Clearly Canadian Beverage Corporation

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Annual Report 2000

President's Message

Dear Shareholder:

The Company has worked diligently on brand building efforts in 2000. The transition to our new Clearly Canadian® package in the first half of 2000 involved the depletion of our original Clearly Canadian inventories and the initial production and introduction of our redesigned package, which resulted in non-recurring marketing expenses and lower sales. Although we continued to increase listings for Clearly Canadian sparkling flavoured water, the resulting impact on sales took longer than anticipated due primarily to the comprehensive nature of the Clearly Canadian product re-launch.

At the same time, I want you to know that our position as an industry innovator remains strong. In addition to Clearly Canadian® sparkling flavored water, we offer a portfolio of premium beverages, including Clearly Canadian O+2® and our new product, Tré Limone™, introduced in 2000. Through our U.S. subsidiary, CC Beverage (U.S.) Corporation, we also produce and distribute Cascade Clear™ beverage products in the Western United States and for export to other countries. CC Beverage (U.S.) Corp. is also involved in providing co-packing (bottling) services for other manufacturers' brands.

Clearly Canadian products are sold through a wide variety of retail outlets that represent a diverse customer base. For a company our size, Clearly Canadian must manage a sales function that is both flexible and responsive to customer needs and, at the same time, is effective in the efficient use of marketing dollars. The new Clearly Canadian package required an intensive effort from our sales team to reintroduce the product to our existing and new customers. Continuous cost and efficiency improvements are also critical to achieving competitive returns in the food and beverage industry. In 2000, Clearly Canadian successfully lowered SG&A expenses and continued to improve the productivity and operating efficiencies of our U.S. subsidiary and its bottling plant.

Our year-end financial results for 2000 do not reflect the achievements and improvements that we have made to the Company and we are continuing to take steps to improve financial performance. In this respect, we believe that our most recently announced new product initiative, Reebok Fitness Water, will have a positive impact on our bottom line for 2001 and beyond. On behalf of everyone at Clearly Canadian, I want to thank our shareholders, customers, suppliers and friends for their support and encouragement. Clearly Canadian has some of the most talented and committed people working to provide our customers with products that offer value for our distributors and retailers and premium quality for our consumers around North America. I want to assure you that the senior executives of Clearly Canadian and myself, as significant shareholders in the Company, are fully committed to delivering the long-term performance and results you expect of your company.

Douglas L. Mason
President & Chief Executive Officer

Management Discussion and Analysis of Results of Operations

(all figures below and in the attached Schedules are stated in United States dollars)

Operating Results

The following discussion addresses the operating results and financial condition of Clearly Canadian for the year ended December 31, 2000. The Management Discussion and Analysis should be read in conjunction with the Company's consolidated financial statements and the accompanying notes as well as the cautionary statement at the end of this section.

Fiscal 2000 Compared with Fiscal 1999

The Company's sales revenues for the period ended December 31, 2000 were $28,930,000 compared to $36,605,000 for the comparable period in 1999. Although the Company worked diligently on brand building efforts in 2000 and continued to increase listings for Clearly Canadian Sparkling Flavoured Water and Tré Limone, the resulting impact on sales has taken longer than anticipated due to the comprehensive nature of the brand re-launch, which has seen the replacement of our previous 11oz 4-pack and 1-litre packages with our new 14oz bottle.

Gross profit for the period ended December 31, 2000 was $10,368,000 or 35.8% compared to $11,958,000 or 32.7% for the same period in 1999. The Company has made improvements to its efficiency and productivity that resulted in improvement to the gross profit margins.

Selling General and Administrative expenses for the period ended December 31, 2000 were $14,313,000 compared to $14,948,000 for the same period in 1999. Lower Selling General and Administrative expenses reflected the Company's continuing efforts to reduce all categories of expense.

Net loss for the period ending December 31, 2000 was $6,449,000 or $1.06 cents per share compared to a net loss of $9,945,000 or $1.55 cents per share for the same period in 1999.

Liquidity and Capital Resources

At December 31, 2000 the Company has a working capital deficit of $15,000 compared to working capital of $4,530,000 at December 31, 1999. The Company has cash and cash equivalents of $296,000 at December 31, 2000 compared to $2,615,000 at December 31, 1999. Net cash used in operating activities was $1,486,000, consisting primarily of operating losses for the year before items not involving cash. Net cash used in financing activities consisted primarily of repayment of long-term debt, net of issuance of capital stock, which amounted to $243,000. Net cash used in investing activities was $427,000 which included net acquisition of plant and equipment of $727,000, a decrease in restricted cash of $500,000 and the cash used in the acquisition of a home and office water delivery business.

Subsequent Events
In February 2001, Clearly Canadian and Reebok International Ltd. announced the signing of a licensing agreement to create, market and distribute an innovative new enhanced water beverage for distribution in the United States, Canada and the Caribbean. Under the terms of the agreement, Clearly Canadian will be responsible for all aspects of manufacturing, packaging, distribution and marketing for our new enhanced water beverage, Reebok Fitness Water.

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. Shareholders will find the Company's policies outlined in the information circular which accompanies the Notice of the Annual General Meeting.

Cautionary Statements
This Annual Report contains certain statements that are not historical facts and are forward-looking statements that are subject to risks and uncertainties. Words such as "expects", "intends", "anticipates", "likely", "believes" and words of similar import also identify forward-looking statements. Forward-looking statements are based on current facts and analyses. 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 capital expansion plans and general operating activities, competition, pricing and availability of raw materials, the Company's ability 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. All forward-looking statements are made pursuant to the Securities Litigation and Reform Act of 1995. 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 Securities and Exchange Commission.

February 26, 2001

Management Responsibility for Financial Reporting

The consolidated financial statements and the information contained in the annual report have been prepared by the management of the Company. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and, where appropriate, reflect management's best estimates and judgements based on currently available information. A system of internal accounting control is maintained to provide reasonable assurance that financial information is accurate and reliable.

The Company's independent auditors, who are appointed by the shareholders, conduct an audit in accordance with generally accepted auditing standards to allow them to express an opinion on the financial statements.

The Audit Committee of the Board of Directors meets periodically with management and the independent auditors to review the scope and result of the annual audit, and to review the financial statements and related reporting matters prior to approval of the financial statements.

Douglas L. Mason
Chief Executive Officer

Stuart R. Ross
Chief Financial Officer

February 26, 2001

Auditors' Report

To the Shareholders of
Clearly Canadian Beverage Corporation

We have audited the consolidated balance sheets of Clearly Canadian Beverage Corporation as at December 31, 2000 and 1999 and the consolidated statements of operations, shareholders' equity and cash flows for each year in the three-year period ended December 31, 2000. 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 and United States 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, 2000 and 1999 and the results of its operations and its cash flows for each year in the three-year period ended December 31, 2000 in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 1 to the financial statements, the Company has suffered recurring losses from operations and has a net deficit that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, B.C.

Consolidated Balance Sheets

As at December 31, 2000 and 1999
(in thousands of United States dolllars, except where indicated)

	2000 $	1999 $
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	**296**	2,615
Accounts receivable (note 4)	**2,825**	4,341
Inventories (note 4)	**2,115**	2,629
Prepaid expenses, deposits and other assets	**146**	513
	5,382	10,098
Restricted cash (note 3)	**–**	500
Long-term investments (note 5)	**87**	420
Distribution rights (note 6)	**2,179**	2,414
Long-term receivables (note 7)	**502**	502
Property, plant and equipment (note 4)	**16,516**	17,358
Goodwill	**3,277**	2,555
	27,943	33,847
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 4)	**4,704**	4,388
Current portion of long-term debt (note 8)	**693**	1,180
	5,397	5,568
Long-term debt (note 8)	**5,427**	4,510
Other liabilities	**39**	89
	10,863	10,167
SHAREHOLDERS' EQUITY		
Capital stock (notes 9 and 10)		
Authorized		
200,000,000 common shares without par value		
10,000,000 preferred shares with a par value of Cdn. $1 each		
Issued		
7,013,682 (1999 – 6,418,682) common shares without par value		
Outstanding		
6,640,682 (1999 – 6,173,982) common shares without par value	**58,208**	58,171
Warrants		
692,740 (1999 – 97,740)	**423**	256
Cumulative translation adjustment (note 12)	**(1,320)**	(965)
Deficit	**(40,231)**	(33,782)
	17,080	23,680
	27,943	33,847

Going concern (note 1)
Commitments and contingencies (note 15)

Approved by the Board of Directors

Director

Director

The accompanying summary of significant accounting policies and notes form an integral part of these financial statements.

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 2000, 1999 and 1998
(in thousands of United States dolllars, except where indicated)

	Capital stock					
	Number of shares	Amount $	Warrants $	Cumulative translation adjustment $	Deficit $	Total share-holders' equity $
Balance – December 31, 1997	**5,710,447**	**53,849**	**262**	**–**	**(19,433)**	**34,678**
Warrants exercised February 1998 at U.S $7.44 per share	2,353	18	(6)	–	–	12
Issued for acquisition of Cascade Clear Water Co.	705,882	–	–	–	–	–
Share issue costs	–	(130)	–	–	–	(130)
Net earnings for the year	–	–	–	–	310	310
Exchange difference	–	–	–	(1,983)	–	(1,983)
Balance – December 31, 1998	**6,418,682**	**53,737**	**256**	**(1,983)**	**(19,123)**	**32,887**
Shares repurchased under normal course issuer bids	(244,700)	(269)	–	–	–	(269)
Share cancellation (note 9)	–	4,714	–	–	(4,714)	–
Share repurchase and consolidation costs	–	(11)	–	–	–	(11)
Loss for the year	–	–	–	–	(9,945)	(9,945)
Exchange difference	–	–	–	1,018	–	1,018
Balance – December 31, 1999	**6,173,982**	**58,171**	**256**	**(965)**	**(33,782)**	**23,680**
Issued November 2000 at Cdn. $0.88 per unit (note 9)	595,000	182	167	–	–	349
Shares repurchased under normal course issuer bids (note 9)	(128,300)	(137)	–	–	–	(137)
Share repurchase and issue costs	–	(8)	–	–	–	(8)
Loss for the year	–	–	–	–	(6,449)	(6,449)
Exchange difference	–	–	–	(355)	–	(355)
Balance – December 31, 2000	**6,640,682**	**58,208**	**423**	**(1,320)**	**(40,231)**	**17,080**

The accompanying summary of significant accounting policies and notes form an integral part of these financial statements.

Consolidated Statements of Operations

For the years ended December 31, 2000, 1999 and 1998
(in thousands of United States dolllars, except where indicated)

	2000 $	1999 $	1998 $
Sales	**28,930**	36,605	39,927
Cost of sales	**18,562**	24,647	23,766
Gross profit	**10,368**	11,958	16,161
Selling, general and administration expenses	**14,313**	14,948	13,704
Amortization	**1,805**	1,968	1,942
(Loss) earnings before the following	**(5,750)**	(4,958)	515
Interest on long-term debt	**(384)**	(269)	(321)
Other (expense) income – net	**(380)**	501	536
Gain on sale of assets	**65**	460	–
Restructuring charges (note 13)	**–**	(5,430)	–
(Loss) earnings before income taxes	**(6,449)**	(9,696)	730
Provision for income taxes (note 14)			
Current	**–**	–	353
Future	**–**	249	67
	–	249	420
Net (loss) earnings for the year	**(6,449)**	(9,945)	310
Basic and diluted (loss) earnings per share (note 2)	**(1.06)**	(1.55)	0.05

The accompanying summary of significant accounting policies and notes form an integral part of these financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2000, 1999 and 1998
(in thousands of United States dolllars, except where indicated)

	2000 $	1999 $	1998 $
Cash flows from operating activities			
Net (loss) earnings for the year	(6,449)	(9,945)	310
Items not involving cash (note 17(a))	2,642	6,375	2,049
	(3,807)	(3,570)	2,359
Changes in non-cash working capital balances related to operations (note 17(b))	2,321	2,357	714
	(1,486)	(1,213)	3,073
Cash flows from financing activities			
Proceeds from the issuance of long-term debt	784	–	–
Repayment of long-term debt	(1,231)	(548)	(1,350)
Proceeds from issue of capital stock and warrants	349	–	–
Cost of issuance of capital stock	(8)	–	(130)
Proceeds from the exercise of warrants	–	–	12
Payment to repurchase shares	(137)	(269)	–
Share consolidation costs	–	(11)	–
	(243)	(828)	(1,468)
Cash flows from investing activities			
Acquisition of a business (note 11)	(200)	–	–
Purchase of property, plant and equipment	(1,012)	(3,361)	(1,801)
Proceeds on sale of property, plant and equipment	285	–	485
Proceeds from settlement of legal claim	–	1,256	–
Proceeds on sale of long-term investments	–	2,476	179
Proceeds from collection of deposits	–	–	146
Decrease (increase) in restricted cash	500	(500)	–
Purchase of distribution rights	–	–	(703)
Purchase of long-term investments	–	–	(28)
	(427)	(129)	(1,722)
Effect of exchange rates on cash and cash equivalents	(163)	907	(887)
Decrease in cash and cash equivalents	(2,319)	(1,263)	(1,004)
Cash and cash equivalents – Beginning of year	2,615	3,878	4,882
Cash and cash equivalents – End of year	296	2,615	3,878
Supplemental cash flow information			
Interest paid	384	236	316
Taxes paid	80	354	47

The accompanying summary of significant accounting policies and notes form an integral part of these financial statements.

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (figures in tables are in thousands of United States dolllars, except where indicated)

1 Going concern

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

The Company had a loss of $6,449,000 for the year ended December 31, 2000 and an accumulated deficit of $40,231,000 at the year end. Negative cash flows from operations for the latest year of approximately $1,486,000 have been funded primarily from cash resources on hand at the beginning of the year and through the issue of capital stock and warrants. Substantially all the Company's operating assets are pledged as collateral for various debt instruments. At the year end date, the Company has cash and cash equivalents of $296,000 and an available line of credit of $750,000. The Company has agreed, as a condition of the extension of this line of credit, that any proceeds from the sale, if any, of certain assets will be used to repay two fixed term loans.

Management believes that there is sufficient cash and financing available to fund its ongoing operations and to repay its obligations in the normal course, however, the current financial position and past results of operations indicate that, under generally accepted accounting principles, there is substantial doubt about the appropriateness of that going concern assumption.

Management has taken steps to improve the Company's financial results and cash flows. These steps include entering into a license agreement subsequent to the year end to produce and distribute beverage products using the Reebok brand and engaging outside investment banking advisors to explore strategic options which may include divestitures, mergers or acquisitions. Although there is no assurance that the Company will be successful in these actions, management is confident that it will be able to secure the necessary financing and improvement in operating cash flows to enable it to continue as a going concern. Accordingly, 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.

2 Summary of significant accounting policies

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 and practices generally accepted in the United States (U.S. GAAP). The differences as they affect the Company are described in note 19.

Consolidation

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, 546274 Alberta Ltd., and Blue Mountain Springs Ltd. CC Beverage (US) Corporation was formed through the merger of Cascade Clear Water Co. and Clearly Canadian Beverage (US) Corporation (effective December 31, 1998).

Foreign currency translation

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 net earnings or loss for the year.

Revenue recognition

Revenue is recognized at the time of shipment of product to the customer provided that collectibility is reasonably assured.

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (figures in tables are in thousands of United States dolllars, except where indicated)

Inventories

Inventories, raw materials and finished goods are valued at the lower of cost and net realizable value. Effective January 1, 1999, the Company changed the method of determination of cost from first-in, first-out to weighted average. The difference resulting from this change was not material.

Long-term investments

Long-term investments are recorded at cost less write-down for impairment of value that is other than temporary.

Distribution rights

Costs associated with the acquisition of certain territorial rights to distribute beverage products have been recorded as distribution rights and are being amortized on a straight-line basis over a 10-year period. At each balance sheet date, management assesses the carrying value of distribution rights based on the undiscounted future cash flow from operating results.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization of significant asset classes is provided primarily as follows:

Buildings	30 years straight-line
Equipment	5-15 years straight-line
Leasehold improvements	on a straight-line basis over the term of the lease

Goodwill

Goodwill represents the excess of the purchase price of businesses acquired over the fair value of the identifiable assets acquired and is amortized over a period of 15 years. At each balance sheet date, management assesses the appropriateness of the goodwill balance based on the estimated undiscounted future cash flow from operating results.

Stock-based compensation plan

The Company has a stock option plan, which is described in note 10. No compensation expense is recognized when stock options are issued pursuant to the plan. Consideration paid for stock on exercise of stock options is credited to capital stock. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to retained earnings.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and highly liquid short-term deposits with a maturity of less than three months.

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 date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

Financial instruments

The Company's instruments consist of cash and cash equivalents, accounts receivable, long-term receivables, accounts payable and accrued liabilities, and long-term debt. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. Management estimates that the fair values of these financial instruments approximate their carrying values, unless otherwise noted.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income taxes are measured using tax rates that are expected to apply to taxable income in the periods in which the future income tax liability or asset is expected to be settled or realized.

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (figures in tables are in thousands of United States dolllars, except where indicated)

Advertising costs

The Company expenses advertising costs at the time it incurs them, and expenses the cost of media advertising at the time the advertising first takes place.

Loss per share

Basic loss per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period of 6,101,170 (1999 – 6,398,263; 1998 – 6,364,191). Common shares outstanding include shares issuable for little or no cash consideration and for which all necessary conditions have been satisfied. 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. The calculation for determining diluted loss per common share excludes a maximum of 1,605,185 additional common shares issuable pursuant to options and warrants.

3 Cash and cash equivalents

	2000 $	1999 $
Cash	**296**	625
Short-term deposits	**–**	1,990
	296	2,615

The Company has a $750,000 (1999 – $1,000,000) operating line of credit available with a United States bank that has a term ending July 2001. This line of credit, bearing interest at prime plus 0.375%, was collateralized by a $500,000 deposit balance and commercial security agreement. During the year ended December 31, 2000, management applied the deposit balance against the outstanding loan balance, reducing the outstanding deposit balance and collateral for the line of credit to $nil.

4 Balance sheet components

Accounts receivable

	2000 $	1999 $
Trade accounts receivable – net of allowance of $32,000 (1999 – $164,000; 1998 – $73,000)	**1,983**	2,578
Rebates and claims recoverable	**553**	361
Other	**289**	1,402
	2,825	4,341

Inventories

	2000 $	1999 $
Finished goods	**1,014**	1,526
Raw materials	**1,101**	1,103
	2,115	2,629

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (figures in tables are in thousands of United States dolllars, except where indicated)

Property, plant and equipment

			2000
	Cost	**Accumulated amortization**	**Net**
	$	**$**	**$**
Land and water sources	**5,632**	**–**	**5,632**
Buildings	**5,287**	**1,362**	**3,925**
Equipment	**12,692**	**5,931**	**6,761**
Leasehold improvements	**986**	**788**	**198**
	24,597	**8,081**	**16,516**

			1999
	Cost	Accumulated amortization	Net
	$	$	$
Land and water sources	6,032	–	6,032
Buildings	5,337	1,210	4,127
Equipment	11,848	4,971	6,877
Leasehold improvements	904	582	322
	24,121	6,763	17,358

At December 31, 2000, the net book value of equipment held under capital lease is $662,437 (cost – $916,737; accumulated amortization – $254,300) (1999 – $718,000: cost – $885,000; accumulated amortization – $167,000). Included within equipment is $117,000 (1999 – $490,000) of assets under construction that are not being amortized.

Accounts payable and accrued liabilities

	2000	1999
	$	$
Trade accounts payable	**3,747**	2,810
Customer deposits	**328**	254
Accrued liabilities	**629**	1,324
	4,704	4,388

5 Long-term investments

Long-term investments comprise common shares in publicly traded companies.

Included in long-term investments is $64,000 (1999 – $396,000) related to an investment in a company with common directors. During the year ended December 31, 2000, the Company wrote down its long-term investments by $316,000 to reflect a permanent impairment in value. This charge is included in other expenses.

At December 31, 2000, the book value of investments exceeds market value by $10,282 (1999 – book value exceeded market value by $187,000).

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (figures in tables are in thousands of United States dolllars, except where indicated)

6 Distribution rights

	2000 $	1999 $
Cost	**6,498**	6,498
Accumulated amortization	**(1,905)**	(1,670)
Write-down	**(2,414)**	(2,414)
Net	**2,179**	2,414

During the year ended December 31, 1999, the Company wrote down distribution rights by $2,414,000. The original cost was based on estimated volumes of case sales. The Company wrote down the net book value at December 31, 1999 by 50% to an amount that management believes approximates the future benefit to the Company.

The carrying value represents management's best estimate of the undiscounted future cash flow from the ownership of the distribution rights. If the assumptions used by management are not borne out, it is reasonably possible that the net recoverable amount of the asset would differ from the value recorded by a material amount.

7 Long-term receivables

	2000 $	1999 $
Term loan to bottler	**502**	502

The Company previously made advances to a bottler, American Winery Inc. ("American Winery"). The principal amount of the loan was $2,154,000 and was collateralized by certain assets of American Winery. In 1997, the Company filed suit in the United States District Court to collect the monies due from American Winery. On September 5, 2000, the Court granted judgment in the Company's favour and against American Winery, American Winery's primary shareholder, Timothy Rand, and Highland Community Bank. The judgment included:

- **A** judgment against American Winery in the amount of $2,957,952 for principal and interest, plus court costs and attorneys' fees;
- **B** judgment declaring that the Company's interest in certain American Winery plant equipment was superior to Highland Community Bank's claimed interests; and
- **C** an order entitling the Company to take possession of that plant equipment, in partial satisfaction of the judgment.

The Court also dismissed all claims and counterclaims of American Winery and Timothy Rand. Both American Winery and Highland Community Bank have appealed the judgment and, in connection therewith, Highland Community Bank was required to post a bond in the amount of $734,000 in order to stay the Company's right to take possession of certain American Winery plant equipment. As the ultimate collection of the amount owing under the judgment is uncertain, the value of the judgment, and the underlying loan, is not possible to determine at this time. Consequently, the fair value of the long-term receivable is not reasonably determinable.

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (figures in tables are in thousands of United States dolllars, except where indicated)

8 Long-term debt

	2000 $	1999 $
Letter of credit, with equipment, inventories and accounts receivable pledged as collateral, bearing interest at a variable floating rate averaging 4.44% in 2000, maturing in December 2007	**2,610**	2,900
Convertible promissory notes, unsecured, non-interest bearing, repayable semi-annually commencing March 1997, repayable in cash or shares at the option of the Company, convertible into common shares based upon the average closing market price of the Company's shares during the 10 days immediately preceding the payment due date. Balance withheld of Cdn. $1,750,000 (see note 15 (e))	**1,167**	1,213
Promissory note payable, collateralized by a general security agreement, bearing interest at prime rate, repayable monthly until December 2001 at $15,000 and $10,000 per month, including principal and interest, thereafter (note 11), due April 2010	**839**	–
Note payable with a building pledged as collateral, bearing interest at the Index (as published by the Federal Resource Board on U.S. Treasury Securities adjusted to a constant maturity of 3 years) plus 4.75%. Repayable monthly at $8,488 per month until May 1, 2008, with a final payment of $662,552 at that date	**770**	–
Notes payable with equipment pledged as collateral, bearing interest at prime rate plus 3/8% to prime rate plus 1%, maturing at dates between August 2004 and May 2005	**291**	351
Mortgage payable over land and buildings, bearing interest at 7.9%, repayable at Cdn. $1,442 per month, maturing in August 2001, land pledged as collateral	**128**	139
Convertible promissory note, unsecured, bearing interest at prime, convertible at the option of the holder at any time after February 2, 1999 into common shares of the Company at a conversion price of $4.76 per share, repaid February 2000	**–**	564
Capital leases payable in equal monthly instalments of $23,800 including principal and interest at rates ranging from 9% to 12%, collateralized by certain machinery and equipment, maturing 1999 to 2003	**315**	523
	6,120	5,690
Less: Current portion	**693**	1,180
	5,427	4,510

The fair value of the long-term debt is estimated at $5,557,000.

Long-term debt maturities in each of the next five years are as follows:

	$
Year ending December 31	
2001	693
2002	1,853
2003	507
2004	474
2005 and thereafter	2,593
	6,120

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (figures in tables are in thousands of United States dolllars, except where indicated)

The minimum lease payments under the capital leases for future years are as follows:

	$
Year ending December 31	
2001	221
2002	104
2003	29
2004	4
2005 and thereafter	2
	360
Less: Interest	(45)
	315

9 Capital stock

During the year ended December 31, 2000, the Company repurchased 128,300 (1999 – 244,700) shares under normal course issuer bids for a total cost of $137,000 (1999 – $269,000). These purchases were approved by the appropriate regulatory authorities. These shares are excluded from the number of outstanding shares. The Company has not cancelled these shares.

Effective February 22, 1999, the Company completed the consolidation of its common shares on a 4.25 old share for 1 new share basis. Share information herein is shown on a consolidated basis. In addition, during the year ended December 31, 1999, the Company cancelled 372,612 shares from treasury, which it had purchased between January 1, 1992 and December 31, 1995 for a cost of $10,914,000. The difference of $4,714,000 between the cost and assigned value of $6,200,000 has been recorded as an increase in capital stock and an increase to the deficit.

During the year ended December 31, 2000, the Company issued 595,000 units consisting of 595,000 common shares and 595,000 warrants. Each warrant is exercisable to acquire one share for Cdn. $1.10 per share until November 24, 2005. The fair value of the warrants of $167,000 has been deducted from the total proceeds of $349,000 and the remainder of $182,000 is recorded as capital stock.

10 Stock options, warrants and Shareholders' Rights Plan

Stock options

Under a stock option plan, the Company may grant options to eligible directors and employees of the Company, provided that the number of shares issuable does not exceed 1,300,000 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 traded through the facilities of the Toronto Stock Exchange for the 10 trading days preceding the date on which the options are granted. All options vest on issuance.

A summary of the status of the Company's stock option plan as at December 31 is presented below:

	2000		1999		1998	
	Shares (000)	**Weighted average exercise price Cdn. $**	Shares (000)	Weighted average exercise price Cdn. $	Shares (000)	Weighted average exercise price Cdn. $
Outstanding – Beginning of year	**930**	**6.28**	706	8.26	476	9.68
Granted	**25**	**1.05**	276	1.50	310	6.29
Expired	**(43)**	**1.75**	(52)	7.71	(80)	9.57
Outstanding – End of year	**912**	**1.66**	930	6.28	706	8.26
Options exercisable at year end	**912**	**1.66**	930	6.28	706	8.26

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (figures in tables are in thousands of United States dolllars, except where indicated)

During the year ended December 31, 2000, the Company repriced an aggregate of 654,443 previously granted director and employee share options to an exercise price of Cdn. $1.75.

Subsequent to the year end, the Company issued 380,000 stock options at a price of $1.15 per share for a term of 10 years.

The following table summarizes information about options outstanding and exercisable at December 31, 2000:

	Options outstanding			Options exercisable	
Range of exercise prices Cdn. $	Number outstanding at December 31, 2000	Weighted average remaining contractual life years	Weighted average exercise price Cdn. $	Number exercisable at December 31, 2000	Weighted average exercise price Cdn. $
1.75	611,488	4.8	1.75	611,488	1.75
1.50	275,957	9.9	1.50	275,957	1.50
1.05	25,000	9.9	1.05	25,000	1.05
1.05 – 1.75	912,445	6.2	1.66	912,445	1.66

Warrants

The following table summarizes information about purchase warrants outstanding:

Exercise price per share	Balance – December 31, 1999	Granted	Exercised	Expired/ cancelled	Balance – December 31, 2000	Expiry date
U.S. $7.44	97,740	–	–	–	97,740	January 2003
Cdn. $1.10	–	595,000	–	–	595,000	November 2005

Shareholders' Rights Plan

At the Company's Annual General Meeting held December 1, 1989, the shareholders approved the adoption of certain shareholder protection measures to deter coercive and/or unfair takeover tactics or offers and to encourage potential acquirers in any takeover attempts to negotiate directly with the Company's board of directors. Specifically, the shareholders approved and the Company subsequently implemented (i) a "Rights Plan," the terms of which are contained within a "Rights Agreement" dated October 1, 1990, and (ii) a "Supermajority Amendment," which now forms part of the Company's articles.

The Rights Plan was for an initial term of 10 years and expired on December 31, 1999. At the Company's Annual General Meeting held June 24, 1999, the shareholders approved the re-adoption and extension of the Rights Plan for a further term of 10 years (expiry date 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.

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (figures in tables are in thousands of United States dolllars, except where indicated)

11 Acquisition

On April 3, 2000, the Company acquired certain assets and liabilities of Home Service Networks Inc., a company providing home and office water delivery services in the United States, and incorporated them into CC Beverage (US) Corporation. Details of the aggregate consideration given and the fair value of the net assets acquired are as follows:

	$
Assets acquired – at fair values	
Current assets	47
Capital assets	162
Goodwill	994
	1,203
Less: Current liabilities	103
Net assets acquired	1,100
Consideration	
Cash	200
Promissory note payable (note 8)	900
	1,100

This acquisition has been accounted for using the purchase method, and accordingly, these consolidated financial statements include the results of operations from the date of acquisition. The Company is amortizing goodwill over a period of 15 years.

12 Cumulative translation adjustment

Unrealized translation adjustments, which arise on the translation to United States dollars of assets and liabilities of the Company's self-sustaining operations, resulted in an unrealized translation loss of $355,000 for the year ended December 31, 2000 (1999 – gain of $1,018,000). The movement in the translation adjustment in the current year reflects the relative weakening of the Canadian dollar combined with a reduction in the Canadian asset base.

13 Restructuring charges

During the year ended December 31, 1999, the Company incurred a restructuring charges of $5,430,000. This comprised the following:

- $371,000 as a charge to operations for a retirement allowance to a member of management
- $ 2,111,000 as a write-down of inventory to its estimated net realizable value to reflect discontinued production and distribution of certain products
- $2,414,000 to write-down the value of distribution rights subsequent to reassessment of their value by the Company
- $534,000 to write-down value of long-term receivables to reflect the estimated recoverable amount.

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (figures in tables are in thousands of United States dolllars, except where indicated)

14 Corporate income taxes payable

Income taxes

A The following table reconciles income taxes calculated at a combined Canadian federal/provincial tax rate with the income tax provision in the consolidated financial statements.

	2000	1999	1998
Combined statutory rate	**45%**	45%	45%
	$	$	$
Income taxes at statutory rate	**(2,902)**	(4,362)	329
Tax effect of			
Future tax asset not recognized	**2,843**	2,849	–
Non-deductible amounts and other – net	**59**	1,762	91
Provision	**–**	249	420

The Company has non-capital losses totalling approximately $24,109,000 (1999 – $16,921,000; 1998 – $11,300,000) that may be applied against future taxable income. The potential tax benefits arising from these losses have not been recorded in the financial statements to the extent that the Company believes that they are recoverable. The right to claim these losses begins to expire in 2002. In addition, the Company has capital losses totalling approximately $1,718,000 available to offset future capital gains (1999 – $1,767,000).

B The net future income tax balance comprises the following:

	2000 $	1999 $	1998 $
Future income tax assets			
Non-capital losses	**10,849**	7,614	5,079
Distribution rights	**1,349**	1,235	211
Long-term investments	**235**	182	171
Share issue costs	**30**	109	176
Other	**36**	40	58
	12,499	9,180	5,695
Future income tax liabilities			
Capital assets	**(545)**	(421)	(798)
Net future income tax asset	**11,954**	8,759	4,897
Less: Valuation allowance	**(11,954)**	(8,759)	(4,648)
	–	–	249

15 Commitments and contingencies

A **Operating leases**

The Company has entered into operating leases for certain office equipment and premises. Total payments required under these leases are as follows:

	$
2001	480
2002	150
2003	136
2004	125
2005 and thereafter	723

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (figures in tables are in thousands of United States dolllars, except where indicated)

B Purchase commitments

The Company has $86,000 (1999 – $123,000) of capital asset commitments at December 31, 2000 relating to the expansion of the bottling facilities.

In addition, the Company has inventory purchase commitments of $609,000 at December 31, 2000.

C Licensing agreement

Effective February 2001, Reebok has granted a license to the Company to distribute a Reebok branded beverage in the United States, Canada and the Caribbean. The License Agreement is for an initial term of three years, together with three 2-year renewal terms and is subject to certain performance obligations. Under the License Agreement, the Company will pay Reebok a royalty based on a percentage of net sales of the Reebok branded beverage.

D Management contracts

The Company has entered into management contracts for terms of two to five years with senior officers, directors and companies controlled by directors and officers. These contracts require the Company to pay employment and management fees totalling approximately $870,000 per year. The contracts also require the Company to assume certain monetary obligations to the senior officers, directors and companies controlled by directors in the event of termination of the contracts by the Company without cause. As at December 31, 2000, the minimum aggregate obligation to be assumed by the Company in these circumstances is approximately $3,447,000 (1999 – $3,444,000).

E Dispute with Ralph Moyal

In April 1997, a claim was filed in the Ontario Supreme Court against the Company, the Company's Ontario subsidiary, Blue Mountain Springs Ltd. ("Blue Mountain"), and Gerry McGrath. The plaintiff, Ralph Moyal ("Moyal"), is seeking various declaratory relief 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 for Cdn $4,500,000 from the vendors thereof, Jeanette McGrath and Shari-Anne Dudart (the "Vendors"), who are the daughters of the defendant, Gerry McGrath. The Company is defending the 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 by which it acquired the shares in Blue Mountain. The Company has delivered a statement of defence, counterclaim and crossclaim in which it has claimed damages against Moyal, as a result of the registration of the certificate of pending litigation, 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 connection with the Share Purchase Agreement, the Company has withheld certain payments to the Vendors based on the Company's indemnity and set off rights thereunder 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. 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.

F 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 Cdn $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.

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (figures in tables are in thousands of United States dolllars, except where indicated)

G 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.

16 Pension costs and obligations

The Company has defined contribution pension plans for senior management and other employees. The pension costs are charged to operations as contributions fall due. Contributions are a defined amount for the senior management plan and based upon a set percentage of salary for the other plan.

Total pension expense for the year ended December 31, 2000 was $495,000 (1999 – $722,000; 1998 – $779,000).

17 Supplementary cash flow information

	2000 $	1999 $	1998 $
A Items not involving cash			
Gain on sale of investments and property, plant and equipment	**(65)**	(402)	(56)
Gain on settlement of legal claim	**–**	(452)	–
Assets written down	**648**	5,059	–
Change in long-term receivable	**–**	–	143
Change in future income taxes	**–**	249	67
Amortization of property, plant and equipment	**1,618**	1,315	1,259
Amortization of goodwill and distribution rights	**487**	653	683
Amortization of deferred lease inducement	**(46)**	(47)	(47)
	2,642	6,375	2,049
B Changes in non-cash working capital balances related to operations			
Accounts receivable	**1,563**	(97)	2,525
Inventories	**182**	1,350	(1,144)
Prepaid expenses, deposits and other assets	**367**	490	482
Accounts payable and accrued liabilities	**197**	962	(1,419)
Corporate income taxes payable	**12**	(348)	270
	2,321	2,357	714
C Non-cash investing and financing activities			
i) Investing activities			
Acquisition of capital assets by capital lease	**(32)**	(207)	(302)
Acquisition of a business	**(900)**	–	–
ii) Financing activities			
Inception of capital leases	**32**	207	302
Issuance of long-term debt for acquisition of a business	**900**	–	–
	–	–	–

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (figures in tables are in thousands of United States dolllars, except where indicated)

18 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 and management uses geographic areas to monitor the business. The "other" segment represents sales outside North America. Most of these sales are to Europe.

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

	2000 $	1999 $	1998 $
Sales			
Canada			
Total sales	**2,890**	9,981	27,419
Less: Sales to other segments	**(31)**	(4,938)	(19,617)
Sales to external customers	**2,859**	5,043	7,802
United States			
Total sales	**28,409**	33,342	30,182
Less: Sales to other segments	**(3,557)**	(3,970)	(784)
Sales to external customers	**24,852**	29,372	29,398
Other			
Sales to external customers	**1,219**	2,190	2,727
	28,930	36,605	39,927
(Loss) earnings from operations			
Canada	**(2,665)**	(5,329)	236
United States	**(3,079)**	13	389
Other	**(6)**	358	(110)
	(5,750)	(4,958)	515
Non-recurring charges			
Canada	**–**	2,770	–
United States	**–**	2,660	–
Other	**–**	–	–
	–	5,430	–
Assets			
Canada	**7,751**	10,328	28,086
United States	**20,049**	23,340	14,073
Other	**143**	179	669
	27,943	33,847	42,828
Capital asset additions			
Canada	**137**	62	292
United States	**907**	3,506	1,811
Other	**–**	–	–
	1,044	3,568	2,103

Goodwill relates solely to acquisitions in the United States.

With respect to third parties, the Company does not have one customer that represents more than 10% of net sales. 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.

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (figures in tables are in thousands of United States dolllars, except where indicated)

19 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 U.S. GAAP.

Under U.S. GAAP, the Company would report its consolidated statements of operations as follows:

	2000 $	1999 $	1998 $
Net (loss) earnings under Canadian GAAP	**(6,449)**	(9,945)	310
Incremental costs (d)	**9**	39	10
(Loss) earnings under U.S. GAAP	**(6,440)**	(9,906)	320
Unrealized holding gains (losses) (b)	**847**	187	(1,044)
Foreign currency translation adjustments (note 12)	**(355)**	1,018	(1,983)
Comprehensive loss under U.S. GAAP (c)	**(5,948)**	(8,701)	(2,707)
Basic (loss) earnings per share before comprehensive income (loss) adjustments (expressed in dollars)	**(1.06)**	(1.55)	0.05

Under U.S. GAAP, the Company would report the consolidated statements of shareholders' equity as follows:

	2000 $	1999 $
Shareholders' equity under Canadian GAAP	**17,080**	23,680
Foreign currency adjustments (a)	**(544)**	(544)
Unrealized holding losses (b)	**(10)**	(857)
Incremental costs (d)	**(280)**	(289)
Shareholders' equity under U.S. GAAP	**16,246**	21,990

No differences arise between U.S. and Canadian GAAP in the presentation of the cash flow.

A Change in reporting currency
Under U.S. GAAP, a change in reporting currency would require a restatement of prior years' financial statements using a weighted average exchange rate for each year in the statements of operations, and current and historical rates for monetary and non-monetary assets and liabilities on the balance sheets.

Under Canadian GAAP, when there is a change in reporting currency, comparative information is translated at a rate of convenience.

B Unrealized holding gains (losses)
Under U.S. GAAP, the long-term investments in publicly traded companies would be shown at fair market value. Under Canadian GAAP, such long-term investments are recorded at cost less any impairment of value that is other than temporary. The difference is included within the reconciliation to the comprehensive loss for the year.

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 consists of net income and other comprehensive income. 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 the unrealized holding gains (losses) foreign exchange adjustments.

D Incremental costs
Under U.S. GAAP, consultants' fees would be considered incremental costs and would not be capitalized, as Canadian GAAP permits, but would be recorded as a period expense.

E Write-down of inventory
Under U.S. GAAP, the write-down of inventory of $nil (1999 – $2,111,000; 1998 – $nil) would be reported as part of cost of sales. Canadian GAAP does not have this requirement.

F Loans to directors and officers
U.S. GAAP requires that amounts receivable from directors and officers resulting from sales of shares be reported as deductions from shareholders' equity.

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (figures in tables are in thousands of United States dolllars, except where indicated)

As a result, under U.S. GAAP, long-term receivables and prepaid expenses, deposits and other assets would decrease by $nil (1999 – $nil) and $nil (1999 – $291,000), respectively, as shown on the consolidated balance sheet as at December 31, 2000, and share capital would decrease by $nil (1999 – $291,000).

Under Canadian GAAP, these amounts receivable can be recorded as an asset.

G Advertising costs

U.S. GAAP requires separate disclosure of advertising costs. In the year ended December 31, 2000, the Company spent $2,448,000 on advertising (1999 – $3,522,000; 1998 – $2,414,000).

H Stock compensation plan

Under Canadian GAAP, the Company does not measure compensation expense in connection with the granting or repricing of options.

Under U.S. GAAP, the Company applies APB Opinion 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for stock compensation to employees and directors. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of the grant, no compensation is recognized at the time of the initial grant. If the exercise price of a fixed stock option award is reduced after December 15, 1998, FASB Interpretation No. 44 ("FIN 44") requires that the option award be accounted for as variable from the date of the modification to the date the award is exercised, is forfeited or expires unexercised. Accordingly, the Company records compensation expense or recovery for such modified options calculated as the amount of the change in the intrinsic value of the options from the time of the modification to the date the modified option is exercised, is forfeited or expires.

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensations," ("SFAS 123") requires the Company to provide pro forma information regarding net income and earnings per share as if compensation for the Company's stock option plans had been determined in accordance with the fair value based method prescribed in SFAS 123. The Company estimates the fair value of each stock option at the grant date or measures variable compensation for options subject to modification and requiring variable accounting from the date of modification by using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in the year ended December 31, 2000: dividend yield of nil (1999 – nil; 1998 – nil); expected volatility of 85% (1999 – 70%; 1998 – 70%); risk-free interest rate of 5.3% (1999 – 4.7%; 1998 – 4.54%); and expected life to 6.2 years (1999 – 7.1 years; 1998 – 9 years).

During the year ended December 31, 2000, the Company repriced its options. The Company is now required to use the variable compensation method of accounting for stock options. Since the exercise price exceeded the market value of shares at the end of the year, the Company has not recorded a stock-based compensation charge.

Under the accounting provisions of SFAS 123, the Company's U.S. GAAP loss of $6,449,000 would have been increased to a loss of $6,440,000 (1999 – $9,906,000; 1998 – $320,000). Basic and diluted loss per share would have been increased to a loss per share of $1.06 (1999 – $1.55; 1998 – $0.05).

The weighted average fair value of options granted during the year was Cdn. $0.88.

I Recent pronouncements

On June 15, 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", ("FAS 133"). FAS 133, as subsequently amended, is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000 (January 1, 2001 for the Company). FAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. As management of the Company does not currently use derivative instruments, the adoption of FAS 133 is not expected to have a significant effect on the Company's results of operations or its financial position.

In December 1999, the SEC issued Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements", and in March 2000, the SEC issued SAB 101A, which provided certain amendments to SAB 101. The Company believes that its current revenue recognition and reporting policies are consistent with the staff views set out in those bulletins.

Corporate Information

Corporate Governance
Shareholders will find the Company's corporate governance policy discussed in detail in the Information Circular, which accompanies the Company's Notice of Annual General Meeting.

Board of Directors
Douglas L. Mason, Chairman
Gerald M. Astor
James J. Duffy
Glen D. Foreman
Neville W. Kirchmann
Bruce E. Morley
Stuart R. Ross
Nigel G. Woodall

Corporate Officers
Douglas L. Mason
Chief Executive Officer and President

Stuart R. Ross
Chief Financial Officer

Bruce E. Morley
Chief Legal Officer and Secretary

James J. Duffy
President, CC Beverage (U.S.) Corporation

Jonathan Cronin
Vice-President, Marketing, CC Beverage (U.S.) Corporation

Tom Koltai
Vice-President, Operations, CC Beverage (U.S.) Corporation

Michael R. Duffy
Operations Manager, CC Beverage (U.S.) Corporation

Corporate Head Office
Clearly Canadian Beverage Corporation
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Canada V6C 2W2
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e-mail: info@clearly.ca

Operations Head Office
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1650 Port Drive, P.O. Box 326
Burlington, WA 98233
1-800-735-7180 (in U.S.A. and Canada)
e-mail: ccbeverage@clearly.ca

Stock Exchange
Toronto Stock Exchange (CLV)
OTCBB (CCBC)

Internet
http://www.clearly.ca

Investor Information
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1-800-663-0227 (in Canada)
e-mail: investor@clearly.ca

Shareholder Assistance, Registrar and Transfer Agent
Pacific Corporate Trust Company
Vancouver, British Columbia, Canada
1-877-288-6822

Annual General Meeting
Friday, June 29, 2001 at 10:00 a.m.
Hyatt Regency Vancouver
655 Burrard Street
Vancouver, British Columbia, Canada

Auditors
Pricewaterhouse Coopers LLP
Chartered Accountants
Vancouver, British Columbia, Canada

Corporate and Securities Legal Counsel
McCullough O'Connor Irwin
Vancouver, British Columbia, Canada

General Legal Counsel
Boughton Peterson Yang Anderson
Vancouver, British Columbia, Canada

Clearly Canadian Beverage Corporation

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