

CLEARLY CANADIAN[®]

1st quarter report for the 3 months
ended March 31, 2006

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

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

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has performed a review of the Company's unaudited interim consolidated financial statements as at and for the three months ended March 31, 2006.

The following discussion addresses the operating results and financial condition of Clearly Canadian for the three months ended March 31, 2006. The Management Discussion and Analysis should be read in conjunction with the Company's consolidated audited financial statements and the accompanying notes 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.

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

Operating Results

Three months ended March 31, 2006 compared with three months ended March 31, 2005

Sales were \$1,767,000 for the period ended March 31, 2006 compared with \$1,728,000 for the period ended March 31, 2005, an increase of 2% (\$39,000) compared to the period ended March 31, 2005. This increase in sales is attributable, in part, to commencing a change in the packaging of the Company's core brand sparkling, flavoured waters and aggressively depleting old inventory in anticipation of shipping the improved product in the second quarter of 2006, and, in part, to the continued growth of the Company's private label business.

There was a decline in gross profit margin percentages, being 24% on gross margins for the period ended March 31, 2006 and 31% for the period ended March 31, 2005. This decline is a result of selling inventory of our core brand's old packaging at a discount rather than writing off inventory. With the introduction of the new packaging in the second quarter of 2006, the Company expects to reduce its cost of sales and increase its gross profit margins, compared to 2005, as a result of improved label changes on its core product.

The Company's general and administrative expenses for the period ended March 31, 2006 were \$1,029,000 or 58% of sales, compared to the period ended March 31, 2005, in which they were \$632,000, or 37% of sales. Included in the general and administrative expenses for the current period were prepaid contracts in the amount of \$113,000, or 6% of sales, in connection with a five year consulting agreement that is a non cash item (see consolidated statement of cash flows), extraordinary legal fees of approximately \$80,000 or 4.5% of sales relating to financings, and \$346,500 in extraordinary stock compensation expenses accrued and owing for services rendered to the Company or 19.6% of sales. Year to date, the Company has taken significant steps to streamline its upper level management and reduce office expense overhead. The company expects to continue these cost reduction measures through 2006.

Selling expenses of \$678,000 for the period ended March 31, 2006 were approximately 38% of sales, compared with \$642,000 or approximately 37% of sales for period of March 31, 2005. The Company expects to increase its selling expenses in the second quarter of 2006 with the launch of its new core brand packaging, however, the Company expects to be able to work on reducing these expenses in the third and fourth quarters.

The loss for the period ended March 31, 2006 was \$2,044,000 (or \$0.29 per share) compared with \$881,000 for period ended March 31, 2005 (or \$0.85 per share). The loss for the period ended March 31, 2006 includes the following expenses:

- a) \$869,000 stock compensation expense for the period ended March 31, 2006 (Q1-2005: \$Nil) which represents the non-cash value attributed to certain stock options granted during the period ended March 31, 2006;

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- b) \$201,000 gain on sales of investments of marketable securities for the period ended March 31, 2006 (Q1-2005: Nil)
- c) \$65,000 loss on settlement of debt for the period ended March 31, 2006 (Q1-2005: Nil)
- d) \$346,150 extraordinary stock compensation expenses accrued and owing for the period ended March 31, 2006, which represents the non-cash value attributed to certain issuances of stock agreed to by the Company for services rendered up to the end of the period (Q1-2005: Nil).

Selected Annual Information

(\$ in thousands, except per share data)

	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Total revenue	9,141	11,586	13,270
Net loss	6,069	5,086	3,713
Basic and diluted loss per share	1.06	6.56	5.48
Total assets	6,259	4,181	7,356
Long term debt	1,501	1,957	1,799
Total liabilities	4,535	7,696	6,231

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

Amounts in Accordance with Canadian GAAP (unaudited) (\$ in thousands, except per share data)	2006 31-Mar	2005 31-Dec	2005 30-Sep	2005 30-Jun	2005 31-Mar	2004 31-Dec	2004 30-Sep	2004 30-June
Sales	1,767	1,955	2,897	2,561	1,728	2,248	3,273	3,131
Cost of sales	1,342	1,373	2,008	1,776	1,192	1,603	2,183	2,201
Gross profit	425	582	889	785	536	645	1,090	930
Selling, general and administrative expenses	1,707	1,457	1,461	1,400	1,274	1,395	1,376	1,513
Amortization of property, plant and equipment	32	32	30	28	32	34	33	32
Royalty	(59)	(46)	-	-	(26)	(133)	-	-
Interest expense	101	58	42	57	64	83	55	58
Other, interest, gains, losses and writedowns	688	1,129	818	978	73	2,417	271	120
Net loss	(2,044)	(2,048)	(1,462)	(1,678)	(881)	(3,151)	(645)	(793)
Net loss per share	(0.29)	(0.39)	(0.27)	(0.55)	(0.85)	(3.90)	(0.90)	(1.10)
Weighted average shares outstanding	7,072,681	5,728,924	5,413,973	3,044,976	1,035,835	814,767	749,588	745,568

¹ Includes a recovery of an accrual recorded in a prior year in the amount of \$387,000.

² Per share figures have been adjusted to reflect the 10:1 consolidation which was completed as of May 5, 2005.

Liquidity and Capital Resources

In order to continue the improvement of the Company's balance sheet the Company proceeded with the following matters related to its corporate restructuring:

- i) conversion of \$280,000 of short term debt into common shares (140,000 common shares at a price of \$2 per share) completed February 27, 2006 and March 28, 2006.

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- ii) conversion of \$68,000 of accounts payable into common shares (32,592 common shares at market price) completed in March, 2006.

At March 31, 2006 the Company had a working capital surplus of \$273,000 compared to a working capital deficit of \$446,000 at December 31, 2005, and bank indebtedness related to an operating line of credit against receivables of, \$271,000 at March 31, 2006 compared to bank indebtedness of \$361,000 at December 31, 2005. Net cash used in operating activities was \$635,000 consisting of operating losses for the period ended March 31, 2006 and changes in the non-cash working capital balances compared to net cash used of \$1,639,000 for the period ended March 31, 2005. Net cash from investing for the period ended March 31, 2006 was \$230,000 as result of the disposal of investment in marketable securities compared to \$Nil for the period ended March 31, 2005. Net cash provided by financing activities was \$1,286,000 compared to \$1,623,000 for the period ended March 31, 2005, which consisted of conversion of \$280,000 of short term debt into common shares, proceeds from the exercise of stock options of \$1,122,000, conversion of \$68,000 of accounts payable to common shares, and repayment of bank indebtedness, related to an operating line of credit against receivables, of \$90,000.

The Company's total contractual obligations at March 31, 2006 were \$3,891,000 and were comprised of various types of debt instruments, including an operating line of credit, short term loans, promissory notes, convertible debentures, mortgages and operating leases.

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

Contractual Obligations (\$ in thousands, except per share data)	Payments Due by Period (12 months ending) March 31,						
	Total	2007	2008	2009	2010	2011	2012 and thereafter
Operating line of credit	271	271	-	-	-	-	-
Letters of credit	-	-	-	-	-	-	-
Short term loans	300	300	-	-	-	-	-
Long term debt	1,501	1,501	-	-	-	-	-
Operating leases (office equipment and premises)	14	5	5	4	-	-	-
Consulting contracts	2,151	726	380	380	380	285	-
Total Contractual obligations	4,237	2,803	385	384	380	285	-

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.

During the year period ended March 31, 2006, the Company paid \$Nil compared to \$55,000 for the lease of its 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.

At March 31, 2006 the Company accrued for a debt of \$276,000 owing in common stock of the Company to BG Capital, a controlling shareholder of the Company, for services rendered to the Company, compared to March 31, 2005 where CA\$729,000 was owing to certain ex-directors of the Company, and a personal letter of credit in the amount of CA\$101,000 (US\$84,000) had been pledged by certain ex-directors of the Company.

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. The Company had a working capital surplus of \$619,000 at March 31, 2005 compared to a deficit of \$446,000 at December 31, 2005, the Company had a loss of \$1,698,000 for the period ended March 31, 2006 compared to a loss of \$881,000 for the period ended March 31, 2005, an accumulated deficit of \$69,967,000 (with a shareholders' equity of \$2,616,000) at March 31, 2006 compared to \$68,269,000 (and \$1,724,000 respectively) at December 31, 2005. Operations for the period ended March 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 analyzing the liquidation of non-core investments and pursuing debt and/or equity financing to fund working capital requirements (see Subsequent Events). Management believes that it may be able to secure the necessary financings, 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.

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 valuations are performed on a regular basis and the financial statements take into account an allowance for bad debts. As of the period ended March 31, 2006, three customers represented 52% (two customer for their period ended March 31, 2006 represented 24%) of total accounts receivable.

c) Interest rate risk

The Company's short term bank credit facility bears interest at U.S. prime plus 4%. The long term debt bears interest at a fixed rate, as disclosed in the notes to these financial statements. 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 are earned and production costs incurred in the United States. However, certain selling, general and administration 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.

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 carrying value of and land and water sources (\$1.57 million). Actual results could differ materially from those estimates.

Legal Proceedings

Dispute with Ralph Moyal

In and around April, 1997, the Company acquired the shares of Blue Mountain Springs Ltd. (Blue Mountain) for CA\$4,500,000, of which CA\$1,750,000 remains outstanding (note 9) to the vendors thereof, Jeanette McGrath and Shari-Anne Dudart (the Vendors). In April 1997, a claim was filed in the Ontario Supreme Court against the Company, and Gerry McGrath, the father of the Vendors. The plaintiff, Ralph Moyal (Moyal), is seeking various declaratory reliefs relating to his claim of entitlement to shares in Blue Mountain and certain property interests owned by Blue Mountain. In connection therewith, Moyal is seeking an order setting aside the share purchase agreement (the Share Purchase Agreement) pursuant to which the Company acquired Blue Mountain. The Company is vigorously defending the Moyal action on the basis that it was not involved in, nor did it have any knowledge of, the events upon which Moyal makes his claim of entitlement to an interest in Blue Mountain or its properties, and on the basis that it is a bona fide purchaser for value of the shares in Blue Mountain without notice or knowledge of any defect or deficiency in title thereto. In addition, the Company has asserted a claim against the Vendors for contribution and indemnity in accordance with its rights under the Share Purchase Agreement. The Company has delivered a statement of defence, counterclaim and cross claim in which it has claimed damages against Moyal, as a result of the registration of a certificate of pending litigation against certain lands owned by Blue Mountain, the right to set off any and all damages, costs and interests incurred as against amounts owing to the Vendors (in accordance with its rights under the Share Purchase Agreement) and declaratory relief against the lawyers for Gerry McGrath and Moyal who were involved in the transactions.

In and around October 1997, a claim was filed by the Vendors in the Ontario Supreme Court against the Company seeking damages for breach of the Share Purchase Agreement, and in particular, seeking payment under the Share Purchase Agreement, portions of which the Company has withheld to date based on the Company's indemnity and set off rights under the Share Purchase Agreement and as a result of certain undischarged encumbrances and outstanding matters that the Vendors have not attended to in connection with the Company's purchase of Blue Mountain. In January 1998, a related claim was filed by the Vendors in the Ontario Supreme Court against the Company seeking damages as a result of the Company's failure to agree to release shares and monies related to payments under the Share Purchase Agreement. The Company is vigorously defending these actions and has delivered a statement of defence and counterclaim against the Vendors in which it denies that it has breached its obligations under the Share Purchase Agreement and states that it is the Vendors who have failed to uphold their obligations under the Share Purchase Agreement. In its counterclaim, the Company claims against the Vendors for contribution and indemnity and the right of set off as described above.

The trials of all of the above noted claims are scheduled to be heard together. Although there is no scheduled trial date, it is anticipated that these actions could be heard before the court in the fall of 2006 or the spring of 2007 or earlier if certain issues within the actions proceed to court by way of summary motion instead of trial. Based on the facts and the indemnity and set off rights that the Company has against the Vendors, the Company believes that no accrual is required.

The Company has incurred approximately CA\$991,367.58 in legal fees to date in defending and prosecuting the above noted actions, of which approximately CA\$28,368.82 was incurred in the current year. The Company expects to be able to apply a portion of these amounts toward any amounts due upon the outcome of these matters. These legal fees have been expensed in the periods in which they were incurred.

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".

Subsequent Events

- a) In May, 2006, the Company is completing a series of non-brokered private placement of 1,312,500 common shares issued at \$2.00 per share raising a total of \$2,625,000.00. The Company is expecting to pay finder's fees of \$183,050 cash and warrants to purchase 91,525 common shares at \$2.25 USD per share, vesting upon issuance and expiring in May, 2007. The Company is expecting to pay an additional finders fee of \$130,750 to BG Capital, a controlling shareholder of the Company.
- b) 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 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.

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.

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.