Consolidated Financial Statements of

BRICK BREWING CO. LIMITED

Years ended January 31, 2009 and 2008

AUDITORS' REPORT

To the shareholders of Brick Brewing Co. Limited

We have audited the consolidated balance sheets of Brick Brewing Co. Limited as at January 31, 2009 and 2008 and the consolidated statements of income, comprehensive income and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
Licensed Public Accountants

Waterloo, Canada
March 13, 2009

BRICK BREWING CO. LIMITED

Consolidated Balance Sheets

January 31, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash	$ **209,291**	$ -
Accounts receivable	**2,096,781**	2,570,768
Inventories (note 3)	**5,309,474**	7,276,941
Future income taxes (note 14)	**522,338**	54,799
Prepaid expenses	**507,518**	509,995
	8,645,402	10,412,503
Property, plant and equipment (note 4 and 20)	**13,522,720**	16,989,347
Long-term investment (note 5)	**-**	105,582
Trademarks and listings fees	**5,401,314**	5,429,795
Deferred costs (note 6)	**369,220**	383,650
Other asset (note 7)	**50,000**	212,500
Future income taxes (note 14)	**547,030**	2,062,610
	$ **28,535,686**	$ 35,595,987
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 8)	$ **-**	$ 2,790,750
Accounts payable and accrued liabilities	**3,846,187**	3,038,317
Current portion of long-term debt (note 9)	**924,000**	906,600
Current portion of obligations under capital lease (note 10)	**419,282**	557,135
Deferred grants (note 11)	**270,758**	-
	5,460,227	7,292,802
Long-term debt (note 9)	**2,067,900**	2,991,900
Shareholders' equity:		
Share capital (note 12)	**34,657,984**	31,539,112
Contributed surplus	**673,593**	624,413
Deficit	**(14,324,018)**	(6,852,240)
	21,007,559	25,311,285
Commitments (note 15)		
	$ **28,535,686**	$ 35,595,987

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Peter J. Schwartz" Director

"Edward H. Kernaghan" Director

BRICK BREWING CO. LIMITED

Consolidated Statements of Income, Comprehensive Income and Deficit

Years ended January 31, 2009 and 2008

		2009		2008
Revenue:				
Gross revenue	$	**65,096,151**	$	68,597,053
Less production taxes and distribution fees		**(35,209,590)**		(38,287,563)
Net revenue		**29,886,561**		30,309,490
Cost of goods sold		**25,223,069**		24,450,437
Gross profit		**4,663,492**		5,859,053
Selling, marketing and administration		**4,508,642**		6,210,607
Earnings (loss) before the undernoted		**154,850**		(351,554)
Other income (expenses):				
Severance costs and retiring allowance (note 19)		**(978,589)**		(249,337)
Impairment of long-term assets (note 20)		**(3,349,038)**		-
Interest on long-term debt		**(342,290)**		(444,344)
Other income (expense)		**171,965**		(120,979)
Amortization		**(1,997,973)**		(1,735,513)
Equity (loss) earnings on long-term investment		**(82,662)**		26,392
		(6,578,587)		(2,523,781)
Net loss before provision for income taxes		**(6,423,737)**		(2,875,335)
Future income tax expense (recovery) (note 14)		**1,048,041**		(284,709)
Net loss and comprehensive loss		**(7,471,778)**		(2,590,626)
Deficit, beginning of year		**(6,852,240)**		(4,158,438)
Cumulative effect: New accounting policy, net of tax (note 2)		**-**		(103,176)
Deficit, end of year	$	**(14,324,018)**	$	(6,852,240)
Net loss per share (note 18):				
Basic	$	**(0.31)**	$	(0.12)
Diluted		**(0.31)**		(0.12)

See accompanying notes to consolidated financial statements.

BRICK BREWING CO. LIMITED

Consolidated Statements of Cash Flows

Years ended January 31, 2009 and 2008

		2009		2008
Cash provided by (used in):				
Operations:				
Net loss	$	**(7,471,778)**	$	(2,590,626)
Items not involving cash:				
Amortization of property, plant and equipment, deferred assets and other assets		**2,012,949**		1,757,309
Impairment on long-term assets (note 20)		**3,349,038**		-
Stock based compensation		**197,950**		79,719
Equity loss (earnings) on long-term investment		**82,662**		(26,392)
Future income taxes		**1,048,041**		(284,709)
Change in non-cash operating working capital		**2,795,262**		227,694
		2,014,124		(837,005)
Financing:				
Increase (decrease) in bank indebtedness		**(2,790,750)**		2,790,750
Repayment of long-term debt		**(906,600)**		(890,400)
Issue of capital stock (net of fees)		**2,612,252**		35,457
Stock options exercised		**357,850**		-
Repayment of obligations under capital leases (note 10)		**(137,853)**		(204,120)
		(865,101)		1,731,687
Investing:				
Purchase of property, plant and equipment, listing fees and deferred assets		**(939,732)**		(948,534)
		(939,732)		(948,534)
Increase (decrease) in cash		**209,291**		(53,852)
Cash, beginning of year		**-**		53,852
Cash, end of year	$	**209,291**	$	-
Supplemental cash flow information:				
Cash paid for interest	$	**348,094**	$	380,429

See accompanying notes to consolidated financial statements.

Brick Brewing Co. Limited (the "Company") operates three facilities serving primarily the Ontario market. The Company's primary business is the brewing and marketing of bottled beer as well as draught beer in kegs. The Company's products are marketed through the facilities of The Beer Store, the Liquor Control Board of Ontario, which comprise 85% of sales [2008 – 91%], and to licensed establishments.

1. Significant accounting policies:

(a) Revenue recognition:

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

Net revenue represents gross revenues, less applicable federal and provincial production, environmental and excise taxes and less distribution service charges levied by applicable provincial liquor boards and government approved distribution agents.

(b) Investments in marketable securities:

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

(c) Inventories:

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

In the fourth quarter of fiscal 2009, the Company reviewed the amortization period for returnable containers. The Company previously recognized purchases of bottles over a period ranging from five to ten years. A review of industry data regarding bottle lifespan, return rates and turnover period indicated that the estimated useful life was too high and a more relevant amortization period is four years. An adjustment to cost of goods sold of $608,248 has been recognized to reflect the change in estimate. Future purchases of bottles will be amortized over a four year period.

(d) Property, plant and equipment:

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

Amortization is provided using the following method and annual rates:

Asset	Basis	Rate
Buildings	Straight-line	3% - 5%
Storage tanks	Straight-line	3% - 6%
Equipment	Straight-line	3% - 25%
Computer equipment	Straight-line	20% - 50%
Vehicles	Straight-line	30%
Assets under capital leases	Straight-line	30%-50%

(e) Long-term investments:

The investment in a significantly influenced company is accounted for using the equity method. Under the equity method, the original cost of the shares is adjusted for the Company's share of post acquisition earnings or losses less dividends. The excess of the cost of the shares of the associated company over the net book values of its net assets on the date of acquisition amounted to $140,000.

(f) Impairment of long-lived assets:

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

(g) Intangible assets:

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

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

The Company performed the annual impairment test, as required under the CICA Handbook Section 3062, in the fourth quarter of 2009 and concluded that there was no impairment on trademarks and listing fees. As a result, the second step of the annual impairment test under Section 3062 was not required to be performed.

When a product is delisted, the Company removes the related listing fee from the balance of trademarks and listing fees and recognizes an impairment loss.

(h) Deferred pre-production costs:

Deferred pre-production costs represent costs incurred in establishing new production lines which require time to reach commercial production capability. Amortization is provided on a straight-line basis at 20% per year.

(i) Net earnings per share:

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

(j) Stock based compensation:

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

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

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

(k) Measurement uncertainty:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

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

2. Changes in Accounting Policies:

Inventories:

Effective January 1, 2008, the new Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3031 “Inventories” replaced 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 adoption of Handbook Section 3031 resulted in an adjustment of $750,218 to reclassify certain inventory to property, plant and equipment. There were no other adjustments to comprehensive income or net income. The adoption of the accounting policy has been applied prospectively and therefore, the prior year comparative consolidated financial statements were not restated.

Capital Disclosures:

CICA Handbook Section 1535 “Capital Disclosures” requires the disclosure of qualitative and quantitative information about the Company’s objectives, policies and processes for managing capital. These have been disclosed in note 21 of the consolidated financial statements.

Financial Instruments:

Effective February 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook section 1530, *Comprehensive Income*, CICA Handbook Section 3251, *Equity*, CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, CICA Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, and CICA Handbook Section 3865, *Hedges*. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. These new standards have to be applied without restatement of prior period amounts.

Handbook Section 1530, *Comprehensive Income*, establishes standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles. There were no adjustments to income required and, therefore, the statement of comprehensive income is unchanged from the statement of income and deficit.

Handbook Section 3251, *Equity*, which replaced section 3250, *Surplus*, establishes standards for the presentation of equity and changes in equity during the reporting period and requires the Company to present separately components and changes in equity arising from i) net earnings; ii) other comprehensive income; iii) other changes in new earnings; iv) changes in contributed surplus; v) changes in share capital; vi) changes in reserves. These items are included in the Company's Statement of Income, Comprehensive Income and Deficit.

Handbook Section 3855, Financial Instruments – Recognition and Measurement, establishes guidance for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured either at fair market value with the exception of loans and receivables, investments held-to-maturity and other financial liabilities, which are measured at amortized costs. Subsequent measurement and recognition of changes in fair market value of financial instruments depend on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the assets are removed from the balance sheet.

The standards also require derivative instruments to be recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as a normal purchase and sale. Certain derivatives embedded in other contracts must also be measured at fair value. All changes in the fair value of derivatives are recognized in earnings, unless specific hedge criteria are met, which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

As a result of the adoption of these standards, the Company has made the following classifications:

- Cash and cash equivalents have been classified as held for trading and presented at their fair value. Gains and losses arising on the revaluation at the end of each period are included in the statement of earnings, comprehensive income and deficit.

- Accounts receivable are classified as loans and receivables and are normally recorded at their original cost, which represents their fair value.

- Accounts payable and accrued liabilities and the term loan, including interest payable, are classified as other liabilities, all of which are measured at amortized cost.

The Company has elected to measure all derivatives and embedded derivatives at fair value and the Company has maintained its policy not to use hedge accounting.

The adoption of Handbook Sections 3251, 3861 and 3855 resulted in an adjustment of $103,176 required to the opening deficit in the prior year to adjust for deferred finance charges, net of tax, at February 1, 2007. There were no other adjustments to comprehensive income, or net income.

Financial instruments – Disclosure and Presentation:

CICA Handbook Sections 3862 “Financial Instruments – Disclosures” and 3863 “Financial Instruments – Presentation” outline enhanced disclosure and presentation requirements with increased emphasis on the disclosure and management of risks associated with financial instruments. The enhanced disclosures are contained in note 17.

Future Accounting Changes:

Goodwill and Other Intangible Assets:

Effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2008, the new CICA Handbook Section 3064 will replace Section 3062 “Goodwill and Other Intangible Assets”. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets including internally generated intangible assets. Upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria. As for subsequent measurement of intangible assets, goodwill, and disclosure, the new section carries forward the requirements of its predecessor. This new

section is effective for the Company beginning February 1, 2009. As a result of adopting this section, the Company expects the opening retained earnings in the comparative consolidated financial statements to be adjusted by $261,152 to write off costs that are no longer permitted to be deferred.

International Financial Reporting Standards:

On March 11, 2008, the Accounting Standards Board of Canada confirmed that effective January 1, 2011, International Financial Reporting Standards (“IFRS”) will replace Canadian GAAP for publicly accountable enterprises. 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 in the stage of planning its approach for evaluating and assessing the impact that adoption of IFRS will have on its financial position, financial statement disclosure requirements, accounting processes and internal controls over financial reporting.

3. Inventories:

	2009	2008
Promotional items	$ **101,825**	$ 97,085
Returnable containers	**2,746,698**	3,836,859
Raw materials and supplies	**1,215,944**	2,003,263
Work-in-process and finished goods	**1,245,007**	1,339,734
	$ **5,309,474**	$ 7,276,941

As at January 31, 2009, a provision of $352,000 has been netted against inventory to account for obsolete materials [2008 - $53,000]. The key component of the provision is a reduction of the carrying value of certain bottles to reflect their realizable value based on current production and sales estimates.

During the year, $750,218 of maintenance parts inventory was reclassified to property, plant and equipment and subject to amortization in accordance with the CICA Handbook Section 3031.

During the year, the Company revised its estimate of the useful life of returnable containers, which resulted in an adjustment to cost of goods sold of $608,248 to reflect the change in estimate.

4. Property, plant and equipment:

	Cost	Accumulated amortization	2009 Net book value	2008 Net book value
Land	$ **275,000**	$ **-**	$ **275,000**	$ 275,000
Buildings	**3,121,955**	**1,500,889**	**1,621,066**	1,719,719
Storage tanks	**1,074,030**	**675,956**	**398,074**	427,393
Equipment	**25,036,848**	**14,887,864**	**10,148,984**	13,878,162
Computer equipment	**829,634**	**782,525**	**47,109**	52,378
Vehicles	**188,815**	**188,815**	**-**	-
Maintenance parts	**750,218**	**288,644**	**461,574**	-
	31,276,500	**18,324,693**	**12,951,807**	16,352,652
Assets under capital leases	**1,048,218**	**477,305**	**570,913**	636,695
	$ **32,324,718**	$ **18,801,998**	$ **13,522,720**	$ 16,989,347

Amortization of plant and equipment totaled $1,605,165 (2008 - $1,623,865). An impairment of $3,349,038 was recognized during the year (note 20) and is included in the accumulated amortization amounts above.

5. Long-term investment

On February 1, 2005, the Company acquired a 50% interest in Direct Cellars Beverage Co., a sales agency in the alcohol based products industry, for cash consideration of $60,000. The Company accounted for the investment using the equity method. Direct Cellars Beverage Co. ceased operations on January 31, 2009, which lead to a writedown of the investment to nil.

6. Deferred costs:

	Cost	Accumulated amortization	2009 Net book value	2008 Net book value
Pre-production costs	**$ 580,338**	**$ 319,186**	**$ 261,152**	$ 377,221
Trailer decal costs	**124,750**	**16,682**	**108,068**	21,458
Gain on disposal of assets	**-**	**-**	**-**	(15,029)
	$ 705,088	**$ 335,868**	**$ 369,220**	$ 383,650

Deferred pre-production costs represent costs associated with establishing a new production line until it attained commercial production capability. Amortization of deferred pre-production costs was $116,068 (2008 - $106,498).

Deferred gain on disposal of assets, net of amortization, of nil (2008 – $15,029) related to a gain on the sale of bottles and subsequently financed with an operating lease. This lease was

terminated during the year.

Deferred trailer decal costs represent costs to decal delivery vehicles, net of amortization, of $108,068 (2008 – $21,458). Amortization of deferred trailer decal costs totaled $38,140 (2008 – $5,150).

7. Other assets:

Other assets include $300,000 paid to a third party to offset the costs of upgrades to a waste treatment facility used for the treatment of waste water effluent from the Formosa facility. In the agreement, the Company will receive reduced fees for the treatment of its waste for a period of ten years. Other assets are being amortized over the term of the agreement. Amortization for the year was $162,500 (2008 – $30,000), which reflects an acceleration of amortization resulting from the infrequent use of the waste treatment facility.

8. Bank indebtedness:

The Company has a bank operating line of credit with interest at prime plus 0.25%. The operating line is secured by a general security agreement over all assets, other than real property, and a collateral mortgage in the amount of $5,500,000 over real property.

The Company is not in compliance with the Fixed Charge Coverage Ratio financial covenant required under the terms of the bank operating line of credit. There was no amount drawn on the operating line of credit as of January 31, 2009.

9. Long-term debt:

		2009		2008
Mortgage payable, bearing interest at the lender's floating base rate plus 3.25% (5.419% at January 31, 2009), with monthly interest payments for 12 months of the year and six monthly principal payments of $50,000 from May to October, maturing on October 15, 2013.	**$**	**1,650,000**	$	1,950,000
Mortgage payable, bearing interest at the lender's floating base rate plus 3.25% (5.419% at January 31, 2009), with monthly interest and principal payments for the first six months of $17,950, followed by eleven payments of $19,450, and final payment of $19,250, maturing on July 15, 2010.	**$**	**340,900**	$	547,900
Mortgage payable, bearing interest at the lender's floating base rate plus 3.25% (5.419% at January 31, 2009), with monthly interest payments and six monthly principal payments of $66,600 from May to October, maturing on July 15, 2011.	**$**	**1,001,000**	$	1,400,600
	$	**2,991,900**	$	3,898,500
Current portion of long-term debt	**$**	**924,000**	$	906,600
	$	**2,067,900**	$	2,991,900

The mortgages are secured by a general security agreement over all assets subject to a secondary priority on accounts receivable and inventory in favour of the company's operating lender (note 8), a collateral mortgage in the amount of $3,500,000 over real property, a first position assignment of trademarks and a first position security interest in processing plant and equipment.

The Company is not in compliance with the Fixed Charge Coverage Ratio financial covenant required under the terms of the mortgages payable with Roynat Capital. Roynat Capital has agreed not to demand repayment of the loan as a result of covenant breach. The Company expects to be in compliance with the financial covenants for the year ended January 31, 2010 and, as such, the Company is classifying the debt as a long-term liability at January 31, 2009.

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

2010	924,000
2011	816,100
2012	501,800
2013	300,000
2014	450,000
	$ 2,991,900

10. Obligations under capital leases:

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

	2009	2008
2009	$ **-**	$ 169,203
2010	**155,238**	155,238
2011	**155,238**	155,238
2012	**138,373**	138,373
	448,849	618,052
Less amount representing interest ranging from 3% to 9%	**(29,567)**	(60,917)
Present value of net minimum lease payments	**419,282**	557,135

To facilitate a financing transaction, the Company entered into a sale leaseback transaction where it borrowed $750,000 secured by bottling line assets of $1,300,000. As the Company will reacquire legal title at the end of the lease, this transaction has been accounted for as debt financing. No gain or loss was recorded on the sale leaseback as the economic substance of the transaction is secured financing.

The Company is not in compliance with the Fixed Charge Coverage Ratio financial covenant with respect to this capital lease and, accordingly, has presented all amounts as a current liability.

11. Deferred grants:

During the year, the Ontario Government announced a new four-year Ontario Craft Brewers Opportunity Fund to assist craft brewers with building and marketing its brands. The Company received proceeds of $1,000,000 from this fund, restricted for use in activities designed to grow the business and be more competitive in the Craft Beer industry. The proceeds that were not utilized before January 31, 2009 of $270,758 have been deferred to the following year.

12. Share capital:

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

The Company has authorized an unlimited number of common shares.

Common share transactions are summarized as follows:

	Number of shares 2009	Number of warrants 2009	Stated value 2009 $	Number of shares 2008	Number of warrants 2008	Stated value 2008 $
Issued, beginning of year	21,845,695	-	31,539,112	21,824,075	-	31,503,655
Shares issued from employee stock purchase plan	37,150	-	26,004	21,620	-	35,457
Shares issued upon exercise of stock option plan	445,000	-	506,620	-	-	-
Shares/warrants issued through private placement	5,729,165	5,729,165	2,586,248	-	-	-
	28,057,010	5,729,165	34,657,984	21,845,695	-	31,539,112

(b) Private Placement

On October 31, 2008, the Company completed a non-brokered, non-arms' length private placement (the "Offering") of 5,729,165 units, with each unit consisting of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of $0.71 for a five-year period from the date of the closing of the Offering and contains standard anti-dilution provisions.

(c) Stock option and share purchase plans:

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

(i) A summary of the status of the Company's stock option plan as at January 31, 2009 and 2008 is presented below:

	Options		**Weighted average exercise price 2009**	Options		Weighted average exercise price 2008
Outstanding, beginning of year	**720,000**	**$**	**1.36**	940,000	$	1.55
Granted	**1,050,000**		**0.88**	-		-
Exercised	**(445,000)**		**0.80**	-		-
Forfeited	**(275,000)**		**2.26**	(220,000)	$	2.18
Outstanding, end of year	**1,050,000**	**$**	**0.88**	720,000	$	1.36

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

	Exercise price	**Number outstanding as at January 31, 2009**	Weighted average remaining contractual life	Number exercisable at January 31, 2009
$	0.70	**150,000**	4.67	-
	0.71	**150,000**	4.75	-
	0.93	**500,000**	4.33	-
	1.00	**250,000**	4.42	250,000
0.70 to 1.00		**1,050,000**	4.58	250,000

(d) Employee share purchase plan:

Employees are eligible to purchase an allotted number of common shares at a discount of 10% from the average closing market price during the five days immediately preceding the date of January 15, 2009. During 2009, 37,150 shares were issued under the plan (2008 – 21,620).

13. 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.

14. Income taxes:

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory tax rates of 33.46% (2008 – 35.9%) to loss before income taxes. The reasons for the differences and related tax effects are as follows:

		2009		2008
Computed tax recovery using statutory tax rates	$	**(2,149,382)**	$	(1,032,245)
Manufacturing and processing deduction		**123,741**		57,507
Permanent differences		**79,199**		109,589
Adjustment to future taxes for enacted changes in tax rates		**-**		524,000
Other		**(5,517)**		56,440
Income tax recovery before valuation allowance		**(1,951,959)**		(284,709)
Valuation allowance		**3,000,000**		-
Income tax expense (recovery)	$	**1,048,041**	$	(284,709)

The Company recognized a valuation allowance of $3,000,000 to account for the portion of the non-capital losses carried forward which may not be realized.

Tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at January 31, 2009 and 2008 are presented below:

		2009		2008
Future tax assets:				
Differences between tax and accounting values of property, plant and equipment	$	**(127,188)**	$	(1,523,463)
Differences between tax and accounting values of trademarks and listing fees		**(415,570)**		(438,979)
Non-capital loss carry-forwards, net of valuation allowance		**1,565,527**		3,960,730
Other		**46,599**		119,121
Net future income tax asset	$	**1,069,368**	$	2,117,409

The Company has non-capital loss carry-forwards of approximately $ 14,700,000 expiring as follows:

2010	$	670,000
2026		3,230,000
2027		4,600,000
2028		5,300,000
2029		900,000
	$	14,700,000

15. Commitments:

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

2010	$	1,551,966
2011		1,367,142
2012		1,039,112
2013		912,376
2014		891,230
Thereafter		1,406,907
	$	7,168,733

16. Related party transactions:

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

(a) Direct Cellars Beverage Co. (“Direct Cellars”) is a significantly influenced investee and provided sales services to the Company. The costs of these services, aggregating to $616,369 (2008 - $502,205) in fiscal 2009 were incurred by the Company. At January 31, 2009, Direct Cellars Beverage Co. owed the Company nil (2008 – $90,000).

(b) Laidlaw Carriers Van LP, a vendor subject to significant influence by a director of the Company, provided services to the Company during the year. The costs of these services aggregating to $145,541 (2008 – nil) were incurred by the Company. At January 31, 2009, the Company owed this vendor $14,235 (2008 – nil).

(c) On October 31, 2008, the Company completed a non-brokered, non-arms' length private placement (the "Offering") as disclosed in note 12. .

17. Financial assets and financial liabilities:

Fair value:

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

The Company has interest bearing loans on which general interest rate fluctuations apply.

Credit risk:

At January 31, 2009, the Company has recorded an allowance for doubtful accounts of $100,355 (2008 - $21,379).

The maximum credit risk, being the risk of default on accounts receivable is $2,073,860 (2008 - $2,571,046) which represents the current carrying value. The Beer Store and the Liquor Control Board of Ontario are the largest customers with accounts receivable totaling approximately $1,324,330 (2008 - $1,232,905).

Liquidity risk:

The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company has scheduled certain of its principal payments on long-term debt to the 2nd and 3rd quarters of the year to be consistent with the Company’s seasonal activities. The Company also manages liquidity risk through the use of its operating line of credit. Other than the scheduled repayments of long-term debt and obligations under capital lease in 2011 and beyond, all other financial liabilities are due within one year.

Currency and interest rate risk:

The Company is not significantly exposed to currency risk as it does not engage in significant transactions in foreign currencies. At January 31, 2009, the Company had long-term debt which is subject to interest rate fluctuations. At January 31, 2009, if interest rates changed by 1%, the Corporation's pre-tax earnings change would not be significant. The Corporation considers the level of exposure to interest rate risk to be low and accordingly, the Corporation does not have a policy to manage interest rate risk from borrowings at variable interest rates. There were no amounts drawn on the Company's operating line of credit which bears a floating interest rate.

18. Loss per share

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

	2009	2008
Net Loss	**$ (7,471,778)**	$ (2,590,626)
Average number of shares outstanding		
Basic	**23,666,800**	21,836,835
Effect of warrants and stock options	**-**	-
Diluted	**23,666,800**	21,836,835
Loss per share:		
Basic	**$ (0.31)**	$ (0.12)
Diluted	**$ (0.31)**	$ (0.12)

19. Severance and retirement allowance costs

During the year, the Company incurred severance and retirement allowance costs in the amount of $978,589. As at January 31, 2009, there was $157,630 outstanding with respect to these costs.

20. Impairment of long-term assets at Formosa facility

As a result of consolidating the Formosa brewing operations to the Company's facility located in Waterloo, Ontario, the Company reviewed the carrying amounts of the assets at the Formosa facility to assess for impairment. Management compared the carrying amounts to the estimated undiscounted future cash flows expected to be generated by the assets and determined that the assets may be impaired. Management compared the fair value of these assets to the carrying value and recognized an impairment charge of $3,349,038 in these consolidated financial statements.

In accordance with CICA Handbook Section 3063, Impairment of long-lived assets, management has estimated the fair value of the assets using valuation techniques, including appraisals and discounted cash flows. Furthermore, management has utilized the expected present value technique which includes a probability weighted assessment of the expected cash flows to be earned through use and disposition of the assets. As a result of the expected present value technique, the actual impairment loss will likely differ from the estimates reflected in these consolidated financial statements.

21. Capital disclosure

The Company's objective for managing capital is to maximize the profitability of its existing assets and to create long-term value so as to maintain investor creditor, and market confidence. The Company considers shareholders' equity, short-term and long-term debt less cash and cash equivalents to be part of its capital structure. All of the borrowing facilities have financial tests and other covenants customary for the types of facilities which must be met at each reporting date.

22. Comparative consolidated financial statements

Certain 2008 comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.