptions including stock option grants and issuances in connection with certain acquisition transactions) at a price less than the applicable conversion price or exercise price, then the conversion price and exercise price will be automatically adjusted down to that lesser price. Any such adjustment will further dilute our shareholders. We are currently involved in a dispute with the note holders as to whether the full-ratchet anti-dilution provision has been triggered and whether we are obligated to adjust the conversion price of the Senior Convertible Notes and the exercise price of the Series E Warrants, Series F Warrants and the Lane Capital warrants to \$0.46 per share. If the full-ratchet anti-dilution provision is determined to have been triggered, this will result in a significant additional number of shares issuable upon conversion of the Senior Convertible Notes and upon exercise of the Warrants.

We are required to pay liquidated damages in cash to the note holders if (i) a registration statement registering the common shares underlying the Senior Convertible Notes is not declared effective by the Securities and Exchange Commission on or before the January 23, 2008 (an "Effectiveness Failure") (ii) after a registration statement has been declared effective by the Securities and Exchange Commission, sales of "registrable securities" cannot be made by a note holder (including because of a failure to keep a registration statement effective, to disclose such information as is necessary for sales to be made pursuant to such registration statement, to register a sufficient number of common shares or to maintain the listing of the common shares) (a "Maintenance Failure").

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

We estimate that the registration statement relating to the Senior Convertible Notes may not be declared effective by the Securities and Exchange Commission until 120-150 days after the registration deadline of January 23, 2008. To date we have paid \$187,200 to the note holders due to the Effectiveness failure. The total amount amount of liquidated damages payments, will depend on the actual effective date of the registration statement and may be more or less than our estimated amount.

As result of the recent financing, we will be able to expand the execution of our growth plan and to fulfill our commitment to deliver consumers healthier choices, and increase our gross revenue, gross margins and net profit.

The liquidated damages will impact our net profit if the registration statement is not declared effective by January 23, 2008 and will continue to impact our net profit until registered and declared effective.

Acquisitions In 2007

On May 24, 2007, we acquired all of the outstanding shares of My Organic Baby Inc. ("MOB"), which markets Canada's first full nation wide line of organic baby food. On September 25, 2007, we agreed with MOB to restructure the consideration owing to the MOB vendors pursuant to the share purchase agreement. As restructured, the consideration for the acquisition consisted of \$2,676,470 CDN in cash, 215,000 common shares (provided, that we agreed that if a gain of \$600,000 CDN is not realized from a sale of these shares by March 18, 2009, we will pay any shortfall) and convertible notes in the amount of \$1,564,082 on terms comparable to the Senior Convertible Notes. Our consolidated financial statements for the second quarter of 2007 included the results of operations of MOB beginning on May 24, 2007.

On February 7, 2007, we acquired all of the outstanding shares of DMR Food Corporation ("DMR"), a leading packager and marketer of natural and organic snack foods in Canada. On September 25, 2007, we also agreed with DMR to restructure the consideration owing to the DMR vendors pursuant to the share purchase agreement. As restructured, the consideration for the acquisition consisted of \$1,323,530 CDN in cash, the equivalent of \$450,000 CDN in common shares issued on August 13, 2007 (provided that we agreed that if a gain of \$450,000 CDN is not realized from a sale of these shares by March 18, 2009 we will pay any shortfall) and convertible notes in the amount of \$725,689 on terms comparable to the Senior Convertible Notes. Our consolidated financial statements for the first quarter of 2007 include the results of operations of DMR beginning on February 7, 2007.

The features of the convertible notes issued to the MOB and DMR vendors as described above (the "Acquisition Notes") are comparable to the Senior Convertible Notes.

Our agreement on September 25, 2007 to restructure the consideration payable to the MOB and DMR vendors resulted in elimination of some of our original obligations to MOB and DMR. The original liabilities in connection with the DMR acquisition related to our obligation to pay any shortfall if the vendors did not realize a gain of \$2,100,000 CDN from the exercise and sale of our common shares issuable under 3,000,000 warrants received by the vendors. The original liabilities in connection with the MOB acquisition related to our obligation to pay any shortfall if the vendors did not realize a gain of \$4,350,000 CDN from the exercise and sale of common shares issuable under 3,750,000 warrants received by the vendors and 215,000 shares. These liabilities were restructured by (i) the DMR and MOB vendors surrendering for cancellation the said warrants and shares, (ii) us paying to the vendors \$4 million CDN in cash, (iii) us issuing the Convertible Notes to the vendors in the amount of \$2,450,000 CDN on terms comparable to the Senior Convertible Notes, and (iv) us agreeing to a reset, 18 months from the closing of the Financing, on 370,279 common shares owned by the vendors. In addition, the vendors have agreed not to sell any common shares they own, other than interest shares in connection with each of their Acquisition Notes, for one year from the closing of the Financing.

With the completion of our private placements of equity stock in 2006 and 2007, the Financing and our acquisitions of DMR and MOB, for the year ended December 31, 2007, we have cash on hand of approximately \$ 8,786,000 (compared to \$ 5,267,000 at the end of Q4-2006). We anticipate that it is likely we will continue to have a negative cash flow on operations for 2008 on a consolidated basis. Any major marketing initiatives will increase our cash requirements. Accordingly, management may be required to seek additional financing from the sale of stock if our current marketing and distribution plans do not indicate an imminent self-sustaining level of operations.

Operating Results

Three months ended December 31, 2007 ("Q4-2007") compared with three months ended December 31, 2006 ("Q2-2006")

Sales were \$2,848,000 for the three months ended December 31, 2007 compared with \$1,065,000 for the three months ended December 31, 2006, an increase of 167% or \$1,783,000. The overall increase in sales was a result of the addition of \$1,212,000 in sales from our healthy snack division (acquired in February, 2007 through the purchase of DMR Food Corporation) and \$230,000 in sales from our organic baby product division (acquired late

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May, 2007 through the purchase of My Organic Baby, Inc.). Sales from our beverage division were \$1,406,000 in Q4-2007 compared with \$1,065,000 in Q4-2006, an increase of \$341,000. The increase in sales is attributable to our new beverage products, including our 1 Litre sparkling flavoured water format and our new Natural Enhanced Waters. Our sales are also affected by the timing of orders of our non carbonated water from a major customer.

Cost of sales expenses were \$2,901,000 for Q4-2007 compared with \$1,023,000 for Q4-2006, an increase of \$1,878,000. The net of sales less cost of sales, being the gross profit margin percentage, decreased to -1.8% for Q4-2007 from 3.9% for Q4-2006, a decrease of 5.7%. The decrease in gross profit margin is a result of a number of factors. First, lower margins can be attributed to the continued integration of our new healthy snack and organic baby product business units with our beverage units. The healthy snack unit has lower gross profit margin percentages than the other businesses, however, it also has lower selling and marketing expenses associated with its business. Second, the beverage unit is encountering higher costs in raw materials and increases in fuel surcharges resulting in increases in costs of good sold. Finally, there were one time charges associated with obsolete inventory and a product recall. With the recent integration, the roll out of many new organic baby products in Q2-2007, and the seasonality of sales associated with the healthy snack business, we expect to be able to provide trend analysis of the Company's gross profit margin as the Company moves forward.

Selling, general and administrative expenses were \$2,838,673 for Q4-2007 compared with \$1,727,000 for Q4-2006, an increase of \$1,111,673 (Note: certain stock-based compensation previously recorded as a separate line item is now being recorded, and compared to the previous year, as a remuneration and payroll expense). An analysis of the major components of these expenses is as follows:

| | Three months ended December 31, 2007 | Three months ended December 31, 2006 | Increase (Decrease) |
|--|--|--|------------------------|
| Remuneration and payroll cost | \$2,295,941 | \$1,321,509 | \$974,432 |
| Marketing programs and retail support | 600,471 | 70,834 | 529,637 |
| Professional fees | 645,684 | 100,364 | 545,320 |
| Investor relations and shareholder information | 295,551 | 79,741 | 215,810 |
| Insurance | 50,778 | 108,166 | (57,388) |
| Product Development | 185,803 | - | 185,803 |
| Management fees | - | - | - |
| Other general and administrative | (174,860) | 46,386 | (221,246) |
| | | | |
| Total Selling, General & Administrative expenses | \$3,899,638 | \$1,727,000 | \$2,172,368 |
| | | | |
| SG&A expenses excluding stock-based compensation | \$3,223,673 | \$647,783 | \$2,575,890 |
| Portion of total stock-based compensation paid in shares | 122,000 | 171,682 | (49,682) |
| Portion of total stock-based compensation paid in options/Warrant | (507,000) | 907,535 | (1,414,535) |

Remuneration and payroll costs increased in Q4-2007 compared to Q4-2006 by \$974,432 as result of an adjustment to the fair value of stock options granted for consulting services based on Black Scholes valuations and the decrease in the remuneration and payroll cost in the beverage unit offset by the increase in the addition of the healthy snack and organic baby division. The Company, as part of its restructuring, continues to achieve efficiencies in management and administrative roles for all three divisions.

Marketing programs and retail support expenses related to our beverage division increased in Q4-2007 compared to Q4-2006 as a result of new programs to promote our healthy snack food and organic baby products business units. As the Company continues to integrate the sales and marketing functions of our beverage, healthy snack and

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organic baby product business units, we will be able to provide a more accurate trend analysis of selling expenses for the Company.

The increase in professional fees is due to higher audit and legal fees in Q4-2007 relating to regulatory filings for our financings. Excluding extraordinary professional fees relating to financings or acquisitions, we expect our professional fees going forward will continue to be approximately \$40,000 per quarter.

The increase in investor relations costs relates to an increase in shareholder awareness initiatives.

The decrease in insurance costs relates to higher directors and officer insurance premiums in 2006 offset by the increase in insurance costs from the addition of the healthy and organic division.

The increase in product development costs relates to an increase in development of new products in the beverage unit to launch in 2008, which the Company did not have in Q4-2006.

Other general and administrative expense decreased approximately \$221,246 due mainly to a one time adjustment.

The loss for the three months ended December 31, 2007 was \$2,494,000 (\$0.12 per share) compared with \$1,371,000 for the three months ended December 31, 2006 (\$0.11 per share). The increase in the loss for the comparative fiscal quarters of \$1,123,000 is primarily due to the reasons set out in this discussion. An analysis of the loss taking into account additional items is as follows:

| | Three months ended December 31, 2007 | Three months ended December 31, 2006 | Increase (Decrease) |
|-----------------|--|--|------------------------|
| Earnings (Loss) | (\$2,494,000) | (\$1,371,000) | (\$1,123,000) |
| Interest income | 108,000 | 62,000 | 46,000 |
| | | | |

Interest income represents interest the Company earns on its surplus cash reserves invested in short term bank interest earning deposits.

Twelve months ended December 31, 2007 (“2007”) compared with twelve months ended December 31, 2006 (“2006”)

Sales were \$10,623,000 for the twelve months ended December 31, 2007 compared with \$7,462,000 for the twelve months ended December 31, 2006, an increase of 42% or \$3,161,000. The overall increase in sales was a result of the addition of \$3,896,000 in sales from our healthy snack division (acquired in February, 2007 through the purchase of DMR Food Corporation) and \$1,124,000 in sales from our organic baby product division (acquired late May, 2007 through the purchase of My Organic Baby, Inc.). Sales for the twelve months ended December 31, 2007 from our beverage division were \$5,603,000 compared with \$7,462,000 for the same period last year, a decrease of \$1,859,000 or 24.9%. The decrease in beverage sales is attributable to the decline in sales of our 14oz flavoured sparkling water by 36% due to the increase in competition and product alternatives in the marketplace. Also the decline can be attributed to our non-carbonated, non-branded water beverage which was influenced materially by the size of orders from a major customer. However, sales from our new beverage products including our 1 Litre sparkling flavoured format and our new Enhanced Waters, grew 342% for the twelve months ended December 31, 2007 compared to the same period in 2006. We expect sales of our new beverage product offerings to continue to grow.

Cost of sales expenses were \$9,212,000 for the twelve months ended December 31, 2007 compared with \$5,677,000 for the same period last year, an increase of \$3,535,000. The net of sales less cost of sales, being the gross profit margin percentage, decreased to 13.2% for the twelve months ended December 31, 2007 from 23.9% for the twelve months ended December 31, 2006, a decrease of 10.7%. The decrease in gross profit margin is a result of a number of factors. First, lower margins can be attributed to the continued integration of our new healthy snack and organic baby product business units with our beverage units. The healthy snack unit has lower gross profit margin percentages than the other businesses, however, it also has lower selling and marketing expenses

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associated with its business. Second, the beverage unit is encountering higher costs in raw materials and increases in fuel surcharges resulting in increases in costs of good sold. Finally, there were one time charges associated with obsolete inventory and a product recall. With the recent integration, the roll out of many new organic baby products in Q2-2007, and the seasonality of sales associated with the healthy snack business, we expect to be able to provide trend analysis of the Company's gross profit margin as the Company moves forward.

Selling, general and administrative expenses were \$14,258,000 for the twelve months ended December 31, 2007 compared with \$9,177,000 for the same period in 2006, an increase of \$5,081,000 (Note: certain stock-based compensation previously recorded as a separate line item is now being recorded, and compared to the previous year, as a remuneration and payroll expense). An analysis of the major components of these expenses is as follows:

| | Twelve months ended December 31, 2007 | Twelve months ended December 31, 2006 | Increase (Decrease) |
|---|--|---|------------------------|
| Remuneration and payroll cost | \$9,901,198 | \$5,834,522 | \$ 4,066,676 |
| Marketing programs and retail support | 1,696,839 | 1,401,995 | 294,844 |
| Professional fees | 885,498 | 505,001 | 380,497 |
| Corporate development and financing | - | 190,000 | (190,000) |
| Management fees | - | 302,788 | (302,788) |
| Investor relations and shareholder information | 949,083 | 240,297 | 708,786 |
| Product development | 437,575 | 63,482 | 374,093 |
| Insurance | 198,832 | 332,246 | (133,414) |
| Other general and administrative | 459,343 | 306,669 | 152,674 |
| | | | |
| Total Selling, General & Administrative expenses | \$14,528,000 | \$9,177,000 | \$ 5,351,368 |
| | | | |
| SG&A expenses excluding stock-based compensation | \$11,218,000 | \$5,867,000 | \$5,351,000 |
| Portion of total stock-based compensation paid in shares | 1,780,000 | 2,426,000 | (646,000) |
| Portion of total stock-based compensation paid in options | 1,530,000 | 884,000 | 646,000 |

Remuneration and payroll costs increased in YTD-2007 compared to YTD-2006 by \$4,066,676 as result of a consulting agreement that was terminated on May 24, 2007 which the Company expensed \$1,459,800, and also determined that the value of the warrants that are still in effect is \$1,449,200 which was also expensed. The Company also expense \$533,200 relating to the employment agreement with former officers and shareholder of My Organic Baby Inc. The increase also was result of an increase in management and administrative remuneration with the addition of the healthy snack and organic baby divisions.

Marketing programs and retail support expenses related to our beverage division increased YTD-2007 compared to YTD-2006 as a result programs to promote our healthy snack food and organic baby products business units. As the Company completes the integration of the sales and marketing functions of our beverage, healthy snack and organic baby product business units, we will be able to provide a trend analysis of selling expenses for the Company.

Professional fees increased by \$380,497 because in YTD-2007 the Company had to incur legal and audit fees relating to our debt financing and acquisitions.

The decrease in corporate development and financing expenses related to the inclusion in Q2-2006 of a one time corporate development expense in the amount of \$190,000.

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Management fees decreased by \$302,000 because of the termination of the Company's contract with BG Capital Management Corp. after the end of March 31, 2006.

The increase in investor relations costs relates to an increase in shareholder awareness initiatives .

The increase in product development costs relates to an increase in development of new products in the beverage unit to launch in 2008, which the Company did not have in YTD 2006.

The decrease in insurance costs relates to the decrease of our Directors and Officers Liability insurance coverage..

Other general and administrative expense increased mainly due to commissions paid to brokers in the beverage unit, and the addition of DMR Food Corporation and My Organic Baby Inc. into the consolidated expenses.

The loss for the twelve months ended December 31, 2007 was \$12,796,000 (\$0.63 per share) compared with a loss of \$8,247,000 for the twelve months ended December 31, 2006 (\$0.82 per share). The increase in the loss for the comparative twelve months of \$4,549,000 is primarily due to the reasons set out in this discussion. An analysis of the loss taking into account additional items is as follows:

| | Twelve months ended December 31, 2007 | Twelve months ended December 31, 2006 | Increase (Decrease) |
|-----------------|--|---|------------------------|
| Earnings (Loss) | (\$12,796,000) | (\$8,247,000) | \$4,549,000 |
| Interest income | 319,000 | 132,000 | 187,000 |

Interest income represents interest the Company earns on its surplus cash reserves invested in short term bank interest earning deposits.

Selected Annual Information

(\$ in thousands, except per share data)

| | Year Ended December 31, 2007 | Year Ended December 31, 2006 | Year Ended December 31, 2005 |
|--|------------------------------------|------------------------------------|------------------------------------|
| Total revenue | \$ 10,623 | \$ 7,462 | \$ 8,712 |
| Net loss | 12,796 | 8,247 | 6,069 |
| Basic and diluted loss per share | 0.63 | 0.82 | 1.06 |
| Total assets | 22,178 | 9,093 | 6,259 |
| Long term debt | 9,955 | - | 1,501 |
| Cash dividends paid (Preferred Shares) | - | 94 | - |

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

The following is a summary of quarterly results of the Company for the eight most recently completed financial quarters ended December 31, 2007.

| Amounts in Accordance with Canadian GAAP (unaudited) | 2007 31-Dec | 2007 30-Sept | 2007 30-Jun | 2007 31-Mar | 2006 30-Dec | 2006 30-Sept | 2006 30-Jun | 2006 31-Mar | 2006 31-Dec |
|---|----------------|-----------------|----------------|----------------|----------------|-----------------|----------------|----------------|----------------|
| (\$ in thousands, except per share data) | | | | | | | | | |
| Sales | 2,848 | 3,312 | 2,996 | 1,467 | 1,065 | 2,022 | 2,673 | 1,702 | 1,848 |
| Cost of sales | 2,901 | 2,778 | 2,422 | 1,111 | 1,023 | 1,402 | 1,910 | 1,342 | 1,342 |
| Gross profit | (53) | 534 | 574 | 356 | 42 | 620 | 763 | 360 | 506 |
| Selling, general and administrative expenses | 2,839 | 2,444 | 5,590 | 1,881 | 1,727 | 1,597 | 1,785 | 1,642 | 1,342 |

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| | | | | | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Amortization of property, plant and equipment | 22 | 38 | 6 | 6 | (62) | 18 | 28 | 32 | |
| Royalty | - | - | - | - | - | - | (66) | (59) | (4) |
| Interest Income | (108) | (64) | (84) | (63) | 4 | 1 | 68 | 101 | |
| Other, interest, gains, losses and writedowns | (312) | 294 | 650 | 746 | (256) | 1,167 | 1,572 | 688 | 1,111 |
| Net loss | (2,494) | (2,178) | (5,588) | (2,214) | (1,371) | (2,208) | (2,624) | (2,044) | (2,044) |
| Net loss per share | (0.11) | (0.10) | (0.29) | (0.12) | (0.11) | (0.19) | (0.27) | (0.29) | (0.29) |
| Weighted average shares outstanding | 20,392,029 | 20,809,731 | 19,784,680 | 18,836,629 | 2,896,845 | 11,754,491 | 9,086,385 | 7,072,681 | 5,728,911 |

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

Revenue has remained relatively consistent quarter over quarter after the acquisitions in Q1 & Q2 of 2007. Q4 revenue has decreased slightly due to the seasonality of the beverage business. Cost of Sales has also remained consistent except for the one time charges in Q4 due to obsolete inventory and a product recall. The company has not had a consistent trend in SG&A costs due to the integration of the acquisitions and professional fees associated with our recent financing and acquisitions.

Liquidity and Capital Resources

The Company improved its working capital position during the twelve months ended December 31, 2007 by issuing a total of 2,051,326 shares of common stock as follows:

- i) Three private placement equity sales totalling 1,166,333 shares were completed to raise \$3,430,000,
- ii) \$1,260,660 cash was raised on the issue of 792,946 shares on the exercise of stock options and warrants,

An additional 4,100,000 common shares were issued on the conversion of 1,000,000 Class B preferred shares on January, 2007 and convertible note payable financing in September, 2007 totalling \$9,360,000.

Total cash raised by the issuance of shares and debt financing in the twelve months ended December 31, 2007 totalled \$4,690,000 and \$9,000,000 respectively.

During the twelve month period ended December 31, 2007 the Company increased its cash position by \$3,519,000 from \$5,267,000 at December 31, 2006 to \$8,786,000 at December 31, 2007.

Operating losses, conversion to inventory and acquisition expenditures for the twelve months ended December 31, 2007 used cash of \$6,069,000. We continue to operate at a loss and are currently utilizing approximately \$325,000 of our cash reserves per month to sustain operations. We are continuing to evaluate various marketing initiatives and the potential of acquiring shelf space at national retailers. Should we decide to make investments of this nature we will be required to draw down our cash reserves accordingly unless additional equity can be raised. We have no significant other potential sources of financing such as term debt facilities available to us at this time.

The acquisition of DMR Food Corporation and My Organic Baby Inc. used cash of \$1,790,000 and \$3,191,000 respectively, which would include the initial cash payment and subsequent cash payments in September, 2007 to acquire the businesses.

At December 31, 2007, our liabilities relating to operations consisted primarily of operating bank loan indebtedness of, \$49,000, accounts payable to suppliers and service providers of \$3,772,000, and capital lease obligations of approximately \$200,000.

The Company's total contractual obligations at December 31, 2007 were \$47,398,000 and were comprised of various types of debt instruments, including consulting contracts, and operating leases. See sections above entitled "Recent Financing" and "Acquisitions in 2007" for further information.

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| Contractual Obligations (\$ in thousands, except per share data) | Payments Due by period (12 months ending) December 31 | | | | | | |
|--|--|-------------|-------------|-------------|-------------|-------------|----------------------------|
| | Total | 2008 | 2009 | 2010 | 2011 | 2011 | 2012 and thereafter |
| Senior convertible note payable | 40,313 | 842 | 842 | 1053 | 1684 | 1684 | 34,208 |
| Subordinate convertible note payable | 6,857 | 221 | 221 | 221 | 221 | 221 | 5,752 |
| Operating leases (office equipment and premises) | 228 | 57 | 57 | 57 | 57 | - | - |
| Total Contractual obligations | 47,398 | 57 | 57 | 57 | 57 | - | 11,637 |

At January 14, 2008, our issued share capital was comprised of the following:

- 23,468,087 common shares;
- 1,600,000 Variable Multiple Voting Shares.
- Nil Class B Preferred Shares.

In addition, at January 14, 2008 there are 3,711,634 common shares issuable upon exercise of outstanding stock options at exercise prices ranging from \$1.00 to \$12.69 and 11,193,495 common shares issuable upon exercise of outstanding share purchase warrants at exercise prices ranging from \$1.25 to \$3.25 per share.

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

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

Where:

- V = the number of votes attaching to each issued Variable Multiple Voting Share
- LVS = the number of issued common shares, redesignated as Limited Voting Shares, other than common shares issued from time to time on conversion of the Company's Class B Preferred shares.
- CS = the number of issued common shares as at March 16, 2006, which number shall be increased upon any subdivision and decreased upon any consolidation of the Limited Voting Shares after March 16, 2006 on the same basis as that subdivision or consolidation. The number of issued common shares at March 16, 2006 was 7,229,912

The total number of Variable Multiple Voting Shares issued is 1,600,000. The 1,600,000 Variable Multiple Voting Shares currently outstanding entitle BG Capital Group Ltd. to 33,788,709 votes at meetings of shareholders based on the above formula at January 14, 2008.

Critical Accounting Estimates

Going concern

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

While these accompanying financial statements have been prepared on the assumption that the Company is a going concern and will be able to realize its assets and discharge its liabilities in the normal course of business, certain events and conditions cast substantial doubt on this assumption. We recorded a loss of \$12,796,000 for the year

ended December 31, 2007. Operations have been funded primarily from the issuance of capital stock, and we will likely continue to draw down our cash reserves for the foreseeable future until a self-sustaining level of sales is attained.

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

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

Finished Goods and Inventory

We value our finished goods at standard costs and our work in progress inventories at moving average costs. We assess the need for inventory write-downs based on its assessment of net realizable value using assumptions about future demand and market conditions. When the results of these assumptions differ from our projections, an additional inventory write-down may be required.

Intangibles, Long-lived Assets and Goodwill

We assess the impairment of goodwill on an annual basis and identifiable intangibles and long lived-assets whenever event or changes in circumstance indicate that the carrying value may not be recoverable. Factors which could trigger an impairment review include significant underperformance relative to plan, a change in our business strategy, or significant negative industry or economic trends. When we believe that the carrying value of intangibles, long lived assets or goodwill may not be recovered based on the existence of one or more of the above indicators of potential impairment, we determine what impairment exists based on the fair value of the long lived asset as goodwill. At December 31, 2007 no impairment write-down was required.

Financial instruments

a) 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 approximates its fair value based upon the discount rates applied.

b) Concentration of credit risk

The Company grants credit to its customers in the normal course of business. Credit evaluations are performed on a regular basis and the financial statements take into account an allowance for bad debts. At December 31, 2007, four customers represented 68% (December 31, 2006 - three customers represented 64.0%) of total accounts receivable.

c) Interest rate risk

The Company's short term bank credit facilities bear interest at U.S. prime plus 4% and CDN prime plus 1.25%. The company has long term interest bearing debt. The Company does not use derivative instruments to manage its exposure to interest rate risk.

d) Foreign exchange rate risk

The majority of the Company's revenues and selling costs, together with a material portion of its production costs are incurred in the United States and payable in US dollars. General and administration costs, together with a material amount of production costs are incurred in Canada and the Company is therefore subject to risk due to

fluctuations in exchange rates. The Company does not use derivative instruments to manage its exposure to foreign exchange rate risk.

Stock based compensation

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

Use of estimates

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

Changes in Accounting Policies including Initial Adoption

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

Recent Canadian Accounting Developments

The CICA issued four new accounting standards: Handbook Section 1530, Comprehensive Income ("Section 1530"), Handbook Section 3855, Financial Instruments - Recognition and Measurement ("Section 3855"), Handbook Section 3865, Hedges ("Section 3865") and Handbook Section 3861, Financial Instruments - Disclosures which become effective for the Company for periods beginning on or after January 1, 2007.

Comprehensive income: Section 1530 introduces Comprehensive income which is comprised of Net income and Other comprehensive income and represents changes in Shareholders' equity during a period arising from transactions and other events with non-owner sources. Other Comprehensive Income ("OCI") includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts, net of hedging, arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. Clearly Canadian's Consolidated Financial Statements will include a Consolidated Statement of Comprehensive Income and the cumulative amount, Accumulated Other Comprehensive Income ("AOCI"), will be presented as a new category of Shareholders' equity in the Consolidated Balance Sheet.

Financial instruments - recognition and measurement: Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities including derivatives be recognized on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument or a non-financial derivative contract. All financial instruments should be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

Financial assets and financial liabilities held-for-trading will be measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, will be measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets will be measured at fair value with unrealized gains and losses including changes in foreign exchange rates being recognized in OCI. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market will be measured at cost. Derivative instruments must be recorded on the balance sheet at fair value including those derivatives that are embedded in financial instruments or other contracts but are not closely related to the host financial instrument or contract, respectively.

Changes in the fair values of derivative instruments will be recognized in net income, except for derivatives that are designated as a cash flow hedge, the fair value change for which will be recognized in OCI. Section 3855 permits an entity to designate any financial instrument as held-for-trading on initial recognition or adoption of the standard, even if that instrument would not otherwise satisfy the definition of held-for-trading set out in Section 3855. Other significant accounting implications arising on adoption of Section 3855 include the initial recognition of certain financial guarantees at fair value on the balance sheet and the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost.

Hedges: Section 3865 specifies the criteria under which hedge accounting can be applied and how hedge accounting should be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a fair value hedging relationship, the carrying value of the hedged item will be adjusted by gains or losses attributable to the hedged risk and recognized in net income. The change in the fair value of the hedged item, to the extent that the hedging relationship is effective, will be offset by changes in the fair value of the hedging derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in OCI. The ineffective portion will be recognized in net income. The amounts recognized in AOCI will be reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item. In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, the effective portion of foreign exchange gains and losses on the hedging instruments will be recognized in OCI and the ineffective portion is recognized in net income.

Impact of adopting sections 1530, 3855, 3861 and 3865

Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated except to redefine amounts previously presented in shareholders' equity as cumulative translation account to be accumulated other comprehensive loss. The adoption of these Handbook Sections had no impact on opening retained earnings.

Upon adoption of these new standards, on January 1, 2007, the Company designated its cash, cash equivalents, and short-term investments as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities. The Company had neither available-for-sale, nor held-to-maturity instruments during the year ended December 31, 2007. The Company has not designated any financial liabilities as held-for-trading.

Financial Instruments and Other Instruments

The Company's use of financial instruments and other instruments is limited to highly liquid short term investments whose fair values approximate their carrying value and trade accounts receivable and payable. Risks associated with financial instruments are minimal as they are fixed rate and short term.

Legal Proceedings

Dispute with D. Bruce Horton and Continental Consulting Ltd.

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

Ordinary course business proceedings

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

Stock Exchange

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

Corporate Governance

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

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is (1) recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and (2) accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were not effective at a reasonable assurance level as of December 31, 2007 due to a material weakness discussed below. However, the material weakness will be remediated in fiscal 2008.

Management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or internal controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of

the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Internal Control Over Financial Reporting

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

- maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of our assets;
- reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP;
- receipts and expenditures only being made in accordance with authorizations of management and the Board of Directors; and
- reasonable assurance regarding prevention or timely detection of unauthorized collection, use or disposition of our assets that could have a material effect on the financial statements.

Management, under the supervision and with the participation of our Chief Executive Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2007. In conducting this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework.

Our Independent Registered Public Accountants have not issued an attestation report on our internal control over financial reporting pursuant to the temporary rules of the U.S. Securities and Exchange Commission that permit us to provide only management's report for the year ended December 31, 2007.

A material weakness in internal control over financial reporting is defined by the Public Company Accounting Oversight Board's Audit Standard No.5 as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of our financial reporting.

Because of its inherent limitations, our internal control over financial reporting may not prevent or detect misstatements. Also, the effectiveness of our internal control over financial reporting is subject to the risk that controls may become inadequate because of changes in condition, or that the degree of compliance with the policies or procedures may deteriorate.

Our management identified a material weakness in that we do not have a formal Disclosure Committee. The purpose of the Disclosure Committee is to assist the Senior Officers in fulfilling their responsibility to oversee the accuracy, completeness and timeliness of the disclosures made by the Company. Due to a corporate reorganization which included changes within the Board of Directors, the relocation of the Vancouver office and subsequent changes in management, the Disclosure Committee was delayed until 2008. Although a formal process of a Disclosure Committee was not set up in 2007 (e.g. Minutes to meetings etc.) the Board of Directors, CEO and CFO do approve company disclosures. In 2008 a formal Disclosure Committee will be set up.

With the exception of the identification of the deficiency as discussed above, during the fiscal quarter ended December 31, 2007, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Note Regarding Forward-Looking Statements

Statements herein that are not historical facts are forward-looking statements that are subject to risks and uncertainties. Words such as "expects", "intends", "may", "could", "should", "anticipates", "likely", "believes" and words of similar import also identify forward-looking statements. Forward-looking statements are based on current facts and analyses and other information that are based on forecasts of future results, estimates of amounts not yet determined and assumptions of management, including, but not limited to, the Company's ability to raise additional debt and/or equity financing to fund operations and working capital requirements, the Company's analysis of its current and future sales and sales trends, its product distribution systems, and changes thereto, and the Company's expectations regarding the effects of its restructuring efforts, and its production distribution, promotional and marketing activities and the potential benefits of such changes, efforts and activities on its results of operations in future periods. Actual results may differ materially from those currently anticipated due to a number of factors including, but not limited to, general economic conditions, changing beverage consumption trends of consumers, the Company's ability to generate sufficient cash flows to support general operating activities and capital expansion plans, competition, pricing and availability of raw materials, the Company's ability to maintain the current and future retail listings for its beverage products and to maintain favourable supply, production and distribution arrangements, laws and regulations and changes thereto that may affect the way the Company's products are manufactured, distributed and sold and other factors beyond the reasonable control of the Company. Additional information on factors that may affect the business and financial results of the Company can be found in filings of the Company with the U.S. Securities and Exchange Commission and with the British Columbia and Ontario Securities Commissions.