



# 2<sup>nd</sup> Quarter Report

Period Ending August 1, 2010



**BRICK BREWING CO. LIMITED**

# LETTER TO THE SHAREHOLDERS

## Dear Shareholder:

I am excited to present the results of the second quarter of fiscal 2011. Brick Brewing delivered EBITDA for the quarter ended August 1, 2010 of \$1.8 million, with net earnings of \$926 thousand. Cost management initiatives are delivering significant improvement in gross margin and Brick's employees are committed to a culture of cost control. We will continue to drive costs out of the business at every opportunity.

Last year Brick delivered a huge increase in the Red Baron trademark. This year, despite intense price competition, the Laker trademark grew by approximately 11% compared to the second quarter last year. The Company successfully executed a plan to revitalize the Laker trademark with renewed focus on product quality and consistency, coupled with a significant packaging upgrade. In total, Brick brand volumes grew approximately 5% in the period compared to an industry volume increase of approximately 3%.

More recently, Brick has been actively pursuing incremental co-packaging opportunities. We are keenly focused on a 'fill' strategy with the goal of utilizing the excess capacity in our system of more than 200,000 hectolitres (approximately 2.5 million cases). This is a significant opportunity and can deliver between \$2 and \$6 million of incremental annual cash flow. At peak capacity, reinvestment in capital expenditures and marketing will range between \$1 and \$3 million.

Some financial highlights of the quarter are as follows:

- Net revenue was \$9.1 million compared to \$9.3 million in the comparable period last year;
- Gross profit percentage has increased to 33.8% versus 27.0%; and
- EBITDA for the period ended August 1, 2010 was \$1.8 million, net income of \$0.9 million.

We are proud of our accomplishments to date in fiscal 2011 and look forward to the balance of the year.

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 (the "Company") for the quarterly period ended August 1, 2010 ("the second quarter of fiscal 2011") in comparison with the quarterly period ended July 31, 2009 ("the second quarter of fiscal 2010"). These comments should be read in conjunction with: (i) the unaudited consolidated interim financial statements for the second quarters of fiscal 2011 and fiscal 2010; (ii) the MD&A and the fiscal 2010 annual report for the year ended January 31, 2010, including the sections on risks and uncertainties (the "Annual MD&A"); and (iii) the accompanying notes to the audited consolidated financial statements for the year ended January 31, 2010. The consolidated interim financial statements for the second quarter of fiscal 2011 have not been audited or reviewed by KPMG LLP. The following comments were prepared as of September 10, 2010. 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 10, 2010 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, 2011 ("fiscal 2011") will decrease, no material changes in consumer preferences, brewing and packaging efficiencies will improve, input costs for brewing materials will decrease, the cost of packaging materials will decrease, 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 Company's annual information form and various other public filings. The forward-looking statements included in this MD&A are made only as of September 10, 2010 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 packaged and draft premium beer under the Waterloo brand name, and value beer under the Red Baron, Red Cap, Formosa, and Laker brand names. The Company also produces, sells, markets and distributes various beer products under the licensed PC® and HEK trademark on behalf of Loblaw's Inc. which are available in Ontario and

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Quebec. The Company produces the Mott's Caesar brand in bottles under contract with Canada Dry Mott's, Inc. ("CDMI"). The Company also represents and sells products in Ontario for CDMI.

The Company's products are sold primarily in Ontario, although PC and HEK products are available in Quebec. The Company entered into a sales agent agreement with AMCA Sales & Marketing ("AMCA") for the distribution of the Company's products in Atlantic Canada. The Company also engages in certain co-packing business, which involves producing and packaging beer and ready-to-drink alcoholic beverages for other customers.

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 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 and registered office is in Waterloo, Ontario.

## SELECTED QUARTERLY INFORMATION

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

### Results for the quarterly period ended:

*(in thousands of dollars, except per share amounts)*

	August 1, 2010	July 31, 2009	July 31, 2008
<b>Income Statement Data</b>			
Gross Revenue	\$ 19,566	\$ 19,656	\$ 19,447
Net Revenue (after production taxes and distribution fees)	\$ 9,111	\$ 9,316	\$ 8,676
Earnings before interest, income taxes, depreciation and amortization, non-recurring items and equity earnings	\$ 1,772	\$ 1,308	\$ 541
Net earnings	\$ 926	\$ 461	\$ 30
Earnings per share			
Basic	\$ 0.03	\$ 0.02	\$ -
Fully diluted	\$ 0.03	\$ 0.02	\$ -
<b>Balance Sheet Data</b>			
Total Assets	\$ 36,090	\$ 31,112	\$ 37,530
Total Long Term Debt	\$ 3,347	\$ 2,753	\$ 3,449

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## RESULTS OF CONSOLIDATED OPERATIONS

Results for the quarterly and fiscal year-to-date period ended:

(in thousands except per share amounts)

	Second quarter ended		Fiscal year-to-date ended	
	August 1, 2010	July 31, 2009	August 1, 2010	July 31, 2009
Gross revenue	\$ 19,566	\$ 19,656	\$ 34,194	\$ 35,423
Less: Production taxes and distribution fees	(10,455)	(10,340)	(18,112)	(18,466)
Net revenue	9,111	9,316	16,082	16,957
Cost of sales	6,036	6,804	11,098	12,423
Gross profit	3,075	2,512	4,984	4,534
	33.8%	27.0%	31.0%	26.7%
Selling, marketing and administration	1,303	1,188	2,575	2,056
Earnings before the undernoted	1,772	1,324	2,409	2,478
Depreciation and amortization	(398)	(590)	(814)	(1,055)
Interest and other expense	(56)	(51)	(89)	(90)
Earnings before income taxes	1,318	683	1,506	1,333
Provision for future income taxes	392	222	472	441
Net earnings	\$ 926	\$ 461	\$ 1,034	\$ 892
Net earnings per share				
Basic	\$ 0.03	\$ 0.02	\$ 0.04	\$ 0.03
Diluted	\$ 0.03	\$ 0.02	\$ 0.04	\$ 0.03
Net revenue increase (decrease)	(2.2%)	7.4%	(5.2%)	5.9%
Volume growth (decline)	(5.4%)	3.9%	(0.7%)	(2.4%)
<b>Consisting of:</b>				
Increase (decrease) in Brick brand volume	5.1%	(5.3%)	0.2%	(1.5%)
Increase (decrease) in co-pack volume <sup>(1)</sup>	(19.4%)	19.2%	(2.3%)	(3.8%)
Net volume growth (decline)	(5.4%)	3.9%	(0.7%)	(2.4%)

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

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## Reconciliation of Net Earnings to Earnings Before Interest Taxes Depreciation

<i>(in thousands)</i>	Quarterly period ended		Fiscal year-to-date ended	
	August 1, 2010	July 31, 2009	August 1, 2010	July 31, 2009
Net income	926	461	1,034	892
Add:				
Future income tax expense	392	222	472	441
Amortization	398	590	814	1,055
Interest expense	56	35	89	76
Subtotal	846	847	1,375	1,572
EBITDA*	1,772	1,308	2,409	2,464

## NET REVENUE

Net revenues for the second quarter of fiscal 2011 were \$9.1 million (\$16.1 fiscal year-to-date), compared to \$9.3 million in the second quarter of fiscal 2010 (\$17.0 million fiscal year-to-date). Gross revenues were \$19.6 million for the second quarter of fiscal 2011 and were consistent with the second quarter in fiscal 2010. Gross revenues on a fiscal year-to-date basis were \$34.2 million at the end of the second quarter of fiscal 2011. This was a decrease of \$1.2 million from the same period last year. Net revenues are calculated by deducting from gross revenues the costs of distribution fees paid to TBS and the LCBO and production taxes.

During the second quarter of fiscal 2011, the Company's overall sales volume was approximately 82,000 hectolitres, comprised of 30,000 hectolitres of co-packaged product and 52,000 hectolitres of Brick brands. On a year-to-date basis, Brick brand volume was approximately 94,000 hectolitres and co-pack volume was approximately 52,000 hectolitres.

The second quarter of fiscal 2011 was a turning point for the Company's owned brands, with the organization experiencing strong organic growth. The Company's overall sales volume (excluding co-pack) in the second quarter of fiscal 2011 increased by 5.1% from the same quarter in fiscal 2010 (0.2% fiscal year to date). During the second quarter, industry beer volumes increased by approximately 3%.

The Company also experienced strong volume growth with respect to its canned beer. During the second quarter of fiscal 2011, the Company's sales volumes of canned beer increased by 80% compared to a decrease in sales volumes of 31% in the same quarter last fiscal year. On a year-to-date basis, can sales volumes increased by 58% compared to a decrease of 20% in the same period last year.

During the second quarter of fiscal 2011, the Laker family brand volumes increased by 10.6% (3.4% on a fiscal year-to-date basis). In the second quarter of fiscal 2010, the sales volumes had decreased by 24.2% (18.6% on a fiscal year-to-date basis). The Company completed an overhaul of the Laker family packaging in the first quarter of fiscal 2011, which entailed redesigned cartons and distinctive labels aimed at delivering the best fit and finish at a value price point. The transformation of the brand family was required in the current pricing environment and the initiative has contributed significantly to reversing a downward trend in the Laker family.

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During the second quarter of fiscal 2011, the volumes of the Waterloo brands increased by 26.8% (20.8% on a fiscal year-to-date basis).

Red Baron family brands declined by 5.2% during the second quarter of fiscal 2011, representing a steady performance versus the prior year, in which Red Baron was delivering exponential growth. The Red Baron and Red Baron Light trademarks were supported with focused billboard and radio advertising campaigns. The Red Baron Lime brand has been aggressively priced in comparison to its competitive brands (approximately \$10 less per 24-pack).

The volume of co-pack business decreased by 19.4% during the second quarter of fiscal 2011 in comparison to the second quarter of fiscal 2010 (2.3% on a fiscal year-to-date basis). Excluding the PC® and HEK trademarks, sales volumes for co-pack business decreased by 10.2% during the second quarter of fiscal 2011 in comparison to the second quarter of fiscal 2010 primarily due to shifted production requirements for CDMI to the first quarter. The Company is aggressively seeking new co-packing opportunities to build upon the growing co-packaging segment of the business and to fill the organization's excess capacity. The Company announced on August 5, 2010 that it has signed a new contract brewing agreement which is anticipated to generate a minimum of \$1.0 million in net revenue during the initial two years of the contract.

PC ® beer volumes declined by 32.2% during the second quarter of fiscal 2011 compared to the same quarter in fiscal 2010, and declined 26.9% on a fiscal year-to-date basis.

During the second quarter of fiscal 2011, 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 represents approximately 2% of total Brick brand volume. As at August 1, 2010, the Company's total market share by volume of TBS retail sales in Ontario was approximately 4% (July 31, 2009 – 4%).

During the second quarter of fiscal 2011, the Company's production tax increased by 5.2% compared to the second quarter of fiscal 2010 as a result of increased production tax rates. Production taxes have decreased 1% on a fiscal year-to-date basis. Effective July 1, 2010, the Company no longer pays fees to the Alcohol & Gaming Commission of Ontario ("AGCO") and instead remits a Beer & Wine Tax to the Ministry of Revenue. The beer tax rate is higher than the previous rate paid to the AGCO by \$14.2 per hectolitre of beer. The beer tax increase was delivered at the same time harmonized sales tax ("HST") was implemented in Ontario. Previously, the combined provincial sales tax and federal goods and services tax on beer was 17%. With the introduction of HST, there is a reduction in total sales tax of 4%, with no change to the minimum retail prices. The government is capturing the loss on sales tax through an increased beer tax described above. This will result in an increase in gross sales for the Company and a corresponding increase in taxes, with an immaterial impact on net revenue per hectolitre.

There was not a significant change in rates of distribution fees during the quarter and therefore, the cost of distribution fees remained consistent with the previous quarter and on a fiscal year-to-date basis at approximately 18% of gross revenues.

## **COST OF SALES**

Cost of sales was \$6.0 million for second quarter of fiscal 2011, a decrease of \$0.8 million from the second quarter of fiscal 2010. On a fiscal year-to-date basis, cost of sales has decreased by \$1.3

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million from fiscal 2010. During the second quarter of fiscal 2011, cost of sales as a percentage of net revenue has decreased 7% from the same quarter of fiscal 2010. This improvement to the Company's margin is a direct result of numerous cost cutting measures implemented over the past 18 months. More recently, efforts to reduce the Company's environmental footprint have delivered significant and sustainable reductions in consumption of water used in production as well as the effluent discharged to municipal sewer systems. The cost of labour has also been reduced through stream-lining processes and manpower optimization, particularly on the canning line with the installation of the can pasteurizer. The Company has also been able to reduce material costs through the tendering of key supply contracts and renegotiation of existing supply contracts. Cost of sales represented 66% of net revenue in the second quarter of fiscal 2011 compared to 73% in the second quarter of fiscal 2010. On a fiscal year-to-date basis, cost of sales represented 69% of net revenue compared to 73% in the same period of fiscal 2010.

## **SELLING, MARKETING AND ADMINISTRATION**

In the second quarter of fiscal 2011, selling, marketing, and administration expenses totalled \$1.3 million, an increase of \$0.1 million from the second quarter of fiscal 2010's selling, marketing, and administration expenditures of \$1.2 million. On a fiscal year-to-date basis, these expenses totalled \$2.6 million compared to \$2.1 million in the same period last year.

The Company receives funding from the Ontario Government under the four-year Ontario Craft Brewers Opportunity Fund (the "Opportunity Fund") which was established in September 2008. Fiscal 2011 is the fourth year of the program and management expects to be in compliance with the Opportunity Fund's requirements and continue to receive support during the remainder of the program. As such, the Company has recorded a receivable of \$1.5 million. This has been presented with trade accounts receivable on the consolidated balance sheet and represents management's estimate of the grant earned as of August 1, 2010. The Company will continue to maximize the benefits obtained from the marketing funding to better position the Company's brands in the marketplace.

The Company's marketing expenditures during the second quarter of fiscal 2011 were \$0.1 million higher than the second quarter of fiscal 2010 resulting from increased outdoor and radio advertising.

## **NET EARNINGS**

For the quarter ended August 1, 2010, net income was \$0.9 million compared to net income of \$0.5 million for the quarter ended July 31, 2009. On a fiscal year-to-date basis, net income was \$1.0 million for fiscal 2011 and \$0.9 million for the comparative period. Basic and diluted earnings per share for the quarter ended August 1, 2010 were both \$0.03 per share, compared with basic and diluted earnings of \$0.02 per share and \$0.02, respectively, for the quarter ended July 31, 2009. The basic and diluted earnings per share for the first six periods of fiscal 2011 were both \$0.04 per share compared to \$0.03 per share for the comparative period in fiscal 2010.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **THE BEER STORE PAYMENT TERMS**

During the first quarter of fiscal 2011, TBS announced significant changes in its payment terms. Prior to May 2010, the Company received a payment for each full week of shipments within one

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week. Effective May 2010, TBS pays four weeks after the shipment week has concluded. As a result of this unexpected change in the pattern of cash receipts, the Company arranged for a \$2 million increase in its operating line of credit and a \$2.2 million increase in the availability of its long-term debt.

The new operating line of credit agreement and the increase in term-debt were finalized on May 6, 2010. The new operating line of credit provides for a maximum of \$6.5 million credit (marginated against accounts receivable and inventory of the Company) at an interest rate of prime plus 1.5%. The additional term debt of \$2.2 million will be drawn down as capital expenditures are made. As at August 1, 2010, \$1.5 million of the available term debt was advanced to the Company. The Company expects to receive the remaining \$0.7 million of term debt over the remainder of fiscal 2011.

## CONSOLIDATED FINANCIAL POSITION

The Company has an operating line of credit, three mortgages payable and two capital equipment leases. As at August 1, 2010, the Company is in compliance with its covenants under each of the aforementioned agreements. The Company expects to continue to be in compliance with these covenants at January 31, 2011.

The mortgages described above are collectively referred to as long-term debt. On May 6, 2010, two of the mortgages payable were refinanced as one mortgage and increased by \$2.2 million, as noted above, to finance the purchase and upgrade of equipment.

As at August 1, 2010, the Company had bank indebtedness of \$1.4 million (January 31, 2010 – \$1.8 million). This represents a decrease of \$0.4 million from the end of fiscal 2010 and was achieved primarily as a result of cash generated from operations during the first six periods of the fiscal year.

As at August 1, 2010, the Company had 28,121,385 common shares, 1,349,000 stock options and 5,729,165 warrants outstanding. Each stock option and warrant is exercisable for one common share.

The Company's working capital position has substantially improved to \$4.6 million at August 1, 2010 compared to \$2.6 million at January 31, 2010. This is attributable to strict cash management while transitioning to the new payment terms imposed by TBS. While the outstanding receivables significantly increased by 258%, the increase in payables was held to 139%.

Current assets of the Company were \$14.7 million at August 1, 2010 compared to \$8.6 million at January 31, 2010. Accounts receivable at August 1, 2010 includes the \$1.5 million relating to the Opportunity Fund discussed above, under "Selling, Marketing, and Administration" (January 31, 2010 – Opportunity Fund receivable of \$0.8 million). Accounts receivable, excluding the marketing grant, increased \$5.4 million from January 31, 2010. This increase is attributable to the change in TBS' payment terms.

The Company's inventory decreased by \$0.2 million due to improved inventory management reducing finished good inventory levels in the warehouse.

Property, plant and equipment increased by \$0.8 million compared to January 31, 2010. The increase is a result of the purchase of \$1.6 million of capital assets of which \$0.5 million were purchased during the second quarter of fiscal 2011 towards various projects aimed at improving

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the efficiency of the Company's packaging and distribution center in Kitchener. This increase was offset by depreciation of \$0.8 million.

Future income taxes (both current and long-term combined) decreased by \$0.5 million as at August 1, 2010 compared to January 31, 2010. The decrease is the result of the Company applying losses carried forward from previous years to reduce the current taxes payable on net income generated during the quarter. Applied against the future income tax asset is a valuation allowance of \$1.8 million. As a result of the increased profitability of the Company, management expects the Company to utilize those losses which are in excess of the valuation allowance, as of August 1, 2010.

The Company's current liabilities were \$10 million at August 1, 2010 compared to \$5.9 million at January 31, 2010; an increase of \$4.1 million. This increase is due to higher production taxes as well as efforts to extend payables in anticipation of new TBS payment terms discussed above.

Long-term debt increased by \$1.3 million and obligations under capital leases decreased by \$0.01 million at August 1, 2010 compared to January 31, 2010. The increase in long-term debt is due to \$1.5 million of term debt received during the second quarter of fiscal 2011 less principal payments of \$0.2 million.

## CASH FLOW

The Company used \$1.3 million of cash in operating activities during the second quarter of fiscal 2011. On a fiscal year-to-date basis, the Company generated cash of \$0.7 million. As a result of the change in payment terms by TBS, the Company experienced a drain on operating cash during the second quarter of fiscal 2011. This was offset by the additional funds received from the operating line of credit as well as the receipt of term debt.

Financing activities generated \$1.9 million of cash during the second quarter of fiscal 2011 primarily due to the receipt of the term debt as well as increased reliance on the operating line of credit. On a fiscal year-to-date basis, the Company generated \$0.8 million of cash from financing activities.

Investing activities used \$0.6 million of cash during the second quarter of fiscal 2011 compared to \$0.8 million in the second quarter of fiscal 2010. During the first six periods of fiscal 2011, the Company invested \$1.6 million in property, plant, and equipment (\$1.8 million in the comparative period of fiscal 2010).

At August 1, 2010, \$1.1 million was drawn on the operating line of credit. Bank indebtedness on the consolidated balance sheet includes outstanding cheques.

The Company utilizes several operating leases to finance office and computer equipment and software, warehouse and manufacturing equipment, cars, vans, and forklifts. 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.

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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:

	<b>Long-term debt</b>	<b>Capital lease</b>	<b>Operating leases</b>	<b>Other purchase commitments</b>	<b>Total</b>
Q3 - Q4 2011	474,000	86,778	524,241	2,312,973	<b>3,397,992</b>
2012	732,000	162,439	1,032,828	2,230,287	<b>4,157,554</b>
2013	732,000	24,650	961,379	121,038	<b>1,839,067</b>
2014	1,409,041	-	955,841	-	<b>2,364,882</b>
2015	-	-	954,873	-	<b>954,873</b>
2016 and thereafter	-	-	520,997	-	<b>520,997</b>
	<b>3,347,041</b>	<b>273,867</b>	<b>4,950,159</b>	<b>4,664,298</b>	<b>13,235,365</b>

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 Alcohol and Gaming Commission of Ontario and the Canada Revenue Agency provide the necessary licensing approvals. The Company has permits to distribute beer in the province of Quebec. Volumes in Quebec have declined as a result of the competitive environment. Management believes that the Company is in compliance with all licenses, permits, and approvals.

#### Consumer preference/trends

The beer industry is a highly competitive environment 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 available canning capacity is approximately 20,000 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 was effective April 12, 2010. The Company expects legislated price increases to continue in future years and further erode the price gap between discount 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

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required, profits from co-pack arrangements will be reinvested in selling and marketing initiatives to maintain brand loyalty and relevance of Laker, Red Baron and Waterloo trademarks.

## Government grant for marketing

The last period of eligibility for the Opportunity Fund is April 1, 2010 to March 31, 2011. The Company's benefit from this initiative will not extend beyond the current fiscal year, with the final cash payment expected in October 2011. 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 impending 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. Results are showing an improvement on all quality metrics each period with an overall improvement of 29% as compared to a year ago. The Company's efforts to continually improve quality and consistency have resulted in the Company recently being awarded four medals including two Gold medals at the Ontario Brewing Awards. As the Company enters a new chapter in demonstrating a commitment to a level of quality at or above industry standards, it is embarking on a new initiative to not only meet Hazard Analysis Critical Control Point ("HACCP") requirements but 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. Recently, 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 government to ensure that TBS policy changes going forward are equitable and done in consultation with all interested parties.

The payment term extension by TBS necessitated an increase in the Company's maximum line of credit to \$6.5 million. Management expects the operating line to provide sufficient credit for the complete operating cycle. Seasonal cash flow requirements will put considerable pressure on the facility and prudent cash management will be required and delivered.

## 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.

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## Strategy

### "Fix, Fill and Optimize"

The Company has adopted a mantra of fix, fill and optimize. For approximately two years the company has been in a fixing period. Readers of the MD&A and financial statements will have noticed relentless pursuit of cost reduction in areas of procurement, labour, distribution, and administration. While the fixing stage will never be complete, the biggest ideas have been targeted and acted upon.

The second stage of the Company's strategy is about filling the Company's excess capacity, which is approximately 200,000 hectolitres annually. Once complete, filling the excess capacity with co-pack business can deliver between \$2 million and \$6 million of incremental annual cash flows. At peak capacity, reinvestment in capital expenditures and marketing will range between \$1 million and \$3 million.

The Company is early in the filling phase, but has already established a new and meaningful co-packing relationship. In the second quarter of fiscal 2011, the Company signed a new contract brewing agreement which is anticipated to generate a minimum of \$1.0 million in net revenue during the initial two years of the contract.

Beyond the growth available through co-pack relationships, the Company will deliver growth with other initiatives such as geographic expansion and sales agency agreements. In the first quarter, the Company announced that it entered into a sales agent agreement with AMCA for Atlantic Canada. The response to the Company's products has been positive and management looks forward to building the Company's presence in Atlantic Canada. The Company is continuing to develop its relationship with Latis Imports as representatives for Palm Breweries, Belgium's largest independent brewer.

Optimization is about maximizing the EBITDA impact of filling the organization and will be achieved by securing larger and more profitable co-pack contracts over time and by making appropriate reinvestment in the Company's owned brands to drive organic growth at margins which are superior to co-packing business.

## Outlook for balance of F2011

The second quarter of fiscal 2011 represents a turning point for the Company. Laker family brand sales volumes increased by 10.6%; Waterloo family brand sales volumes increased by 26.8%; and the sales volumes of the Company's proprietary brands increased by 5% overall. Management believes that the overall lift in proprietary brands is sustainable for the balance of this year.

The second quarter of fiscal 2011 presented the launch of a new advertising campaign for the Red Baron and Red Baron Light brands including radio and outdoor advertising. In the third quarter, Red Baron will be available in a 6-pack, which the Company believes will encourage trial purchases of the product and further grow the brand.

The sale of canned beer also had a remarkable improvement with sales volumes increasing by 80% during the second quarter of fiscal 2011 from the comparative period in fiscal 2010. The Company is reacting to this by increasing the focus on its canned products including offering its Laker Light brand in a new 473 mL can.

# Management's Discussion and Analysis

The Laker and Red Baron brands continue to be supported by extensive outdoor advertising. The Company will continue to maintain the competitiveness of its products at TBS through increased radio exposure, outdoor advertisement co-marketing and lobby displays.

In April 2010, the Company began using new packaging equipment which management estimates will reduce the cost of packaging by \$0.5 million in fiscal 2011. The Company also installed a new can pasteurizer which will reduce complexities in the canning process and contribute to cost reductions.

## LITIGATION

On March 24, 2009, the Company announced that certain of its shareholders commenced a lawsuit against the Company claiming, among other things, that the non-brokered, non-arms' length private placement financing that closed on October 31, 2008 was prejudicial and unfairly disregarded them. Management believes that the claim by certain of the Company's shareholders is without merit and no amount has been recorded in the financial statements with respect to this claim. The Company filed its statement of defence on November 3, 2009. The Company's insurer has confirmed the Company has coverage for the claim, including defence costs on an as incurred basis, under its Directors', Officers' and Company liability insurance policy, subject to a customary reservation of rights. The insurance policy has a deductible of \$100,000.

The claim filed by the Company against Mr. James Brickman was settled on September 7, 2010.

## FINANCIAL REPORTING PERIODS

Effective February 1, 2010, the Company changed its reporting period to thirteen week periods. For example, the second quarter of fiscal 2011 is for the 13-week period ended August 1, 2010. The Company manages shipping and over-the-counter sales data on a weekly basis as opposed to a monthly basis. A floating quarter end date is more meaningful from an operating perspective and is common in the beer industry. The year-end date will remain as January 31st and therefore the fourth quarter of fiscal 2011 will be adjusted from precisely 13 weeks as required. Management does not expect any material impact on quarterly comparisons of information throughout fiscal 2011.

# Management's Discussion and Analysis

## SUMMARY OF QUARTERLY RESULTS

\$(000's)	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009
Net Revenue	9,111	6,971	5,679	7,280	9,316	7,641	6,601	7,295
Selling, marketing & administration	1,303	1,272	920	1,067	1,189	866	1,340	888
EBITDA*	1,772	634	(131)	717	1,308	1,155	(1,134)	(423)
Net Income (Loss)	926	108	232	241	461	431	(6,697)	(647)
EPS (Basic)	\$ 0.03	\$ -	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.02	\$ (0.24)	\$ (0.03)
EPS (Diluted)	\$ 0.03	\$ -	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.02	\$ (0.24)	\$ (0.03)

### IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

The Company's accounting policies are discussed in detail in note 1 to the Company's annual audited consolidated financial statements for the year ended January 31, 2010.

On March 11, 2008, the Accounting Standards Board of Canada confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canadian generally accepted accounting principles ("GAAP") for publically accountable enterprises. The Company will be required to report its results in accordance with IFRS beginning on February 1, 2011 (fiscal 2012).

Although IFRS uses a conceptual framework similar to Canadian GAAP, differences in accounting policies will need to be addressed. The Company has hired professional staff to assist in the development and execution of a changeover plan to complete the transition to IFRS by February 1, 2011, including the preparation of required comparative information.

### INTERNATIONAL FINANCIAL REPORTING STANDARDS UPDATE

The Company has reviewed the required changes to accounting policies, as well as their implications on processes within the organization. The Company's expected IFRS transition date (the "Transition Date") of February 1, 2011 will require the restatement, for comparative purposes, of the amounts reported by the Company for the year ended January 31, 2011, and of the amounts reported on the Company's opening IFRS balance sheet as at February 1, 2010. The Company will continue to present its results for fiscal 2011 in accordance with Canadian GAAP.

As IFRS is expected to change prior to the Transition Date, the impact of IFRS on the Company's consolidated financial statements is not reasonably determinable at this time. Accordingly, any conclusions drawn at this point in time must be considered preliminary.

# Management's Discussion and Analysis

Management has completed the first phase of the Company's conversion process and has identified key differences between Canadian GAAP and IFRS that are applicable to the Company's financial statements and any policy changes required. Please refer to the Company's fiscal 2010 annual report for details on the key differences identified by management.

The Company is now in the process of quantifying these differences and preparing proforma financial statements and the notes and reconciliation tables thereto mandated by IFRS, commencing with the Company's first interim IFRS financial statements (the first quarter of fiscal 2012 with comparatives) from Canadian GAAP reported net income and equity to that reported under IFRS. The Company anticipates completing this phase of the IFRS conversion process during the third quarter of fiscal 2011.

The Company is required to apply all of those IFRS standards which are effective for periods ending January 31, 2012 and apply them to its Canadian GAAP opening February 1, 2010 balance sheet.

## Impact of key differences

The following summarizes the impact of some key differences between IFRS and Canadian GAAP identified by management:

### *Reusable Containers (bottles)*

IFRS requires reusable containers which are used for more than one period to be presented as property, plant, and equipment ("PP&E"). The Company currently presents these items as inventory under Canadian GAAP. This change in presentation will affect the Company's financial covenants and the Company will review expectations with lenders.

Inventory and PP&E will decrease and increase, respectively, on the Company's opening balance sheet as of February 1, 2010 and the first and second quarters of fiscal 2011 as follows:

	<u>As at Feb 1, 2010</u>	<u>May 2, 2010</u>	<u>August 1, 2010</u>
\$	1,781,451	\$ 1,951,721	\$ 1,771,660

### *Future Income Taxes*

IFRS requires presentation of all future income tax balances as non-current, whereas Canadian GAAP requires current balances to be presented separately. This change in presentation will affect the Company's financial covenants and the Company will review expectations with lenders.

Current assets and long-term assets will decrease and increase, respectively, on the Company's opening balance sheet as of February 1, 2010 and the first and second quarters of fiscal 2011 as follows:

	<u>As at Feb 1, 2010</u>	<u>May 2, 2010</u>	<u>August 1, 2010</u>
\$	566,000	\$ 566,000	\$ 566,000

# Management's Discussion and Analysis

## ***Provisions***

IFRS requires provisions (i.e. liabilities which are uncertain in timing or amount) to be presented separately from accounts payable and accrued liabilities, as well as additional note disclosure. Canadian GAAP does not require separate disclosure of these provisions.

At this time, management does not anticipate any additional disclosure to be required as a result of this difference from Canadian GAAP.

## ***Impairment of Capital Assets***

Under IFRS, reversal or reduction of an impairment loss recognized in a prior period is possible where facts and circumstances have changed and result in a favourable impact on valuation. In fiscal 2009, the Company recorded an impairment charge of \$3.3 million against certain capital assets located at its Formosa facility. As a result of reaching agreement with CDMI to extend the production contract to December 2014, it is probable that an increase in the value of the Formosa assets will be recorded as at February 1, 2010. The magnitude of this adjustment has not yet been determined.

## **RELATED PARTY TRANSACTIONS**

The Company's related party transactions are discussed in note 5 to the Company's consolidated unaudited interim financial statements for the quarter ended August 1, 2010.

The Company's transportation service provider, Laidlaw Carriers Van LP ("Laidlaw"), is subject to significant influence by one of the Company's directors. Laidlaw provided distribution services to the Company during the quarter aggregating to \$0.1 million (quarter ended July 31, 2009 - \$0.07 million). As at August 1, 2010, the Company owed Laidlaw \$0.05 million (July 31, 2009 - \$0.04 million).

## **CRITICAL ACCOUNTING ESTIMATES**

The Company prepares its consolidated financial statements in accordance with Canadian GAAP, 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 consolidated 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.

## ***Returnable Containers***

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

# Management's Discussion and Analysis

## ***Intangible Assets and Goodwill***

Indefinite life intangible assets consist of brands and listing fees. These assets are recorded at cost and are not amortized but instead are tested for impairment annually or when indicated by events or changes in circumstances, by comparing the fair value of the assets to their carrying value. Impairment tests involve using discounted cash flows to value the assets. There is uncertainty in these estimates as the related cash flows are projected for future years based on underlying assumptions such as volume growth, inflation factors and industry trends which may not materialize. Management uses its best estimates to forecast these amounts, but the actual amounts may vary from estimates. Should future cash flows differ from management's estimates, an impairment of these assets and a related write-down may result. When a product is delisted, the Company removes the related listing fee from the balance of trademarks and listing fees. The Company believes that these estimates are materially correct.

## ***Impairment of Long-Lived Assets***

Long-lived assets, including property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management concluded that property, plant and equipment were not impaired as of August 1, 2010. The Company believes that these estimates are materially correct.

## ***Future Income Tax Asset***

The Company has recorded an income tax asset. In compliance with the "more likely than not test" required by the CICA Handbook section 3465 "Income Taxes" for these assets to be recorded, the Company has provided a valuation allowance of \$1.8 million against the asset for losses carried forward to a future year. In estimating the valuation allowance, management compared the amount of losses available for carry-forward to the expected income forecasted for the next five years, weighted based on the probability of achieving the forecasted figures.

## ***Stock Based Compensation***

The Company recognizes compensation expense when options with no cash settlement feature are granted to employees and directors under the Company's option plan. Stock based compensation expense recognized during the quarter ended August 1, 2010 was \$0.03 million (quarter ended July 31, 2009 - \$0.02 million). Assumptions regarding expected stock volatility and risk free interest rates are required to calculate the fair value of the consideration received.

## **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 August 1, 2010 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 fiscal year then ended.

# Management's Discussion and Analysis

## 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 consolidated financial statements in accordance with Canadian GAAP.

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 consolidated financial statements in accordance with Canadian GAAP 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 consolidated 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 August 1, 2010, 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 August 1, 2010.

In the course of evaluating its ICFR as at August 1, 2010, 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 Company's consolidated financial statements as the Company relies on certain compensating controls, including substantive periodic review of its consolidated financial statements by the Officers and Audit Committee. This weakness is reported in accordance with Canadian Securities Administrators Staff Notice 52-316 and is considered to be a common area of deficiency for many smaller listed companies in Canada.

# Management's Discussion and Analysis

## FINANCIAL INSTRUMENTS

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

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 2011 and has entered into fixed price contracts, the balance of which are disclosed in the commitments schedule included in this MD&A.

\* EBITDA is a non-GAAP earnings measure, therefore it does not have any standardized meaning prescribed by Canadian GAAP 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

## Consolidated Balance Sheet (unaudited)

	Second quarter ended August 1, 2010	Year ended January 31, 2010
<b>Assets</b>		
Current assets:		
Accounts receivable	8,441,973	2,357,069
Inventories	5,012,825	5,251,714
Prepaid expenses	650,918	412,351
Future income taxes	566,000	566,000
	<b>14,671,716</b>	<b>8,587,134</b>
Property, plant and equipment	14,956,370	14,101,122
Trademarks and listing fees	5,814,821	5,731,954
Other assets	84,267	188,871
Future income taxes	562,000	1,034,000
	<b>\$ 36,089,174</b>	<b>\$ 29,643,081</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness	\$ 1,446,949	\$ 1,792,406
Accounts payable and accrued liabilities <i>[note 5]</i>	7,617,308	3,187,915
Current portion of long-term debt	840,000	816,100
Current portion of obligations under capital lease	237,010	146,418
	<b>10,141,267</b>	<b>5,942,839</b>
Long-term debt	2,507,041	1,251,800
Obligations under capital lease	36,858	138,106
Shareholders' equity:		
Share capital <i>[note 3]</i>	34,678,264	34,678,264
Contributed surplus	831,808	772,455
Deficit	(12,106,064)	(13,140,383)
	<b>23,404,008</b>	<b>22,310,336</b>
Contingency <i>[note 6]</i>		
	<b>\$ 36,089,174</b>	<b>\$ 29,643,081</b>

See accompanying notes to unaudited consolidated financial statements.

# BRICK BREWING CO. LIMITED

## Consolidated Statement of Income, Comprehensive Income and Deficit (unaudited)

	Second quarter ended		Fiscal year-to-date ended	
	August 1, 2010	July 31, 2009	August 1, 2010	July 31, 2009
Gross revenue <i>[note 2]</i>	\$ 19,565,858	\$ 19,656,483	\$ 34,193,865	\$ 35,423,279
Less production taxes and distribution fees	(10,454,688)	(10,340,453)	(18,111,551)	(18,466,130)
Net revenue	9,111,170	9,316,030	16,082,314	16,957,149
Cost of sales <i>[note 5]</i>	6,036,085	6,803,743	11,097,743	12,422,979
Gross profit	3,075,085	2,512,287	4,984,571	4,534,170
Selling, marketing and administration	1,302,877	1,188,433	2,575,142	2,054,876
Earnings before the undernoted	1,772,208	1,323,854	2,409,429	2,479,294
Other income (expense):				
Depreciation and amortization	(398,449)	(589,816)	(813,982)	(1,054,803)
Interest on long-term debt	(38,258)	(35,046)	(62,662)	(76,901)
Other income (expense)	(17,557)	(15,764)	(26,466)	(14,643)
	(454,264)	(640,626)	(903,110)	(1,146,347)
Net income before provision for income taxes	1,317,944	683,228	1,506,319	1,332,947
Future income tax provision	392,000	222,413	472,000	440,773
Net income and comprehensive income	925,944	460,815	1,034,319	892,174
Deficit, beginning of period	(13,032,008)	(14,074,739)	(13,140,383)	(14,506,098)
Deficit, end of period	\$ (12,106,064)	\$ (13,613,924)	\$ (12,106,064)	\$ (13,613,924)
Net earnings per share:				
Basic	\$ 0.03	\$ 0.02	\$ 0.04	\$ 0.03
Diluted	\$ 0.03	\$ 0.02	\$ 0.04	\$ 0.03

See accompanying notes to unaudited consolidated financial statements.

# BRICK BREWING CO. LIMITED

## Consolidated Statements of Cash Flows (unaudited)

	Second quarter ended		Fiscal year-to-date ended	
	August 1, 2010	July 31, 2009	August 1, 2010	July 31, 2009
<b>Cash provided by (used in):</b>				
Operations:				
Income for the period	\$ 925,944	\$ 460,815	\$ 1,034,319	\$ 892,174
Items not involving cash:				
Amortization of property, plant and equipment, and other assets	399,403	597,316	814,125	1,069,803
Stock based compensation	29,677	24,142	59,353	48,936
Future income tax provision	392,000	222,413	472,000	440,773
Change in non-cash operating working capital	(3,051,308)	(946,300)	(1,655,188)	(1,388,648)
	(1,304,284)	358,386	724,609	1,063,038
Financing:				
Increase (decrease) in bank indebtedness	591,509	903,406	(345,457)	1,080,247
Proceeds from new term debt <i>[note 7]</i>	1,487,491	-	1,487,491	-
Repayment of long-term debt	(150,000)	(185,107)	(208,350)	(238,957)
Repayment of obligation under capital lease	(42,269)	(251,875)	(83,977)	(284,524)
Issue of capital stock (net of fees)	-	-	-	3,200
	1,886,731	466,424	849,707	559,966
Investing:				
Purchase of property, plant and equipment, and other assets	(519,933)	(781,863)	(1,491,449)	(1,513,656)
Listing fees paid	(62,514)	(42,947)	(82,867)	(318,639)
	(582,447)	(824,810)	(1,574,316)	(1,832,295)
Net decrease in cash	-	-	-	(209,291)
Cash, beginning of period	-	-	-	209,291
Cash, end of period	\$ -	\$ -	\$ -	\$ -
Supplemental cash flow information:				
Cash paid for interest	53,068	42,973	\$ 85,155	\$ 79,328
Non-cash investing and financing activities:				
Obligation under capital lease	\$ -	\$ -	\$ 73,321	\$ -

See accompanying notes to unaudited consolidated financial statements.

# Notes To The Consolidated Financial Statements

(unaudited)

## 1. Basis of presentation

These unaudited interim financial statements of Brick Brewing Co. Limited (the "Company") have been prepared by management in accordance with accounting principles generally accepted in Canada. These statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the fiscal year ended January 31, 2010. The disclosures provided below are incremental to those included with the annual audited financial statements and certain disclosures, which are normally required to be included in the notes to the annual financial statements, have been condensed or omitted. These interim financial statements should be read in conjunction with the Company's financial statements, and the notes thereto, for the year ended January 31, 2010.

These interim consolidated financial statements for the periods ending August 1, 2010 and July 31, 2009 have not been audited or reviewed by the Company's external auditor.

## 2. Description of business

The Company operates three facilities serving primarily the Ontario market. The Company's primary business is the brewing and marketing of packaged beer as well as draught beer in kegs. The Company's products are marketed primarily through the facilities of The Beer Store and the Liquor Control Board of Ontario, which comprise 91% of gross revenue (2009 - 90%).

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.

## 3. Outstanding shares

As at August 1, 2010, the Company had 28,121,385 common shares and 5,729,165 common share purchase warrants outstanding. At August 1, 2010 there were 1,349,000 options outstanding exercisable to acquire 1,349,000 common shares of the Company pursuant to the Company's stock option plan with the options having various expiry dates.

## Notes To The Consolidated Financial Statements (continued)

(unaudited)

### 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

One of the Company's vendors, Laidlaw Carriers Van LP, "Laidlaw", is subject to significant influence by one of the Company's directors. Laidlaw provided distribution services to the Company during the quarter ended August 1, 2010 aggregating to approximately \$104,000 (quarter ended July 31, 2009 - \$72,000). As at August 1, 2010, the Company owed Laidlaw approximately \$47,500 (July 31, 2009 - \$4,000).

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

### 6. Contingency

On March 24, 2009, the Company announced that certain of its shareholders commenced a lawsuit against the Company claiming, among other things, that the non-brokered, non-arms' length private placement financing that closed on October 31, 2008 was prejudicial and unfairly disregarded them. The Corporation is of the view that the claim is without merit. The outcome of the lawsuit is not determinable and therefore, no amount has been recorded in these unaudited consolidated interim financial statements.

### 7. Bank indebtedness

During the second quarter of fiscal 2011, the Company finalized the availability of additional long-term debt of \$2.2 million. The term debt provides funding for the purchase and upgrade of certain equipment and will be drawn down as capital expenditures are made. As at August 1, 2010, \$1.5 million of the available term debt was advanced to the Company.

# Corporate Information

## **BRICK BRANDS**

Waterloo Dark  
Waterloo Wheat  
Red Baron  
Red Baron Light  
Red Baron Lime  
Formosa Springs Draft  
Formosa Springs Draft Light  
Red Cap Ale

## **LAKER**

Laker Lager  
Laker Light  
Laker Red 5.5  
Laker Honey  
Laker Ale  
Laker Strong 6.5  
Laker Ice

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