

BRICK BREWING CO. LIMITED

ANNUAL REPORT FOR THE YEAR
ENDING JANUARY 31, 2005



T H E VISION IS DEFINED...

CORPORATE PROFILE

Brick Brewing Co. Limited is a regional brewer of award winning premium quality beers. The Company, founded by Jim Brickman in 1984, was the first craft brewery to start up in Ontario, and is credited with pioneering the present day craft brewing renaissance in Canada. Brick has complemented its successful line of premium craft beers with other popular brands such as Laker, Red Cap and Formosa Springs Draft.

Brick operates two breweries in Ontario: a facility in Waterloo and the Formosa Springs Brewery in Formosa. The Company also operates distribution warehouses in Kitchener, Ontario and Laval, Quebec.

MISSION STATEMENT

A Canadian owned beer pioneer since 1984, our passion at the Brick Brewing Co. is to quench the thirst of beer drinkers by having them enjoy our high quality beer at a great value. We will be respected as an innovative and successful business that is growing, profitable and a great place to work.



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FINANCIAL HIGHLIGHTS

Years ended January 31
(in thousands of dollars except per share amounts)

INCOME STATEMENT

Net revenue
Gross Margin
Operating profit (EBITDA)
Net Income
Earnings per share (diluted)

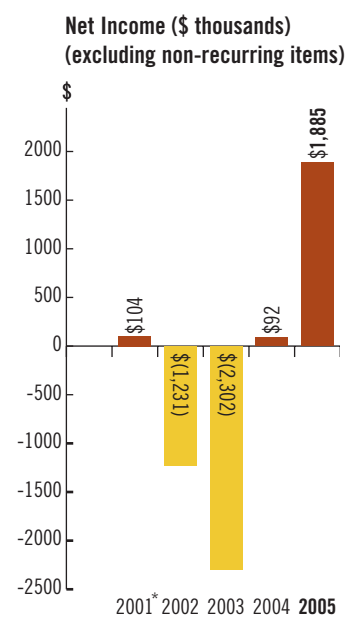
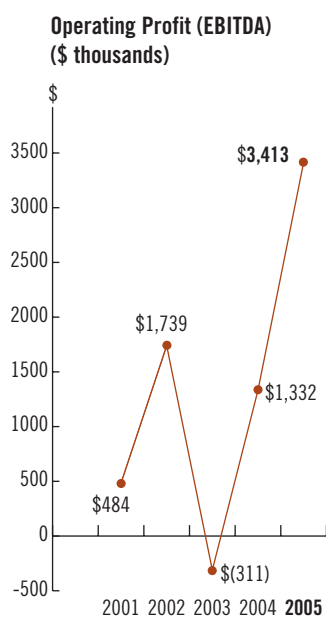
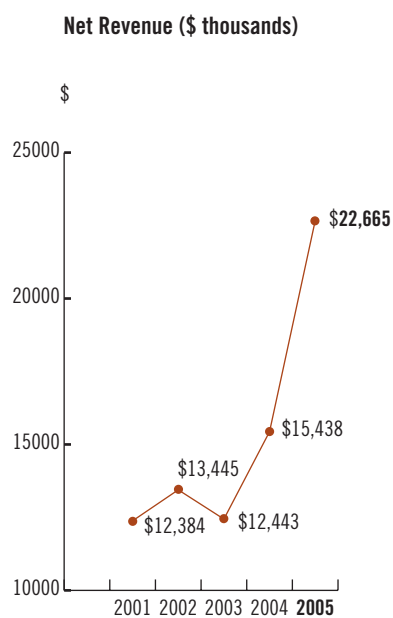
BALANCE SHEET

Working capital position/(deficiency)
Total Assets
Shareholders equity

OPERATIONAL METRICS

Gross Margin/Net Sales
EBITDA Margin/Net Sales

	2005	2004	% Change
Net revenue	22,665	15,438	46.8%
Gross Margin	7,787	4,308	80.8%
Operating profit (EBITDA)	3,413	1,332	156.2%
Net Income	1,885	92	
Earnings per share (diluted)	0.11	0.01	
Working capital position/(deficiency)	5,855	(2,976)	
Total Assets	24,391	17,924	36.1%
Shareholders equity	18,198	8,651	110.4%
Gross Margin/Net Sales	34.4%	27.9%	
EBITDA Margin/Net Sales	15.1%	8.6%	



*Excludes \$2,187 gain on sales of trademark

Our vision moving ahead is to substantially enhance our position in the Ontario beer market, to take advantage of growth and related opportunities, while at the same time not losing focus of our primary business as an innovative regional craft brewer.



THE VISION IS

EFINED...

LETTER FROM THE CHAIRMAN

JIM BRICKMAN
Executive Chairman and Founder
Brick Brewing Co. Limited



In December of last year, Brick Brewing celebrated its 20th anniversary. In addition to this significant milestone, the Company has also posted the most successful year in its history, in earnings, cash flow and beer volumes.

This accomplishment is a direct result of the culmination of many initiatives that have been implemented over the past few years, and are now being fully realized on an annualized basis. These positive benefits are linked to the development of our long-term business plan that has been incorporated into the Company's operational activities and overall strategy.

This, of course, could not have been achieved without the endurance and determination of our employees and senior management team, who, with their leadership and commitment have endeavoured to win against many obstacles and challenges over the years. A lot of good hard-working people have made Brick Brewery a success, and we take pride in our good fortune.

The Canadian beer industry as a whole is facing a very dynamic period, as emerging trends in the beverage alcohol business have changed the market-place environment more quickly in the last 5 years, than in the last 50 years. One could also say the industry is in a momentary state of flux and distraction, as major players work out their consolidation priorities, forming new entities and alliances, while trying to shore up eroding profit margins and deal with shifting market share. We view this as a great opportunity for a company of our size and flexibility, which can quickly and effectively respond to market changes, and in some instances actually lead in influencing these changes to our advantage.

The political attitude toward taxation policies on small brewing enterprises has also changed, as a result of our persistent lobbying efforts over many years. The provincial governments now recognize the important role that viable domestic brewers play in creating new jobs and other related benefits, especially as the larger brewers scale down and consolidate with foreign interests. Brick is a good example of the dramatic effect that reasonable taxation rates have on a small brewery's ability to grow, prosper and re-invest in its operations. The payback has been a visible success for all parties.

Our key strategic vision moving ahead is to substantially enhance our position in the Ontario beer market, by taking advantage of growth and related opportunities, while at the same time not losing focus of our primary business as an innovative regional craft brewer. Our fundamental goals at Brick are to continue to be innovative, breaking new ground, whether it is new products, new packaging, or other unique selling propositions that meet or exceed our customer needs. We will strive through operational efficiencies, to provide the best combination of quality and price to beer drinkers in the categories or segments in which we choose to compete. This will ensure ongoing and sustainable revenue growth and profits.

Last year, I was very pleased to have the opportunity to recruit Doug Berchtold, who, with his proven expertise and decisive leadership skills, will guide our exceptional management team, and lead us quickly and profitably to the next level of our strategic plan.

Going into our new fiscal year I feel that Brick has finally reached its "tipping point", where we have the momentum, the resources and the opportunity to fast forward and secure Brick's position as an influential player in the history of the Canadian beer industry.

I have seen many changes and transformations in this industry since the first bottle of Brick Premium rolled off the line in 1984. It is gratifying to think that Brick, as a pioneer, can take modest credit for influencing the positive way in which people think of beer today. The present day beer renaissance, spurred on by a resilient group of craft brewers, is in full flight with endless possibilities and choices of great beer styles for beer drinkers to explore and experience.

From Brick's perspective, I can't think of a better time to be in the beer business.

Have a great summer!

Cheers,

JIM BRICKMAN



In the past year the Brick management team undertook an exhaustive review of its five year plan. For the first time, Brick's goals were clearly defined, the resulting strategies were developed and prioritized and the organization came together on related tactics to deliver the ambitious results from the plan. Going forward Brick will continue to improve its business planning and execution capabilities as management becomes more comfortable with this new way of doing business.

This new strategic framework has given us a clear outline of what is critical for Brick to achieve over the next three years. The summarized plan has three distinct phases:

1. **GROWTH – "GROWING THE VOLUMES"**
2. **OPERATIONAL EFFICIENCIES – "REDUCING THE COSTS"**
3. **BRAND DEVELOPMENT – "INVESTING IN OUR BRANDS"**



T H E

TRATEGIES
ARE IN PLACE...

LETTER TO SHAREHOLDERS FROM THE PRESIDENT AND CEO

DOUG BERCHTOLD
President and CEO
Brick Brewing Co. Limited



Dear Shareholder:

It has been not quite one year since my arrival at Brick Brewing in May, 2004. At the time I was convinced that despite the obvious financial challenges the company had endured Brick had much unfulfilled potential if a clear and consistent plan for moving forward was developed. Having spent the last year working closely with Jim in his new role as Chairman, the Brick Board, our new shareholders and management, I now can be much more certain that our future is very bright indeed. I believe that the Fiscal 2005 results we are reporting to you in this annual report, while impressive, merely scratch the surface of what is possible for this company in the coming years.

Fiscal 2005 was a truly remarkable year for your company. Let me recap just a few strategic highlights:

1. We successfully stabilized the business by identifying and aggressively entering the value beer market with our Laker brand family. The Laker brand has become synonymous with "BUCK A BEER" and Ontario consumers have voted with their wallets to buy unprecedented quantities of Laker Lager, Laker Light and Laker Red.
2. In parallel, we realigned several key brands to present to consumers a diverse portfolio of value and mainstream brands, each with a unique point of difference vs. competition. Our portfolio of Laker, PC[®], Red Cap and Formosa Springs bring a diversity of unique packages, pricing and flavours to serve the rapidly growing value conscious beer market in Ontario.
3. We immediately capitalized on our marketing successes with a plan to permanently improve our financial condition. In rapid succession between April and November, we raised private equity capital, restructured our operating line and term loan, and completed an extremely successful institutional financing. The result of these efforts is a very strong balance sheet which positions your company for sustained growth.
4. Subsequent to year end we invested in our sales agency, Direct Cellars, affording us greater influence over the sales policies of that entity and to afford our shareholders a better return on future volume growth within our sales function.

Notwithstanding our substantial and transformational short-term successes, I felt that in order to sustain our progress beyond Fiscal 2005 we needed a comprehensive long-term plan for our business. With a strong commitment from the Chairman and our management team, we undertook to develop a comprehensive five year strategic plan for Brick Brewing Company Limited. We engaged in a lengthy, time intensive process over a six month period to develop for the first time a shared vision coupled with a comprehensive list of the company's goals and related strategies. As a result we all now share the same vision for Brick Brewing Co Limited

Thus, I can confidently say that as a result of this work – at Brick... THE VISION IS CLEAR AND THE STRATEGIES ARE IN PLACE for future success. To emphasize the importance of this work we have chosen this message as the theme of our report to our shareholders this year.

Our long-term strategies identified in our internal planning process will build on our successes for Fiscal 2005 and serve to shape Fiscal 2006 and beyond. A selection of the strategies which will fundamentally shape Fiscal 2006 activities include:

1. We will utilize our improved access to capital to upgrade our manufacturing capabilities at Brick Brewing Company Limited. We have developed a comprehensive manufacturing strategy which contains a series of actions to reduce cost and increase capacity over the course of the next two fiscal years. The plan will drive a \$2 million improvement in EBITDA via variable cost reductions.
2. We will develop and implement a plan for the growth of the Brick Brewing premium brand portfolio. We believe that there are opportunities to pursue targeted investment in our current premium brands, selected new branding opportunities and options to represent selected complementary imported brands. We will explore each of these options and implement a three year plan during the current fiscal year.
3. We will engage in a rigorous process to reduce operating costs within the business in order to remain competitive against our much larger rivals. We will remain lean by reviewing distribution costs, administrative and operating overheads to ensure that both the capabilities and costs of these functions meet the new strategies for Brick.
4. We will begin to investigate low risk high return geographical expansion opportunities for our business outside of our core Ontario market. We have already commenced this with our strategic relationship with Big Rock in Western Canada. We would hope to build on that already strong relationship and to extend our reach into Quebec and Eastern Canada within the next few years.

I'd like to close by thanking the shareholders, board members and employees of our company for their support of these new initiatives in the past year. I truly appreciate the opportunity to help lead and shape the future of Brick over the coming years and to make Brick widely known for its pioneering spirit, innovation and consistent profitability.

DOUG BERCHTOLD

"Last year was truly a remarkable year for our business. The growth in volumes and the acceptance of our strategies allowed us to refinance the balance sheet and provide the financial foundation for sustainable growth and profitability."

Graydon Moore – Chief Financial Officer



PHASE ONE – GROWTH

Brick enjoyed tremendous success in growing volumes last year. The repositioning and promotion of the Laker brands in Ontario as the "Buck a Beer" offering in the value category was well received by consumers and the brand grew exponentially in spite of intense competitive activity in this rapidly expanding category.

The popular Red Cap brand in the nostalgic "stubby" bottle also enjoyed strong growth through a successful combination of targeted media and aggressive price promotion. Consumers who discover this brand not only enjoy the taste but they see the bottle as being either "funky" or "nostalgic" depending on their birthdates. Overall this brand offers great value in a unique package.

In the course of last summer the Company successfully re-launched the PC® beer brands in Ontario followed shortly by an introductory launch in Quebec. These brands were repackaged and reintroduced in Ontario and were made available for the first time in Quebec solely via grocery stores owned, operated or franchised by Proviso, the operating subsidiary of Loblaws. This launch was significant because it expands the Company's distribution capabilities into Quebec and therefore unleashes the potential of the Quebec market for our shareholders.

During the past year the financial performance and solvency of the Company improved dramatically. Brick sales and profits increased to record levels. Management successfully restructured our balance sheet by obtaining new financing agreements with our lenders. Brick now has relationships with multiple sources of capital that are supportive and willing to provide additional financing if required. In April, and then in November, Brick successfully completed two private placements with key institutional investors totaling \$7.5 million. These new financings have positioned the Company to aggressively capitalize on future growth opportunities.

Another catalyst for growth is a recent investment we have made in our sales activities. In February, 2005 Brick invested directly in its third party sales agency, Direct Cellars. This investment will provide Brick with greater influence over the policies of this entity and a better return on future volume growth within our sales function.



"Strategically, with the ownership of our own sales agency we will be able to provide greater influence over the sale of both Brick and partnership brands."

Craig Prentice – Vice President Sales

PHASE TWO – OPERATIONAL EFFICIENCIES

In the coming year there is still much for Brick to improve in reducing structural costs in the business. In fiscal 2006 we plan to expand production capacity to match the continued growth in our volumes. One concrete example is our plans to expand the aging and fermenting capacity in the Waterloo brew house to meet the growing consumer demand. These efforts will build on our successes of fiscal 2005, where we realized efficiencies from the additional volume and successfully reduced our variable costs of distribution and production substantially.

In order to be efficient and cost focused it is crucial to have highly motivated employees who share our vision and goals. Therefore, it is crucial for Brick to invest more in its people. In the past year management at Brick identified Brick's core values. Our core values define who we are and how we think and act as individuals and as a business. They guide everything we do. These are the core values we live by:

- Integrity
- Pursuing Excellence
- Respect for Others
- Working Together
- Entrepreneurial Spirit
- Life/Work Balance

These core values are driving our Human Resource planning activities. The Company has already undertaken a number of initiatives to provide a supportive environment to ensure innovative thinking throughout the organization and to improve working conditions. These efforts and many more new programs will continue during fiscal 2006 and beyond.

In the next fiscal year, we also plan to make significant investments in our information systems to improve management decisions and to identify opportunities for improvement. The Company's information strategy will focus on implementing an integrated information system that will provide the organization with information that provides up to date sales and accounting information which will provide a competitive advantage. The systems investment will ensure the Company has powerful planning and reporting tools to focus and improve management decisions.

As a result of a manufacturing strategy which was developed in the context of the strategic plan, in the coming year Brick will consolidate warehousing activities in a larger leased facility in Kitchener. We will also simultaneously invest in upgrading our bottle washing capabilities in this new facility. Currently our Ontario distribution is fragmented and we warehouse products in several locations. The benefits of washing returnable bottles in this new facility and consolidating warehousing are expected to net the Company annualized savings in excess of \$1.0 million at current volumes. Through other selective investments in capital equipment we will increase the overall packaging capacity by another 20%. In the coming years via the identified manufacturing strategy, we will make additional investments in our manufacturing operations to further seek to reduce operating costs by a targeted amount of at least an additional \$1.0 million per year.

“With selective investments in our operations we will grow our capacity, reduce costs by consolidating operations, and continue to produce high quality beer.”

Mike Baumken – Vice President Operations



PHASE THREE – BRAND DEVELOPMENT

A beer company must invest in its brands to be successful in the long term. In the past year our brands have shown excellent growth in the value and mainstream categories. We will continue to develop innovative strategies to continue to strengthen and grow the equity in these brands. We believe our value and mainstream brands will continue to provide consumers with great value at a fair price.

In the coming year we will also begin to develop the marketing plan for the Brick premium portfolio. In recent years we have not invested in these brands. However, we believe there are opportunities for targeted investment in our premium brands, in selected new brands or partner brands and we intend to pursue these opportunities shortly. Our core theme will be to continue to provide innovative new choices to our consumers within our premium branding strategies.

We believe that there are numerous options available to the revitalized Brick. We will exploit other business development opportunities in the Canadian beer market. At present, we are working on several very exciting projects for fiscal 2006.

As for fiscal 2005, there have been two notable successes. In May of last year Brick launched the PC® beer under license in Ontario followed shortly by Quebec. This strategic partnership provides additional volumes for Brick and an opportunity to partner with the largest private retailer of beer in Canada. This opportunity could also lead to the development of additional markets for Brick beer.

Within the past year we also developed a strategic partnership with Big Rock Brewery of Calgary, Alberta. This strategic partnership provides Brick with capabilities to sell our products in Western Canada. We also believe there will be opportunities to represent complementary imported brands nationally given the multi-provincial capabilities of the Brick/Big Rock partnership. As a result of this strategic alliance we will actively search for these complementary brands for either representation or strategic acquisition in fiscal 2006 and beyond.



“We will invest intelligently in our premium brands. Market studies of consumer preferences will drive the strategy for the development of our premium brands.”

Norm Pickering – Vice President Marketing

“We will continue to search and evaluate strategic opportunities and partnerships that will positively impact our bottom line and which complement our strategic plan.”

Kevin Meens – Vice President Corporate Development



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The following comments provide a review of the activities, results of operations and financial condition of Brick Brewing Co. Limited for the twelve months ended January 31, 2005 ("fiscal 2005") in comparison with the twelve months ended January 31, 2004 ("fiscal 2004"). These comments should be read in conjunction with the financial statements and accompanying notes included herein. The following comments were prepared as of April 26, 2005. Additional information relating to the Company, including its annual information form, is available at www.sedar.com.

FORWARD-LOOKING STATEMENTS

Except for the historical information contained herein, the discussion in this MD&A contains certain forward-looking statements that involve risks and uncertainties, such as statements of the Company's plans, objectives, strategies, expectations and intentions. These reflect the Company's views at April 26, 2005 with respect to future events and are subject to certain risks, uncertainties and assumptions, which may cause actual performance and financial results to differ materially from such forward-looking statements. The Company disclaims any intention or obligation to update or revise any forward-looking statements as a result of new information, future events or otherwise.

DESCRIPTION OF THE BUSINESS

The Company produces, sells, markets and distributes bottled and draft premium beer under the Brick brand name, value beer under the Laker brand name and mainstream beer under the Red Cap and Formosa brand names. As well, the Company produces, sells and distributes draft beer products in Ontario for Big Rock Brewery of Calgary, Alberta ("Big Rock"). The Company also produces, sells, markets and distributes various beer products under the licensed PC® trademark on behalf of Loblaw's Inc. which is available in Ontario and Quebec. The Company's other products are sold primarily in Ontario, although certain products are available in Alberta, British Columbia and Nova Scotia. The Company also engages in certain co-packing business, which involves producing and packaging flavoured alcoholic beverages for other customers.

In Ontario, distribution of bottled beer occurs primarily through The Beer Store ("TBS") and the Liquor Control Board of Ontario ("LCBO"). The Company also distributes draft beer products directly to licensed establishments (bars and restaurants) in Ontario.

Through a sales agency agreement, Big Rock represents and markets certain Brick brands in Alberta and British Columbia. The Company represents and markets Big Rock bottled brands in Ontario through a sales agency agreement.

The Company's brewing facilities are located in Waterloo and Formosa, Ontario. The Company's packaging facility is located in Formosa. The Company has warehouses in Kitchener, Ontario and Laval, Quebec. The Company's head office is in Waterloo, Ontario.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SELECTED ANNUAL INFORMATION

The following table summarizes certain consolidated financial information of the Company for the years indicated below:

	Three Year Summary Year Ended January 31		
	2005	2004	2003
<i>(in thousands of dollars, except per share amounts)</i>			
Income Statement Data			
Gross Sales	\$ 42,129	\$ 21,255	\$ 18,917
Net Sales (after production taxes and distribution fees)	\$ 22,665	\$ 15,438	\$ 12,442
Earnings (Loss) before interest, income taxes, depreciation and amortization and non-recurring items	\$ 3,413	\$ 1,332	\$ (311)
Net earnings	\$ 1,885	\$ 92	\$ (2,302)
Earnings (Loss) per Share			
Basic	\$ 0.12	\$ 0.01	\$ (0.18)
Diluted	\$ 0.11	\$ 0.01	\$ (0.18)
Balance Sheet Data			
Total Assets	\$ 24,391	\$ 17,924	\$ 18,428
Total Long Term Debt	\$ 2,850	\$ 3,115	\$ 3,386

RESULTS OF OPERATIONS

NET REVENUE

Net revenues for the year ended January 31, 2005 were \$22.7 million as compared to \$15.4 million in the previous year, an increase of 47%. Net revenues are calculated by deducting from gross sales revenues the costs of distribution fees paid to TBS and the LCBO and production taxes. Net beer revenues increased during the year to \$21.7 million compared to \$9.4 million last year; more than replacing net revenues from co-packing alcoholic beverages for other customers which were \$1.0 million in this period, down from \$6.0 million in the prior year.

For fiscal 2005, the Company's overall beer volumes increased by 225%. During the year, volumes of the Company's premium brands declined 17% while management conducted a review of the premium brand marketing strategies. However this was more than offset by a 82% increase in mainstream brand volumes resulting from new promotional programs, a 325% increase in value brand volumes and the introduction of licensed brands for Big Rock and Loblaw's Inc. during the year. In September 2003, the Company undertook a strategy to aggressively compete in the value priced category with its Laker family of brands. The Company lowered the price of selected Laker brands to \$23.70 per case of 24 bottles, the minimum price allowed by the Government of Ontario. The Company's Laker volumes increased dramatically and this trend continued through fiscal 2005, despite intense competition at this price level from other brewers.

Looking ahead, the Company expects net revenue to increase significantly again in the current year, however the rate of growth will moderate from fiscal 2005. Growth in the value beer category will continue at a more moderate pace due primarily to increased

competitive activity and expected less aggressive pricing. The Company expects that it will also continue to generate revenue growth from its mainstream brands through the further introduction of innovative packaging and marketing programs to stimulate volumes. The Company's licensed brands will further add to revenue growth in the current year as these brands grow, as new products are introduced and the Company receives the full year volumes of these brands. The Company's previous reliance on co-packing for other customers decreased during fiscal 2005 and will continue to decrease as the Company utilizes more production capacity for its own higher margin beer brands and other licensed beer brands.

The Government of Ontario provides small brewers with reduced production taxes. In May 2003, the province significantly reduced production taxes for brewers with annual volumes (trailing five year average) under 150,000 hectolitres. Below the 150,000 hectolitre threshold, small brewers' average tax rates are reduced by approximately \$16 per hectoliter. In fiscal 2005, the Company's production taxes were accordingly reduced by approximately \$1.2 million. Management believes that despite the Company's recent growth it will be entitled to the tax rates for small brewers for a minimum of two additional years.

COST OF GOODS SOLD

Cost of goods sold were \$14.9 million for the year, up from \$11.1 million, a 34% increase. This compares favourably to the 47% increase in net revenues. The significant increase in beer volumes provided lower per unit production costs by improving the utilization of the manufacturing facility. The costs to distribute the Company's products decreased significantly per unit as the result of the increased beer volumes. During the year, the Company continued to shift its production and sales volumes to its higher margined beer business, which replaced the co-pack volumes from the prior year.

GROSS MARGINS

Gross margins improved to \$7.8 million in fiscal 2005 from \$4.3 million in fiscal 2004, an increase of 81%. During the year, the Company grew its higher margined beer business and reduced the co-pack volumes from the previous year. Co-pack volumes declined by 71% in fiscal 2005 from the previous year. Gross margins from the production and sale of beer grew to \$7.5 million from \$3.0 million in the previous year and at the same time, gross margins from co-pack sales were reduced to \$0.3 million from \$1.3 million in the previous year.

For the fiscal year ending January 31, 2006, the Company expects gross margins to improve due to continuing favourable trends in volumes and pricing, additional capital expenditures to reduce production costs, and concerted efforts to control fixed and variable overhead and distribution costs.

OTHER OPERATING ITEMS

Selling, marketing and administration expenses for fiscal 2005 increased to \$4.3 million from \$2.9 million for fiscal 2004. Selling expenses increased \$120,000 from the prior year primarily to support increased activities in the licensee channel for Brick and Big Rock brands. Administration expenses increased by \$727,000 primarily due to increased salaries and expenses related to raising additional capital and refinancing. The increased investment in marketing activities was \$536,000, which was invested primarily in marketing the value and mainstream brands, which contributed to an aggregate 275% increase in volumes for these brands.

The Company incurred expenditures of \$88,000 in fiscal 2005 with respect to its litigation with TBS versus \$119,000 in the previous year. The Company's lawsuit seeks among other things a permanent injunction to allow the Company to continue to offer products to consumers in a variety of bottles as well as the industry standard bottle. Examinations for discovery of the parties are proceeding. No court date has been set for a hearing of the matter. The Company believes that having flexibility in its packaging is a critical issue for its long-term success and will continue to vigorously defend its rights.

Depreciation and amortization increased by \$0.4 million due to two adjustments. The first was due to the write down of deferred preproduction costs related to a co-pack program and the second was due to deferred finance charges related to the previous Farm Credit Corporation financing that was paid out during the year.

Interest expense was reduced by \$141,000 as a result of a reduction in the Company's debt levels, due primarily to the funds received from the two private placements by the Company during the year.

EARNINGS PER SHARE

Net earnings were \$1.9 million or \$0.11 per share on a diluted basis for fiscal 2005, compared to net earnings of \$92 thousand or \$0.01 per share in fiscal 2004. The total weighted average number of common shares for fiscal 2005 was 15,777,473 compared to 12,445,130 the previous year. At January 31, 2005 the Company had 19,261,412 common shares outstanding, 994,000 stock options outstanding and exercisable for the same number of common shares, 1,840,000 common share purchase warrants outstanding and exercisable for the same number of common shares and 220,800 compensation options outstanding and exercisable for the same number of common shares.

LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital position was \$5.9 million at January 31, 2005, an \$8.9 million improvement, compared to a working capital deficiency of \$3.0 million as at January 31, 2004.

The Company used \$1.6 million in cash from operating activities for fiscal 2005 compared to generating \$1.7 million for the previous year. The \$3.4 million cash flow from earnings in the year was offset by a \$5.0 million increase in non-cash operating working capital requirements, as the Company moved to aggressively improve liquidity and reduce current liabilities. The higher non-cash operating working capital requirements resulted from a \$2.0 million increase in inventory due to increased inventories of glass and packaging to support increased beer volumes. The accounts receivable increased \$1.5 million due to the growth in beer sales and the timing of the receipt of the weekly payment from TBS in the last week of January 2005 compared to the last week of the previous year. The accounts payable were reduced by \$1.5 million in the year by reducing sales tax payable to the Government of Ontario by \$1.2 million and by reducing amounts owing to suppliers by \$0.3 million to receive payment discounts.

Financing activities generated \$5.6 million in cash for fiscal 2005 compared to a reduction of \$0.8 million used in the previous year. During the year the Company issued securities in two private placements for \$7.5 million, reduced its long term obligations by \$0.9 million and reduced its operating line by \$0.8 million. The Company has an authorized operating line of credit of \$2.5 million at prime plus 0.25% which at year end was undrawn. The Company's operating line is sufficient to fund operating activities and cash requirements throughout the year. The Company is currently in compliance with the terms of all lending agreements.

Investing activities used \$3.9 million in fiscal 2005 compared to \$0.9 million for fiscal 2004. The Company invested \$3.0 million of cash in short term marketable securities. Capital expenditures were \$0.9 million in the year, which was the same as the previous year.

In fiscal 2006, the Company plans to fund approximately \$3.0 million of capital asset purchases related to improvements to operations through a combination of cash from operating activities, selected operating leases, its current cash or marketable securities balances or by temporarily utilizing its operating line of credit.

Cash and marketable securities of \$3.1 million at January 31, 2005 arose from the proceeds of a private placement of units in November 2004.

In the fourth quarter of fiscal 2005, the Company refinanced its long-term debt by entering into a new facility with Roynat Capital. The new facility is secured by equipment and real estate. The term of the agreement is ten years and the interest rate is floating (5.81% at January 31, 2005). The Company also has approval for an additional \$1.0 million under the facility, which it intends to utilize in the coming year.

The Company also utilizes several operating leases to finance office and computer equipment and software, warehouse equipment, cars, vans, forklifts, trucks and trailers. These assets typically have a shorter life expectancy and become obsolete very quickly. By entering into operating leases, the Company is able to update its equipment more frequently and in doing so lower its overall average cost compared with purchasing the assets. During fiscal 2005 the Company entered into new leases valued at approximately \$50,000. All leases are evaluated at inception for appropriate accounting treatment. The total of the Company's future lease payments can be found in note 11 to the Company's 2005 audited financial statements.

The Company has agreements to purchase materials from certain suppliers. These agreements do not have minimum or maximum purchase commitments.

A summary of the Company's contractual obligations for the next five years is as follows:

Payments Due by fiscal year in (\$000)						
Contractual Obligation	2006	2007	2008	2009	2010	Total
Long Term Debt	300	300	300	300	300	1,500
Capital Leases	31	27	10			68
Operating Leases	322	310	246	222	230	1,726
Total Contractual Obligations	653	637	556	522	530	3,294

Brick does not currently pay dividends on its common shares. The Board of Directors of the Company believes that the cash flow of the Company at the current time should be reinvested to finance current activities which will drive future growth and shareholder value. Dividend policy is reviewed annually.

The Company has approximately \$9.1 million in loss carry-forwards and temporary timing differences available to reduce income tax expense in future years, as compared to \$10.5 million at the end of the previous year. On a cumulative basis, the Company has losses of \$1.9 million available to reduce taxable income in future years. These losses will expire in 2009 if unapplied.

RISK FACTORS, STRATEGIES AND OUTLOOK

Management believes that the Company is well positioned to continue to compete in its markets and grow its beer business. The Company is a participant in the growing premium beer segment of the market, which is approximately 17% of total Ontario beer sales of \$4 billion. The Company also participates in the growing value beer category, which is approximately 30% of the Ontario beer market.

Various permits, licenses and approvals necessary for the operation of the Company are required from agencies, including the LCBO and Canada Revenue Agency-Excise. Management believes that the Company is currently in compliance with all license and permit terms and conditions, and that the Company has the necessary approvals for current operations.

Quality controls in the manufacturing process are maintained to prevent defects or failures. Despite the vigorous quality control procedures and testing done by the Company, there is the risk that the Company could be party to a product liability claim by its customers. The Company maintains errors and omissions and product liability insurance to protect itself from such litigation, but any such claim could have an adverse effect on the Company's business. Currently, there are no such claims outstanding.

The Company's revenues are generally seasonal and the second quarter, which covers the summer months, has historically been the strongest quarter for the Company, representing approximately 34% of total revenues, followed by the third quarter (approximately 27% of total revenues) which covers late summer and fall. The first and fourth quarters usually see a reduction in revenues as beer consumption is lower in the cooler winter months.

Value priced brands have shown sales trends that are not as seasonal in nature as premium brands. With the recent significant growth of volumes of the Company's value brands, management anticipates that the Company's revenues should have less seasonal fluctuations than in previous fiscal years.

The Company considers its main competitors to be other participants in the Canadian brewing industry, which include imported, specialty and value priced beers brewed and represented by both small regional brewers and the national brewers. The market for beer sales in Ontario is increasingly competitive and the Company believes it will continue to be very competitive in the future, as the Company anticipates that volumes in the Canadian beer industry will grow only moderately over the next few years due to slightly more favourable demographic factors. Growth opportunities appear to be in the value priced and premium beer sectors. Existing regional breweries and craft brewers are increasing their production capacities and marketing programs to take advantage of this opportunity. National brewers are aggressively promoting and pricing their own specialty and value brands as well as premium import brands. The Company must compete effectively with these competitors in its key focus areas of quality and innovation to continue to grow volumes and profitability. In addition, the Company must continue to develop and invest in new innovative product/packaging and strategic marketing programs to maintain and grow market share.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The outlook for the current fiscal year is optimistic. The Company anticipates continued growth in volumes, however the rate of growth is expected to moderate due to slower industry growth in the value category.

The Company will continue to focus on fiscal control and targeted expenditures to maximize profitability in fiscal 2006. The Company will seek to continue to execute strategies that will reduce per unit costs and maximize profit.

Capital spending in fiscal 2006 is expected to be approximately \$3 million. The Company plans on funding these capital expenditures with a combination of additional long-term debt, operating leases, cash from operations and current cash balances. These expenditures are primarily targeted to enhance production efficiencies which are expected to provide additional cost savings.

Earnings before interest, taxes, depreciation and amortization (EBITDA)¹ was \$3.4 million in fiscal 2005, compared to \$1.3 million in fiscal 2004, a 156% improvement. Moving forward this critical measure of profitability continues to be the Company's primary focus. Given the continuing favourable volume and margin trends in the business at this time, management has established an EBITDA target of \$5.0 million for fiscal 2006.

SUMMARY OF QUARTERLY RESULTS

\$(000's)	Fiscal 2005				Fiscal 2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net Revenue	3,982	6,468	6,950	5,265	2,351	5,944	4,034	3,109
Selling, general & administration	863	1,215	1,282	926	618	895	665	678
EBITDA	420	1,152	1,406	436	107	877	184	163
Net Income\Loss	149	832	684	220	(112)	554	(169)	(180)
EPS (Basic)	0.01	0.05	0.04	0.01	(0.01)	0.04	(0.01)	(0.01)
EPS (Diluted)	0.01	0.05	0.04	0.01	(0.01)	0.04	(0.01)	(0.01)

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

The Company's accounting policies are discussed in detail in note 1 to the Company's fiscal 2005 audited financial statements.

Effective February 1, 2004, the Company adopted the revised recommendations of the CICA Handbook section 3870 "Stock-based Compensation and Other Stock-based Payments". If the Company had prospectively adopted the fair value method of accounting for all employee stock-based awards, this standard would have caused a charge of \$55,000 to be recognized as a compensation expense in the January 31, 2004 financial statements.

In fiscal 2005, Brick adopted the provisions of the CICA Handbook's new section 3063 "Impairment of long-lived assets" and section 3110 "Asset retirement obligations". There was no impact on the carrying value of the Company's assets and liabilities as a result of these new provisions.

¹EBITDA is a non-GAAP earnings measure, therefore it does not have any standardized meaning prescribed by Canadian generally accepted accounting principles and may not be similar to measures presented by other companies. EBITDA represents earning before interest, income taxes, depreciation and amortization. Management uses this measurement to evaluate the operating results of the Company. This measure is also important to management since it is used by the Company's lenders to evaluate the ongoing cash generating capability of the Company and therefore the amounts those lenders are willing to lend to the Company.

RELATED PARTY TRANSACTIONS

The Company's related party transactions are discussed in note 12 to the Company's fiscal 2005 audited financial statements.

The Company rents warehouse space from a company controlled by Scott Uffelman, a member of the Board of Directors. The rental charges were \$227,000 in fiscal 2005 and \$407,000 in fiscal 2004 and the space is used for warehousing various inventories. All charges were at fair market value and there is no fixed term for the applicable lease. The lease can be terminated with six months notice and the Company has sent notice of its intentions to terminate.

Included in accounts receivable is \$224,000 (\$187,000 at the end of fiscal 2004) due from Jim Brickman, the Executive Chairman, and from a related company controlled by him. The advances are non-interest bearing and there are no specified terms of repayment.

CRITICAL ACCOUNTING ESTIMATES

The Company amortizes returnable containers using accounting estimates. Returnable containers are recorded at cost net of deposit liabilities and are amortized over their useful lives. To estimate the useful life, management takes into account return rates and number of uses. The Company estimates useful lives using historical trends and internal studies. There is uncertainty in these estimates in that actual experience may vary from these estimates. The Company is not aware of any facts that would cause it to believe that the estimates used are materially incorrect.

In 2002 there was an accounting change for indefinite life intangible assets. As a result, the Company no longer amortizes these assets. However, each year the Company assesses these assets for impairment in order to determine if a write-down is required. The Company undertakes an impairment analysis test in the fourth quarter each year. This involves using discounted cash flows to value the assets. There is uncertainty in these estimates as the related cash flows are projected for future years based on underlying assumptions such as volume growth, inflation factors and industry trends which may not materialize. Management uses its best estimates to forecast these amounts, but the actual amounts may vary from estimates. Should future cash flows differ from management's estimates, an impairment of these assets and a related write-down may result. The Company believes that these estimates are materially correct.

The Company has recorded a valuation allowance of \$3.1 million against its future income tax assets (see note 10 to the fiscal 2005 audited financial statements). The Company has determined it has not met the "more likely than not test" required by the CICA Handbook section 3465 "Income Taxes" for these assets to be recorded. This determination is based on the Company's historical results from operations. The Company may change its estimate after it has established a strong earnings history or other evidence to support a more likely than not conclusion that the benefit of the tax losses will be realized in the future. A change in estimate of the future income tax asset valuation allowance will be reflected as a recovery of income taxes in the period for which the estimate changed.

The Company recognizes compensation expense when options with no cash settlement feature are granted to employees and directors under the option plan. Stock-based compensation expense recognized during the year ended January 31, 2005 was \$160,300 (fiscal 2004-nil), based on the Black-Scholes option pricing model, with the following weighted average assumptions: risk free interest rate of 4.5%, dividend yield of nil, expected volatility of 59.0% and expected hold period to exercise of 5 years.

FINANCIAL INSTRUMENTS

The Company does not enter into contractual agreements involving financial instruments to hedge underlying exposures to foreign exchange, interest rates and commodity markets.

An insignificant portion of the Company's purchases are in U.S. dollars. The Company does not sell any of its products in U.S. funds.

The Company uses significant quantities of malt and hops. The Company uses fixed price contracts of less than one year to reduce the price exposures on these commodities.

To the shareholders of Brick Brewing Co. Limited

We have audited the consolidated balance sheets of Brick Brewing Co. Limited as at January 31, 2005 and 2004 and the consolidated statements of earnings and deficit and cash flows 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 audit.

We conducted our audit in accordance with Canadian 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 January 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Waterloo, Canada

March 24, 2005

CONSOLIDATED BALANCE SHEETS

January 31, 2005 and 2004

	2005	2004
Assets		
Current assets:		
Cash	\$ 96,558	\$ —
Investments in marketable securities	3,011,322	—
Accounts receivable	1,980,981	485,662
Inventories (note 2)	4,207,490	2,265,243
Prepaid expenses	163,495	53,669
	9,459,846	2,804,574
Property, plant and equipment (note 3)	9,510,725	9,590,362
Deposits on equipment	128,175	—
Trademarks and listings fees	5,108,794	5,061,530
Deferred costs (note 4)	183,096	467,231
	\$ 24,390,636	\$ 17,923,697
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 5)	\$ —	\$ 807,232
Accounts payable and accrued liabilities	3,274,529	4,702,030
Current portion of long-term debt (note 6)	300,000	271,428
Current portion of obligations under capital lease (note 7)	30,599	—
	3,605,128	5,780,690
Long-term debt (note 6)	2,550,000	2,844,049
Obligations under capital lease (note 7)	37,876	—
Long-term sales tax payable	—	648,195
Shareholders' equity:		
Share capital (note 8)	27,060,076	19,558,215
Contributed surplus	222,070	—
Deficit	(9,084,514)	(10,907,452)
	18,197,632	8,650,763
Commitments (note 11)		
	\$ 24,390,636	\$ 17,923,697

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Director



Director

CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT

Years ended January 31, 2005 and 2004

	2005	2004
Revenue:		
Sales	\$ 42,129,255	\$ 21,254,721
Less: Production taxes and distribution fees	(19,464,121)	(5,816,279)
	22,665,134	15,438,442
Cost of goods sold	14,877,972	11,130,820
Gross margin	7,787,162	4,307,622
Selling, marketing and administration	4,285,622	2,856,430
Earnings before the undernoted	3,501,540	1,451,192
Other income (expenses):		
Bottle dispute	(88,420)	(119,349)
Interest on long-term debt	(173,886)	(213,851)
Other interest income (expense)	8,947	(92,574)
Amortization	(1,363,472)	(933,194)
	(1,616,831)	(1,358,968)
Net earnings	1,884,709	92,224
Deficit, beginning of year	(10,907,453)	(10,999,676)
Effect of change in accounting policy related to stock based compensation (note 1(a))	(61,770)	–
	(10,969,223)	(10,999,676)
Deficit, end of year	\$ (9,084,514)	\$ (10,907,452)
Net earnings per share		
Basic	\$ 0.12	\$ 0.01
Diluted	0.11	0.01

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

Years ended January 31, 2005 and 2004

	2005	2004
Cash provided by (used in):		
Operations:		
Net earnings	\$ 1,884,709	\$ 92,224
Items not involving cash:		
Amortization	1,363,472	933,194
Stock options granted to employees	160,300	–
Change in non-cash operating working capital	(4,974,894)	643,576
	(1,566,413)	1,668,993
Financing:		
Decrease in bank indebtedness	(807,232)	(500,569)
Repayment of long-term debt	(3,265,477)	(271,428)
Repayment of long-term sales tax payable	(648,195)	–
Financing costs	(185,346)	–
Issue of capital stock	7,505,077	–
Issuance of long-term debt	3,000,000	–
Repayment of obligations under capital lease	(6,540)	–
	5,592,287	(771,997)
Investments:		
Equipment deposits	(128,175)	–
Purchase of property, plant and equipment and listing fees	(789,819)	(896,996)
Purchase of investments in marketable securities	(3,011,322)	–
	(3,929,316)	(896,996)
Increase in cash	96,558	–
Change in cash being cash, end of year	\$ 96,558	\$ –
Supplemental cash flow information:		
Cash paid for interest	\$ 206,726	\$ 260,214
Non-cash investing and financing activities:		
Acquisition of equipment through capital leases	75,015	–

See accompanying notes to consolidated financial statements.

Years ended January 31, 2005 and 2004

Brick Brewing Co. Limited (the “Company”) operates two breweries serving primarily the Ontario market. The Company’s primary business is the brewing and marketing of bottled beer as well as draught beer in kegs. The Company’s products are marketed through the facilities of The Beer Store, the Liquor Control Board of Ontario, and to licensed establishments.

1. Significant accounting policies:

(a) Change in accounting policy:

Effective February 1, 2004, the Company adopted the revised Canadian Institute of Chartered Accountants (CICA) Handbook Section 3870, “Stock Based Compensation”, which requires the fair value method of accounting be applied to all stock-based compensation payments to both employees and non-employees. In accordance with the transitional provisions of Section 3870, prior periods have not been restated, instead, an adjustment had been made to the opening balance of deficit of the current period to reflect the cumulative effect of the change of prior periods related to stock options granted between February 1, 2002 and January 31, 2004. The weighted average estimated fair value for the options granted during fiscal year ended January 31, 2004 was \$0.43 per share. The fair value of each option granted was estimated using the Black-Scholes fair value option pricing model with the following assumptions: risk-free interest rate of 5%, nil dividend yield, expected lives of five years and volatility of 64.1%.

(b) Revenue recognition:

The Company recognizes revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

(c) Investments in marketable securities:

Interest-bearing financial assets intended to be held to maturity are carried at amortized cost. Interest is recognized on an effective yield basis. These investments are written down to their estimated realizable value when this amount is less than amortized cost, unless the Company has reason to believe it will be able to recover the carrying amount. Other short-term investments are carried at the lower of cost or market value.

(d) Inventories:

Raw material, supplies, and promotional items are valued at the lower of cost, on a first-in, first-out basis, and replacement cost. Work-in-process and finished finished goods are valued at the lower of average cost (including direct materials, labour and overhead costs) and net realizable value. Returnable containers are recorded at cost net of amortization over their estimated useful lives.

(e) Property, plant and equipment:

Property, plant and equipment 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.

Amortization is provided using the following method and annual rates:

Asset	Basis	Rate
Buildings	Straight-line	3% – 5%
Storage tanks	Straight-line	3% – 6%
Equipment	Straight-line	3% – 20%
Computer equipment	Straight-line	30% – 50%
Vehicles	Straight-line	30%
Assets under capital leases	Straight-line	30% – 50%

(f) Impairment of long-lived assets:

Long-lived assets, including property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

(g) Intangible assets:

Intangible assets, acquired either individually or with a group of other assets and are initially recognized and measured at cost. Costs incurred in the maintenance of the service potential of an intangible asset are expensed as incurred.

Management has determined that trademarks and listing fees are indefinite life intangible assets. As such, the assets are not amortized and are tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is recognized in income for the excess, if any.

The Company performed the annual impairment test, as required under the CICA Handbook Section 3062, in the fourth quarter of 2005 and concluded that there was no impairment on trademarks and listing fees. As a result, the second step of the annual impairment test under Section 3062 was not required to be performed.

(h) Deferred financing costs:

Deferred financing costs represent the cost of issuance of long-term debt. Amortization is provided on a straight-line basis over the term of the debt.

(i) Deferred program costs:

Deferred program costs represent costs incurred in establishing new production lines which require time to reach commercial production capability. Amortization is provided on a straight-line basis over the life of the project. All deferred program costs were fully amortized in 2005.

(j) Net earnings per share:

Basic net earnings per share have been calculated by dividing net earnings by the weighted average number of common shares outstanding during the year. Diluted net earnings per share have been calculated similar to basic net earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of warrants and stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding warrants and stock options were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the period.

(k) Stock-based compensation:

The Company accounts for all stock-based payments to employees and non-employees, using the fair value based method. Consideration paid by employees on the exercise of stock options is recorded as share capital.

Under the fair value based method, stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the grant date are measured and recognized at that date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant accounting policies (continued):

Under the fair value based method, compensation cost attributable to awards to employees, are measured at fair value at the grant date and recognized over the vesting period. For awards that vest at the end of the vesting period, compensation cost is recognized on a straight-line basis; for awards that vest on a graded basis, compensation cost is recognized on a pro-rata basis over the vesting period.

(l) Measurement uncertainty:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts 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 year. Actual results could differ from those estimates.

The Company's accounts which involve a greater degree of uncertainty, include the carrying values of inventory, trademarks and listing fees and future income tax assets.

2. Inventories:

	2005	2004
Promotional items	\$ 247,069	\$ 161,833
Returnable containers	1,901,972	1,167,517
Raw materials and supplies	946,991	515,129
Work-in-process and finished goods	1,111,458	420,764
	\$ 4,207,490	\$ 2,265,243

3. Property, plant and equipment:

	2005		2004	
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 275,000	\$ —	\$ 275,000	\$ 275,000
Buildings	2,575,002	1,101,505	1,473,497	1,554,805
Storage tanks	1,074,030	558,681	515,349	547,008
Equipment	14,260,222	7,121,660	7,138,562	7,163,909
Computer equipment	536,100	491,228	44,872	48,540
Vehicles	188,815	188,815	—	1,100
Property under capital leases:	18,909,169	9,461,889	9,447,280	9,590,362
Assets under capital leases	75,015	11,570	63,445	—
	\$ 18,984,184	\$ 9,473,459	\$ 9,510,725	\$ 9,590,362

Amortization of plant and equipment totaled \$889,648 (2004 – \$880,154).

4. Deferred costs:

Deferred costs include deferred financing costs, net of amortization, of \$183,096 (2004 – \$184,406) which relate to costs associated to financing from the Company's current lender. Amortization of deferred financing costs totaled \$183,440 (2004 – \$53,040) which includes the full amortization of previously deferred costs related to financing from the Company's past lender (\$181,190).

Deferred program costs of \$282,825 were also fully amortized in 2005 due to the ending of the associated program.

5. Bank indebtedness:

The Company has a bank operating line of credit with interest at prime plus .25%. The operating line is 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.

6. Long-term debt:

	2005	2004
Mortgage payable, bearing interest at the lender's floating base rate plus 2.75% (5.81% at January 31, 2005), with monthly interest payments for 12 months of the year and six monthly principal payments of \$50,000 from May to October, maturing on October 15, 2013.	\$ 2,850,000	\$ –
Mortgage payable, bearing interest at the lender's closed variable mortgage rate plus 1%, with monthly principal payments of \$16,667 plus interest, repaid on November 4, 2005.	–	2,716,667
Mortgage payable, bearing interest at the lender's closed variable mortgage rate plus 1%, with monthly principal payments of \$5,952 plus interest, repaid on November 4, 2005.	–	398,810
	2,850,000	3,115,477
Current portion of long-term debt	300,000	271,428
	\$ 2,550,000	\$ 2,844,049

The mortgages are secured by a general security agreement over all assets (subject to a secondary priority on accounts receivable and inventory in favour of the company's operating lender – see note 5), a collateral mortgage in the amount of \$3,500,000 over real property, a first position assignment of trademarks and a first position security interest in processing plant and equipment.

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

2006	\$ 300,000
2007	300,000
2008	300,000
2009	300,000
2010	300,000
Thereafter	1,350,000
	\$ 2,850,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Obligations under capital lease:

The following is a schedule of the future minimum lease payments of the capital leases expiring on various dates, together with the balance of the obligations:

	2005
2006	\$ 34,107
2007	28,993
2008	11,159
	74,259
Less amount representing interest ranging from 3% to 9%	(5,784)
Present value of net minimum lease payments	68,475
Less current portion of capital lease payments	(30,599)
	\$ 37,876

8. Share capital:

(a) The Company has authorized an unlimited number of preferred shares. No preferred shares are issued.

The Company has authorized an unlimited number of common shares.

Common share transactions are summarized as follows:

	Number of shares 2005	Number of warrants 2005	Stated value 2005	Number of shares 2004	Number of warrants 2004	Stated value 2004
			\$			\$
Issued, beginning of year	12,445,130	–	19,558,215	12,445,130	–	19,558,215
Shares issued from private placements	6,791,282	1,840,000	7,484,111	–	–	–
Shares issued upon exercise of stock options	25,000	–	17,750	–	–	–
	19,261,412	1,840,000	27,060,076	12,445,130	–	19,558,215

On April 21, 2004, through a private placement, the Company issued 3,111,282 common shares at a subscription price of \$0.76 per share resulting in gross proceeds of \$2,364,574 before expenses of issue of \$152,000.

On November 4, 2004, through a private placement, the Company issued 3,680,000 units at an issue price of \$1.60 per unit resulting in gross proceeds of \$5,888,000 before expenses of issue of \$616,463. Each unit comprises of one common share

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

and one-half of one common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one common share at any time prior to November 4, 2006 at an exercise price of \$2.00 per warrant share.

(b) Stock option and share purchase plans:

The Company has issued stock options to certain directors, officers and key employees. The options may be exercised during periods of up to five years following the date of issue, at a price equal to the weighted average closing market price during the five days immediately preceding the date granted.

(i) A summary of the status of the Company's plans as at January 31, 2005 and 2004 is presented below:

	Options	Weighted average exercise price 2005	Options	Weighted average exercise price 2004
Outstanding, beginning of year	619,000	\$ 0.64	474,000	\$ 0.61
Granted	400,000	1.15	145,000	0.73
Exercised	(25,000)	0.71	–	–
Outstanding, end of year	994,000	\$ 0.84	619,000	\$ 0.64

(ii) A summary of options outstanding under the plan is presented below:

Exercise price	Number outstanding as of January 31, 2005	Weighted average remaining contractual life	Number exercisable at January 31, 2005
\$ 0.44	110,000	2.17	110,000
0.45	60,000	1.99	60,000
0.50	19,000	2.32	19,000
0.71	260,000	1.25	260,000
0.73	145,000	4.60	145,000
0.84	300,000	4.21	300,000
2.07	100,000	4.95	100,000
0.44 to 2.07	994,000	2.57	994,000

There were 300,000 options granted on April 19, 2004 at a price of \$0.84 per share. The fair value of each option granted was estimated using the Black-Scholes fair value option pricing model with the following assumptions: risk free interest rate of 4.5%, nil dividend yield, expected lives of five years and volatility of 58.5%. The fair value of these options when granted was \$1.13.

There were 100,000 options granted on December 14, 2004 at a price of \$2.07 per share. The fair value of each option granted was estimated using the Black-Scholes fair value option pricing model with the following assumptions: risk free

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Share capital (continued):

interest rate of 4.5%, nil dividend yield, expected lives of 5 years and volatility of 59.9%. The fair value of these options when granted was \$2.80.

In addition to the above options, as part of the private placement on November 4, 2004, 220,800 compensation options were issued entitling the holder to purchase one common share at any time up to November 4, 2006 at an exercise price of \$1.76.

(c) Employee share 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, 2005. During the year, no shares were issued under the plan.

9. Segment information:

Management has determined that the Company operates in a single industry segment which involves the production and sale of beer and other alcohol based products. Over 90% of the Company's operations, assets, sales revenue and employees are in Canada.

10. Income taxes:

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory tax rates of 36.1% (2004 – 36.6%) to earnings before income taxes. The reasons for the differences and related tax effects are as follows:

	2005	2004
Computed tax expense	\$ 680,380	\$ 33,754
Manufacturing and processing deduction	(37,317)	(3,228)
Other non-deductible expenses	110,511	11,764
Adjustment to future taxes for enacted changes in tax rates	(29,887)	(105,978)
Change in valuation allowance	(723,687)	63,688
Income tax expense	\$ –	\$ –

Tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at January 31, 2005 and 2004 are presented below:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Income taxes (continued):

	2005	2004
Future tax assets:		
Differences between tax and accounting values of property, plant and equipment	\$ 2,612,179	\$ 3,156,949
Differences between tax and accounting values of trademarks and listing fees	(144,504)	58,117
Differences between financing costs deducted for tax over accounting	200,282	(12,308)
Non-capital loss carryforwards	437,039	625,396
Other	26,676	27,305
Total gross net future income tax assets	3,131,672	3,855,459
Less valuation allowance	(3,131,672)	(3,885,459)
Net future income tax assets	\$ -	\$ -

The Company has deductions for tax in excess of those available for accounting of approximately \$9,100,000 which can be applied against future taxable income. Of this amount, approximately \$1,200,000 consists of non-capital loss carryforwards which will expire in 2009 if unused.

11. Commitments:

The Company is committed under long-term operating leases to rent equipment and premises at the following annual rates:

2006	\$	322,159
2007		310,316
2008		245,760
2009		221,835
2010		230,004
Thereafter		1,364,157
	\$	2,694,231

12. 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, rental charges amounting to approximately \$226,600 (2004 – \$407,241) were made to a company controlled by a member of the Board of Directors.
- (b) Included in accounts receivable is \$223,540 (2004 – \$186,910) due from the Executive Chairman and from a related company controlled by him. The advances are non-interest bearing and there are no specified terms of repayment.

13. Fair value of financial assets and financial liabilities:

All financial assets and financial liabilities are recorded at amounts which approximate their fair market value.

The maximum credit risk, being the risk of default on accounts receivable is \$1,980,981 (2004 – \$485,662) which represents the current carrying value. The Beer Store and the Liquor Control Board of Ontario are the largest customers with accounts receivable totalling approximately \$1,473,783 (2004 – \$125,686). Subsequent to year end, 98% of the amounts due from these two customers was collected.

14. Subsequent event:

On February 1, 2005, the Company acquired a 50% interest in Direct Cellars Inc., a sales agency in the alcohol based products industry, for cash consideration of \$60,000. The Company will account for the investment using the equity method.

15. Comparative figures:

Certain 2004 comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

DIRECTORS

James R. A. Brickman

Founder & Executive Chairman
Brick Brewing Co. Limited
Waterloo, Ontario

Doug Berchtold

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

Ronald L. Fowler

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

Thomas W. Gilchrist

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

Edward H. Kernaghan

Executive Vice President
Kernwood Limited
Toronto, Ontario

Walter T. Hogg

Consultant
Avoca, Ireland

W. Scott Uffelman

President
Ontario Seed Company Limited
Waterloo, Ontario

In Memoriam



Peter Widdrington
1930 – 2005

The Board commemorates the passing
of one of its members

COMPANY OFFICERS



Mike Baumken (far left)
Vice President Operations

Graydon Moore
Chief Financial Officer/ Secretary

Doug Berchtold
President and C.E.O.

James R. A. Brickman (centre)
Executive Chairman and Founder

Craig Prentice
Vice President Sales

Norm Pickering
Vice President Marketing

Kevin Meens (far right)
Vice President Corporate Development

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Transfer Agents

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