



clearly canadian beverage corporation
1st quarter report

for the 3 months ended march 31, 2002

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Q1 report 2002

May 15, 2002

Dear Shareholders:

We believe that our improved sales performance in the first quarter of 2002 reflects our ongoing focus on generating growth and strengthening distribution in key North American markets. Building on our flagship brand in the first quarter, we introduced new Clearly Canadian Orange Pineapple sparkling flavoured water to the line-up. New Orange Pineapple is packaged in a 14 oz. glass bottle, featuring a new graphic design that further refines the brand's award winning package design. After the successful redesign of our Clearly Canadian packaging in 2000, the new Orange Pineapple graphic design leverages our strong brand presence and enhances the original design.

Sales from the Company's new Reebok fitness water beverage also contributed to the increase in sales during the first quarter. During the quarter, we increased distribution for Reebok fitness water beverage, including major national grocery and convenience store chains, hi-image retail outlets and health club accounts.

The positive results in the first quarter, we believe, are due in part to the divestiture of certain assets that were not adding value to overall results. In the first quarter of 2002, Clearly Canadian's U.S. subsidiary, CC Beverage (U.S.) Corporation ("CC Beverage"), completed the sale of its production facility assets located in Burlington, Washington to Advanced H2O, Inc. ("AH2O") of Bellevue, Washington. Also, CC Beverage sold its private label co-pack (bottling) business and Cascade Clear business to AH2O.

In addition to these divestitures, AH2O agreed to provide CC Beverage with "at cost" co-packing (bottling) services for ten years (5 year initial term and 5 year renewal term) for up to 1,500,000 cases per year of carbonated beverages and 250,000 cases per year of non-carbonated beverages.

We made the strategic decision to divest ourselves of our subsidiary's production facility at this time to return to our core competencies – the marketing of premium alternative beverages – and to direct greater focus on the selling and marketing of the Company's beverage brands in an effort to enhance overall profitability. To this end, we have developed an extensive marketing program for 2002 to encourage further consumer trial and repurchase of our brands. These exciting initiatives include the introduction of a dynamic new graphic design for our Clearly Canadian brand, innovative package and flavour extensions for our Reebok beverage, a national consumer and trade print advertising campaign and an extensive in-store consumer promotion.

We are excited about the results that we believe signal a turn-around for the Company. We intend to build on this momentum in the important spring and summer beverage selling season ahead.

Best regards,



Douglas L. Mason

Management Discussion and Analysis

Operating Results

The following discussion addresses the operating results and financial condition of Clearly Canadian for the three months ended March 31, 2002. The Management Discussion and Analysis should be read in conjunction with the Company's December 31, 2001 financial statements as well as the cautionary statement at the end of this section.

During the year ended December 31, 2001, the Company's wholly owned U.S. subsidiary, CC Beverage (U.S.) Corporation, sold certain of its business assets. These divestitures involved the sale of two business segments: firstly, its home and office five-gallon water business (which sale was completed in April 2001) and secondly, its private label co-pack bottling business, Cascade Clear business and related production assets (which sale was completed in February 2002). As a result of these divestitures, for reporting purposes, the results and financial position of the Company now reflect the results of the "Continuing Operations" for the first quarter of 2002. Accordingly, prior period comparative figures have been restated to reflect this change.

Results of "Continuing Operations" for the first quarter of 2002

First Quarter 2002 Compared with First Quarter 2001

The Company's sales revenues for the period ended March 31, 2002 were \$5,418,000 compared to \$5,162,000 for the comparable period in 2001. This represents an increase of 5.0% over the first quarter of 2001, largely due to sales from the Company's new Reebok fitness water beverage. The Company also strengthened its distribution in key markets.

Gross profit for the period ended March 31, 2002 was \$1,888,000 or 34.8% compared to \$2,041,000 or 39.5% for the comparable period in 2001. The decrease in gross profit is a result of a change in sales mix of the Company's products.

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Management Discussion and Analysis

Selling General and Administrative expenses for the period ended March 31, 2002 were \$1,721,000 compared to \$1,926,000 for the comparable period in 2001. The decrease in selling, general and administrative expenses is attributable in part to the divestiture of non-core business assets that were not adding value to overall results. With this divestiture now complete, we expect these reductions in our cost structure to continue and we anticipate that they will continue to improve our operational base for profitability.

Net income from continuing operations for the three months ended March 31, 2002 was \$64,000 (or \$0.01 per share) compared to a loss of \$279,000 (or \$0.04 per share) for the same period in 2001. This improvement in net profitability is due to the increase in sales and the decrease in selling general and administrative expenses.

Liquidity and Capital Resources

As at March 31, 2002, the Company had a working capital surplus of \$1,196,000 compared to a working capital deficit of \$502,000 as at December 31, 2001. As at March 31, 2002, the Company had net borrowings of \$280,000 compared to cash and cash equivalents of \$226,000 as at December 31, 2001.

Net cash used for operating activities for the first three months of 2002 was \$1,580,000, consisting primarily of operating profit for the three months less changes in non-cash working capital balances of \$1,756,000.

Financing and investing activities provided net cash of \$1,089,000 consisting primarily of proceeds, net of debt assumption, on the disposition of its bottling facility assets of \$1,675,000 and the acquisition of other assets in the amount of \$418,000.

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 Company's Notice of the Annual General Meeting.

Management Discussion and Analysis

Forward Looking Statements

This report contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 concerning the Company's business strategies, market conditions, outlook and other matters. Also, statements in this report that are not historical facts 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 analysis and include the Company's expectations regarding the potential reduction of expenses and potential cost savings from the sale of the business segments and related assets referred to in this report and also include the Company's expectations regarding the revenues to be generated through the promotion, marketing and sale of the Company's beverage products, including Reebok beverages, and the benefits of these transactions and activities on the Company's 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 capital expansion plans and general operating activities, 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.

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Consolidated Balance Sheets

As at March 31, 2002 and December 31, 2001
(in thousands of United States dollars, except where indicated)

	Unaudited March 31 2002 \$	December 31 2001 \$
ASSETS		
Current assets		
Cash and cash equivalents	–	226
Accounts receivable	3,488	2,334
Inventories	2,858	2,304
Prepaid expenses, deposits and other assets	581	111
	6,927	4,975
Long-term investments	91	152
Distribution rights	1,913	1,913
Property, plant and equipment (note 3)	5,975	9,978
Other assets	378	–
	15,284	17,018
LIABILITIES		
Current liabilities		
Bank indebtedness	280	–
Accounts payable and accrued liabilities	5,448	5,130
Current portion of long-term debt (note 3)	3	347
	5,731	5,477
Long-term debt (note 3)	1,211	3,252
	6,942	8,729
SHAREHOLDERS' EQUITY		
Capital stock		
Authorized		
200,000,000 common shares without par value		
10,000,000 preferred shares with a par value of CA\$1 each		
Issued		
7,013,682 (2001 – 7,013,682) common shares without par value		
Outstanding		
6,640,682 (2001 – 6,640,682) common shares without par value	58,208	58,208
Warrants		
692,740 (2001 – 692,740)	423	423
Cumulative translation adjustment	(1,369)	(1,358)
Deficit	(48,920)	(48,984)
	8,342	8,289
	15,284	17,018

Approved by the Board of Directors



Director



Director

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Consolidated Statements of Operations

For the three months ended March 31, 2002 and 2001
(in thousands of United States dollars, except where indicated)

	Unaudited March 31 2002 \$	Unaudited March 31 2001 \$
Sales	5,418	5,162
Cost of sales	3,530	3,121
Gross profit	1,888	2,041
Selling, general and administration expenses	1,721	1,926
Amortization	112	426
Earnings (loss) before the following	55	(311)
Other income (expense) – net	9	32
Earnings (loss) from continuing operations before income taxes	64	(279)
Provision for income taxes	–	–
Earnings (loss) for the period from continuing operations	64	(279)
Loss for the period from discontinued operations (note 4)	–	(425)
Earnings (loss) for the period	64	(704)
Deficit – Beginning of period	(48,984)	(40,231)
Deficit – End of period	(48,920)	(40,935)
Basic and diluted earnings (loss) per share from continuing operations	0.01	(0.04)
Basic and diluted earnings (loss) per share	0.01	(0.11)
Weighted average shares outstanding	6,640,682	6,640,682

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Consolidated Statements of Cash Flows

For the months ended March 31, 2002 and 2001
(in thousands of United States dollars, except where indicated)

	Unaudited March 31 2002 \$	March 31 2001 \$
Cash flows from operating activities		
Earnings (loss) for the period	64	(704)
Items not involving cash (note 6(a))	112	534
	176	(170)
Changes in non-cash working capital balances related to operations (note 6(b))	(1,756)	(622)
	(1,580)	(792)
Cash flows from financing activities		
Repayment of long-term debt	(161)	(262)
	(161)	(262)
Cash flows from investing activities		
Proceeds from sale of production facility (note 4)	1,675	-
Proceeds on sale of property, plant and equipment	10	156
Purchase of property, plant and equipment	(17)	(145)
Acquisition of other assets (note 5)	(418)	-
	1,250	11
Effect of exchange rates on cash and cash equivalents	(15)	388
Decrease in cash and cash equivalents	(506)	(655)
Cash and cash equivalents - Beginning of period	226	296
Cash and cash equivalents - End of period	(280)	(359)

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Segmented Information

For the three months ended March 31, 2002 and 2001
(in thousands of United States dollars, except where indicated)

	Unaudited March 31 2002 \$	March 31 2001 \$
Sales		
Canada		
Total sales	585	530
Less: Sales to other segments	-	(61)
Sales to external customers	585	469
United States		
Total sales	5,260	5,056
Less: Sales to other segments	(470)	(513)
Sales to external customers – continuing operations	4,790	4,543
Other		
Sales to external customers	43	150
Continuing operations – external customers	5,418	5,162
Discontinued operations – external customers	551	1,526
Operating earnings (loss) from continuing operations		
Canada	(80)	(387)
United States	136	77
Other	(1)	(1)
	55	(311)
Other income	9	32
Earnings (loss) for the period from continuing operations	64	(279)
	March 31 2002 \$	December 31 2001 \$
Assets		
Canada	6,329	5,468
United States	8,927	11,522
Other	28	28
	15,284	17,018
Property, plant and equipment additions		
Canada	15	179
United States	2	139
Other	-	-
	17	318

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

Notes to Consolidated Financial Statements

For the period ended March 31, 2002

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

1 Basis of Presentation

The interim period consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year. The preparation of financial data is based on a accounting principles and practices consistent with those used in the preparation of annual consolidated financial statements. Certain information and footnote disclosure normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted. These interim period statements should be read together with the audited consolidated financial statements and the accompanying notes included in the Company's latest annual filing. In the opinion of the Company, its unaudited interim consolidated financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

The Company's wholly owned U.S. subsidiary, CC Beverage (U.S.) Corporation, sold certain of its business assets. These divestitures involved the sale of two business segments: firstly, its home and office five-gallon water business (which sale was completed in April 2001) and secondly, its private label co-pack bottling business, Cascade Clear business and related production assets (which sale was completed in February 2002). As a result of these divestitures, for reporting purposes, the results and financial position of the Company now reflect the results of the "Continuing Operations" for the first quarter of 2002. Accordingly, prior period comparative figures have been restated to reflect this change.

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. Actual results could differ from management's best estimates as additional information becomes available in the future.

2 Summary of significant accounting policies

Goodwill and distribution rights

Effective January 1 2002, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) with regard to goodwill and intangible assets. Under the new recommendations the company no longer amortizes goodwill and intangible assets with indefinite lives. Instead, goodwill and intangible assets will be subject to a fair value based impairment assessment and a provision recorded for any impairment. No provision for impairment was required upon adoption of this policy.

Stock-based compensation

Effective January 1 2002, the Company adopted the new recommendations of the (CICA) with regard to stock-based compensation. The company has elected to continue to apply the same accounting policy for stock-based compensation plan that it has previously applied, and to disclose pro forma information on the fair value of stock compensation issued to employees during the period in the notes to its financial statements. As no stock options were issued to employees during the three months ended, no pro forma information is provided in these interim financial statements.

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Notes to Consolidated Financial Statements

For the period ended March 31, 2002

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

3 Balance sheet components

Property, plant and equipment

	March 31, 2002			
	Cost	Accumulated amortization	Write- down	Net
	\$	\$	\$	\$
Continuing operations				
Land and water sources	3,319	–	–	3,319
Buildings	2,575	1,069	–	1,506
Equipment	4,437	3,402	–	1,035
Leasehold improvements	121	6	–	115
	10,452	4,477	–	5,975

	December 31, 2001			
	Cost	Accumulated amortization	Write- down	Net
	\$	\$	\$	\$
Continuing operations				
Land and water sources	5,554	–	2,235	3,319
Buildings	2,575	1,048	–	1,527
Equipment	4,472	3,338	–	1,134
Leasehold improvements	106	3	–	103
Discontinued operations				
Buildings	2,713	494	700	1,519
Equipment	5,813	2,138	1,299	2,376
	21,233	7,021	4,234	9,978

Long-term debt

	March 31 2002	December 31 2001
	\$	\$
Continuing operations		
Convertible promissory notes, unsecured, non-interest bearing, repayable semi-annually commencing March 1997, repayable in cash or shares at the option of the Company. Balance withheld of CA\$1,750,000	1,099	1,099
Mortgage payable with land and buildings pledged as collateral, bearing interest at 6.45%, repayable at CA\$1,299 per month, maturing in August 2002	115	118
Discontinued operations (note 3)		
Letter of credit, with equipment, inventories and accounts receivable pledged as collateral, bearing interest at a variable floating rate averaging 2.91% in 2001, maturing in December 2007	–	2,310
Capital leases payable in equal monthly installments of \$3,592 including principal and interest at rates ranging from 9% to 12%, collateralized by certain machinery and equipment, maturing through 2003	–	72
	1,214	3,599
Less		
Current portion Continuing operations	3	5
Current portion Discontinued operations	–	342
	1,211	3,252

Notes to Consolidated Financial Statements

For the period ended March 31, 2002
(in thousands of United States dollars, except where indicated)

4 Discontinued operations

During the year ended December 31, 2001, the Company disposed of the home and office five gallon water business and entered into an agreement to dispose of the private label co-pack bottling business and related assets. For reporting purposes, the results and the assets and liabilities of these two business segments have been presented as discontinued operations. Accordingly, prior period comparative figures have been restated to reflect this change.

Private label co-pack bottling business and production facility

On October 5, 2001 the Company adopted a formal plan to dispose of its production facility assets located in Burlington, Washington and its private label co-pack bottling business. On February 22, 2002, the Company completed the disposal of this business. By disposing of the production facility assets, the Company is not able to continue with bottling for private label customers.

Details of the aggregate consideration and assets disposed of are as follows:

	\$
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Consideration	
Cash	2,130
Assumption of long term debt	2,155
Assumption of capital leases	64
	4,349
Less: net closing costs	454
Net proceeds on disposal	3,895
Assets disposed of:	
Capital assets	3,895
Gain on sale of assets	-

Summarized below is selected financial information for the discontinued operations:

Loss from discontinued operations

	March 31 2002 \$	March 31 2001 \$
<hr/>		
Sales	551	1,526
Loss from discontinued operations before income taxes	-	425
Provision for income taxes	-	-
Loss from discontinued operations	-	425
Basic and diluted loss per share from discontinued operations	-	(0.07)

Notes to Consolidated Financial Statements

For the period ended March 31, 2002
(in thousands of United States dollars, except where indicated)

5 Consulting contracts

During 2001, the shareholders approved the amendment of certain consulting contracts to reduce the ongoing fees payable. In exchange, the Company agreed to pay to the companies controlled by the applicable directors a total of \$418,213 in cash and \$64,287 in common shares of a publicly traded company currently held by the Company. During the first quarter of 2002, the Company paid out \$418,213 in cash.

6 Supplementary cash flow information

	March 31 2002 \$	March 31 2001 \$
A Items not involving cash		
Loss (gain) on sale of investments and property, plant and equipment	-	(18)
Amortization of property, plant and equipment	112	370
Amortization of goodwill and distribution rights	-	132
Amortization of deferred lease inducement	-	50
	112	534
B Changes in non-cash working capital balances related to operations		
Accounts receivable	(1,154)	(878)
Inventories	(554)	(504)
Prepaid expenses, deposits and other assets	(366)	(256)
Accounts payable and accrued liabilities	318	1,008
Corporate income taxes payable	-	8
	(1,756)	(622)
C Non-cash investing and financing activities		
Proceeds on sale of production facility (note 3)	2,219	-
Reduction on debt assumed on disposition (note 3)	(2,219)	-
Disposition of long-term investment (note 4)	64	-
Acquisition of other assets (note 4)	(64)	-
	-	-

7 Subsequent event

On April 8, 2002, the Company, subject to any necessary regulatory and board of director approvals, granted incentive stock options to certain officers and directors to acquire up to an aggregate of 370,000 shares of the Company. Such stock options have been granted for a 10 year term and are exercisable at a price of \$1.25 cdn per share (based on the average closing price of the Company's shares on the Toronto Stock Exchange over the preceding 10 day trading period).

Corporate Information

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

Tom Koltai
Chief Operating Officer

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

Corporate Head Office

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2489 Bellevue Avenue
West Vancouver, British Columbia
Canada V7V 1E1
1-800-663-5658 (in U.S.A.)
1-800-663-0227 (in Canada)
e-mail: info@clearly.ca

U.S. Office

CC Beverage (U.S.) Corporation
P.O. Box 326, Burlington, WA 98233
1-800-735-7180 (in U.S.A. and Canada)

Stock Exchanges

Toronto Stock Exchange (CLV)
OTCBB (CCBC)

Registrar and Transfer Agent

Pacific Corporate Trust Company
Vancouver, British Columbia, Canada
1-877-288-6822

Shareholder Information

Clive Shallow, Manager,
Shareholder Communications
1-800-663-5658 (in U.S.A.)
1-800-663-0227 (in Canada)
e-mail: info@clearly.ca

The background features a dense pattern of red, overlapping scribbles and lines. A large, white, curved shape, resembling a stylized drop or a partial circle, is positioned in the center, creating a clean space for the text.

clearly canadian
beverage corporation

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