



*We Listen. We Brew.*

# 3<sup>RD</sup> QUARTER REPORT

Nine Months Ending October 31, 2008



BRICK BREWING CO. LIMITED

## LETTER TO THE SHAREHOLDERS

Dear Shareholder:

On December 11, 2008, the Company announced that Executive Chairman and Founder Jim Brickman has provided his notice of retirement to the Company which the Company has accepted effective immediately.

The Company, founded by Jim Brickman in 1984, was the first craft brewery to start up in Ontario, and is credited with pioneering the present day craft brewing renaissance in Canada. Jim Brickman has been Executive Chairman of the Company since May 2004, prior to which he was President and Chief Executive Officer of the Company from February 1984 to May 2004.

The Company appreciates the significant contribution Jim Brickman has made since founding the Company in 1984. His hard work and dedication has helped build a strong foundation for the Company's future. The Company's Board of Directors and management wish him well in his future endeavours.

The financial results continue to be challenging, however the Company has made significant and sustainable improvement in the cost structure of the Company.

The strategic pillars as previously outlined continue to direct the focus and efforts of the entire Company, including:

- Building a strong owner brand portfolio in both the value and premium beer segments;
- Focus investment against the biggest opportunities that either drive revenue growth or deliver sustainable cost reduction;
- Grow in the most profitable channels and geographic markets;
- Build a high performance, disciplined, winning organization that is fully committed to excellence in execution; and
- Optimizing operating assets.

Key operating and financial highlights for the Company's fiscal third quarter ending October 31, 2008, compared to the fiscal third quarter ending October 31, 2007, include the following:

-Brick Brewing gross revenues for the third quarter F2009 were \$16.5 million, a decrease of \$0.4 million from the third quarter of fiscal F2008.

-Net revenues for the third quarter of fiscal F2009 were \$7.3 million as compared to \$7.5 million in the same quarter last year, a decrease of \$0.2 million or 3.3%.

-The Company's overall beer volumes including co-packaged beer decreased by 6%, compared to a decrease of 9% in the third quarter last year.

-Brick's proprietary beer volumes showed considerable improvement compared to last year. Proprietary volumes declined by only 2.1% in the quarter compared to a decline of 12.7% in the third quarter of last year.

- Laker family brands showed positive growth in September and October versus last year.
- Waterloo Dark experienced double-digit growth during the quarter.

-On September 20, 2008 the Ontario Government announced a new four-year Ontario Craft Brewers Opportunity Fund. Brick Brewing recognized a benefit of \$565 thousand in the third quarter related to this Fund.

-On November 24, 2008 the minimum retail price of beer in Ontario increased from \$26.40 to \$28.00 on 5% alcohol, 24-pack bottles (including deposit).

-Efficiencies were realized at the Kitchener packaging facility and have contributed in per unit manufacturing costs being reduced in the third quarter compared to the same period in the previous year.

-Brewing production was consolidated to Waterloo in the quarter and will continue this way go forward.

### **Special and Other One-Time Items**

-The Company incurred \$296 thousand in severance costs, for a total of \$497 thousand for the nine months ending October 31, 2008. A layer of senior management has been eliminated, which will result in considerable savings on administration costs in F2010.

-The Company reduced the carrying value of certain bottles by \$176 thousand to reflect the realizable value of these bottles based on current production and sales estimates.

-The agreement with Direct Cellars Beverage Co. will end on January 31, 2009. The Company determined that a \$75 thousand reduction of the long-term investment was required at October 31, 2008.

-The Company completed a private placement for gross proceeds of \$2.75 million on October 31, 2008.

Our focus for the balance of the year will continue to be directed at eliminating all non-strategic costs, enhancing operating efficiencies and improving the performance of our brands in the marketplace.

I look forward to reporting the Company's progress towards these goals.

Cheers!



George H. Croft  
President and Chief Executive Officer  
Brick Brewing Co. Limited  
December 11, 2008

## **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 (the "Company") for the three months ended October 31, 2008 ("the third quarter of fiscal 2009") and the nine months ended October 31, 2008 in comparison with the three months ended October 31, 2007 ("the third quarter of fiscal 2008") and the nine months ended October 31, 2007. These comments should be read in conjunction with the financial statements for the third quarters of fiscal 2009 and 2008; with the MD&A in the fiscal 2008 annual report for the year ended January 31, 2008, including the sections on risks and uncertainties (the "Annual MD&A"); and with the accompanying notes to the financial statements for the third quarter of fiscal 2009 and the year ended January 31, 2008. The financial statements for the third quarter of fiscal 2009 have not been audited or reviewed by KPMG LLP. The following comments were prepared as of December 11, 2008. 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, which are not guarantees, reflect the Company's views as of December 9, 2008 with respect to future events and are subject to certain risks, uncertainties and assumptions, which may cause actual performance and financial results to differ materially from such forward-looking statements. The 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: beer volumes in the current fiscal year ending January 31, 2009 ("fiscal 2009") will be reduced from last year, no material changes in consumer preferences, operating efficiencies at the packaging and warehousing facility in Kitchener, Ontario will continue to be realized, input costs for brewing and packaging materials will continue to be higher than last year, competitive activity from other brewers 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 rest of the discussion in this MD&A, the Annual MD&A, the Company's annual information form and various other public filings. The forward-looking statements included in this MD&A are made only as of December 9, 2008 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.

## **DESCRIPTION OF THE BUSINESS**

The Company produces, sells, markets and distributes bottled and draft premium proprietary beer under the J.R. Brickman and Waterloo brand names, mainstream beer under the Red Cap, Formosa and Red Baron brand names and value beer under the Laker brand name. As well, the Company imports the Laker brands in cans from High Falls Brewing Co. (“High Falls”) of Rochester, New York. The Company also produces, sells, markets and distributes various beer products under the licensed PC® trademark on behalf of Loblaws Inc. which are available in Ontario and Quebec. The Company also represents and sells products in Ontario for Big Rock Brewery (“Big Rock”) of Calgary, Alberta, High Falls and Canada Dry Mott’s Inc. (“Mott’s”).

The Company’s products are sold primarily in Ontario, although certain products are available in Quebec. The Company also engages in certain co-packing business, which involves producing and packaging beer and flavoured alcoholic beverages for other customers.

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

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 also has a warehousing facility in St. Bruno, Quebec and a packaging facility in Formosa which is presently dedicated to co-packing. The Company’s head office is in Waterloo.

The Company experiences seasonal variations in sales and earnings; with sales and earnings typically being highest in the second and third quarters and lowest in the first and fourth quarters of the fiscal year. Results in any quarter are not necessarily indicative of results in any other quarter, or for the year as a whole.

## RESULTS OF OPERATIONS

### Results for the three months and nine months ended October 31, 2008

	Three months ended		Nine months ended	
	2008	2007	2008	2007
	<i>in thousands except per share and percentage amounts</i>			
Gross Revenue	\$ 16,501	\$ 16,906	\$ 51,544	\$ 54,550
Less: Production taxes and distribution fees	(9,206)	(9,364)	(28,239)	(30,511)
Net revenue	7,295	7,542	23,305	24,039
Cost of goods sold	6,533	6,241	19,223	19,204
Gross margin	762 10.4%	1,302 17.3%	4,082 17.5%	4,835 20.1%
Selling, marketing and administration	888	1,691	3,190	5,053
Severance costs	296	285	497	285
Earnings/(loss) before the undernoted	(423)	(674)	395	(503)
Amortization	(427)	(429)	(1,277)	(1,322)
Interest and other income/(expense)	(124)	(164)	(219)	(339)
Loss before provision for income taxes	(974)	(1,267)	(1,101)	(2,164)
Future income tax recovery	(298)	(409)	(319)	(691)
Net loss	\$ (676)	\$ (858)	\$ (783)	\$ (1,473)
Net earnings per share:				
Basic	\$ (0.03)	\$ (0.04)	\$ (0.04)	\$ (0.07)
Diluted	\$ (0.03)	\$ (0.04)	\$ (0.04)	\$ (0.07)
Net Revenue Decrease	-3.3%	-13.2%	-3.1%	-11.9%
Beer Volume Decrease	-5.9%	-8.9%	-9.1%	-8.9%

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

	Three months ended		Nine months ended	
	<b>October 31, 2008</b>	October 31, 2007	<b>October 31, 2008</b>	October 31, 2007
Net Loss	\$ (676)	\$ (858)	\$ (782)	\$ (1,473)
Add:				
Future income tax expense (recovery)	(298)	(409)	(319)	(691)
Amortization	427	429	1,277	1,322
Interest expense	92	168	286	379
Subtotal	221	188	1,244	1,010
Less:				
Other income	(15)	(4)	(50)	(27)
Equity earnings on long-term investment	47	(1)	(17)	(13)
Subtotal	32	(5)	(67)	(40)
<b>EBITDA *</b>	<b>\$ (423)</b>	<b>\$ (674)</b>	<b>\$ 395</b>	<b>\$ (503)</b>

*\* EBITDA is a non-GAAP earnings measure, therefore it does not have any standardized meaning prescribed by Canadian generally accepted accounting principles and may not be similar to measures presented by other companies. EBITDA represents 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.*

## NET REVENUE

### Quarterly comparison

Gross revenues for the third quarter of fiscal 2009 were \$16.5 million, a decrease of \$0.4 million from the third quarter of fiscal 2008. Reduced revenue from the sale of proprietary beer was offset by an increase in co-pack sales in the quarter.

Net revenues for the third quarter of fiscal 2009 were \$7.3 million as compared to \$7.5 million in the same quarter last year, a decrease of \$0.2 million or 3.3% due primarily to decreased revenues from the sale of beer. Net revenues are calculated by deducting from gross revenues the costs of distribution fees paid to TBS and the LCBO and production taxes.

In the quarter, the Company's overall beer volumes (including co-packaged beer) decreased by 6%, compared to a decrease of 9% in the third quarter last year. Proprietary beer volumes declined by 2.1% in the quarter compared to a decline of 12.7% in the third quarter last year. The industry experienced a volume decline of less than 1% in the quarter. The Company's market share was lowest in August when poor weather caused key competitors to compete heavily with limited time offers ("LTO"). Market share improved during September and October as LTO activity declined and the Company invested in outdoor advertising.

The Company expects that overall beer volumes will continue to decline at a reduced rate for the balance of the year. Management believes that investments in outdoor advertising, the introduction of Laker Ale, and introduction of Laker Honey and Laker Red 24-packs were a key

factor in reducing the rate of decline for proprietary beer. The Company will continue its focused promotional support and targeted selling activities to increase the availability of its products at retail. At October 31, 2008 the Company's total market share by volume of TBS retail sales in Ontario was approximately 4%.

### **Year to date comparison**

Gross revenues for the nine months ended October 31, 2008 were \$51.5 million as compared to \$54.5 million for the nine months ended October 31, 2007. Gross revenues for the first nine months of fiscal 2009 include revenues of \$2.2 million from co-pack activities, an increase from \$0.6 million in the first nine months of fiscal 2008. Net revenues for the first nine months of fiscal 2009 were \$23.3 million as compared to \$24.0 million in the first nine months of fiscal 2008, a decrease of 3%.

In the first nine months of fiscal 2009 the Company's overall beer volumes decreased by 9% over the same period last year. Proprietary beer volumes have declined 8.8% on a year-to-date basis.

The Company expects some improvement in net revenue in the fourth quarter as compared to fourth quarter of fiscal 2008. The improvement will be driven by the recent increase in the minimum retail price ("MRP") for beer. On November 24, 2008, the MRP was increased in Ontario. As an example, the minimum price (including deposit) of a 24-pack of 341 ml bottles (5% alcohol) increased from \$26.40 to \$28.00. The Company expects the price change will mitigate some of the gross revenue reduction caused by continued downward pressure on the Company's beer volumes. The impact of this change is difficult to predict because the gap between mainstream brands and value brands may decline, but assuming that the change was in effect for the entire third quarter and assuming no change in volume or product mix, the Company's gross revenue would have increased by approximately \$0.4 million.

### **COST OF GOODS SOLD**

Cost of goods sold was \$6.5 million for the third quarter compared to \$6.2 million in the third quarter of fiscal 2008.

Cost of goods sold for the nine months ended October 31, 2008 was \$19.2 million, which was unchanged from the same period in fiscal 2008. Gross margin percentage has been negatively impacted by the continued volume shift to value brands. Despite producing less beer compared to last year, total cost of goods sold remained flat due to cost pressure on commodities and fuel. These increases were partially offset by improved utilization of brewing and packaging equipment.

During the quarter, the Company reduced the carrying value of certain bottles by \$176 thousand to reflect the realizable value of these bottles based on current production and sales estimates. This amount is included in cost of goods sold for the three months ended October 31, 2008.

The Company is continuing to take efficiency measures to offset these increased costs by improving efficiencies in its operations, increasing the selling price on certain products, and increasing brand awareness provincially through focused marketing initiatives. Subsequent to

October 31, 2008, the cost of malted barley has declined. Therefore, the Company anticipates that the per unit cost of brewing materials will be slightly reduced in the fourth quarter.

Certain efficiencies realized at the Kitchener packaging facility have contributed to reductions in per unit manufacturing costs in the third quarter compared to the previous year. Manufacturing costs are expected to be reduced further in the fourth quarter as this facility continues to improve operating efficiencies.

In the third quarter the Formosa facility continued to produce the Motts Caesar brand. The Company also packaged other co-packed products in Formosa. Brewing at the Formosa facility was discontinued in the third quarter and it is expected that all future brewing will be managed at the Company's facility in Waterloo.

## **SELLING, MARKETING AND ADMINISTRATION**

### **Quarterly comparison**

Selling, marketing and administration expenses for the third quarter decreased \$804 thousand to \$0.9 million from \$1.7 million in the same quarter last year.

On September 20, 2008 the Ontario Government announced a new four-year Ontario Craft Brewers Opportunity Fund. The Company meets the eligibility criteria established by the Government and has recorded an amount receivable of \$565 thousand. This amount has been deducted from marketing expenses in the third quarter and represents expenses incurred prior to October 31, 2008 that are considered "eligible expenditures" by the Government. The Company expects to receive the Government funding in December 2008 and is anticipating funding in excess of \$565 thousand to be applied to future marketing initiatives. For the balance of fiscal 2009 and throughout fiscal 2010 the Company will leverage these marketing funds to increase consumer awareness of its proprietary beer brands.

### **Year to date comparison**

Selling, marketing and administration expenses for the nine months ended October 31, 2008 decreased 36.9% or \$1.8 million in the aggregate, to \$3.2 million from \$5 million in the nine months of last year. As a percentage of net sales, selling, marketing and administration expenses were 13.7% for the nine months this year compared to 21.0% for the same period last year.

In fiscal 2008 the Company implemented a series of targeted overhead cost reductions to reduce selling, marketing and administration expenses. In fiscal 2009 the Company has increased the direct sales, promotional and advertising support for the Laker brands compared to fiscal 2008. Selling, marketing and administration expenses as a percentage of net sales are expected to decline in the fourth quarter.

## **SEVERANCE COSTS**

In the third quarter this year the Company incurred \$296 thousand in severance costs, for a total of \$497 thousand for the nine months ended October 31, 2008. A layer of senior management has been eliminated, which will result in considerable savings on administration costs in fiscal 2010.

## **DEPRECIATION AND AMORTIZATION**

In the third quarter, total depreciation and amortization expense was \$427 thousand compared to \$429 thousand in the same period last year.

For the nine months ended October 31, 2008, total depreciation and amortization expense was \$1.3 million compared to \$1.3 million in the same period last year.

## **OTHER INCOME AND EXPENSES**

### **Quarterly comparison**

In the third quarter, interest on long term debt was \$92 thousand, compared to \$167 thousand for the same period last year. The decrease can be attributed to a reduction in the outstanding loan balance in the third quarter this year as compared to last year.

The relationship with Direct Cellars Beverage Co. (“Direct Cellars”) will end on January 31, 2009. The Company has reviewed the various obligations of Direct Cellars that require settlement on or before January 31, 2009. Based on this review, the Company determined that a \$75 thousand reduction of the long-term investment was required at October 31, 2008. This reduction was offset by equity earnings in the quarter of \$28 thousand, resulting in a net loss of long-term investment of \$47 thousand compared to earnings of \$1 thousand in the same period last year.

During the quarter the Company recorded \$15 thousand in other income compared to \$4 thousand in the same period last year.

During the third quarter the Company recorded a future income tax recovery of \$298 thousand compared to \$409 thousand in the same period last year.

## **NET EARNINGS**

For the third quarter, net loss was \$676 thousand compared to a net loss of \$858 thousand for the same period last year. Basic and diluted loss per share in the third quarter was \$0.03 and \$0.03 per share respectively, compared with basic and diluted loss of \$0.04 and \$0.04 per share for the same period last year.

## **OUTSTANDING SHARE DATA**

On October 31, 2008 the Company completed a non-brokered, non-arms’ length private placement of 5,729,165 units, with each unit consisting of one common share and one common share purchase warrant, for gross proceeds of \$2.75 million.

As at October 31, 2008 the Company had 28,035,760 common shares outstanding and 1,225,000 stock options outstanding and exercisable for the same number of common shares. The Company also had 5,729,165 common share purchase warrants outstanding on October 31, 2008.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **FINANCIAL CONDITION AND PRIVATE PLACEMENT**

The Company has an operating line of credit, three mortgages payable (recorded as long-term debt) and one equipment lease, which are all in breach of covenant. In each case, the Company is not compliant with the fixed charge ratio that compares an adjusted EBITDA to interest expense and the current portion of long-term debt. The lenders have waived the covenant requirements at October 31, 2008. The Company does not expect to be in compliance with these covenants by January 31, 2009. The Company's long-term lender has waived its covenant for January 31, 2009. Continued support from the Company's lenders is required to avoid a further decline in the Company's financial condition and liquidity.

Based on the operating results of the Company and the covenant violations, the independent Directors of the Board concluded in mid October 2008 that the Company was in serious financial difficulty. Accordingly, on October 31, 2008 the Company completed non-arms' length private placement of 5,729,165 units for gross proceeds of \$2.75 million. Legal costs of \$107 thousand and financing charges of \$60 thousand were incurred in conjunction with the equity financing. The Company did not obtain a valuation or majority of the minority shareholder approval but instead relied on exemptions from such requirements available under Multilateral Instrument 61-101 ("MI 61-101") and the rules of the TSX in cases of financial hardship.

As a consequence of relying upon these financial hardship exemptions, the TSX has informed the Company that it has, in the ordinary course, commenced a delisting review. The Company believes that it will be in compliance with TSX listing requirements upon completion of the TSX review in or before February 2009.

#### FINANCIAL POSITION

At October 31, 2008, the Company had bank indebtedness of \$162 thousand. This represents a decrease of \$2.6 million from bank indebtedness of \$2.8 million at January 31, 2008. This improvement is due primarily to the cash provided from the equity financing.

The Company's working capital position was \$4.5 million at October 31, 2008 compared to \$2.8 million at January 31, 2008. This increase in working capital is due primarily to the equity financing offset by an increase in accounts receivable due to timing of the Government marketing support.

Current assets were \$9.9 million at October 31, 2008 compared to \$9.6 million at January 31, 2008, an increase of \$0.3 million. During the nine months ended October 31, 2008 accounts receivable increased by \$0.3 million and inventory decreased by \$0.1 million.

Property, plant and equipment decreased by \$0.8 million at October 31, 2008 compared to January 31, 2008. The decrease is due to depreciation in excess of capital expenditures in the period. Capital expenditures for fiscal 2009 are anticipated to be approximately \$0.9 million in total and are primarily targeted to efficiency improvements in the Kitchener facility.

Future income taxes have increased by \$319 thousand at October 31, 2008 compared to January 31, 2008. The increase is a result of the Company recording a recovery for future income tax against its net loss.

Based on the Company's poor financial results, management has identified the need to review the carrying value of future tax assets. Management will complete the review in the fourth quarter, upon completion of the fiscal 2010 budgeting process.

The current liabilities were \$5.4 million at October 31, 2008 compared to \$6.9 million at January 31, 2008. This decrease is due primarily to the reduction in bank indebtedness driven by the completion of the equity financing in the third quarter.

Long-term debt and obligations under capital leases have decreased by \$866 thousand and \$100 thousand, respectively, at October 31, 2008 compared to January 31, 2008. These decreases are due to repayment of long term debt and capital lease obligations during the period.

#### CASH FLOW

The Company generated \$538 thousand in cash from operating activities in the quarter compared to using \$186 thousand in the third quarter last year. The primary cause for the differential of \$724 was a reduction in inventory.

Financing activities generated \$2.2 million in cash during the quarter, compared to using \$452 thousand during the same quarter last year, a difference of \$2.7 million driven by the equity financing.

Investing activities generated a net cash outflow of \$224 thousand in the quarter compared to \$103 thousand last year, an increase of \$121 thousand. The Company anticipates capital expenditures in fiscal 2009 to be approximately \$0.9 million and plans to finance these through a combination of operating and financing cash flows.

The Company had bank indebtedness of \$162 thousand at October 31, 2008 compared to bank indebtedness of \$2.8 million at January 31, 2008. The Company has an authorized operating line of credit of \$4.5 million at prime plus 0.25%. The Company's operating line is sufficient to fund current operating activities and cash requirements throughout the year. In addition to the operating line of credit, the Company has a term loan facility outstanding.

#### COMMITMENTS

The Company is committed to future payments for long-term debt, capital leases and operating leases, as at October 31, 2008, as follows.

	Long-term debt	Capital leases	Operating leases
Q4 2009	\$ 53,850	\$ 35,912	\$ 458,909
2010	924,000	143,651	1,691,385
2011	816,100	143,651	1,367,142
2012	501,800	128,045	1,039,112
2013	300,000	-	912,376
2014 and thereafter	450,000	-	2,298,137
	\$ 3,045,750	\$ 451,259	\$ 7,767,061

#### RISK FACTORS, STRATEGIES AND OUTLOOK

In the past year, the Company's overall beer volumes have declined. The Company is currently implementing a number of marketing and selling strategies to increase the competitiveness of its products. Increased competitive activity and the slowing growth rate for value brands in the marketplace have had a negative impact on the Company's volumes.

The Company anticipates that the rate of decline in beer volumes will moderate due to increased selling and marketing support focused in the value category. The Company has increased the level of direct advertising support for its Laker brands in fiscal 2009 as compared to fiscal 2008.

The Company is focused on reducing fixed and variable costs. The Company is targeting cost savings of \$2 million in fiscal 2010.

The Company will continue to focus on fiscal controls and targeted capital expenditures. The Company will continue to review, and where feasible reduce, distribution costs and administration and operating overheads to ensure both the capabilities and costs of these functions meet the strategies of the Company.

On October 1, 2008 the Company announced the appointment of Jason Pratt as Chief Financial Officer.

The Company has accepted the retirement of Jim Brickman, the Company's Founder and Executive Chairman, effective immediately.

### SUMMARY OF QUARTERLY RESULTS

\$(000's)	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007
Net Revenue	7,295	8,675	7,335	6,271	7,542	9,625	6,872	7,550
Selling, marketing & administration	888	1,274	1,028	1,130	1,691	1,670	1,693	2,041
EBITDA*	(423)	454	363	(116)	(674)	942	(771)	(557)
Net Income\Loss	(676)	1	(107)	(1,118)	(858)	283	(898)	(1,000)
EPS (Basic)	\$ (0.03)	\$ -	\$ -	\$ (0.05)	\$ (0.04)	\$ 0.01	\$ (0.04)	\$ (0.05)
EPS (Diluted)	\$ (0.03)	\$ -	\$ -	\$ (0.05)	\$ (0.04)	\$ 0.01	\$ (0.04)	\$ (0.04)

### IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

The Company's accounting policies are discussed in detail in note 1 to the Company's fiscal 2008 audited financial statements.

Effective January 1, 2008, the new CICA handbook Section 3031 "Inventories" replaced existing Section 3030 "Inventories" to be consistent with the International Accounting Standards for inventories. The new section requires inventories to be measured at the lower of cost or market and net realizable value, which is consistent with the Company's current policy for measuring inventories held for resale. Further, this section defines what constitutes cost, defining what is to be included and excluded in the determination of cost, and expands the disclosure requirements for inventory. The impact on inventory valuation was a reduction in inventory and increase in property, plant and equipment of \$0.8 million. Additional disclosure has been provided in Note 2 of the interim financial statements for this period.

## **FUTURE ACCOUNTING CHANGES**

The CICA's accounting standards Board has announced that Canadian publicly accountable enterprises will adopt International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board effective January 1, 2011. IFRS will require increased financial statement disclosures. Although IFRS uses a conceptual framework similar to Canadian GAAP, differences in accounting policies will need to be addressed. The Company is currently assessing the impact of this announcement.

## **RELATED PARTY TRANSACTIONS**

On October 31, 2008 the Company completed a non-brokered, non-arms' length private placement of 5,729,165 units, with each unit consisting of one common share and one common share purchase warrant, for gross proceeds of \$2.75 million. All units were purchased by insiders of the Company. The Company did not obtain a valuation or majority of the minority shareholder approval but instead relied on exemptions from such requirements available under Multilateral Instrument 61-101 ("MI 61-101") and the rules of the TSX in cases of financial hardship.

On February 1, 2005 the Company acquired a 50% interest in Direct Cellars. Direct Cellars provides sales agency services to the Company. The cost of services was \$274 thousand and \$206 thousand in the third quarters of fiscal 2009 and 2008, respectively. At October 31, 2008, Direct Cellars owed the Company \$90 thousand (October 31, 2007-\$90 thousand). This amount is included in accounts receivable. During the third quarter ended October 31, 2008, the Company recorded a loss of \$47 thousand from this affiliate compared to earnings of \$1 thousand for the same period last year.

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in filings made pursuant to Multilateral Instrument 52-109 is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators' rules and forms. The Company also maintains internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in the Company's internal controls over financial reporting during the quarter ended October 31, 2008 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

## **CRITICAL ACCOUNTING ESTIMATES AND FINANCIAL INSTRUMENTS**

The reader is referred to the detailed discussion of Critical Accounting Estimates and Financial Instruments included in the Annual MD&A.

\* EBITDA is a non-GAAP earnings measure, therefore it does not have any standardized meaning prescribed by Canadian generally accepted accounting principles and may not be similar to measures presented by other companies. EBITDA represents 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.

**Brick Brewing Co. Limited**  
**Statements of Loss and Deficit**  
(unaudited)

	Three Months Ended		Nine Months Ended	
	October 31 2008	October 31 2007	October 31 2008	October 31 2007
Gross Revenue	\$ 16,501,409	\$ 16,905,763	\$ 51,543,872	\$ 54,549,914
Less: Production taxes & distribution fees	(9,206,408)	(9,363,352)	(28,238,614)	(30,511,084)
Net Revenue	7,295,001	7,542,411	23,305,258	24,038,830
Cost of goods sold	6,533,437	6,240,536	19,223,148	19,203,993
Gross margin	761,564	1,301,875	4,082,110	4,834,837
Expenses:				
Selling, marketing and administration	887,783	1,691,294	3,189,906	5,053,477
Severance costs	296,475	284,734	497,278	284,734
Earnings (loss) before the undernoted	(422,694)	(674,153)	394,926	(503,374)
Amortization	(426,856)	(429,437)	(1,277,359)	(1,321,714)
Interest expense	(92,226)	(167,938)	(285,854)	(378,878)
Other income	14,786	3,834	50,023	27,195
Equity (loss) earnings of long term investment	(46,875)	1,100	17,339	12,767
	(551,171)	(592,441)	(1,495,851)	(1,660,630)
Loss before provision for income taxes	(973,865)	(1,266,594)	(1,100,925)	(2,164,004)
Future income tax recovery	(297,679)	(408,689)	(318,614)	(691,329)
Net loss	(676,186)	(857,905)	(782,311)	(1,472,675)
Deficit, beginning of the period	(6,958,365)	(4,876,384)	(6,852,240)	(4,158,438)
Cumulative effect of adopting new accounting policies, net of tax	-	-	-	(103,176)
Deficit, end of period	\$ (7,634,551)	\$ (5,734,289)	\$ (7,634,551)	\$ (5,734,289)
Net loss per share:				
Basic	\$ (0.03)	\$ (0.04)	\$ (0.04)	\$ (0.07)
Diluted	(0.03)	(0.04)	(0.04)	(0.07)

**Brick Brewing Co. Limited**  
**Balance Sheets**  
(unaudited)

	October 31, 2008	January 31, 2008
<b>Assets</b>		
Current assets:		
Accounts receivable	\$ 2,860,816	\$ 2,570,768
Inventories (note 2)	6,400,097	6,489,553
Future income taxes	63,650	54,799
Prepaid expenses	570,657	509,995
Total current assets	9,895,220	9,625,115
Property, plant and equipment (note 2)	16,972,347	17,776,735
Long term investment	122,921	105,582
Trademarks and listing fees	5,505,143	5,429,795
Deferred costs	367,287	383,650
Other assets	190,000	212,500
Future income taxes	2,372,373	2,062,610
	<b>\$ 35,425,291</b>	<b>\$ 35,595,987</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness	\$ 161,871	\$ 2,790,750
Accounts payable and accrued liabilities	4,215,187	3,038,317
Current portion of long-term debt	919,500	906,600
Current portion of obligations under capital lease	131,991	137,854
Total current liabilities	5,428,549	6,873,521
Long-term debt	2,126,250	2,991,900
Obligations under capital lease	319,269	419,281
Shareholders' equity:		
Share capital	34,637,808	31,539,112
Contributed surplus	547,966	624,413
Deficit	(7,634,551)	(6,852,240)
Total shareholders' equity	27,551,223	25,311,285
	<b>\$ 35,425,291</b>	<b>\$ 35,595,987</b>

**Brick Brewing Co. Limited**  
**Statements of Cash Flows**  
(unaudited)

	Three Months Ended		Nine Months Ended	
	October 31, 2008	October 31, 2007	October 31, 2008	October 31, 2007
Cash provided by (used in):				
<b>Operations:</b>				
Loss for the period	\$ (676,186)	\$ (857,905)	\$ (782,311)	\$ (1,472,675)
Items not involving cash:				
Amortization of property, plant and equipment and deferred assets	424,807	421,937	1,261,536	1,306,714
Amortization of other assets	7,500	7,500	22,500	15,000
Stock based compensation	28,794	23,250	72,323	69,750
Equity earnings (loss) on long term investment	46,875	(1,100)	(17,339)	(12,766)
Future income tax recovery	(297,679)	(408,689)	(318,614)	(727,137)
Change in non-cash operating working capital	1,003,560	629,035	915,616	775,782
	537,671	(185,972)	1,153,711	(45,332)
<b>Financing:</b>				
Repayment of long term debt	(403,650)	(399,450)	(852,750)	(840,750)
Repayment of obligation under capital lease	(31,321)	(52,105)	(105,875)	(153,174)
Issue of capital stock, net of costs	2,637,096	-	2,949,926	22,829
	2,202,125	(451,555)	1,991,301	(971,095)
<b>Investments:</b>				
Acquisition of property, plant and equipment and listing fees	(223,652)	(102,645)	(516,133)	(876,430)
	(223,652)	(102,645)	(516,133)	(876,430)
Net increase/(decrease) in cash	2,516,144	(740,172)	2,628,879	(1,892,857)
Cash/(bank indebtedness), beginning of period	(2,678,015)	(1,098,833)	(2,790,750)	53,852
Cash/(bank indebtedness), end of period	\$ (161,871)	\$ (1,839,005)	\$ (161,871)	\$ (1,839,005)

**Brick Brewing Co. Limited**  
**Notes to the Financial Statements – (unaudited)**

**For the third quarters ended October 31, 2008 and 2007**

These unaudited interim financial statements for the third quarter ending October 31, 2008 have not been reviewed by the Company's external auditor.

**1. Description of business**

The Company operates two breweries serving primarily the Ontario market. The Company's primary business is the brewing and marketing of bottled and canned beer as well as draft beer in kegs. The Company's products are marketed through the facilities of The Beer Store system, the Liquor Control Board of Ontario, and to licensed establishments.

The Company experiences seasonal variations in sales and earnings; with sales and earnings typically being highest in the second and third quarters and lowest in the first and fourth quarters of the fiscal year.

**2. Changes in accounting policies**

The disclosures contained in the unaudited interim financial statements do not include all requirements of generally accepted accounting principles for annual financial statements. The unaudited interim financial statements should be read in conjunction with the annual financial statements for the year ended January 31, 2008. They follow the same accounting policies except as noted below.

Effective January 1, 2008, the new CICA handbook Section 3031 "Inventories" replaced existing Section 3030 "Inventories" to be consistent with the International Accounting Standards for inventories. The new section requires inventories to be measured at the lower of cost or market and net realizable value, which is consistent with the Company's current policy for measuring inventories held for resale. Further, this section defines what constitutes cost, defining what is to be included and excluded in the determination of cost, and expands the disclosure requirements for inventory. The impact on inventory valuation was a reduction in inventory and increase in property, plant and equipment of \$0.8 million.

**3. Outstanding shares**

As at October 31, 2008, the Company had 28,035,760 common shares and 5,729,165 common share purchase warrants outstanding. At October 31, 2008 there were 1,225,000 options to acquire common shares under the Company's stock option plan with various expiry dates.

#### **4. Segment information**

Management has determined that the Company operates in a single industry segment which involves the production and sale of beer and other alcohol based products. A significant portion of the Company's operations, assets, sales and employees are in Ontario.

#### **5. Related party transactions**

On October 31, 2008 the Company completed a non-brokered, non-arms' length private placement of 5,729,165 units, with each unit consisting of one common share and one common share purchase warrant, for gross proceeds of \$2.75 million. All units were purchased by insiders of the Company. The Company did not obtain a valuation or majority of the minority shareholder approval but instead relied on exemptions from such requirements available under Multilateral Instrument 61-101 ("MI 61-101") and the rules of the TSX in cases of financial hardship.

Direct Cellars Beverage Co. ("Direct Cellars"), a significantly influenced investee, provides sales services to the Company. The cost of these services was \$274 thousand and \$206 thousand in the third quarter of fiscal 2009 and third quarter of fiscal 2008 respectively. These services were charged to selling, marketing and administration expenses. These transactions are in the normal course of operations. At October 31, 2008 Direct Cellars owed the Company \$90,000 (October 31, 2007 – \$90,000) via a shareholder loan with no fixed repayment terms. This amount is included in accounts receivable.

#### **6. Share capital**

Legal costs of \$107 thousand and financing charges of \$60 thousand were incurred in conjunction with the equity financing described in note 5.

# CORPORATE INFORMATION

## BRICK

J.R. Brickman Pilsner  
J.R. Brickman Amber  
J.R. Brickman Honey Red  
Waterloo Dark  
Red Baron  
Formosa Springs Draft  
Formosa Springs Draft Light  
Red Cap Ale

## LAKER

Laker Lager  
Laker Light  
Laker Red 5.5  
Laker Ale  
Laker Honey  
Laker Strong  
Laker Ice

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