

**2012**

**Q2**

**BRICK BREWING CO. LIMITED**



# SECOND QUARTER FISCAL 2012

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## To Our Shareholders,

I am pleased to present the financial results for the second quarter of fiscal 2012.

Our core beer portfolio continued to deliver strong growth in the second quarter. The Laker trademark, which is our largest brand family, grew 18.6% year over year.

The Seagram Blends integration is substantially complete and we are ready to turn our focus to growth, applying the same rigor and discipline that helped Brick achieve success within its beer portfolio. Profitability of the Seagram portfolio has met our expectations. Consumers will start to see new product innovation as early as December 2011.

Financial highlights are as follows:

- Net revenues for the second quarter of fiscal 2012 were \$10.7 million compared to \$9.1 million in the second quarter of fiscal 2011.
- Sales volumes for Brick beer brands increased by 7.1% compared to the second quarter of fiscal 2011. Brick drove this sales growth through a period of intense price competition between its largest competitors.
- Gross profit percentage declined slightly from 30.4% to 27.7%,
  - ❖ In the second quarter the Company continued to prepare for a Global Food Safety certification, and incurred \$0.1 million of incremental maintenance costs. Once completed, Brick will be the first Canadian brewer with this distinction.
  - ❖ Continued growth of cans (64.9% in the quarter and 92.2% year to date), resulted in a shift of product mix and pressure on gross margin percentage year over year. Brick generates a lower margin on can sales as compared to bottles, due to the relative speed of production and aluminum costs.
- EBITDA\* for the period ended July 31, 2011 was \$1.8 million, with a net income of \$0.8 million.

I am pleased with our progress this year and look forward to sharing the results of the third quarter of fiscal 2012.

Cheers!

George H. Croft  
President & CEO

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") provides a review of the activities, results of operations and financial condition of Brick Brewing Co. Limited ("Brick" or the "Company") for the quarterly period ended July 31, 2011 ("the second quarter of fiscal 2012") in comparison with the quarterly period ended August 1, 2010 ("the second quarter of fiscal 2011"). These comments should be read in conjunction with: (i) the unaudited financial statements for the second quarters of fiscal 2012 and 2011 and accompanying notes included therein; and (ii) the annual report for the year ended January 31, 2011, including the sections on risks and uncertainties within the MD&A for fiscal 2011. The interim financial statements for the second quarter of fiscal 2012 have not been audited or reviewed by the Company's auditors, KPMG LLP. The comments were prepared as of September 7, 2011. Additional information relating to the Company, including its annual information form, is available at [www.sedar.com](http://www.sedar.com) or in the investor relations section of the Company's website at [www.brickbeer.com](http://www.brickbeer.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 and include, for example, the statements concerning expected volumes, operating efficiencies and costs. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "anticipate", "seek", "plan", "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. Although the Company believes that the expectations and assumptions reflected in these forward-looking statements are reasonable, undue reliance should not be placed on these forward-looking statements. These forward-looking statements are not guarantees and reflect the Company's views as of September 7, 2011 with respect to future events. Future events 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 forward-looking statements, including the statements regarding expected volumes, operating efficiencies and costs are based on, among other things, the following material factors and assumptions: sales volumes in the fiscal year ending January 31, 2012 ("fiscal 2012") will increase; no material changes in consumer preferences; brewing, blending, and packaging efficiencies will improve; the cost of input materials for brewing and blending will decrease; the cost of packaging materials will decrease; competitive activity from other manufacturers will continue; no material change to the regulatory environment in which the Company operates and no material supply, cost or quality control issues with vendors. Readers are urged to consider the foregoing factors and assumptions when reading the forward-looking statements and, for more information regarding the risks, uncertainties and assumptions that could cause the Company's actual financial results to differ from the forward-looking statements, to also refer to the remainder of the discussion in this MD&A, the Company's annual information form and various other public filings as and when released by the Company. The forward-looking statements included in this MD&A are made only as of September 7, 2011 and, except as required by applicable securities laws, the Company does not undertake to publicly update such forward-looking statements to reflect new information, future events or otherwise.

### BASIS OF PRESENTATION AND TRANSITION TO IFRS

On February 1, 2011, the Company adopted International Financial Reporting Standards ("IFRS") for Canadian publicly accountable enterprises. Prior to the adoption of IFRS, the Company followed Canadian Generally Accepted Accounting Principles ("CGAAP"). While IFRS has many similarities to CGAAP, some of the Company's accounting policies have changed as a result of its transition to IFRS. The most significant accounting policy changes that have had an impact on the results of operations are discussed within the applicable sections of this MD&A, and in more detail in the Accounting Changes section of this MD&A.

## **DESCRIPTION OF THE BUSINESS**

### ***Products***

The Company produces, sells, markets and distributes packaged and draft premium beer under the Waterloo brand name, and value beer under the Red Baron, Red Cap, Formosa, and Laker brand names (collectively, the "Brick Brands"). Under its co-packaging agreements, the Company produces, sells, markets and distributes various beer products on behalf of Loblaw's Inc. ("Loblaw's") under the licensed President's Choice® ("PC®") trademark. The Company produces the Mott's Caesar brand in bottles under a contract with Canada Dry Mott's, Inc. ("CDMI"). In addition to production, the Company also acts as the sales agent in Ontario for CDMI.

The Company blends, sells, markets and distributes the Seagram Coolers Brand across Canada. The Seagram Coolers family consists primarily of Wild Berry, Wild Peach, Wild Apple and Orange Cream Swirl vodka coolers. Refer to the "Seagram Coolers Brand" section for further details.

### ***Seagram Coolers Brand***

On March 16, 2011, the Company entered into an agreement with Corby Distilleries Limited ("Corby") and purchased the Canadian rights to the Seagram Coolers brand.

Under the agreement, Brick acquired the Canadian rights to the Seagram Coolers brand for a purchase price of \$7.3 million, plus the value of inventory on hand of \$1.4 million. The purchase price was satisfied by a \$4.9 million cash payment to Corby and the issuance of a secured promissory note for the remaining balance to be paid over the next four years. The promissory note is secured by a first charge over the intellectual property acquired by Brick. Payment of the inventory value is due one-year from closing.

In order to complete the transaction, Brick obtained a new term loan from HSBC Bank Canada ("HSBC") in the amount of \$5.8 million. The term loan is repayable over 7 years and has a floating rate of prime + 3%. During the second quarter of fiscal 2012, the Company entered into an interest rate swap to fix \$2.9 million of the new loan at an interest rate of 7.2%.

The proceeds received from HSBC were used to settle a portion of the purchase price noted above and retire all long-term debt outstanding to Roynat Capital.

Concurrent with the issuance of the new term loan, HSBC increased the Company's maximum operating line of credit from \$6.5 million to \$8.0 million. The terms for the operating line of credit remain unchanged. Upon closing, the Company charged approximately \$4.0 million to its operating line, which included HST recoverable of \$1.0 million and approximately \$0.2 million in transaction costs.

### ***Geographic Distribution***

The Company's products are sold primarily in Ontario. The Company engages in certain co-packing activities, which involves producing and packaging beer and ready-to-drink alcoholic beverages for other customers. The Company's packaged beer is also sold in Atlantic Canada and British Columbia. The Seagram Coolers are sold across Canada.

### ***Distribution Channels***

In Ontario, distribution of packaged beer occurs through The Beer Store ("TBS") and the Liquor Control Board of Ontario ("LCBO"). Consumers can purchase the Company's products through these channels as well as through licensed establishments (bars and restaurants) in Ontario. The Seagram Coolers are sold through the provincial liquor boards.

## Operating Facilities

The Company's brewing facilities are located in Waterloo and Formosa, Ontario. The Company's primary packaging and warehousing facility is located in Kitchener, Ontario. The Company has a blending and packaging facility in Formosa which is presently dedicated to co-packing and production of Seagram Coolers. The Company's head and registered office is in Waterloo, Ontario.

## SELECTED QUARTERLY INFORMATION

The following table summarizes certain financial information of the Company for the second quarters indicated below:

### Results for the quarterly period ended:

(in thousands of dollars, except per share amounts)

	July 31, 2011 <sup>(2)</sup>	August 1, 2010 <sup>(2)</sup>	July 31, 2009 <sup>(1)</sup>
<b>Income Statement Data</b>			
Gross Revenue	\$ 22,287	\$ 19,565	\$ 19,656
Net Revenue (after production taxes and distribution fees)	\$ 10,706	\$ 9,111	\$ 9,316
Earnings before interest, income taxes, depreciation and amortization, non-recurring items and equity earnings <sup>(3)</sup>	\$ 1,846	\$ 2,014	\$ 1,308
Net earnings	\$ 803	\$ 929	\$ 461
Earnings per share			
Basic	\$ 0.03	\$ 0.03	\$ 0.02
Fully diluted	\$ 0.03	\$ 0.03	\$ 0.02
<b>Balance Sheet Data</b>			
Total Assets	\$ 47,982	\$ 37,844	\$ 31,112
Total Term Debt & Promissory Note	\$ 7,836	\$ 3,254	\$ 2,753

(1) amounts presented are prepared under Canadian GAAP

(2) presented in accordance with IFRS

(3) The most significant income statement change from CGAAP to IFRS relates to the change in presentation of depreciation on returnable bottles. Under CGAAP, this depreciation was presented as cost of sales and included in EBITDA, whereas under IFRS it is excluded.

## RESULTS OF OPERATIONS

### Results for the period ended:

(in thousands of dollars except per share amounts)

	Second quarter ended		Fiscal year-to-date ended	
	July 31, 2011	August 1, 2010	July 31, 2011	August 1, 2010
Gross revenue	\$ 22,287	\$ 19,565	\$ 39,660	\$ 34,193
Less: Production taxes and distribution fees	(11,581)	(10,454)	(20,821)	(18,111)
Net revenue	10,706	9,111	18,839	16,082
Cost of sales	7,739	6,345	14,189	11,777
Gross profit	2,967	2,766	4,650	4,305
	27.7%	30.4%	24.7%	26.8%
Selling, marketing and administration	1,636	1,295	3,201	2,560
Earnings before the undernoted	1,331	1,471	1,449	1,745
Other expenses	(92)	(92)	(238)	(136)
Finance costs, net	(186)	(58)	(349)	(93)
Earnings before income taxes	1,053	1,321	862	1,516
Deferred income taxes provision	250	392	193	472
Net earnings	803	929	669	1,044
Net earnings per share				
Basic	\$ 0.03	\$ 0.03	\$ 0.02	\$ 0.04
Diluted	\$ 0.03	\$ 0.03	\$ 0.02	\$ 0.04
Net revenue increase (decrease)	17.5%	(2.2%)	17.1%	(5.2%)
Volume growth	9.7%	(5.4%)	9.5%	(0.7%)
<b>Consisting of:</b>				
Increase in Brick beer brand volume	7.1%	5.1%	9.5%	0.2%
Decrease in co-pack volume <sup>(1)</sup>	(9.5%)	(19.4%)	(9.1%)	(2.3%)
Increase in coolers volume <sup>(2)</sup>	100.0%	-	100.0%	-
Net volume growth (decline)	9.7%	(5.4%)	9.5%	(0.7%)

(1) Includes beer packaged under the licensed PC® trademark on behalf of Loblaw's Inc. and Mott's Caesar packaged on behalf of CDMI.

(2) The Company purchased the Canadian rights to the Seagram Coolers brand on March 16, 2011.



Reconciliation of Net Earnings to Earnings Before Interest Taxes Depreciation and Amortization (EBITDA)\*

<i>(in thousands of dollars)</i>	Second quarter ended		Fiscal year-to-date ended	
	July 31, 2011	August 1, 2010	July 31, 2011	August 1, 2010
Net income	\$ 803	\$ 929	\$ 669	\$ 1,044
Add:				
Deferred income tax expense	250	392	193	472
Amortization	607	635	1,225	1,270
Interest expense	186	58	349	93
Subtotal	1,043	1,085	1,767	1,835
EBITDA*	1,846	2,014	2,436	2,879

## NET REVENUE

Gross revenues were \$22.2 million and \$39.7 million for the second quarter and fiscal year-to-date period ended July 31, 2011, respectively, compared to \$19.6 million and \$34.2 million in the same periods ended August 1, 2010. Net revenues for the second quarter of fiscal 2012 were \$10.7 million (\$18.8 million fiscal year-to-date period ended July 31, 2011) compared to \$9.1 million in the second quarter of fiscal 2011 (\$16.1 million fiscal year-to-date period ended August 1, 2010). Net revenues are calculated by deducting from gross revenues the costs of distribution fees paid to TBS and provincial liquor boards and production taxes.

An increase in the sales volumes of the Company's beer brands as well as sales of the Seagram Coolers were key drivers for the increase in gross and net revenue in the second quarter of fiscal 2012 compared to the second quarter of fiscal 2011.

In the second quarter of fiscal 2012, the Company's overall sales volume was approximately 90,000 hectolitres, comprised of 27,000 hectolitres of co-packaged product and 63,000 hectolitres of Brick Brands (including Seagram Coolers sales volume).

Harmonization of tax effective July 1, 2010 also contributed to the increase in gross revenue for the quarter. With the harmonization of the Ontario sales tax and the implementation of the Beer & Wine Tax effective July 1, 2010, there was a reduction in total sales tax of 4%, with no change to the minimum retail prices. As a result, gross revenues have increased in comparison to the second quarter of fiscal 2011 when the combined Goods & Services Tax and Provincial Sales Tax was 17%. There is a corresponding increase in production taxes, resulting in an immaterial impact on net revenue per hectolitre. The above change in taxation resulted in increased gross revenues during the first two quarters of fiscal 2012 in comparison to the comparative periods for the prior year.

## BRICK BEER BRANDS

Sales volumes of Brick Brands had continued growth during the second quarter of fiscal 2012 and increased by 7.1% from the second quarter of fiscal 2011's sales volumes (9.5% on a fiscal year-to-date basis). During the second quarter of fiscal 2012, the industry beer volumes decreased by approximately 1.7% (based on counter sales through TBS) and 3.9% on a fiscal year-to-date basis. Improved weather during the later part of the second quarter of fiscal 2012 has helped slow the overall industry decline (decline of approximately 7.6% in the first quarter of fiscal 2012).

The Company experienced tremendous sales growth of its canned products in fiscal 2011. This trend has continued in the first two quarters of fiscal 2012. During the second quarter of fiscal 2012, canned beer sales volume increased by 64.9%

over the same period in the prior year (92.2% on a fiscal year-to-date basis) compared to an increase of 80.5% in the second quarter of fiscal 2011 (58.2% on a fiscal year-to-date basis). The Company implemented certain marketing initiatives to drive trial of its canned products and further increase sales volumes. The Company also introduced a new pack size for its Laker cans.

Growth of Brick's beer brands was driven primarily by the performance of the Laker trademark. During the second quarter of fiscal 2012, the Laker family brand volumes increased by 18.6% over the same period in the prior year (21.9% on a fiscal year-to-date basis) compared to an increase of 10.6% in the second quarter of fiscal 2011 (3.4% on a fiscal year-to-date basis). The Company continued to focus on the Laker trademark during the quarter to build on the momentum achieved in fiscal 2011. This focus is important as the large multi-national brewers continue to be aggressive on price by discounting their national brands.

In the second quarter of fiscal 2012, the Company's packaged beer volume consisted of 3% in the premium beer category and 97% in the value beer category. The Company's draft beer volume represented approximately 1% of total Brick Brand beer volume. As at July 31, 2011, the Company's total market share by volume of TBS retail sales in Ontario was approximately 4% (August 1, 2010 – 4%).

### **SEAGRAM COOLERS BRAND**

On March 16, 2011, the Company purchased the Canadian rights to the Seagram Coolers brand. As such, there is no comparative sales volume information in the first quarter of fiscal 2011. The Company is substantially complete its integration.

### **CO-PACKING ARRANGEMENTS**

The volume of co-pack business decreased by 9.5% in the second quarter of fiscal 2012 compared to a decrease of 19.4% in the second quarter of fiscal 2011. Excluding PC® products, sales volumes for the co-pack business were flat during the second quarter of fiscal 2012 compared to the second quarter of fiscal 2011.

### **PRODUCTION TAXES & DISTRIBUTION FEES**

During the second quarter of fiscal 2012, the Company's production tax increased by 10.0% compared to the second quarter of fiscal 2011. Production tax expense increased 16.9% on a fiscal year-to-date basis. The changes in production tax expense were caused by a combination of increasing volume and the impact of Harmonization at July 1, 2010.

There was not a significant change in the rates for distribution fees during the first quarter of fiscal 2012 aside from regular annual increases and therefore, the cost of distribution fees remained consistent with the second quarter of fiscal 2011 at approximately 17% of gross revenues.

### **COST OF SALES**

Cost of sales was \$7.7 million for the second quarter of fiscal 2012, an increase of \$1.4 million from the second quarter of fiscal 2011. Cost of sales represented 72.3% of net revenue in the second quarter of fiscal 2012 compared to 69.6% in the second quarter of fiscal 2011; an increase of 2.7%. On a fiscal year-to-date basis, cost of sales increased \$2.4 million from the same period in fiscal 2011.

The increase in cost of sales in the second quarter of fiscal 2012 is attributable to a higher volume of products, a shift of product mix to lower margin can volume and costs associated with the Company's preparation for Global Food and Safety Initiative ("GFSI") certification. On a fiscal year-to-date basis, the Company has spent \$0.3 million on GFSI preparedness. The Company expects to attain certification before the second quarter of fiscal 2013, and anticipates spending \$0.3 million annually to maintain certification.

## **SELLING, MARKETING AND ADMINISTRATION**

In the second quarter of fiscal 2012, selling, marketing and administration expenses totalled \$1.6 million and represents an increase of \$0.3 million from the second quarter of fiscal 2011. Selling, marketing, and administration expenses have increased \$0.6 million on a year-to-date basis.

The Company receives funding from the Ontario Government under the Ontario Craft Brewers Opportunity Fund (the "Opportunity Fund") which was established in September 2008. The eligibility period ended on March 30, 2011 and as such, the Company's profit no longer reflects the benefit of the fund. In prior periods, the Company recognized the funding as a reduction in marketing expense. The Company maintained its level of marketing activities versus a year ago and therefore, net marketing expenses have increased by approximately \$0.3 million in the second quarter.

The Company has a receivable of \$1.0 million, outstanding as at July 31, 2011. This has been presented with trade accounts receivable in the unaudited statement of financial position. The final payment of \$1.0 million is expected to be received in the third quarter of fiscal 2012.

As a percentage of net sales, selling, marketing and administration expenses were 15.3% and 17.0% for the second quarter and fiscal year-to-date ended July 31, 2011, respectively, compared to 14.2% and 15.9% for the second quarter and fiscal year-to-date period ended August 1, 2010.

## **DEPRECIATION AND AMORTIZATION**

For the second quarter and fiscal year-to-date period ended July 31, 2011 total depreciation and amortization expense was \$0.6 million and \$1.2 million respectively. Depreciation expense is consistent with the same periods in fiscal 2011.

## **INTEREST EXPENSE ON LONG-TERM DEBT AND PROMISSORY NOTE**

For the second quarter of fiscal 2012, interest on long term debt (finance costs) was \$0.2 million, compared to \$0.1 million during the second quarter of fiscal 2011. On a fiscal year-to-date basis, finance costs were \$0.3 million compared to \$0.1 million in the same period of fiscal 2011. The Company received new term debt as well as a promissory note and increased its reliance on its operating line of credit as a result of the purchase of the Canadian rights to the Seagram Coolers brand. (Refer to the "Seagrams Coolers Brand" section of this MD&A for further discussion.) As such, interest expense is greater in the second quarter of fiscal 2012 in comparison to the same period in fiscal 2011.

## **DEFERRED INCOME TAX PROVISION**

In the second quarter of fiscal 2012, the Company recorded a deferred income tax provision of \$0.3 million compared to a provision of \$0.4 million in the second quarter of fiscal 2011. On a fiscal year-to-date basis the deferred income tax provision is \$0.2 million for fiscal 2012 and \$0.5 million for fiscal 2011.

## **NET EARNINGS**

For the quarter ended July 31, 2011, the Company had net income of \$0.8 million compared to net income of \$0.9 million for the quarter ended August 1, 2010. For the fiscal year-to-date period ended July 31, 2011, net income was \$0.7 million compared to \$1.0 million for the fiscal year-to-date period ended August 1, 2010. As noted above, the fiscal year-to-date results include approximately \$0.3 million of maintenance costs incurred to prepare for GFSI certification and approximately \$0.1 million of transitional costs relating to the acquisition of the Seagram Coolers brand. The Company is no longer receiving the benefit associated with the Opportunity Fund, for which approximately \$0.4 million was included in income in the second quarter of fiscal 2011.

Basic and diluted earnings per share for the quarter ended July 31, 2011 were both \$0.03 per share, compared with basic and diluted earnings per share of \$0.03 per share for the quarter ended August 1, 2010. Basic and diluted earnings per share for the fiscal year-to-date period ended July 31, 2011 were both \$0.02 per share (fiscal year-to-date period ended August 1, 2010 - \$0.04 per share).

## **LIQUIDITY AND CAPITAL RESOURCES**

### **FINANCIAL POSITION**

The Company has an operating line of credit, term debt, promissory note, and a finance equipment lease outstanding at July 31, 2011. As at July 31, 2011, the Company is in compliance with its covenants to HSBC Bank Canada ("HSBC"). The Company expects to continue to be in compliance with these covenants at January 31, 2012.

In the first quarter of fiscal 2012, the Company replaced its outstanding long-term debt with new long-term debt with HSBC Bank Canada ("HSBC") as well as obtained an additional increase of \$1.5 million in the available line of credit. Refer to the "Seagrams Coolers Brand" section of this MD&A for further discussion.

The operating line of credit provides for a maximum of \$8.0 million credit (margined against accounts receivable and inventory of the Company) at an interest rate of prime plus 1.5%.

At July 31, 2011, the Company had bank indebtedness of \$2.6 million; an increase of \$2.3 million from January 31, 2011. During the second quarter of fiscal 2012, the Company generated \$1.7 million of cash from operations (\$2.6 million on a year-to-date basis) compared to a use of cash of \$1.3 million in the second quarter of fiscal 2011 (\$1.2 million of cash generated on a year-to-date basis). The Company's cash flow from operations in the second quarter of fiscal 2011 was abnormally low due to an extension of the payment terms implemented by TBS in May 2010.

The amount of cash used in investing activities in the second quarter of fiscal 2012 is consistent with the same quarter in fiscal 2011. The Company paid down \$0.8 million of the operating line of credit and \$0.2 million of the outstanding term debt during the second quarter of fiscal 2012. In the second quarter of fiscal 2011, the Company received \$1.5 million of term debt financing to support capital expenditures made during the period. In the first six months of fiscal 2012, the Company incurred \$6.5 million in investing activities which includes the acquisition of the Canadian rights to Seagram Coolers.

As at July 31, 2011, the Company had 28,182,660 common shares, 1,369,000 stock options and 5,729,165 warrants outstanding. Each stock option and warrant is exercisable for one common share.

The Company has a working capital deficit of \$0.6 million at July 31, 2011 compared to a positive working capital position of \$2.6 million at January 31, 2011. The working capital deficit is a result of the increased debt resulting from the Seagram Coolers acquisition.

Current assets of the Company were \$13.2 million at July 31, 2011 compared to \$8.7 million at January 31, 2011. Accounts receivable at July 31, 2011 includes the \$1.0 million relating to the Opportunity Fund discussed previously, under "Selling, Marketing, and Administration". Accounts receivable, excluding the marketing grant, increased by \$4.2 million (or 118%) in the second quarter of fiscal 2012 and is attributable to increased beer sales volume, and new receivables associated with Seagram Coolers.

The Company's balance of inventory at July 31, 2011 has increased by \$0.2 million from January 31, 2011.

Property, plant and equipment decreased by \$0.2 million at July 31, 2011 from January 31, 2011. The decrease is due to the purchase of \$1.0 million of capital assets offset by depreciation of \$1.2 million. The financing lease for the Company's bottle filler expired during the second quarter of fiscal 2012 and the Company exercised the available buy-out option. The

Company also purchased a parcel of land at its Formosa facility. During the first quarter of fiscal 2012, the Company completed the installation of an additional can filler as a result of the increased demand for canned beer.

Intangible assets increased by \$7.8 million at July 31, 2011 from January 31, 2011. This is due to the purchase of the Canadian rights to the Seagram Coolers brand as well as the purchase of product listings (such as listings for 15-pack cans).

Deferred income taxes decreased by \$0.3 million as at July 31, 2011 compared to January 31, 2011. The decrease is the result of utilizing losses carried forward to reduce current taxes payable to nil. Management expects that the Company will utilize the remaining losses carried forward as a result of the increased profitability of the Company, and as such, a valuation allowance is not required.

The Company's current liabilities were \$13.8 million at July 31, 2011 compared to \$6.1 million at January 31, 2011; an increase of \$7.7 million. The increase is due to the acquisition of the Canadian rights to the Seagram Coolers brand and includes: increased reliance on the operating line of credit and increased term debt outstanding; amounts payable to Corby Distilleries Limited for the purchase of finished product; and the issuance of a promissory note of which \$0.6 million is due within the next 12 months.

Long-term debt increased by \$4.2 million and obligations under finance leases decreased by \$0.1 million at July 31, 2011 compared to January 31, 2011. The increase in long-term debt is due to the new term debt received to finance the acquisition of the Canadian rights to the Seagram Coolers brand, as well as a promissory note payable to Corby Distilleries Limited.

#### CASH FLOW

The Company generated \$1.7 million in cash from operating activities in the quarter ended July 31, 2011, compared to \$1.3 million of cash used in the second quarter ended August 1, 2010. This change is mainly attributable to the extension of the payment terms by TBS, which occurred in May 2010, whereby payments shifted from one week to four weeks after shipment. During that interim period, the Company experienced a drain on cash.

Investing activities used \$0.7 million in cash during the second quarter of fiscal 2012 compared to \$0.6 million in the second quarter of fiscal 2011. For the fiscal year-to-date period ended July 31, 2011, investing activities were \$6.5 million compared to \$2.0 million in the comparative period. The increase is a result of the acquisition on March 16, 2011 of the Canadian rights to the Seagram Coolers brand for a purchase price of \$7.3 million plus transaction costs.

Financing activities used \$1.0 million of cash during the second quarter of fiscal 2012 compared to generating \$1.9 million in the second quarter of fiscal 2011. The Company made principal repayments on its term debt as well as reduced the balance on its operating line of credit during the second quarter of fiscal 2012. In the comparative period of fiscal 2011, the Company received proceeds of term debt towards financing capital expenditures.

The Company has an authorized operating line of credit of \$8.0 million at prime plus 1.5%. The Company is in compliance with the financial covenants required for the operating line of credit facility. At July 31, 2011, \$2.3 million was drawn on the operating line of credit. Bank indebtedness on the statement of financial position includes outstanding cheques.

## COMMITMENTS

The Company utilizes several operating leases to finance office and computer equipment and software, warehouse and manufacturing equipment, and vehicles. The Company also leases the building in Kitchener where it has its warehousing and packaging operations. By entering into operating leases, the Company is able to update its equipment more frequently, not utilize its cash to invest in these assets and in so doing lower its overall average cost compared with purchasing the assets. All leases are evaluated at inception for appropriate accounting treatment. The total of the Company's future lease payments can be found in note 26 to the Company's unaudited financial statements for the quarter ended July 31, 2011.

The Company has other purchase commitments which include amounts for natural gas, syrup, malt, and packaging materials. A summary of the Company's contractual obligations for the next five years is as follows:

<i>(in thousands of dollars)</i>	Long-term debt	Capital lease	Operating leases	Other purchase commitments	Total
Due within one year	1,318	25	1,207	3,296	5,846
Due in one to five years	5,760	12	3,371	48	9,191
due in over five years	757	-	-	-	757
	7,835	37	4,578	3,344	15,794

The Company does not currently pay dividends on its common shares. At the present time, the Board of Directors of the Company believes that the cash flow of the Company should be reinvested to finance current activities.

## RISK FACTORS, STRATEGIES AND OUTLOOK

### Risk Factors

#### Licensing

The Company requires various permits, licenses, and approvals from several government agencies in order to operate in its market areas. The AGCO and the Canada Revenue Agency provide the necessary licensing approvals. The Company has permits to distribute beer in the province of Quebec. Management believes that the Company is in compliance with all licenses, permits and approvals.

#### Consumer preference/trends

The beer industry is highly competitive and has experienced an overall decline in beer sales over the past several years. In Ontario, a recent trend has been towards canned beer. Prior to fiscal 2011, the Company was underrepresented in cans. The installation of the canning line in fiscal 2010 has provided the Company with control over production and distribution and the result has been considerable growth in canned volume. The Company's excess canning capacity is approximately 40,000 hectolitres per year.

#### Pricing environment

The increase in the minimum retail price ("MRP") in fiscal 2009 reduced the price gap between value and mainstream brands, creating intense price competition throughout fiscal 2010. A further increase in the MRP for beer became effective March 1, 2011. The Company expects legislated price increases to continue in future years and further erode the price gap between value brands and mainstream brands. Management believes that the Company will stay relevant and profitable by delivering a product that is consistently superior in look and taste to other domestic brands with comparable price. The Company will continue to mitigate ongoing pressure on beer volumes by actively pursuing co-packing contracts that provide incremental volume and gross margin. As required, profits from co-pack arrangements will be reinvested in selling and marketing initiatives to maintain brand loyalty.

### **Government grant for marketing**

The last period of eligibility for the Opportunity Fund was April 1, 2010 to March 31, 2011. The benefit recognized from this initiative will not extend beyond March 31, 2011, with the final cash payment expected in October 2011. In prior periods, the Company recognized the funding as a reduction in marketing expense. There can be no assurance that this government grant, designed to support Ontario microbrewers, will continue and therefore the operating cash flow required to deliver a similar marketing investment in future years must increase by approximately \$1 million. Management expects that additional cost cutting measures and incremental co-packaging arrangements will provide the cash flow required to fill this gap.

### **Quality**

With the backdrop of intense price competition driven by MRP changes, the quality of the Company's product is more important than ever. In addition to packaging upgrades in recent quarters, the Company has been measuring and demonstrating tremendous improvement in key areas of quality control. Management continues to work diligently to improve overall product quality and consistency delivered to the consumer. The receipt of another four medals (including a gold medal for Red Baron) at the Ontario Brewing Awards in May 2011 is a testament to the quality of the Company's product. The Company was awarded four medals, including two Gold medals, at the Ontario Brewing Awards in 2010. The Company also achieved four medals at the 8th Annual Canadian Brewing Awards held on September 24, 2010. The Company is embarking on a new initiative to meet Hazard Analysis Critical Control Point ("HACCP") requirements and to become a Canadian industry leader through accreditation with a Global Food Safety Initiative certification.

### **The Beer Store**

TBS is owned by larger international competitors. In fiscal 2011, TBS imposed payment term changes that were punitive and without consultation with small brewers in Ontario. The Company will work hard with other brewers and the government to ensure that TBS policy changes going forward are equitable and done in consultation with all interested parties.

### **Availability of financing**

The Company requires continued support from its lenders to maintain its financial condition. The loss of this support could limit expansion opportunities and put strain on the Company's continuing operations. The ability to maintain current arrangements and secure future financing will depend, in part, upon the prevailing capital market conditions as well as the Company's business performance. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on satisfactory terms.

### **Strategy & Outlook**

#### **"Fix, Fill and Optimize"**

The Company's future growth and profitability will depend on management's ability to "fix, fill, and optimize". Volume growth is the essential ingredient to maximize the value of the Company's recent cost reduction strategies. On a year to date basis, the Company has achieved volume growth of 9.5%

Additional volume growth and profitability will be achieved through integration of the Seagram Cooler portfolio. On March 16, 2011, the Company announced that it entered into an agreement with Corby Distilleries Limited ("Corby") and purchased the Canadian rights to the Seagram Coolers brand. During the first year of integration, management expects Seagram Coolers to utilize less than 10% of the excess capacity and contribute approximately \$1.0 million of EBITDA\*.

Beyond fiscal 2012, which management views as the integration period, expected cost synergies will range from \$0.2 to \$0.5 million. Double-digit volume growth is achievable in fiscal 2013 through development of new packaging formats or

beverage styles. The Company has considerable production capability and flexibility that will be a competitive advantage in the cooler market.

The Company is focused on maintaining the momentum achieved in the first half of fiscal 2012 and anticipates overall volume growth of approximately 10% in fiscal 2012.

## SUMMARY OF QUARTERLY RESULTS

<i>\$000's except per share amounts</i>	Q2 2012 <sup>(2)</sup>	Q1 2012 <sup>(2)</sup>	Q4 2011 <sup>(2)</sup>	Q3 2011 <sup>(2)</sup>	Q2 2011 <sup>(2)</sup>	Q1 2011 <sup>(2)</sup>	Q4 2010 <sup>(1)</sup>	Q3 2010 <sup>(1)</sup>
Net Revenue	10,706	8,133	6,911	7,112	9,111	6,971	5,679	7,280
Selling, marketing & administration	1,636	1,565	1,210	1,117	1,295	1,265	920	1,067
EBITDA*	1,846	590	386	1,052	2,014	865	(131)	717
Net Income	803	(134)	1,470	230	929	115	228	237
EPS (Basic)	\$ 0.03	-	\$ 0.06	\$ 0.01	\$ 0.03	\$ -	\$ 0.01	\$ 0.01
EPS (Diluted)	\$ 0.03	-	\$ 0.06	\$ 0.01	\$ 0.03	\$ -	\$ 0.01	\$ 0.01

(1) amounts presented are prepared under Canadian GAAP

(2) prepared in accordance with IFRS

## IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

The Company's accounting policies are discussed in detail within note 6 to the Company's first quarter fiscal 2012 financial statements.

## TRANSITION TO IFRS

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian publically accountable entities would have to adopt IFRS effective for fiscal years beginning on or after January 1, 2011. In response to this requirement, the Company transitioned to IFRS on February 1, 2010 ("date of transition") and prepared its opening IFRS statement of financial position on that date. The Company has prepared its interim financial statements for the quarter ended July 31, 2011, including the restatement of fiscal 2011 comparative information in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"). The Company will issue its first annual IFRS financial statements for the year ending January 31, 2012 (fiscal 2012), which will include the comparative period ending January 31, 2011.

The Company's second interim financial statements for the period ended July 31, 2011 have not been audited or reviewed by the Company's external auditor. Note 5 of the May 1, 2011 interim financial statements provides a complete list of the Company's IFRS 1 mandatory exceptions and optional exemptions from full retrospective application of IFRS. Note 5 also provides financial statement users with detailed reconciliations between the Company's CGAAP and IFRS equity as at February 1, 2010, May 2, 2010 and January 31, 2011; and comprehensive income for the quarter and year ending May 2, 2010 and January 31, 2011, respectively. The same reconciliations for the quarter ended August 1, 2010 have been included in note 5 to the July 31, 2011 interim financial statements.

## **IFRS ACCOUNTING POLICIES**

The Company's interim financial statements for the quarter ended July 31, 2011 have been prepared in accordance with IAS 34, Interim Financial Reporting, using the IFRS standards and interpretations currently issued and expected to be effective at the end of the Company's first annual IFRS reporting period of January 31, 2012. Accounting policies currently adopted under IFRS are subject to change as a result of either new standards being issued with an effective date of January 31, 2012 or prior, or as a result of a voluntary change in accounting policy made by the Company during fiscal 2012. A change in an accounting policy used may result in material changes to the Company's reported financial position, results of operations and cash flows. There were no changes to the policies adopted during the first quarter of fiscal 2012 which would impact the results previously reported.

## **IFRS PROJECT STRUCTURE - RECAP**

The Company established a Project Team (the "Team") to oversee its transition from CGAAP to IFRS. The Team consisted of key members of management, with representation from both finance and operational disciplines within the organization.

The Company also established a Technical Group comprised of finance personnel, to evaluate and conclude on accounting policy decisions and technical accounting issues.

Management is not aware of any matters that would prevent the Company from meeting its filing requirements during fiscal 2012.

### ***Impact on information technology and data systems***

There were no significant impacts to the Company's existing information technology and data systems ("IT") as a result of transitioning from CGAAP to IFRS.

### ***Impact on internal controls over financial reporting and disclosure controls and procedures***

In accordance with its conversion plan, the Company reviewed and evaluated its internal controls over financial reporting, including its disclosure controls and procedures. Where required, these controls were updated to ensure that they are appropriate for reporting under IFRS.

### ***Financial reporting expertise***

To date, the Team has received detailed technical accounting guidance and training internally on the key differences between CGAAP and IFRS as they apply to significant items impacting the organization.

The Company's finance group continues to receive training on a regular basis to ensure that they have the required understanding of new processes, policies and emerging technical and compliance matters.

The Company's Board of Directors and Audit Committee have been informed of the major differences between CGAAP and IFRS and are regularly updated on the progress of the IFRS project.

### ***Business activities***

To date, the transition to IFRS has had the following impacts on the Company's business activities:

Key finance and operational personnel have been educated on the accounting requirements relating to leases and financial instruments so that the accounting implications of contractual arrangements are appropriately understood when negotiating and entering into new agreements.

The Company has reviewed the terms of its financial covenants as a result of the transition to IFRS. Senior management are aware that any future arrangements must include an analysis of IFRS' impact on these arrangements.

## **RELATED PARTY TRANSACTIONS**

The Company's related party transactions are discussed in note 28 to the Company's unaudited financial statements for the quarter ended July 31, 2011.

The Company's transportation service provider, Laidlaw Carriers Van LP, is subject to significant influence by one of the Company's directors. This vendor provided distribution services to the Company during the second quarter of fiscal 2012 aggregating to \$0.1 million (second quarter ended August 1, 2010 - \$0.1 million). On a fiscal year-to-date basis, these costs aggregated to \$0.2 million for both the periods ended July 31, 2011 and August 1, 2010. As at July 31, 2011, the Company owed this vendor \$0.1 million (second quarter ended August 1, 2010 - \$0.1 million).

The amounts paid to Laidlaw Carriers Van LP are measured at the exchange amount, which is the amount of consideration established and agreed to by both parties.

## **CRITICAL ACCOUNTING ESTIMATES**

The Company prepares its financial statements in accordance with IFRS, which requires management to make estimates, judgments, and assumptions that it believes are reasonable, based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates on historical experience and other assumptions, which it believes to be reasonable under the circumstances. Management also evaluates its estimates on an ongoing basis. Actual results could differ from those estimates.

### ***Property, plant and equipment***

The accounting for property, plant and equipment requires that management make estimates involving the life of the assets, the selection of an appropriate method of depreciation and determining whether an impairment of assets exists.

The Company reviews the residual values, useful lives of depreciable assets and depreciation method on an annual basis and where revisions are made, the Company applies such changes in estimates on a prospective basis.

The net carrying amounts of property, plant and equipment are reviewed for impairment either individually or at the cash-generating unit level at the end of each reporting period. If there are indicators of impairment, an evaluation is undertaken to determine whether the carrying amounts are in excess of their recoverable amounts. An asset's recoverable amount is determined as the higher of its fair value less cost to sell and its value-in-use. To the extent that an asset's carrying amount exceeds its recoverable amount, the excess is fully provided for in the period in which it is determined to be impaired. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods. There is uncertainty in these estimates as the related recoverable amounts 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 results differ from management's estimates, an impairment of these assets and a related write-down may result. As at the date of this report, the Company believes that its estimates are materially correct.

### ***Returnable containers***

Returnable containers are recorded at cost net of deposit liabilities and are amortized over their useful lives. To estimate useful life, management use historical trends and internal studies to obtain a reasonable estimate of the rates of return and usage. Actual results may vary from these estimates. As at the date of this report, the Company is not aware of any facts or circumstances that would cause it to believe that the estimates used are materially incorrect.

### ***Intangible assets***

Indefinite life intangible assets consist of trademarks and listings. These assets are recorded at cost and are not amortized but instead are reviewed for impairment at the end of each reporting period. If there are indicators of impairment, an evaluation is undertaken to determine whether the carrying amounts are in excess of their recoverable amounts. An asset's recoverable amount is determined as the higher of its fair value less cost to sell and its value-in-use. There is uncertainty in these estimates as the related recoverable amounts 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 results differ from management's estimates, an impairment of these assets and a related write-down may result. When a product is delisted, the Company removes the related asset from the balance of intangibles. As at the date of this report, the Company believes that its estimates are materially correct.

### ***Deferred income tax assets***

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilized. The carrying amount of deferred income tax assets are reviewed at each period end date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. There is uncertainty in management's estimation of probable as it is based upon 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. As at the date of this report, the Company believes that its estimates are materially correct.

### ***Share-based reserves: share-based payments***

The Company recognizes compensation expense when options with no cash settlement feature are granted to employees and directors under the option plan. Assumptions regarding expected stock volatility and risk free interest rates are required to calculate the fair value of the consideration received.

### ***Provisions***

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Given the uncertainty surrounding the nature of the underlying provision, actual results may vary from the estimates made by management. As at the date of this report, the Company believes that its estimates are materially correct.

## DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, with the participation of the Chief Executive Officer, Chief Technical Officer and Chief Financial Officer (collectively, the "Officers") are responsible for establishing and maintaining disclosure controls and procedures as defined under Multilateral Instrument 52-109 for the Company. Management has designed such disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company is made known to management by others within the Company. Management has evaluated the effectiveness of the Company's disclosure controls and procedures as of July 31, 2011 and has concluded that such procedures were effective, subject to the matters identified below under "Internal Control Over Financial Reporting", in providing such reasonable assurance as of such date and for the quarter then ended.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of its financial statements in accordance with IFRS.

The Company's internal control over financial reporting includes those policies and procedures that:

- pertain to maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Internal controls over financial reporting, no matter how well designed have inherent limitations. Therefore, internal control over financial reporting determined to be effective can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of July 31, 2011, based on the criteria set forth in the "Internal Control – Integrated Framework" issue by the Committee of Sponsoring Organization of the Treadway Commission ("COSO"). Based on this assessment, management has concluded that internal control over financial reporting was effective as of July 31, 2011.

In the course of evaluating its ICFR as at July 31, 2011, the Officers identified a disclosable weakness in the area of segregation of duties, caused by limited staffing resources. Specifically, given the size of the Company's staffing levels, certain duties within the accounting and finance department cannot be properly segregated. As a result there are identifiable instances where personnel had the ability to initiate transactions or accounting entries within certain financial reporting applications that may not be compatible with their other roles and responsibilities. However, none of the segregation of duty or access control deficiencies resulted in a misstatement to the financial statements as the Company relies on certain compensating controls, including substantive periodic review of the financial statements by the Officers and Audit Committee. This weakness is reported in accordance with National Instrument 52-109 and is considered to be a common area of deficiency for many smaller listed companies in Canada.

## **FINANCIAL INSTRUMENTS**

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, foreign currency risk and interest rate risk. These risks are from exposures that occur in the normal course of business and are managed by the Executive Team, consisting of the Officers of the Company. The responsibilities of the Executive Team include the recommendations of policies to manage financial instrument risk.

The overall objective of the Executive Team is to effectively manage credit risk, liquidity risk and other market risks in accordance with the Company's strategy. Other responsibilities of the Executive Team include management of the Company's cash resources and debt funding programs, approval of counter-parties and relevant transaction limits and the monitoring of all significant treasury activities undertaken by the Company.

The Company's significant financial instruments comprise of cash and cash equivalents, bank indebtedness, finance leases, and long term debt and promissory notes. The main purpose of these financial instruments is to finance the Company's growth and ongoing operations. The Company has various other financial assets and liabilities such as accounts receivables and accounts payables, which arise directly from its operations.

During the second quarter ended July 31, 2011, the Company entered into an interest rate swap agreement ("swap") under the terms of its term loan from HSBC Bank Canada, whereby it fixed \$2,900,000 of the original term loan at an interest rate of 7.2%. This instrument has been recorded at fair value in the interim financial statements, with any changes to fair value being recorded in income.

The Company enters into contracts involving non-financial items for the purchase of raw materials and packaging supplies. These contracts are held for the purposes of the receipt or delivery of a non-financial item in accordance with the Company's expected usage requirements.

A 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. The Company has secured its required supply of malt and hops for fiscal 2012 and has entered into fixed price contracts, the balance of which are disclosed in the commitments schedule included in this MD&A.

## **SHARE CAPITAL**

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.

The Company has issued stock options to certain 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.

The Company has issued 5,729,165 common share purchase warrants. Each warrant entitles the holder to purchase one

common share of the Company at a price of \$0.71 for a five-year period from the date of issue and contains standard anti-dilution provisions.

Each stock option and warrant is exercisable for one common share at prices ranging from \$0.65 to \$1.09.

The total number of common shares, warrants and stock options outstanding as of September 7, 2011 is as follows:

<b>Number of shares</b>	<b>Number of warrants</b>	<b>Number of options</b>
28,182,660	5,729,165	1,369,000

\* EBITDA is a non-IFRS earnings measure, therefore it does not have any standardized meaning prescribed by International Financial Reporting Standards and may not be similar to measures presented by other companies. EBITDA represents earnings 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. Investors find EBITDA to be useful information because it provides a measure of the Company's operating performance.

**Q2**  
**2012**

**FINANCIAL STATEMENTS**

## STATEMENT OF COMPREHENSIVE INCOME

For the quarters ended July 31, 2011 and August 1, 2010

(Not audited or reviewed by the Company's external auditor)

	Notes	Quarter ended		Fiscal year-to-date ended	
		July 31, 2011	August 1, 2010 [note 5]	July 31, 2011	August 1, 2010 [note 5]
Revenue	7	\$ 10,706,289	\$ 9,111,170	\$ 18,838,892	\$ 16,082,314
Cost of sales	8	7,738,855	6,345,351	14,189,320	11,777,624
<b>Gross profit</b>		<b>2,967,434</b>	<b>2,765,819</b>	<b>4,649,572</b>	<b>4,304,690</b>
Selling, marketing and administration expenses	8	1,636,287	1,295,253	3,201,012	2,559,895
Other expenses	8, 9	91,708	91,269	237,403	135,719
Finance costs, net	10	186,157	58,397	349,154	93,166
<b>Income before tax</b>		<b>1,053,282</b>	<b>1,320,900</b>	<b>862,003</b>	<b>1,515,910</b>
Deferred income tax expense	11	250,000	392,000	193,000	472,000
<b>Income for the period</b>		<b>803,282</b>	<b>928,900</b>	<b>669,003</b>	<b>1,043,910</b>
<b>Total comprehensive income for the period</b>		<b>\$ 803,282</b>	<b>\$ 928,900</b>	<b>\$ 669,003</b>	<b>\$ 1,043,910</b>
Basic earnings per share	19	0.03	0.03	0.02	0.04
Diluted earnings per share	19	0.03	0.03	0.02	0.04

The accompanying notes are an integral part of these financial statements.

## STATEMENT OF FINANCIAL POSITION

As at July 31, 2011 and January 31, 2011 and February 1, 2010  
(Not audited or reviewed by the Company's external auditor)

	Notes	July 31, 2011	January 31, 2011 [note 5]	Date of Transition to IFRS February 1, 2010 [note 5]
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	12	\$ 18,212,726	\$ 18,372,020	\$ 17,637,515
Intangible assets	13	13,838,978	6,062,187	5,731,954
Other assets		65,000	45,000	188,871
Deferred income tax assets	11	2,680,000	2,873,000	1,600,000
		<b>34,796,704</b>	<b>27,352,207</b>	<b>25,158,340</b>
<b>Current assets</b>				
Accounts receivable	14, 15	8,682,262	4,519,591	2,357,069
Inventories	16	4,075,018	3,885,240	3,470,263
Prepaid expenses		428,232	321,899	412,351
		<b>13,185,512</b>	<b>8,726,730</b>	<b>6,239,683</b>
<b>TOTAL ASSETS</b>		<b>47,982,216</b>	<b>36,078,937</b>	<b>31,398,023</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Equity</b>				
Share capital	17	34,624,528	34,598,668	34,678,264
Share-based payments reserves	18	951,071	933,323	845,113
Deficit		(8,112,361)	(8,781,364)	(11,525,275)
<b>TOTAL EQUITY</b>		<b>27,463,238</b>	<b>26,750,627</b>	<b>23,998,102</b>
<b>Non-current liabilities</b>				
Provisions	20	176,403	170,908	160,581
Long-term debt and promissory note	21	6,517,513	3,026,731	1,158,395
Obligations under finance leases	22	12,365	24,650	138,106
		<b>6,706,281</b>	<b>3,222,289</b>	<b>1,457,082</b>
<b>Current liabilities</b>				
Bank indebtedness	23	2,650,990	371,543	1,792,406
Accounts payable and accrued liabilities	24	9,819,010	4,948,039	3,187,915
Current portion of long-term debt and promissory note	21	1,318,206	624,000	816,100
Current portion of obligations under finance leases	22	24,491	162,439	146,418
		<b>13,812,697</b>	<b>6,106,021</b>	<b>5,942,839</b>
<b>TOTAL LIABILITIES</b>		<b>20,518,978</b>	<b>9,328,310</b>	<b>7,399,921</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 47,982,216</b>	<b>\$ 36,078,937</b>	<b>\$ 31,398,023</b>

The accompanying notes are an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY

As at July 31, 2011 and January 31, 2011 and February 1, 2010

(Not audited or reviewed by the Company's external auditor)

	Notes	Share Capital			Share based payments reserve	Retained earnings/(deficit)	Total equity
		Number of Shares	Number of Warrants	Amount (\$)			
<b>Date of Transition to IFRS, February 1, 2010</b>	5	<b>28,120,385</b>	<b>5,729,165</b>	<b>\$ 34,678,264</b>	<b>\$ 845,113</b>	<b>\$ (11,525,275)</b>	<b>\$ 23,998,102</b>
Income for the remainder of the year		-	-	-	-	2,743,911	2,743,911
Transaction costs		-	-	(100,000)	-	-	(100,000)
<b>Total adjustments to comprehensive income</b>		-	-	<b>(100,000)</b>	-	<b>2,743,911</b>	<b>2,643,911</b>
Shares issued	18	31,275	-	19,704	-	-	19,704
Stock options exercised	18	1,000	-	700	-	-	700
Share-based payments	18	-	-	-	88,210	-	88,210
<b>At January 31, 2011</b>		<b>28,152,660</b>	<b>5,729,165</b>	<b>34,598,668</b>	<b>933,323</b>	<b>(8,781,364)</b>	<b>26,750,627</b>
Income for the period		-	-	-	-	669,003	669,003
<b>Total adjustments to comprehensive income</b>		-	-	-	-	<b>669,003</b>	<b>669,003</b>
Stock options exercised	18	30,000	-	25,860	(4,860)	-	21,000
Share-based payments	18	-	-	-	22,608	-	22,608
<b>At July 31, 2011</b>		<b>28,182,660</b>	<b>5,729,165</b>	<b>\$ 34,624,528</b>	<b>\$ 951,071</b>	<b>\$ (8,112,361)</b>	<b>\$ 27,463,238</b>

The accompanying notes are an integral part of these financial statements.

## STATEMENT OF CASH FLOWS

For the quarters ended July 31, 2011 and August 1, 2010

(Not audited or reviewed by the Company's external auditor)

	Notes	Quarter ended		Fiscal year-to-date ended	
		July 31, 2011	August 1, 2010 [note 5]	July 31, 2011	August 1, 2010 [note 5]
<b>Operating activities</b>					
Income for the period		\$ 803,282	\$ 928,900	\$ 669,003	\$ 1,043,910
Adjustments for:					
Deferred income tax expense	11	250,000	392,000	193,000	472,000
Finance costs, excluding accretion	10	183,410	55,815	343,659	88,003
Notional interest representing accretion	10	2,747	2,582	5,495	5,163
Depreciation and amortization of property, plant and equipment and intangibles	8	607,182	635,158	1,224,795	1,270,317
Share-based payments		9,912	22,054	22,608	44,106
Change in non-cash working capital related to operations		34,599	(3,234,119)	376,210	(1,667,828)
Less:					
Interest paid		(172,206)	(53,068)	(268,474)	(85,155)
<b>Cash provided by/(used in) operating activities</b>		<b>1,718,926</b>	<b>(1,250,678)</b>	<b>2,566,296</b>	<b>1,170,516</b>
<b>Investing activities</b>					
Purchase of property, plant and equipment	12	(522,247)	(576,632)	(1,046,668)	(2,023,891)
Decrease/(increase) of other assets		15,000	12,127	(20,000)	104,604
Purchase of intangible assets	13	(170,011)	(71,548)	(5,395,624)	(100,936)
<b>Cash used in investing activities</b>		<b>(677,258)</b>	<b>(636,053)</b>	<b>(6,462,292)</b>	<b>(2,020,223)</b>
<b>Financing activities</b>					
Increase/(decrease) in bank indebtedness	23	(846,054)	591,509	2,279,447	(345,457)
Decrease in obligations under finance leases	22	(6,073)	(42,269)	(150,233)	(83,977)
Proceeds from long-term debt	21	-	1,487,491	5,800,000	1,487,491
Repayment of mortgage payable - Roynat Inc.	21	-	-	(3,680,037)	-
Payment of financing costs	21	-	-	(184,640)	-
Repayment of long-term debt	21	(189,541)	(150,000)	(189,541)	(208,350)
Stock options and warrants exercised	18	-	-	21,000	-
<b>Cash provided by/(used in) financing activities</b>		<b>(1,041,668)</b>	<b>1,886,731</b>	<b>3,895,996</b>	<b>849,707</b>
<b>Net increase/(decrease) in cash</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash, beginning of period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash, end of period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Non-cash investing and financing activities:</b>					
Acquisition of intangible assets satisfied by the issuance of a promissory note payable (note 13)		-	-	2,400,000	-
Obligation under capital lease		-	-	-	73,321

The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

(Not audited or reviewed by the Company's external auditor)

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5. TRANSITION TO IFRS
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## **1. CORPORATE INFORMATION**

Brick Brewing Co. Limited (“Brick” or the “Company”) is a Canadian-owned and Canadian-based publically held brewery incorporated in Canada. Brick’s shares are listed on the Toronto Stock Exchange under the symbol “BRB”. Brick’s head office is located in Waterloo, Ontario at 181 King Street South, N2J 1P7.

The Company’s primary business relates to the production and distribution of alcohol-based products. To this end, the Company operates three Ontario-based facilities and serves primarily the Ontario market. Brick’s products are distributed to end consumers primarily through The Beer Store and Provincial Liquor Boards in Canada.

## **2. DATE OF AUTHORIZATION FOR ISSUE**

The financial statements of the Company were authorized for issue on September 7, 2011 by the Company’s Board of Directors.

## **3. BASIS OF PRESENTATION**

### **3.1. STATEMENT OF COMPLIANCE**

These condensed interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting. These condensed interim financial statements are for part of the period covered by the first IFRS annual financial statements and IFRS 1, First-time Adoption of International Financial Reporting Standards (“IFRS 1”) and has been applied in conjunction with the accounting policies disclosed in the interim financial statements for the first quarter ended May 1, 2011. The condensed interim financial statements do not include all of the information required for full annual financial statements. These condensed interim financial statements should be read in conjunction with the audited financial statements and notes thereto, for the fiscal year ended January 31, 2011, prepared under Canadian Generally Accepted Accounting Principles.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 5.

### **3.2. BASIS OF MEASUREMENT**

Depending on the applicable IFRS requirements, the measurement basis used in the preparation of these financial statements is cost, net realizable value, fair value or recoverable amount.

### **3.3. FUNCTIONAL AND PRESENTATION CURRENCY**

These financial statements are presented in Canadian dollars, which is the Company’s functional and presentation currency. All values are presented in actual dollars unless otherwise stated.

### **3.4. SEASONALITY**

The alcoholic beverage industry in Canada is seasonal in nature for companies like Brick. Accordingly, Brick has historically experienced a seasonal pattern in its operating results, with the first and last quarters historically exhibiting lower revenues. Therefore, the results in any one quarter are not indicative of results in any other quarter, or for the year as a whole.

## **4. USE OF ESTIMATES AND JUDGMENT**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of revenue, expenses, assets, liabilities and

disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and may result in a material adjustment to the related asset or liability.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Although each of its significant accounting policies reflects judgments, estimates or assumptions, the Company believes that the following accounting balances involve a greater degree of uncertainty: property, plant and equipment, intangible assets, deferred income taxes, inventories, share based payment reserves and provisions.

## **5. TRANSITION TO IFRS**

The Company transitioned to IFRS on February 1, 2010 (“date of transition”) and prepared its opening IFRS statement of financial position on that date. The reporting date for these interim financial statements is July 31, 2011, with the Company’s IFRS adoption date being February 1, 2011.

The accounting policies disclosed in the interim financial statements for the period ended May 1, 2011 have been applied in preparing these financial statements for the quarter ended July 31, 2011, the comparative information presented in these financial statements for the quarter ended August 1, 2010, the date of transition February 1, 2010, and the year ended January 31, 2011.

In preparing these interim financial statements in accordance with IFRS 1, the Company has considered the mandatory exceptions (a through d) and optional exemptions (e through s) from full retrospective application of IFRS. The Company’s interim financial statements for the quarter ended May 1, 2011 provide details on the application of the IFRS 1 mandatory exceptions and optional exemptions, including disclosure of the effect of transition to IFRS on the statement of financial position and equity at the date of transition and at January 31, 2011. Accordingly, such disclosures have not been repeated within these interim financial statements.

### **5.1. IMPACT OF TRANSITION TO IFRS**

The impact of transitioning to IFRS is presented as follows:

- I. Reconciliation of the statement of financial position as at August 1, 2010 (“comparative interim period presented under CGAAP”);
- II. Reconciliation of equity as at the date of the comparative interim period presented under CGAAP;
- III. Reconciliation of the statement of comprehensive income for the quarter ended August 1, 2010;
- IV. Explanatory notes to the reconciliations in I, II and III.

The adoption of IFRS has had no impact on the net cash flows of the Company. The changes made to the statements of financial position and statements of comprehensive income have resulted in reclassifications of various amounts on the statements of cash flows, however, as there have been no changes to net cash flows, no reconciliations have been presented.

I. The effect on the Company's statement of financial position as at August 1, 2010 is as follows:

As at August 1, 2010  
(comparative interim period presented under Canadian GAAP)

	Notes	Canadian GAAP [restated] <sup>f</sup>	Effect of transition to IFRS			IFRS
			Date of transition adjustments	Period ended May 2, 2010 adjustments	Period ended August 1, 2010 adjustments	
<b>ASSETS</b>						
<b>Non-current assets</b>						
Property, plant and equipment	a,b,d	\$ 14,956,370	\$ 3,536,393	\$ 171,862	\$ (182,147)	\$ 18,482,478
Intangible assets		5,814,821	-	-	-	5,814,821
Other assets		84,267	-	-	-	84,267
Deferred income tax assets		562,000	566,000	-	-	1,128,000
		21,417,458	4,102,393	171,862	(182,147)	25,509,566
<b>Current assets</b>						
Accounts receivable		8,441,973	-	-	-	8,441,973
Inventories	d	5,012,825	(1,781,451)	(170,270)	180,061	3,241,165
Prepaid expenses		650,918	-	-	-	650,918
Deferred income tax assets		566,000	(566,000)	-	-	-
		14,671,716	(2,347,451)	(170,270)	180,061	12,334,056
<b>TOTAL ASSETS</b>		\$ 36,089,174	\$ 1,754,942	\$ 1,592	\$ (2,086)	\$ 37,843,622
<b>LIABILITIES AND EQUITY</b>						
<b>Equity</b>						
Share capital		\$ 34,678,264	\$ -	\$ -	\$ -	\$ 34,678,264
Share-based payments reserves	c	831,808	72,658	(7,624)	(7,624)	889,218
Deficit		(12,012,659)	1,521,703	6,634	2,956	(10,481,366)
		23,497,413	1,594,361	(990)	(4,668)	25,086,116
<b>Non-current liabilities</b>						
Provisions	b	-	160,581	2,582	2,582	165,745
Long-term debt and promissory note		2,413,636	-	-	-	2,413,636
Obligations under finance leases		36,858	-	-	-	36,858
		2,450,494	160,581	2,582	2,582	2,616,239
<b>Current liabilities</b>						
Bank indebtedness		1,446,949	-	-	-	1,446,949
Accounts payable and accrued liabilities		7,617,308	-	-	-	7,617,308
Provisions		-	-	-	-	-
Current portion of long-term debt and promissory note		840,000	-	-	-	840,000
Current portion of obligations under finance leases		237,010	-	-	-	237,010
		10,141,267	-	-	-	10,141,267
<b>TOTAL LIABILITIES</b>		12,591,761	160,581	2,582	2,582	12,757,506
<b>TOTAL LIABILITIES AND EQUITY</b>		\$ 36,089,174	\$ 1,754,942	\$ 1,592	\$ (2,086)	\$ 37,843,622

II. A detailed reconciliation of equity as at August 1, 2010 is as follows:

	Share capital	Share-based payments reserves	Retained earnings/ (deficit)	Total equity
Canadian GAAP	\$ 34,678,264	\$ 831,808	\$ (12,012,659)	\$ 23,497,413
Effect of transition to IFRS - date of transition	-	72,658	1,521,703	1,594,361
Effect of transition to IFRS - for the period ended May 1, 2010	-	(7,624)	6,634	(990)
Effect of transition to IFRS for the period ended August 1, 2010:				
note a	-	-	826	826
note b	-	-	(5,494)	(5,494)
note c	-	(7,624)	7,624	-
Total effect of transition to IFRS for the period	-	(7,624)	2,956	(4,668)
Total effect of transition to IFRS	-	57,410	1,531,293	1,588,703
<b>IFRS</b>	\$ 34,678,264	\$ 889,218	\$ (10,481,366)	\$ 25,086,116

III. The effect on the Company's statement of comprehensive income for the quarter ended and fiscal year-to-date ended August 1, 2010 is as follows:

Quarter Ended August 1, 2010  
(comparative interim period presented under Canadian GAAP)

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue		\$ 9,111,170	\$ -	\$ 9,111,170
Cost of Sales	a, e	6,036,085	309,266	6,345,351
<b>Gross profit</b>		3,075,085	(309,266)	2,765,819
Selling, marketing and administration expenses	c	1,302,877	(7,624)	1,295,253
Other expenses	a, b, e	416,006	(324,737)	91,269
Finance costs, net	b	38,258	20,139	58,397
<b>Profit before tax</b>		1,317,944	2,956	1,320,900
Deferred income tax expense		392,000	-	392,000
<b>Profit for the period</b>		925,944	2,956	928,900
<b>Comprehensive income for the period</b>		\$ 925,944	\$ 2,956	\$ 928,900
<b>Basic earnings per share</b>		\$ 0.03	\$ -	\$ 0.03
<b>Diluted earnings per share</b>		\$ 0.03	\$ -	\$ 0.03

Fiscal year-to-date ended August 1, 2010  
(comparative interim period presented under Canadian GAAP)

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue		\$ 16,082,314	\$ -	\$ 16,082,314
Cost of Sales	a, e	11,097,743	679,881	11,777,624
<b>Gross profit</b>		4,984,571	(679,881)	4,304,690
Selling, marketing and administration expenses	c	2,575,142	(15,248)	2,559,895
Other expenses	a, b, e	840,448	(704,729)	135,719
Finance costs, net	b	62,662	30,504	93,166
<b>Profit before tax</b>		1,506,319	9,591	1,515,910
Deferred income tax expense		472,000	-	472,000
<b>Profit for the period</b>		1,034,319	9,591	1,043,910
<b>Comprehensive income for the period</b>		\$ 1,034,319	\$ 9,591	\$ 1,043,910
<b>Basic earnings per share</b>		\$ 0.03	\$ -	\$ 0.03
<b>Diluted earnings per share</b>		\$ 0.03	\$ -	\$ 0.03

IV. Explanatory notes to the reconciliations:

- (a) As a consequence of applying the deemed cost election provided by IFRS 1 to certain property, plant and equipment assets, the net impact to depreciation expense as determined under IAS 16, Property, Plant and Equipment ("IAS 16"), resulted in a cost recovery of \$826 for the quarter ended August 1, 2010, which was reflected through accumulated depreciation on the statement of financial position and cost of sales and other expenses on the income statement (refer to note e below for expense reclassifications).

- (b) In applying the requirements of IFRIC 1 to the Company's decommissioning obligation, the impact to depreciation and accretion expense was \$2,912 and \$2,582 respectively for the quarter ended August 1, 2010. The depreciation impact was reflected through property, plant and equipment on the statement of financial position and other expenses on the income statement while the accretion impact was reflected through non-current provisions on the statement of financial position and finance expenses on the income statement.
- (c) The impact of applying the "graded vesting" requirement of IFRS 2 to the Company's stock options resulted in a recovery to compensation expense (selling, marketing and administration expenses) of \$7,624 and corresponding reduction of share-based payments reserves for the quarter ended August 1, 2010.

August 1, 2010 transition adjustments not impacting equity or comprehensive income:

- (d) In transitioning to IFRS, the Company has reclassified its returnable glass bottles to property, plant and equipment as their use covers more than one period. The impact of the reclassification adjustment was \$180,061 for the quarter ended August 1, 2010.
- (e) To conform with its presentation under IFRS, the Company reclassified expenses between the cost of sales, other expenses and finance cost categories. The most significant change relates to depreciation and amortization expense on the Company's machinery and equipment and major spare parts assets which are presented as part of cost of sales under IFRS (CGAAP presentation as other expenses).

Restatement of CGAAP values:

- (f) During the year ended January 31, 2011, the Company changed its accounting policy for transaction costs under CGAAP. The net impact of retroactively applying the change in policy is a decrease to the opening deficit of \$93,405 with a corresponding reduction to long term debt. The change in policy has been disclosed by the Company within the CGAAP financial statements for the year ended January 31, 2011.

## 6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies disclosed in the interim financial statements for the first quarter ended May 1, 2011 remain unchanged and as such, have not been repeated in this interim report.

## 7. REVENUE

The Company's revenue consists of the follow streams:

	Quarter ended July 31, 2011	Quarter ended August 1, 2010	Fiscal year-to-date ended July 31, 2011	Fiscal year-to-date ended August 1, 2010
<b>Revenue from the Sale of Goods:</b>				
Gross Revenue	\$ 21,240,377	\$ 18,523,016	\$ 37,949,147	\$ 32,567,392
Less: Production taxes and distribution fees	11,581,107	10,454,688	20,821,934	18,111,551
Revenue (net)	9,659,270	8,068,328	17,127,213	14,455,841
<b>Revenue from the rendering of services:</b>	1,047,019	1,042,842	1,711,679	1,626,473
<b>Total Revenue</b>	<b>\$ 10,706,289</b>	<b>\$ 9,111,170</b>	<b>\$ 18,838,892</b>	<b>\$ 16,082,314</b>

## 8. EXPENSES BY NATURE

Expenses relating to depreciation, amortization, impairment and personnel expenses are included within the following line items on the income statement:

	Quarter ended July 31, 2011	Quarter ended August 1, 2010	Fiscal year-to-date ended July 31, 2011	Fiscal year-to-date ended August 1, 2010
<b>Depreciation and impairment of property, plant &amp; equipment</b>				
Cost of sales	\$ 526,917	\$ 557,693	\$ 1,054,638	\$ 1,115,387
Other expenses	61,730	68,431	151,324	136,861
<b>Amortization and impairment of intangible assets</b>				
Other expenses	9,416	9,035	18,833	18,069
<b>Salaries, benefits and other personnel-related expenses</b>				
Cost of sales	1,581,169	1,384,641	3,105,284	2,720,374
Selling, marketing and administrative expenses	621,715	623,719	1,275,111	1,289,096
Other expenses	2,675	-	62,848	1,124

## 9. OTHER EXPENSES

The Company's other expenses consist of the following amounts:

	Quarter ended July 31, 2011	Quarter ended August 1, 2010	Fiscal year-to-date ended July 31, 2011	Fiscal year-to-date ended August 1, 2010
Depreciation and impairment of property, plant & equipment	\$ 61,730	\$ 68,431	\$ 151,324	\$ 136,862
Amortization and impairment of intangible assets	9,416	9,035	18,833	18,070
Other personnel-related expenses	2,675	-	62,848	1,124
Foreign exchange (gains)/losses	17,887	13,803	4,398	(20,337)
	\$ 91,708	\$ 91,269	\$ 237,403	\$ 135,719

## 10. FINANCE COSTS

The Company's finance costs consist of the following amounts:

	Quarter ended July 31, 2011	Quarter ended August 1, 2010	Fiscal year-to-date ended July 31, 2011	Fiscal year-to-date ended August 1, 2010
Interest on long-term debt	\$ 151,694	\$ 38,048	\$ 284,994	\$ 58,965
Interest on finance leases	132	210	551	3,697
Interest on bank indebtedness	31,195	17,658	55,925	25,260
Other interest (income)/expense	389	(101)	2,189	81
Unwinding of discount on provisions	2,747	2,582	5,495	5,163
	\$ 186,157	\$ 58,397	\$ 349,154	\$ 93,166

## 11. INCOME TAXES

The operations of the Company and related tax interpretations, regulations and legislation are subject to change. The Company believes that the amounts reported as deferred income tax assets adequately reflect management's current best estimate of its income tax exposures.

## 12. PROPERTY, PLANT & EQUIPMENT

	Assets owned by the Company								Assets held under finance leases			Total property, plant and equipment
	Land	Buildings and leasehold improvements	Returnable containers	Machinery and equipment	Computer equipment	Furniture and fixtures	Vehicles	Major spare parts	Machinery and equipment	Computer equipment	Vehicles	
<b>Cost</b>												
Balance at February 1, 2010	\$ 2,532,438	\$ 3,520,246	\$ 5,715,860	\$ 11,572,435	\$ 851,333	\$ 366,259	\$ 188,815	\$ 770,793	\$ 750,000	\$ 263,218	\$ 35,000	\$ 26,566,397
Additions	-	467,208	478,435	2,298,729	36,787	8,278	-	62,940	-	73,083	-	3,425,460
Disposals	-	(155,790)	-	(86,221)	-	-	-	(474,570)	-	-	-	(716,581)
<b>Balance at January 31, 2011</b>	<b>2,532,438</b>	<b>3,831,664</b>	<b>6,194,295</b>	<b>13,784,943</b>	<b>888,120</b>	<b>374,537</b>	<b>188,815</b>	<b>359,163</b>	<b>750,000</b>	<b>336,301</b>	<b>35,000</b>	<b>29,275,276</b>
<b>Cumulative depreciation and impairment</b>												
Balance at February 1, 2010	-	(1,424,406)	(3,881,501)	(1,141,579)	(819,773)	(341,388)	(188,815)	(604,115)	(229,087)	(263,218)	(35,000)	(8,928,882)
Depreciation charge for the period	-	(167,215)	(860,454)	(1,312,424)	(27,554)	(17,990)	-	(57,895)	(50,000)	(10,962)	-	(2,504,494)
Depreciation on:												
Disposals	-	-	-	57,663	-	-	-	417,419	-	-	-	475,082
Other changes	-	5,027	-	50,011	-	-	-	-	-	-	-	55,038
<b>Balance at January 31, 2011</b>	<b>-</b>	<b>(1,586,594)</b>	<b>(4,741,955)</b>	<b>(2,346,329)</b>	<b>(847,327)</b>	<b>(359,378)</b>	<b>(188,815)</b>	<b>(244,591)</b>	<b>(279,087)</b>	<b>(274,180)</b>	<b>(35,000)</b>	<b>(10,903,256)</b>
<b>Net book value as at February 1, 2010</b>	<b>\$ 2,532,438</b>	<b>\$ 2,095,840</b>	<b>\$ 1,834,359</b>	<b>\$ 10,430,856</b>	<b>\$ 31,560</b>	<b>\$ 24,871</b>	<b>\$ -</b>	<b>\$ 166,678</b>	<b>\$ 520,913</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 17,637,515</b>
<b>Net book value as at January 31, 2011</b>	<b>\$ 2,532,438</b>	<b>\$ 2,245,070</b>	<b>\$ 1,452,340</b>	<b>\$ 11,438,614</b>	<b>\$ 40,793</b>	<b>\$ 15,159</b>	<b>\$ -</b>	<b>\$ 114,572</b>	<b>\$ 470,913</b>	<b>\$ 62,121</b>	<b>\$ -</b>	<b>\$ 18,372,020</b>
<b>Cost</b>												
Balance at February 1, 2011	\$ 2,532,438	\$ 3,831,664	\$ 6,194,295	\$ 13,784,943	\$ 888,120	\$ 374,537	\$ 188,815	\$ 359,163	\$ 750,000	\$ 336,301	\$ 35,000	\$ 29,275,276
Additions	94,310	138,146	38,500	664,798	63,959	27,948	10,761	49,845	-	-	-	1,088,267
Disposals	-	-	-	-	-	-	-	(55,344)	-	-	-	(55,344)
Other changes	-	-	-	750,000	-	-	35,000	-	(750,000)	-	(35,000)	-
<b>Balance at July 31, 2011</b>	<b>2,626,748</b>	<b>3,969,810</b>	<b>6,232,795</b>	<b>15,199,741</b>	<b>952,079</b>	<b>402,485</b>	<b>234,576</b>	<b>353,664</b>	<b>-</b>	<b>336,301</b>	<b>-</b>	<b>30,308,199</b>
<b>Cumulative depreciation and impairment</b>												
Balance at February 1, 2011	-	(1,586,594)	(4,741,955)	(2,346,329)	(847,327)	(359,378)	(188,815)	(244,591)	(279,087)	(274,180)	(35,000)	(10,903,256)
Depreciation charge for the period	-	(96,039)	(312,743)	(755,205)	(27,455)	(4,367)	(808)	1,617	-	(10,962)	-	(1,205,962)
Depreciation on:												
Disposals	-	-	-	-	-	-	-	13,745	-	-	-	13,745
Other changes	-	-	-	(279,087)	-	-	(35,000)	-	279,087	-	35,000	-
<b>Balance at July 31, 2011</b>	<b>-</b>	<b>(1,682,633)</b>	<b>(5,054,698)</b>	<b>(3,380,621)</b>	<b>(874,782)</b>	<b>(363,745)</b>	<b>(224,623)</b>	<b>(229,229)</b>	<b>-</b>	<b>(285,142)</b>	<b>-</b>	<b>(12,095,473)</b>
<b>Net book value as at July 31, 2011</b>	<b>\$ 2,626,748</b>	<b>\$ 2,287,177</b>	<b>\$ 1,178,097</b>	<b>\$ 11,819,120</b>	<b>\$ 77,297</b>	<b>\$ 38,740</b>	<b>\$ 9,953</b>	<b>\$ 124,435</b>	<b>\$ -</b>	<b>\$ 51,159</b>	<b>\$ -</b>	<b>\$ 18,212,726</b>

Refer to note 23 for details on the Company's property, plant and equipment that have been pledged as security for liabilities.

The Company's obligations under finance leases are described in note 22.

### 13. INTANGIBLE ASSETS

The Company's intangible assets are broken down as follows:

	Listing fees	Trademarks	Other	Computer software and licenses	Total
<b>Cost</b>					
Balance at February 1, 2010	\$ 1,642,930	\$ 4,089,024	\$ -	\$ -	\$ 5,731,954
Acquired separately	303,371	-	-	113,000	416,371
Impairment charges recognized in profit/(loss) for the year	(50,000)	-	-	-	(50,000)
<b>Balance at January 31, 2011</b>	<b>1,896,301</b>	<b>4,089,024</b>	<b>-</b>	<b>113,000</b>	<b>6,098,325</b>
<b>Cumulative amortization and impairment</b>					
Balance at February 1, 2010	-	-	-	-	-
Amortization charge for the period	-	-	-	(36,138)	(36,138)
<b>Balance at January 31, 2011</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(36,138)</b>	<b>(36,138)</b>
<b>Net book value as at February 1, 2010</b>	<b>\$ 1,642,930</b>	<b>\$ 4,089,024</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,731,954</b>
<b>Net book value as at January 31, 2011</b>	<b>\$ 1,896,301</b>	<b>\$ 4,089,024</b>	<b>\$ -</b>	<b>\$ 76,862</b>	<b>\$ 6,062,187</b>
<b>Cost</b>					
Balance at February 1, 2011	\$ 1,896,301	\$ 4,089,024	\$ -	\$ 113,000	\$ 6,098,325
Acquired separately	230,890	7,552,990	11,744	-	7,795,624
<b>Balance at July 31, 2011</b>	<b>2,127,191</b>	<b>11,642,014</b>	<b>11,744</b>	<b>113,000</b>	<b>13,893,949</b>
<b>Cumulative amortization and impairment</b>					
Balance at February 1, 2011	-	-	-	(36,138)	(36,138)
Amortization charge for the period	-	-	-	(18,833)	(18,833)
<b>Balance at July 31, 2011</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(54,971)</b>	<b>(54,971)</b>
<b>Net book value as at July 31, 2011</b>	<b>\$ 2,127,191</b>	<b>\$ 11,642,014</b>	<b>\$ 11,744</b>	<b>\$ 58,029</b>	<b>\$ 13,838,978</b>

For the quarters ended July 31, 2011 and August 1, 2010, there were no indicators of impairment in the carrying value of the Company's intangible assets. Accordingly, no provision for impairment has been recognized in these financial statements.

On March 16, 2011, the Company purchased the Canadian rights to the Seagram's Coolers brand for a purchase price of \$7,300,000 plus costs directly attributable to the purchase. The purchase was settled through a cash payment and a promissory note of \$2,400,000.

Refer to note 23 for details on the Company's intangible assets that have been pledged as security for liabilities.

### 14. ACCOUNTS RECEIVABLE

The accounts receivable balance consists of the following:

	July 31, 2011	January 31, 2011	Date of Transition to IFRS February 1, 2010
Trade customers	\$ 7,515,538	\$ 3,365,415	\$ 1,619,244
Other	1,176,839	1,164,291	786,325
	<b>8,692,377</b>	<b>4,529,706</b>	<b>2,405,569</b>
Allowance	(10,115)	(10,115)	(48,500)
<b>Net, accounts receivable</b>	<b>\$ 8,682,262</b>	<b>\$ 4,519,591</b>	<b>\$ 2,357,069</b>

Included in the other category of accounts receivable is a grant receivable from the Ontario government. Please refer to note 15 for further details on the grant.

Movement in the allowance for accounts receivable consists of the following:

	July 31, 2011	August 1, 2010	January 31, 2011
Allowance, beginning of period	\$ (10,115)	\$ (48,500)	\$ (48,500)
Amounts written off during the period	-	26,663	40,280
Reversals of amounts previously written off	-	(1,565)	(1,895)
Allowance, end of period	\$ (10,115)	\$ (23,402)	\$ (10,115)

There were no impairments of accounts receivable recorded during the period ended July 31, 2011 (January 31, 2011 - \$40,280). The solvency of customers and their ability to repay the receivables were considered in assessing the impairment of such assets. No collateral is held in respect of impaired assets or assets that are past due but not impaired.

Below is an aged analysis of the Company's accounts receivable:

	July 31, 2011	January 31, 2011	Date of Transition to IFRS February 1, 2010
Not yet due, or less than 30 days past due	\$ 8,580,987	\$ 4,333,020	\$ 2,125,771
Past the due date but not impaired:			
31-60 days	87,995	95,885	56,844
61-90 days	-	15,142	31,865
Over 90 days	13,280	75,544	142,589
	\$ 8,682,262	\$ 4,519,591	\$ 2,357,069

## 15. GOVERNMENT GRANT

In September 2008, the Ontario Government announced the Ontario Craft Brewers Opportunity Fund to assist craft brewers with building and marketing their brands. The Company received proceeds of \$1,000,000 from this fund in each of fiscal 2009, 2010 and 2011. The proceeds are restricted for use in activities designed to grow the business and be more competitive in the Craft Beer industry.

The Company has recorded a receivable of \$1,000,000 (January 31, 2011 - \$1,000,000) relating to the fourth and final payment that will be received by the Company during the year ended January 31, 2012. As a result of the Opportunity Fund, the Company has recognized a reduction to marketing expense of nil during the quarter ended and fiscal year-to-date ended July 31, 2011 (quarter ended August 1, 2010 - \$380,000; fiscal year-to-date ended August 1, 2010 - \$728,674).

## 16. INVENTORIES

The inventories balance consists of the following:

	July 31, 2011	January 31, 2011	Date of Transition to IFRS February 1, 2010
Promotional items	\$ 31,532	\$ 28,008	\$ 42,871
Raw materials and supplies	1,644,979	1,582,875	1,416,994
Work in progress and finished goods	2,398,507	2,274,357	2,010,398
	\$ 4,075,018	\$ 3,885,240	\$ 3,470,263

As at July 31, 2011, a provision of \$75,794 (January 31, 2011 - \$43,051, February 1, 2010 - \$72,464) has been netted against inventory to account for obsolete materials.

The cost of inventories recognized as expense during the quarter and fiscal year-to-date periods ended July 31, 2011 are \$6,665,879 (August 1, 2010 - \$5,327,528) and \$12,129,299 (August 1, 2010 - \$9,732,137) respectively. Included in this amount are charges related to impairment caused by obsolescence. During the quarter and fiscal year-to-date ended July 31, 2011 these charges amounted to \$5,259 (August 1, 2010 - \$6,636) and \$12,118 (August 1, 2010 - \$18,794), respectively.

Refer to note 23 for details on the Company's inventories that have been pledged as security against liabilities.

## 17. SHARE CAPITAL

### Preferred shares

The Company has authorized an unlimited number of preferred shares. As at July 31, 2011, no preferred shares have been issued.

### Common shares

The Company has authorized an unlimited number of common shares. As at July 31, 2011, 28,182,660 common shares were issued and outstanding.

### Convertible warrants

On October 31, 2008, the Company issued 5,729,165 units of share capital, with each unit consisting of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.71 for a five-year period from the date of closing and contains standard anti-dilution provisions. As at July 31, 2011, 5,729,165 warrants were issued and outstanding.

## 18. SHARE-BASED PAYMENTS

### Stock option and share purchase plans

The Company has issued stock options to certain 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, subject to a three-year vesting period.

A summary of the status of the options outstanding under the Company's stock option plan as at July 31, 2011 and January 31, 2011 is presented below:

	Quarter ended July 31, 2011		Year ended January 31, 2011	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Balance outstanding at beginning of period	1,369,000	\$ 0.77	1,350,000	\$ 0.77
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	-	-	(1,000)	0.70
Expired	-	-	-	-
<b>Balance outstanding at end of period</b>	<b>1,369,000</b>	<b>\$ 0.77</b>	<b>1,349,000</b>	<b>\$ 0.77</b>

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

Exercise price	Number outstanding at July 31, 2011	Weighted average remaining contractual life	Number exercisable at July 31, 2011
0.65	500,000	2.82	333,333
0.69	50,000	3.36	16,667
0.70	119,000	2.15	79,333
0.71	150,000	2.18	100,000
0.93	500,000	1.78	500,000
1.09	50,000	4.51	-
0.65 to 1.09	1,369,000	2.39	1,029,333

All option grants have a term of five years from the date of grant and vest on the anniversary date of the grant at a rate of one-third per annum of the total number of share options granted.

There were no options exercised during the quarters ended July 31, 2011 and August 1, 2010.

The fair value is charged to personnel expense over the vesting period of the options.

As options are exercised, the corresponding values previously charged to share based payments reserve are reclassified to share capital. Cash proceeds arising from the exercise of these options are credited to share capital.

**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, 2011. During the quarter ended July 31, 2011, no shares were issued under the plan (quarter ended August 1, 2010 – nil).

## 19. EARNINGS PER SHARE

The computations for basic and diluted earnings per share are as follows:

	Quarter ended		Fiscal year-to-date ended	
	July 31, 2011	August 1, 2010 [note 5]	July 31, 2011	August 1, 2010 [note 5]
Profit for the year	\$ 803,282	\$ 928,900	\$ 669,003	\$ 1,043,910
Average number of common shares outstanding	28,182,660	28,121,385	28,167,909	28,120,912
Effect of options and warrants	2,707,292	398,005	2,523,313	411,378
Average number of diluted common shares outstanding	30,889,952	28,519,390	30,691,222	28,532,290
Basic earnings per share	\$ 0.03	\$ 0.03	\$ 0.02	\$ 0.04
Diluted earnings per share	\$ 0.03	\$ 0.03	\$ 0.02	\$ 0.04

## 20. PROVISIONS

	Asset decommissioning obligations
Balance at February 1, 2010	\$ 160,581
Changes due to the passage of time	10,327
Balance at January 31, 2011	\$ 170,908
Current	\$ -
Non-current	\$ 170,908
Balance at February 1, 2011	\$ 170,908
Changes due to the passage of time	5,495
<b>Balance at July 31, 2011</b>	<b>\$ 176,403</b>
<b>Current</b>	<b>\$ -</b>
<b>Non-current</b>	<b>\$ 176,403</b>

Asset decommissioning costs relate to the future legal obligations associated with the retirement of the Company's leased facility. The obligation is being accreted to income over a period of 5 years. The total undiscounted amount of estimated cash flows required to restore the leased facility is \$222,378. The key assumptions used by management in computing the fair value of the future obligation are as follows: inflation at 2% and discount rate at 6.4%. The amount and timing of cash flows are based upon management's best estimate of this future obligation.

## 21. LONG-TERM DEBT AND PROMISSORY NOTE

Long-term debt and promissory note consists of the following:

	July 31, 2011	January 31, 2011	Date of Transition to IFRS February 1, 2010
Secured promissory note payable to Corby Distilleries Limited, bearing interest at a rate of 5.00% per annum. Principal payments of \$600,000 plus accrued interest are due annually beginning January 31, 2012 and ending January 31, 2015.	\$ 2,400,000	\$ -	\$ -
Mortgage payable to HSBC (stated net of transaction costs of \$184,640), bearing interest as described below, with monthly principal payments ranging from \$61,408 to \$69,708 until March 1, 2015, then principal payments will increase to \$120,000 until Aug 1, 2016 and reducing to \$69,050 until April 1, 2017.	5,435,719	-	-
Mortgage payable to Roynat Inc., repaid on March 16, 2011.	-	3,650,731	1,350,000
Mortgage payable to Roynat Inc., repaid on May 6, 2010.	-	-	624,495
<b>Total long-term debt</b>	<b>\$ 7,835,719</b>	<b>\$ 3,650,731</b>	<b>\$ 1,974,495</b>
<b>Current</b>	<b>\$ 1,318,206</b>	<b>\$ 624,000</b>	<b>\$ 816,100</b>
<b>Non-current</b>	<b>\$ 6,517,513</b>	<b>\$ 3,026,731</b>	<b>\$ 1,158,395</b>

The mortgage payable to HSBC is secured by a general security agreement over all assets, a collateral mortgage in the amount of \$4,500,000 over real property, and a first position security interest in processing plant and equipment, accounts receivable and inventories. The mortgage payable is also secured by a second ranking position security interest in the Seagram rights behind the first ranking security in favour of Corby Distilleries Limited.

On May 10, 2011, the Company entered into an interest swap arrangement with HSBC Bank Canada, whereby the Company fixed \$2,900,000 of the original term loan of \$5,800,000 at an interest rate of 7.2%. The remaining \$2,900,000 bears interest at the lender's prime rate plus 3%. The interest rate swap is recorded at its fair value with any changes in fair value being recognized in income.

The note payable to Corby Distilleries Limited is secured by a first ranking position over the Seagram's rights.

The Company is in compliance with the financial covenants required under the terms of the mortgage payable.

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

	July 31, 2011
Due within one year	\$ 1,318,206
Due in one to five years	5,760,224
Due in over five years	757,289
	<b>\$ 7,835,719</b>

## 22. OBLIGATIONS UNDER FINANCE LEASES

The Company has the following commitments relating to its computer equipment under finance lease as at July 31, 2011:

	Future minimum lease payments	Less: future finance charges	Present value of finance lease obligation
Due within one year	\$ 24,823	\$ 332	\$ 24,491
Due in one to five years	12,411	46	12,365
	37,234	378	36,856
<b>Current</b>			<b>\$ 24,491</b>
<b>Non-current</b>			<b>\$ 12,365</b>
<b>Total obligations under finance leases</b>			<b>\$ 36,856</b>

At July 31, 2011, the average lease term on the Company's computer equipment finance leases is 2 years and average effective borrowing rate is 1.29%.

Interest expense on finance leases for the second quarter and fiscal year-to-date ended July 31, 2011 was \$132 (August 1, 2010 - \$2,805) and \$551 (August 1, 2010 - \$6,292) respectively. These expenses are included in finance costs.

Finance lease obligations included above are secured against the assets concerned.

## 23. BANK INDEBTEDNESS

The Company holds an operating line of credit from HSBC Bank Canada of \$8,000,000 with interest at prime plus 1.5%. The Company utilized \$2,312,772 of the operating line of credit as of July 31, 2011 (January 31, 2011 - \$80,187). Bank indebtedness includes outstanding cheques. Interest expense for the second quarter and fiscal year-to-date ended July 31, 2011 was \$33,502 (August 1, 2010 - \$17,423) and \$58,232 (August 1, 2010 - \$25,025) respectively. These charges have been included as part of finance expenses in the income statement.

The operating line is secured by a general security agreement over all assets other than real property, and a general assignment of book debts creating a first priority assignment. The Company is in compliance with the financial covenants required under the terms of the bank operating line of credit.

## 24. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following categories:

	July 31, 2011	January 31, 2011	Date of Transition to IFRS February 1, 2010
Trade payables	\$ 3,345,304	\$ 1,942,146	\$ 1,160,813
Other payables and accrued liabilities	6,473,706	3,005,893	2,027,102
	<b>\$ 9,819,010</b>	<b>\$ 4,948,039</b>	<b>\$ 3,187,915</b>

The Company's trade payables relate to amounts outstanding for trade purchases relating to the production of alcohol-based products and for general and administrative activities.

The Company's other payables category mainly include amounts relating to federal and provincial sales taxes and production taxes associated with the manufacturing and distribution of alcohol-based products. Also included in the other payables category is an amount due to Corby Distilleries Limited in respect of inventory purchased as part of the March 16, 2011 acquisition of the Canadian rights to the Seagram Coolers brand. The Company's accrued liabilities mainly relate to salaries, benefits and other personnel related expenses as well as accruals relating to accounting and legal expenses.

Accounts payables and accrued liabilities are expected to be settled within the next 12 months.

## 25. FINANCIAL INSTRUMENTS

This note presents information relating to the Company's exposure to financial instruments and summarizes the Company's policies and processes that are in place for measuring and managing risk. Further qualitative disclosures are included throughout these financial statements.

### Principles of risk management

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, foreign currency risk and interest rate risk. These risks are from exposures that occur in the normal course of business and are managed by the Executive Team, consisting of the Officers of the Company. The responsibilities of the Executive Team include the recommendations of policies to manage financial instrument risk.

The overall objective of the Executive Team is to effectively manage credit risk, liquidity risk and other market risks in accordance with the Company's strategy. Other responsibilities of the Executive Team include management of the Company's cash resources and debt funding programs, approval of counter-parties and relevant transaction limits and the monitoring of all significant treasury activities undertaken by the Company.

The Company's Finance Group prepares monthly reports which monitor all significant financial activities undertaken by the Company. These reports also monitor loan covenants to ensure continued compliance. The Executive Team reviews these reports to monitor the financial instrument risks of the Company and to ensure compliance with established Company policies and procedures.

### Categories of financial instruments

The Company's significant financial instruments comprise cash and cash equivalents, bank indebtedness, finance leases, and long term debt and promissory notes. The main purpose of these financial instruments is to finance the Company's growth and ongoing operations. The Company has various other financial assets and liabilities such as accounts receivables and accounts payables, which arise directly from its operations.

The Company's financial instruments and their designations are:

	Designated as:
Cash and cash equivalents	Held for trading
Accounts receivable	Loans and receivables
Bank indebtedness	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Obligations under finance lease	Other financial liabilities
Long term debt and promissory notes	Other financial liabilities

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

Accounts receivable, and accounts payable and accrued liabilities approximate their fair values on a discounted cash flow basis because of the short-term nature of these instruments. In general, investments with original maturities of greater than three months and remaining maturities of less than one year are classified as cash and cash equivalents.

The carrying amount of long term debt, promissory notes and obligations under finance lease approximate their fair value on a discounted cash basis because these obligations bear interest at market rates.

### **Credit risk**

Exposure to credit risk arises as a result of transactions in the Company's ordinary course of business and is applicable to all financial assets. Investments in cash, short-term deposits and similar assets are with approved counter party banks and other financial institutions. Counter-parties are assessed both prior to, during, and after the conclusion of transactions to ensure exposure to credit risk is limited to an acceptable level.

The Company's major exposure to credit risk is in respect of trade receivables. The Beer Store is the Company's largest customer with accounts receivable totalling \$6,546,082 at July 31, 2011 (January 31, 2011 - \$3,049,535).

The maximum exposure of credit risk is limited to the total carrying value of accounts receivable as at July 31, 2011, being an amount of \$8,682,261 (January 31, 2011 - \$4,519,591).

The credit quality of the Company's significant customers is monitored on an on-going basis and allowances are provided for potential losses that have been incurred at the period end date. Receivables that are neither past due nor impaired are considered credit of high quality. Where concentrations of credit risk exist, management closely monitors the receivable and ensures appropriate controls are in place to ensure recovery.

### **Liquidity risk**

Liquidity risk is the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price. The Company's Executive Team is responsible for management of liquidity risk, including funding, settlements, related processes and policies. The operational, tax, capital and regulatory requirements and obligations of the Company are considered in the management of liquidity risk.

The Company manages its liquidity risk utilizing various sources of financing to maintain flexibility while ensuring access to cost-effective funds when required. The Company also manages liquidity risk through the use of its operating line of credit. In addition, management utilizes both short and long-term cash flow forecasts and other financial information to manage liquidity risk. Other than the scheduled repayments of long-term debt, promissory notes and obligations under finance lease in fiscal 2013 and beyond, all other financial liabilities are due within one year.

Contractual maturities for financial liabilities at July 31, 2011 have been disclosed throughout these financial statements.

### **Foreign currency**

The Company currently relies on only a few foreign suppliers providing certain goods and services and thus has limited exposure to risk due to variations in foreign exchange rates. The Company has not entered into any derivative instruments to manage foreign exchange fluctuations; however, management monitors foreign exchange exposure.

The Company does not have any significant foreign currency denominated monetary liabilities.

### Interest rate risk

The Company is exposed to interest rate risk to the extent that its bank indebtedness and long term debt are based upon variable rates of interest.

For the quarter ended July 31, 2011, if interest rates changed by 1%, the change in the Company's net earnings and comprehensive income would not be significantly impacted.

To manage its interest rate risk, the Company has entered into an interest rate swap agreement ("swap") under the terms of its term loan from HSBC Bank Canada, whereby the Company fixed \$2,900,000 of the original term loan at an interest rate of 7.2%.

### Capital management

For capital management purposes, the Company defines capital as the aggregate of its shareholders' equity and total debt less cash and cash equivalents. Debt includes bank indebtedness, and the current and non-current portions of long-term debt.

The Company's principal objectives in managing capital are:

- to ensure that it will continue to operate as a going concern;
- to maintain a strong capital base so as to maintain client, investor, creditor and market confidence; and
- to comply with financial covenants required under its various borrowing facilities.

The Company manages its capital structure and adjusts it in the light of changes in economic conditions and in order to comply with externally imposed financial debt covenants. Financing decisions are generally made on a specific transaction basis and depend on such things as the Company's needs, capital markets and economic conditions at the time of the transaction.

At July 31, 2011, the Company complied with all of its financial debt covenants.

## 26. OPERATING LEASES

At July 31, 2011, the Company's commitments under non-cancellable operating leases are as follows:

	Vehicles	Buildings	Machinery and equipment	Office equipment, furniture and fixtures	Total
Future minimum lease payments:					
Due within one year	\$ 110,300	\$ 1,019,544	\$ 57,200	\$ 19,611	\$ 1,206,655
Due in one to five years	25,846	3,166,375	125,200	53,559	3,370,980
Due in over five years	-	-	-	-	-
	\$ 136,146	\$ 4,185,919	\$ 182,400	\$ 73,170	\$ 4,577,635

Operating lease expense recognized within cost of sales for the quarter and fiscal year-to-date period ended July 31, 2011 is \$364,307 (August 1, 2010 - \$383,745) and \$737,573 (August 1, 2010 - \$764,664) respectively.

## 27. COMMITMENTS

On September 28, 2010, the Company signed an agreement with the Corporation of the Municipality of South Bruce (the "Municipality"). Under the terms of the agreement, the Company will contribute to the cost of constructing a sewage treatment plant provided that certain construction timelines are met. Once the treatment plant is completed, the

Company will pay \$8,000 per month to the Municipality over a period ranging from 60 to 120 months. Currently the Company collects effluent and transports this waste out of the Municipality.

As at July 31, 2011, the Company has the following non-cancellable purchase commitments relating to raw materials and supplies.

	<b>Second quarter ended July 31, 2011</b>	<b>Year ended January 31, 2011</b>
Due within one year	\$ 3,295,893	3,989,436
Due in one to five years	47,656	106,562
	<b>\$ 3,343,549</b>	<b>4,095,998</b>

All other commitments have been otherwise noted within these financial statements.

## 28. RELATED PARTY TRANSACTIONS

Key management personnel consist of the officers of the Company and the Company's Board of Directors. The aggregate compensation made to key management personnel is set out below:

	Quarter ended July 31, 2011	Quarter ended August 1, 2010	Fiscal year-to- date ended July 31, 2011	Fiscal year-to- date ended August 1, 2010
Short-term employee benefits	\$ 226,022	\$ 282,561	\$ 408,831	\$ 442,760
Post-employment benefits	10,125	10,125	20,250	20,250
Share-based payments	4,917	11,544	16,461	23,088
	<b>\$ 241,064</b>	<b>\$ 304,230</b>	<b>\$ 445,542</b>	<b>\$ 486,098</b>

### Services received from related parties

One of the Company's vendors, Laidlaw Carriers Van LP ("Laidlaw") is subject to significant influence by one the Company's directors. Laidlaw provided distribution services to the Company during the quarter and fiscal year-to-date ended July 31, 2011 aggregating to approximately \$88,615 (August 1, 2010 - \$61,393) and \$176,480 (August 1, 2010 - \$141,275) respectively. As at July 31, 2011, approximately \$43,952 (quarter ended August 1, 2010 - \$47,507) was outstanding to Laidlaw and included as trade payables.

There were no other instances where key management personnel engaged in any material transactions with the Company.

## 29. COMPARATIVES

Certain comparative figures have been adjusted to disclose them on the same basis as current period figures.



## INVESTOR & CONTACT INFORMATION

### STOCK EXCHANGE AND LISTED SECURITIES

Brick Brewing Co. Limited is listed on the Toronto Stock Exchange (TSX) under the ticker symbol BRB.

### INVESTOR AND ANALYST INQUIRIES

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Jason Pratt, Chief Financial Officer  
Brick Brewing Co. Limited  
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### EXTERNAL AUDITOR

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### CORPORATE COUNSEL

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### LOCATIONS

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T: 519-576-9100  
F: 519-576-0470  
[www.brickbeer.com](http://www.brickbeer.com)

**Kitchener Distribution Center**  
400 Bingemans Center Drive, Kitchener, Ontario, N2B 3X9

**Formosa Brewing Facility**  
1 Old Brewery Lane, Formosa, Ontario, N0G 1W0

### BOARD OF DIRECTORS

Peter J. Schwartz, Chairman  
Stan G. Dunford  
Edward H. Kernaghan  
David R. Shaw  
Lawrence Macauley  
Perry Dellelce  
Ted Hastings  
John Bowey  
George Croft

### OFFICERS

George Croft, President and Chief Executive Officer  
Jason Pratt, Chief Financial Officer  
Russell Tabata, Chief Technical Officer