

Brick Brewing Company, Limited.

annual report

Year Ending January 31st, 1998

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Corporate Profile

The Brick Brewing Co. Limited

Established in 1984, Brick Brewing Co. Limited of Waterloo, Ontario was the first craft brewery of its kind to start up in Eastern Canada in recent decades and is credited as a pioneer for starting the present day beer renaissance.

With the use of traditional European brewing procedures, including cold filtration, Brick Brewery produces a wide array of distinctive all natural beers, each designed and targeted to appeal to different taste profiles.

In addition to these brands the Company is a licensed brewer in Canada for Henninger Kaiser Pils of Frankfurt, Germany, the Benedictine Andechs beer of Bavaria and Celis Brewery of Austin, Texas. At present all products are sold in key Ontario markets through Brewers Retail Outlets, LCBO Stores and Licensed establishments. Brick Operates two breweries in Ontario; a facility in Waterloo and the Formosa Spring Brewery in Formosa.



by



To say that it was a busy year would be an understatement, as all our resources were truly put to the test in 1997. As we pieced these endeavours together, I am pleased to report that the outcome was the most successful year in Brick's fourteen year history. Tangible results have begun to emerge from carefully laid growth plans. Sales nearly doubled as we acquired a second brewing facility, introduced several exciting new strategic brands and licensing agreements, forged a major brewer alliance, and completed a successful equity financing.

In Fiscal 1998 sales grew to \$19.9 million from \$10.2 million in 1997, resulting in a net profit of \$694,000 or \$0.08 per share for the year ended January 31, 1998. This represents a significant reversal of \$1.4 million from a net loss of \$722,000 or (\$0.14) per share for the year ended January 31, 1997. Brick's working capital has improved to a surplus of \$1.1 million from a deficit of \$1.8 million in the previous year. Shareholders' equity grew from 2.6 million to 12 million.

This dramatic improvement in performance is the result of a careful orchestration of new strategic acquisitions, brewing alliances, and the introduction of new beers that extend the reach of the Brick family. It also represents our relentless commitment to cost controls and efficiency initiatives. As a result, our Brewery was able to prosper in a very competitive marketplace that among other things included a summer price war between the major breweries.

The integration process of the past year's initiatives is now nearing completion. We are strongly positioned to concentrate on taking advantage of the resources we have, and to capture new market opportunities. We will maintain and introduce new operating efficiencies that will allow Brick to continue to enjoy improved margins and steady growth. Above all, we are committed to brewing the exceptionally high quality, all natural beer that has characterized Brick Brewery from the beginning.

Quality is what keeps beer drinkers coming back to specialty brewers like us and quality continues to build Brick's reputation both here at home and around the world. One measure of quality is international recognition, and we take pride that Brick continues to be honoured with more gold medals from the prestigious Monde Selection International Institute in Brussels. In the past year, Brick was awarded two more gold medals for quality, bringing our grand total to 24 in this event, more than any other brewer in North America.



From the days when we opened the first craft brewery in modern day Ontario, igniting the current specialty beer renaissance, Brick has been rewriting brewing history. There have been many significant milestones in our continuing pursuit of choice and change, and in the last year, our growth strategy continued.

In July 1997 Brick finalized the purchase of the **Northern Algonquin Brewing Company**, including the famous **Formosa Springs aquifer**. This major acquisition gives Brick a heritage of new brands as well as another first class brewing facility in Formosa, Ontario, which doubles Brick's brewing and packaging capacity, and allows for other planned volume initiatives.

We also acquired the popular-priced **Laker brands from Molson** early in our fiscal year. The Laker brands brought new customers to the Brick family of beers, and this significant volume contributes to our critical mass by improving margins on all our brands. As a result of this transaction I was extremely pleased to have Molson elect to take an equity position in Brick, which acknowledges their confidence in Brick's success, and cemented a partnership for future endeavours.

Last year Brick introduced the world renowned Bavarian Andechs brand to Ontario beer drinkers. We were privileged to have been selected by the Benedictine monks of the Kloster Andechs monastery to be entrusted with their secret 500 year old recipe as the **exclusive brewer of Andechs** beer outside Germany.

Late in the season, Brick brewed and launched **Celis White**, a Belgian wheat beer, to Canada. This strikingly different beer is the creation of legendary Belgian brewmaster Pierre Celis, and marks the beginning of a partnership between Brick and Celis Brewery of Austin, Texas. Celis White is a light-tasting beer uniquely spiced with coriander and orange peel, a taste especially suited to warmer weather, and we look forward to its growth in the spring and summer period of this year.

Last summer saw the "test" introduction of the "**split**" bottle (half-size, 6.5 ounce) for one of our best-selling beers, Red Baron, and we anticipate further success as we extend its distribution in southern Ontario this coming season.

Also during the year, and without much fanfare, Brick secured the importation rights to the **Samuel Adams** brand, made by the largest craft brewer in the world, The Boston Beer Company.

The **Connors family** of ale brands has been a welcome addition to the Brick family since we acquired it in late 1996, and we intend to build on its ale heritage with new innovations.

Brick's core brands, most notably Red Baron, which has been our single largest selling brand since 1987, and Waterloo Dark, a uniquely light tasting dark beer, continue to make strong contributions and inroads.



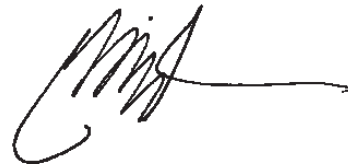
To put our recent moves into perspective, our clear point of purpose is to please true beer lovers, with the widest, most interesting array of superbly crafted beer choices. In a simple word -- variety. A true variety brewery is rare and requires a highly specialized combination of facilities and expertise to run at high efficiencies profitably without compromising quality.

Our brand of craft brewing is not stuck in the past. We are fortunate to have brewmasters who blend a mastery of the ancient art with the flair and imagination of world class chefs. The result is a family of beers that meets by far the widest range of consumer tastes. While some Brick recipes are created by painstakingly following five hundred year old processes, others are the result of completely fresh approaches that suit the ever evolving lifestyles of consumers in the 1990s.

We now need to build on what we've learned about consumer taste profiles, about changing preferences and lifestyle choices, and trends within the industry and within our country. We are constantly reviewing our brand portfolio with the objective to continually realign our products to offer the most desirable selection for our customers. With the added advantage and flexibility of operating two brewing facilities, Brick is uniquely positioned to respond quickly and effectively to a constantly evolving market, and to innovate and take risks when we see an opportunity. Our marketing emphasis going forward will be on the Brick Brewery itself as a family of brands with a wide array of interesting beer styles.

There was a time, before the first bottles rolled off the line, when Brick Brewery was a one-man operation, or rather one man's dream. We have come a considerably long way, and today, leadership comes from a committed, active board and a seasoned, highly professional executive team. A constant flow of fresh ideas comes from employees located close to our customers in eight centres across Ontario. We tap into our growing network of international strategic alliances for world class best practices, resources and investment opportunities. I am very proud of what we have been able to achieve together, particularly in the last year, and I am excited about our future.

The goal of any business is to grow shareholder value. At Brick Brewery, our mission is to do just that by pleasing more and more beer lovers, and to have a great time doing it.



James R.A. Brickman /s/
President and CEO
May 20, 1998



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis provides a review of the results of operations and financial position of the Brick Brewing Co. Limited ("Brick" or the "Company") for the fiscal year ended January 31, 1998 in comparison with the fiscal year ended January 31, 1997. This discussion and analysis should be read in conjunction with the financial statements and accompanying notes.

Description of Business

Established in 1984, Brick Brewing Co. Limited was the first microbrewery of its kind to start up in Eastern Canada in recent decades, and is credited as being one of the pioneers of the present day beer renaissance in Canada.



With the use of traditional European brewing procedures, including cold filtration, Brick produces an array of distinctive all-natural beer styles, each designed and targeted to appeal to different taste profiles. In addition to these brands, the Company is a licensed brewer in Canada for Henninger Kaiser Pils of Germany, Andechs of Kloster Andechs Monastery of Bavaria, Germany and Celis White for Celis Brewery of Austin, Texas as well as for the OV split 6.5 ounce bottle exported to the United States for the Miller Brewing Company on behalf of Molson Breweries. The Company is also a commission sales agent in Ontario for the Boston Beer Company, the largest craft brewery in North America and brewers of the Samuel Adams family of brands.

Brick produces both bottled beer and draught in kegs at its two production facilities located in Waterloo and recently Formosa, Ontario. The Company markets primarily in Ontario, with the exception of the OV splits and limited distribution of Algonquin brands to the United States, through the facilities of Brewers' Retail outlets, LCBO stores and licensed establishments.



Results of Operations

Brick Brewing Co. Limited recorded net earnings of \$694,000 for the financial year ended January 31, 1998, an improvement of \$1,416,000, compared to the loss of \$722,000 for the year ended January 31, 1997.

Sales for the year ended January 31, 1998 were \$19,923,000, nearly double last year's level of \$10,195,000. During fiscal 1998, the Company integrated the Conners brand family of ales, acquired in late fiscal 1997, into its lineup. In May 1997, the Company completed the purchase of the rights and interests in the Laker family of brands for Canada from Molson Breweries. As part of the transaction, Molson was issued 1,500,000 common shares of the Company, which as of January 31, 1998 represented 14% of outstanding common shares. Molson has the right to purchase, for a period of five years subsequent to closing, up to 19% of the outstanding shares at market prices.

In July 1997 the Company purchased the property, plant, equipment, trademarks and other rights of the Northern Algonquin Brewing Company Limited Partnership for consideration of \$6,472,000, which included the historic brewery and aquifer of Formosa, Ontario.

Despite an overall industry volume decrease of 1.2% in Ontario during the year ended January 31, 1998, the Company increased sales to 86,500 hectolitres (hl) in the year ended January 31, 1998 compared to 47,350 hl during the previous year. This additional volume came mainly through the acquisitions that took place during the year.

Gross margin for the year ended January 31, 1998 increased \$2,741,000 from the prior year primarily as the result of raw material savings through additional buying power and production efficiencies on labour and overhead expenses associated with volume increases.

Selling, marketing and administration expenses increased from \$2,425,000 last year to \$3,302,000 for the year ended January 31, 1998. The increase was primarily due to costs associated from incorporating some of the sales and marketing costs from the Conners and Algonquin acquisitions.

Earnings before interest, depreciation and amortization for the year ended January 31, 1998 were \$ 1,802,000 versus the loss of \$135,000 for the prior year. Interest expense for the year increased by \$79,000 due to additional term debt taken on to partially finance the Algonquin asset purchase. Prior to closing the Algonquin purchase, the Company paid down all previous term debt.

Depreciation and amortization expense increased \$442,000 as a result of the Company's recent acquisitions.



Liquidity and Capital Resources

The Company generated \$453,000 of cash from operating activities for the year ended January 31, 1998, an improvement of \$392,000 from \$61,000 for the year ended January 31, 1997.

The financial position of the Company as of January 31, 1998 reflects a working capital surplus of \$1,125,000 compared to a deficit of \$1,853,000 for the fiscal year ended January 31, 1997. Bank indebtedness of \$63,000 is a considerable improvement from the prior year's indebtedness of \$822,000.

Total assets of the Company increased by \$13,307,000 to \$19,835,000 from \$6,528,000 for the year. In addition, the Company has approximately \$4,900,000 in income tax loss carry-forwards and timing differences available to reduce taxable income in future years. Total liabilities increased by \$3,898,000 to \$7,775,000 as of January 31, 1998, compared to \$3,877,000 for the fiscal year ended January 31, 1997.



During fiscal 1998, the Company issued 2,000,000 special warrants and 1,000,000 common share purchase warrants at a price of \$2.00 per special warrant. The common share purchase warrants were exercisable to purchase one common share at a price of \$2.50 per common share. During fiscal 1998 all special warrants were issued on a one-for-one basis for common shares and 187,500 of the common share purchase warrants were exercised. Subsequent to year-end the remaining 812,500 common share purchase warrants were exercised.

Shareholders' equity, as of January 31, 1998, increased to \$12,060,000 from \$2,651,000 from the previous year. The additional equity represents the net proceeds of \$8,716,000 from the issuance of common shares and earnings for the year of \$694,000.

Acquisition of the assets of the Northern Algonquin Brewing Company Limited Partnership during the year for \$6,472,000 represents the majority of the investment activity. Trademarks and other deferred cost acquisitions were \$4,679,000 compared to \$1,157,000 for the prior year, the majority of which represents the Laker trademark acquisitions of \$4,062,000 made during the year.

Cash used to fund plant and equipment expenditures, excluding those acquired with the Algonquin asset purchase, during the year ended January 31, 1998 was \$1,423,000, compared to \$1,062,000 for the year ended January 31, 1997. These expenditures relate primarily to the purchase of equipment required to complete expansion at both production facilities to an annual capacity of 220,000 hectolitres and improve overall packaging efficiencies required to meet planned volume initiatives from recent acquisitions.

The Company has an authorized \$900,000 bank operating line of credit.

Risk Factors, Strategies and Outlook

There has been no real growth in the general brewing industry in recent years and this trend is expected to continue. There is increasing competition for market share resulting in additional domestic and imported brands being introduced, growth in the discount beer segment and large breweries entering the premium beer sector. To ensure that Brick remains in the forefront of the industry, the Company has spearheaded the consolidation process in the microbrewery industry, by making strategic acquisitions, brewing alliances and new licensing arrangements that provide a product portfolio that satisfies many segments of the market.

Raw materials, which are subject to commodity pricing fluctuations, represent a large portion of the overall production costs. The Company has been successful in negotiating with suppliers to reduce costs and continue to minimize the impact of raw material cost fluctuations.

The Company participates in an industry which continues to be influenced by government regulatory and taxation policy. Microbreweries, due to the smaller volumes brewed, are not able to attain the low per unit cost efficiencies that large breweries can and, as such, are not in a position to absorb higher rates of taxes. The small breweries of Ontario as a group work with both federal and provincial governments to maintain and improve the existing tax structure and policies for operations with smaller economies of scale.

Brewers' Retail and LCBO stores combined to distribute approximately 70% of the Company's total sales during fiscal 1998 and any material change in Brewers' Retail or LCBO policies, rates or a disruption of service could have a material adverse effect on the Company.

The Company has reviewed its computer systems and software packages and all existing systems are year 2000 compliant. The Company has contacted major customers, suppliers and lenders, and they have indicated there is no significant risk or cost to Brick on their internal year 2000 conversions. During fiscal 1999 the Company will conduct testing on all systems to ensure continued year 2000 compliance. All recent updates and future purchases require that the software or equipment be year 2000 compliant. As a result, the Company does not anticipate significant costs associated with year 2000 compliance over the next two years.

The outlook for fiscal 1999 and beyond is very positive. The capacity of Brick's two production facilities has been expanded to handle the additional volume resulting from recent initiatives. The Company has carefully built a balanced portfolio of beer styles. With the recent addition of the Formosa facility, the Company can enjoy upside potential through the balancing of production between the two plants and exploiting its expertise in contract and international licensing for others including Molson, which has a vested interest in the Company's success.

The Company's objectives for the coming year will be:

- to maintain the Company's commitment and reputation for the brewing of high quality all natural beer
- to continue to focus on the partnership with customers to ensure that their level of quality and service expectations are fulfilled
- to increase sales volume through brand building, alliances and acquisitions
- to continue reducing costs throughout the organization by improving productivity, automation, supplier agreements, distribution logistics and other areas





AUDITORS' REPORT
TO THE SHAREHOLDERS

We have audited the balance sheets of Brick Brewing Co. Limited as at January 31, 1998 and 1997 and the statements of earnings and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 financial statements present fairly, in all material respects, the financial position of the company as at January 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG /s/, Chartered Accountants

Waterloo, Canada
March 23, 1998

January 31, 1998 and 1997

1998

1997

Assets

Current assets:

Accounts receivable	\$ 1,171,219	\$ 413,043
Inventories (note 3)	2,068,997	962,196
Prepaid expenses	593,070	59,710
Total current assets	3,833,286	1,434,949

Property, plant and equipment (note 4)

9,307,468

3,808,302

Trademarks and other deferred costs (note 5)

6,694,206

1,284,703

\$ 19,834,960	\$ 6,527,954
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Liabilities and Shareholders' Equity

Current liabilities:

Bank indebtedness (note 6)	\$ 62,835	\$ 822,293
Trade accounts payable and accrued liabilities	1,482,498	1,261,147
Sales and other taxes payable	435,453	177,360
Current portion of long-term debt	727,255	1,027,542
Total current liabilities	2,708,041	3,288,342

Long-term debt (note 7)

5,067,096

589,056

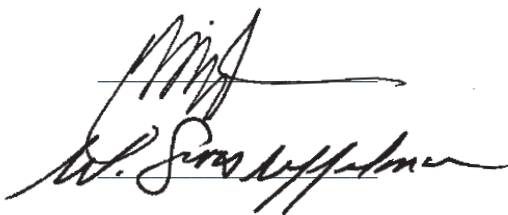
Shareholders' equity:

Equity equivalent (note 8)	-	130,987
Share capital (note 9)	16,861,646	8,015,033
Deficit	(4,801,823)	(5,495,464)
Total shareholders' equity	12,059,823	2,650,556

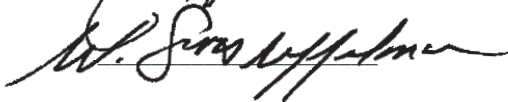
\$ 19,834,960	\$ 6,527,954
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See accompanying notes to financial statements.

On behalf of the Board:



James R. A. Brickman /s/, Director



W. Scott Uffelman /s/, Director

Statements of Earnings and Deficit

Years ended January 31, 1998 and 1997	1998	1997
Sales	\$ 19,923,426	\$ 10,194,525
Cost of goods sold:		
Materials, labour, overhead and distribution	8,874,364	4,661,957
Production taxes	5,945,972	3,170,459
	14,820,336	7,832,416
Gross margin	5,103,090	2,362,109
Expenses and other income:		
Selling, marketing and administration	3,301,561	2,424,761
Write-down of non-standard bottle inventory	-	72,055
Depreciation and amortization	863,020	420,816
Interest on long-term debt	251,430	143,818
Other interest	(6,562)	22,240
	4,409,449	3,083,690
Net earnings (loss)	693,641	(721,581)
Deficit, beginning of year	(5,495,464)	(4,773,883)
Deficit, end of year	\$ (4,801,823)	\$ (5,495,464)
Net earnings (loss) per share:		
Basic	0.08	(0.14)
Fully diluted	0.06	(0.14)

See accompanying notes to financial statements.

Statements of Changes in Financial Positions

Years ended January 31, 1998 and 1997	1998	1997
Cash provided by (used in):		
Operations:		
Net earnings (loss)	\$ 693,641	\$ (721,581)
Items not involving cash:		
Depreciation and amortization	863,020	420,816
Amortization of discount on debenture payable	13,125	28,642
Change in non-cash operating working capital	(1,116,599)	333,515
Cash provided by (used in) operating activities	453,187	61,392
Financing:		
Increase (decrease) in long-term debt	4,081,246	(173,886)
Proceeds on common shares issued, net	8,799,008	2,121,379
Cash provided by financing activities	12,880,254	1,947,493
Investments:		
Acquisition of operating assets of The Northern Algonquin Brewing Company Limited Partnership (note 2)	(6,472,000)	-
Acquisition of property, plant and equipment	(1,423,220)	(1,062,256)
Additions to trademarks and other deferred costs	(4,678,763)	(1,157,350)
Cash used in investment activities	(12,573,983)	(2,219,606)
Increase (decrease) in cash	759,458	(210,721)
Bank indebtedness, beginning of year	(822,293)	(611,572)
Bank indebtedness, end of year	\$ (62,835)	\$ (822,293)

See accompanying notes to financial statements.

Years ended January 31, 1998 and 1997

Brick Brewing Co. Limited operates two breweries serving primarily the Ontario market. The company brews and markets bottled beer as well as draught beer in kegs. The company's products are marketed through the facilities of the Brewers' Retail system, the Liquor Control Board of Ontario and to licensed establishments.

1. Significant accounting policies:

(a) Basis of accounting:

These financial statements have been prepared on the going concern basis, which assumes the realization of assets and the satisfaction of liabilities in the normal course of business. The application of the going concern concept is dependent on the company's ability to generate earnings and cash flow from operations in excess of its debt and other obligations, ability to obtain funds from external financing and continued support from its shareholders. Management is of the opinion that sufficient working capital will be obtained from operations external financing (see note 12) to meet the company's liabilities and commitments as they become payable.

Outlined below are those specific policies considered particularly significant in the preparation of these financial statements.

(b) Inventories:

Raw materials, supplies and promotional items are valued at the lower of cost (determined on a first-in, first-out basis) and replacement value. Work-in-process and finished goods are valued at the lower of cost (including direct materials, labour and overhead costs) and net realizable value.

Returnable containers are recorded at cost. Non-standard bottles included in this category are amortized over their estimated useful life.

(c) Property, plant and equipment:

Property, plant and equipment acquisitions are recorded at cost. Expenditures which significantly increase the life of an asset are capitalized, while expenditures for maintenance and repairs are expensed as incurred.

Depreciation is provided for using the following method and annual rates:

Asset	Basis	Rate
Building	Straight-line	3% - 5%
Storage tanks	Straight-line	3% - 6%
Equipment	Straight-line	3% - 20%
Computer equipment	Straight-line	30% - 50%
Vehicles	Straight-line	10% - 30%

Years ended January 31, 1998 and 1997

1. **Significant accounting policies (continued):**

(d) **Trademarks and other deferred costs:**

Trademarks and other deferred costs are recorded at cost and are amortized on a straight-line basis over varying periods up to a maximum of 25 years.

(e) **Net earnings (loss) per share:**

Basic net earnings (loss) per share is calculated based on the weighted average number of common shares outstanding during the year.

Fully diluted net earnings (loss) per share is calculated based on the assumption that all outstanding stock options and warrants have been exercised at the beginning of the year.

(f) **Use of estimates in the preparation of financial statements:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and 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 these estimates.

2. **Acquisition:**

On July 9, 1997, the company purchased the operating assets of The Northern Algonquin Brewing Company Limited Partnership, which was accounted for by the purchase method. Total assets, including intangible assets, of \$6,472,000 were acquired. Consideration given for the acquisition consisted of 200,000 common shares of the company and \$6,000,000 in cash.

3. **Inventories:**

	1 9 9 8	1 9 9 7
Promotional inventory	\$ 207,783	\$ 147,054
Returnable containers	606,358	135,161
Raw materials and supplies	764,963	397,958
Work-in-process and finished goods	489,893	282,023
	\$ 2,068,997	\$ 962,196

Years ended January 31, 1998 and 1997

4. Property, plant and equipment:		1 9 9 8		1 9 9 7	
	Cost	Accumulated depreciation	Net book value	Net book value	
Land	\$ 275,000	\$ -	\$ 275,000	\$ 200,000	
Building	1,956,231	544,115	1,412,116	667,909	
Storage tanks	1,074,030	349,662	724,368	541,586	
Equipment	9,039,704	2,249,675	6,790,029	2,334,480	
Computer equipment	125,549	97,973	27,576	26,547	
Vehicles	429,329	350,950	78,379	37,780	
	\$ 12,899,843	\$ 3,592,375	\$ 9,307,468	\$ 3,808,302	

Depreciation of property, plant and equipment was \$583,467 (1997 - \$389,876).

5. Trademarks and other deferred costs:		1 9 9 8		1 9 9 7	
Trademarks			\$ 5,254,799	\$ 804,492	
Other deferred costs			1,439,407	480,211	
			\$ 6,694,206	\$ 1,284,703	

Amortization of trademarks and other deferred costs was \$279,553 in 1998 (1997 - \$31,000).

6. **Bank indebtedness:**

The company has a bank operating line of credit with interest at prime plus .25%. The bank operating loan and term loan are secured by a general security agreement over all assets other than real property and a collateral mortgage in the amount of \$5,500,000 over real property.

Years ended January 31, 1998 and 1997

1 9 9 8

1 9 9 7

7. Long-term debt:

Term loan, prime plus .75% monthly, principal payments of \$45,764 plus interest, due June 2007	\$ 5,217,096	\$ -
Term loan, unsecured, no interest payable, due January 2001	575,000	-
Term loan, interest at 9.75% per annum, repayable in blended monthly payments of \$7,129, due October 1997	-	759,492
Term loan, interest at prime plus .75% per annum, monthly payments of \$8,334 plus interest, due November 1999	-	283,316
Term loan, interest at prime plus 1.50% per annum, monthly payments of \$3,750 plus interest, due October 1997	-	146,250
Debenture, no interest payable prior to November 1999 and then at 7.50% per annum, \$500,000 due November 2003. The debenture was converted to 303,030 common shares in 1998	-	403,493
	5,792,096	1,592,551
Obligations under capital leases	2,255	24,047
Total loans	5,794,351	1,616,598
Less current portion of long-term debt	727,255	1,027,542
Long-term debt	\$ 5,067,096	\$ 589,056

The interest-bearing term loan and bank operating loan are secured by a general security agreement over all assets other than real property and a collateral mortgage in the amount of \$5,500,000 over real property.

The aggregate maturities of long-term debt obligations including capital leases are summarized as follows:

1999	\$ 727,255
2000	725,000
2001	750,000
2002	550,000
2003 and thereafter	3,042,096
	\$ 5,794,351

Years ended January 31, 1998 and 1997

8. **Equity equivalent:**

Equity equivalent is the equity instrument component of the convertible debenture issued by the company in 1996. On June 20, 1997, the debenture was converted to 303,030 common shares.

9. **Share capital:**

(a) The company has authorized an unlimited number of common shares.

The company has authorized an unlimited number of preferred shares.
No preferred shares are issued.

Common share transactions are summarized as follows:

	1 9 9 8	1 9 9 8	1 9 9 7	1 9 9 7
	Number of shares	Stated value	Number of shares	Stated value
Issued, beginning of year	6,069,015	\$ 8,015,033	4,759,115	\$ 5,893,654
Shares issued under private placement:				
Special warrants	2,000,000	4,000,000	-	-
Consideration for trademark acquisitions	1,500,000	3,300,000	-	-
Exercise of common share purchase warrants	187,500	468,750	1,025,000	2,009,000
Exercise of convertible debenture	303,030	500,000	-	-
Consideration for purchase of assets	200,000	472,000	100,000	196,000
Share issue costs	-	(525,951)	-	(423,874)
Shares issued under stock option plans:				
Directors	69,321	103,288	168,400	317,028
Officers and employees	14,600	18,776	2,500	2,925
Debtholder	285,714	500,000	-	-
Shares issued under employee stock purchase plan	6,250	9,750	14,000	20,300
Issued, end of year	10,635,430	\$ 16,861,646	6,069,015	\$ 8,015,033

On June 10, 1997, the company issued 2,000,000 special warrants and 1,000,000 common share purchase warrants at a price of \$2.00 per special warrant. The common share purchase warrants were exercisable to purchase one common share at a price of \$2.50 per common share expiring March 23, 1998 (see note 12). On June 11, 1997, the special warrants were exercised on a one-for-one basis into 2,000,000 common shares of the company. The gross proceeds of the special warrant offering to the company were \$4,000,000 less the expenses of issuance which were \$523,555.

Years ended January 31, 1998 and 1997

9. **Share capital (continued):**

(b) **Stock option plan and warrants:**

The company has issued stock options to certain directors, officers and key employees. The options may be exercised during periods of up to ten years following the date of issue, at a discount of up to 15% from the average closing market price during the two to five days immediately preceding the date granted.

At the year-end, directors, officers and employees held unexercised options to purchase a total of 627,189 common shares. Warrants are outstanding for 1,005,000 common shares. These options and warrants expire as follows:

	Expiry date	Share options	Exercise price
Directors	1999	11,273	1.49
	2001	93,600	1.17
	2003	135,000	2.89
Officers and employees	2000	25,263	1.79
	2001	27,053	1.17
	2001	200,000	1.36
	2002	50,000	1.84
	2003	85,000	2.89
Total share options		627,189	
Common share purchase warrants	1999	812,500	2.50
Agent compensation warrants	1999	192,500	2.05
Total warrants		1,005,000	
Total options and warrants outstanding		1,632,189	

(c) **Employee stock purchase plan:**

Employees are eligible to purchase an allotted number of common shares at a discount of 10% from the average closing market price during the five days immediately preceding the date of January 15, 1998.

At the year end, employees were entitled to 15,250 shares at \$1.72. Subsequent to year end, these shares were issued.

Years ended January 31, 1998 and 1997

10. Commitment:

The company has committed to payments under an operating lease for warehouse space to December 1999 with approximate annual costs of \$111,000 in 1999 and \$100,000 in 2000.

11. Income taxes:

On a cumulative basis, the company has losses of \$453,000 available to reduce taxable income in future years. These losses will expire as follows if unapplied:

2003	\$	303,000
2004		150,000

In addition, the company has timing differences of approximately \$4,486,000 that are available to reduce taxable income in the future. Neither of these amounts have been recognized for accounting purposes.

12. Subsequent event:

During 1998, the company entered into a private placement of 2,000,000 special warrants and 1,000,000 common share purchase warrants at a price of \$2.00 per special warrant. During the year, the special warrants and 187,500 common share purchase warrants were exercised into 2,187,500 common shares of the company. On March 23, 1998, the remaining 812,500 common share purchase warrants were exercised at a price of \$2.50 per share for an aggregate price of \$2,031,250.

13. Related party transactions:

All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by both parties.

- (a) During the year, manufacturing equipment and services amounting to approximately \$187,000 (1997 - \$nil) were purchased from a company holding less than 20% of the issued and outstanding common shares of the company.
- (b) During the year, rental charges amounting to approximately \$88,000 (1997 - \$77,000) were made to a company controlled by a member of the Board of Directors.

Years ended January 31, 1998 and 1997

14. **Financial instruments:**

The fair value of the company's accounts receivable, bank indebtedness, trade accounts payable and accrued liabilities approximate their carrying values due to the immediate or short-term maturity of these instruments.

The maximum credit risk, being the risk of default on accounts receivable, is \$1,171,219 (1997 - \$413,043) which represents the current carrying value. Brewers Retail and L.C.B.O. are the largest customers with receivables totalling \$439,822 at January 31, 1998.

The fair value of the company's debt approximates its carrying value as interest rates are at market rates, with the exception of the interest-free term loan, which has a present value of \$470,000.



**Directors and Officers
of the Board**

Directors

James R. A. Brickman

Waterloo, Ontario
President and C.E.O., Brick Brewing Co. Limited

Ronald L. Fowler

San Diego, California
Chairman and C.E.O., Liquid Investments Inc.

Thomas W. Gilchrist

Toronto, Ontario
President, T. W. Gilchrist Vending Ltd.

J. Howard Hawke

Toronto, Ontario
Chairman, Board of Directors

Donald B. Kopas

Toronto, Ontario
Chairman and C.E.O., Kopas & Burritt Financial Agents Ltd.

Scott E. McNabb

Waterloo, Ontario
Investment Vice-President, Corporate Loans, The Mutual Life Assurance Company of Canada

Paul G. Morton

Toronto, Ontario
President, Security Investments Corporation Ltd.

W. Scott Uffelman

Waterloo, Ontario
President, Ontario Seed Company Limited

Officers of the Corporation

James R. A. Brickman

President/C.E.O.

Jeffrey P. Botham

Vice President Finance

Michael A. Ostner

Vice President Operations

J. Marie Peacock

Secretary

Transfer Agent For The Corporation

Montreal Trust Company of Canada

Toronto, Ontario

Brick Brewing Co. Limited



A sampling of our Brick Brewed buffet of beers.





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