# Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") provides a review of the activities, results of operations and financial condition of Brick Brewing Co. Limited ("Brick" or the "Company") for the twelve months ended January 31, 2010 ("fiscal 2010") in comparison with the twelve months ended January 31, 2009 ("fiscal 2009"). These comments should be read in conjunction with the audited consolidated financial statements and accompanying notes included herein. The comments were prepared as of April 21, 2010. Additional information relating to the Company, including its annual information form, is available at www.sedar.com or in the investor relations section of the Company's website at 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 April 22, 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 increase, 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 April 21, 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 Loblaws Inc. which are available in Ontario and Quebec. The Company produces Mott's Caesar in bottles under contract with Canada Dry Mott's, Inc. ("CDMI") The Company also represents and sells products in Ontario for Canada Dry Mott's, Inc.

The Company's products are sold primarily in Ontario, although PC and HEK products are available in Quebec. Subsequent to January 31, 2010, 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 ANNUAL INFORMATION

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

Years Ended January 31

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

| | Three Year Summary | | |
|---|---|---|---|
| | **2010** | 2009 | 2008 |
| | | *[Restated (1)]* | *[Restated (1)]* |
| **Income Statement Data** | | | |
| Gross Revenue | **$ 63,227** | $ 65,115 | $ 68,597 |
| Net Revenue (after production taxes and distribution fees) | **$ 29,916** | $ 29,905 | $ 30,309 |
| Earnings/(Loss) before interest, income taxes, depreciation and amortization, non-recurring items and equity earnings | **$ 3,142** | $ 155 | $ (352) |
| Net earnings/(loss) | **$ 1,366** | $ (7,392) | $ (2,475) |
| Earnings/(Loss) per Share | | | |
| Basic | **$ 0.05** | $ (0.31) | $ (0.12) |
| Fully diluted | **$ 0.05** | $ (0.31) | $ (0.12) |
| **Balance Sheet Data** | | | |
| Total Assets | **$ 29,643** | $ 28,354 | $ 35,335 |
| Total Long Term Debt | **$ 2,068** | $ 2,992 | $ 3,899 |

(1) The above summary has been adjusted to reflect the new accounting policy adopted during the year, as discussed below, under Impact of New Accounting Pronouncements.

## RESULTS OF CONSOLIDATED OPERATIONS

**Results for the year ended January 31, 2010**

*in thousands except per share amounts*

| | | Year ended 2010 | | 2009 [Restated [(1)] ] |
|---|---|---|---|---|
| Gross revenue | **$** | **63,277** | $ | 65,115 |
| Less: Production taxes and distribution fees | | **(33,361)** | | (35,209) |
| Net revenue | | **29,916** | | 29,906 |
| Cost of sales | | **22,732** | | 25,223 |
| Gross profit | | **7,184** | | 4,683 |
| | | **24.0%** | | 15.7% |
| Selling, marketing and administration | | **4,042** | | 4,528 |
| Earnings before the undernoted | | **3,142** | | 155 |
| Depreciation and amortization | | **(1,794)** | | (1,776) |
| Impairment of long-term assets | | **-** | | (3,349) |
| Disposition of listing fees | | **(194)** | | (106) |
| Interest and other expense | | **(240)** | | (1,231) |
| Earnings before income taxes | | **914** | | (6,307) |
| Provision for (recovery of) future income taxes | | **(452)** | | 1,085 |
| Net earnings (loss) | **$** | **1,366** | $ | (7,392) |
| Net earnings (loss) per share | | | | |
| Basic | **$** | **0.05** | $ | (0.31) |
| Diluted | | **0.05** | | (0.31) |
| Net revenue increase (decrease) | | 0.03% | | (1.40%) |
| Volume growth (decline) | | (5.9%) | | 3.3% |
| **Consisting of:** | | | | |
| Decrease in Brick brand volume | | (5.0%) | | (9.1%) |
| Increase (decrease) in co-pack volume [(2)] | | (7.5%) | | 36.8% |
| Net volume growth (decline) | | (5.9%) | | 3.3% |

(2) Includes beer packaged under the licensed PC® and HEK trademark on behalf of Loblaws Inc.

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

| *(in thousands)* | Year Ended | |
|---|---|---|
| | **January 31, 2010** | January 31, 2009 *[Restated (1)]* |
| Net income (loss) | **1,366** | (7,392) |
| Add: | | |
| Future income tax expense | **-** | 1,085 |
| Amortization | **1,794** | 1,776 |
| Impairment on long-term assets | **-** | 3,349 |
| Disposition of listing fees | **194** | 106 |
| Interest expense | **147** | 342 |
| Subtotal | **2,135** | 6,658 |
| Less: | | |
| Future income tax recovery | **(452)** | - |
| Other interest income | **-** | (6) |
| Subtotal | **(452)** | (6) |
| EBITDA* | **3,049** | (740) |

## NET REVENUE

Net revenues for fiscal 2010 were $29.9 million and are consistent with fiscal 2009. Gross revenues decreased 2.8% to $63.3 million for fiscal 2010, compared to $65.1 million for fiscal 2009.

In fiscal 2010, the Company's overall sales volume decreased by 5.9% over last year. As a result of the increase in the minimum retail price ("MRP") for beer in fiscal 2009, the pricing environment in the beer industry has become more competitive. The reduced price gap between value and mainstream brands made it increasingly difficult to achieve volume growth for value brands, such as Laker, which lack visibility within The Beer Store. During fiscal 2010, the Laker family brands sales volumes decreased by 20.5%. The cool, wet summer also played a key factor in the decline in beer volumes in fiscal 2010.

While the Company experienced a decline in beer volumes overall, this decline was offset by positive results from the Red Baron brand. Red Baron was repackaged and featured prominently in a lobby display at TBS in the early part of fiscal 2010. The brand was also extended to include Red Baron Lime and Red Baron Light. Red Baron Lime was backed by a strong marketing campaign, which included radio and outdoor advertising, along with a social media campaign. The Red Baron brand experienced growth in sales volumes of 593.8% from the prior year.

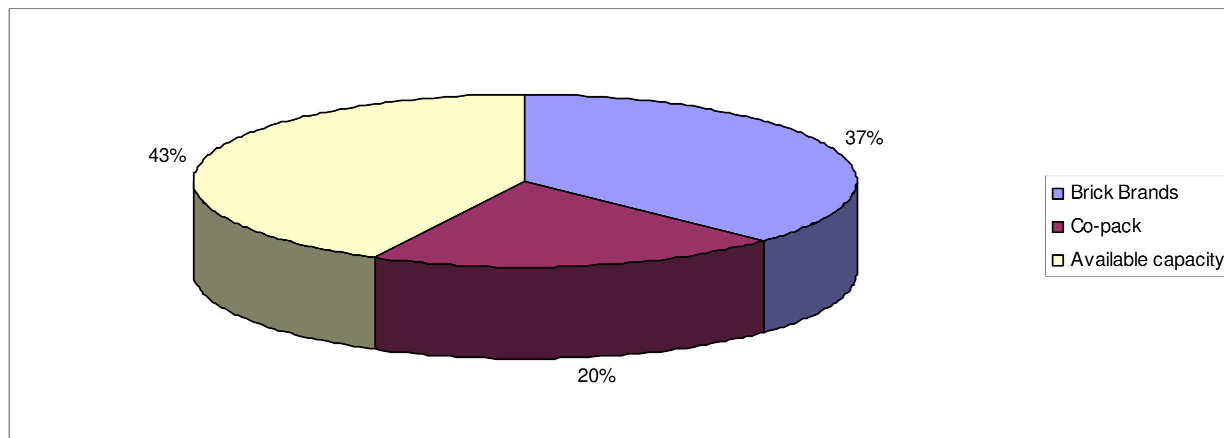
In fiscal 2010, the volumes of Waterloo brands were 62.9% higher than in the prior year.

The volume of co-pack business decreased in comparison to the previous fiscal year. This is attributable to the decline in the PC® beer volumes resulting from price increases required under MRP legislation. Volumes for other co-pack business, such as products packaged for Canada Dry Mott's, Inc., remained consistent with last year.

On a year to date basis, the Company's packaged beer volume consisted of 3% in the premium and 97% in the value beer categories. The Company's draft volume represents approximately 2% of total Brick brand volume. At January 31, 2010, the Company's total market share by volume of TBS retail sales in Ontario was approximately 4% (2009 - 4%).

Net revenues are calculated by deducting from gross revenues the costs of distribution fees paid to TBS and the LCBO and production taxes. The Company's production tax decreased by 7.6% compared to fiscal 2009 as a result of the decline in beer volumes. There was not a significant change in rates of distribution fees during the year and therefore, the cost of distribution fees remained consistent with the previous year at 19% of revenues.

The following diagram presents the Company's brands and co-pack brands as a percentage of the Company's total capacity:




## COST OF SALES

Cost of sales was $22.7 million for fiscal 2010; a decrease of $2.5 million from the prior year. Cost of sales represented 76% of net revenue in fiscal 2010 compared to 84% in the prior year.

The improvement in cost of sales is attributable to the following factors:

Brewing efficiencies were experienced during the year, which yielded cost savings of $0.2 million. Cost of packaging materials for bottled products declined by $0.35 million. During fiscal 2010, the Company installed a canning line at the Kitchener facility. Previously, the Company's canned products were produced by High Falls Brewing Company, in Rochester, New York. Since the canning line was commissioned, the Company has saved approximately $0.25 million in the related costs of production and logistics compared to the prior year.

The Company outsourced its product distribution to Ryder Canada as well as discontinued selling directly to licensees and the LCBO. This reduced delivery costs by $0.4 million.

The Company's warehousing costs were reduced in fiscal 2010 by $0.3 million due to a reduction in salaries and benefits from downsizing as well as no longer using outside warehouses. Third party warehouses were used during fiscal 2009 to store empty glass.

The cost of natural gas decreased by $0.2 million as a consequence of lower gas rates.

In fiscal 2009, there was a one-time charge of $0.2 million associated with the write-off of certain bottles to reflect the net realizable value of these bottles based on production and sales estimates.

As a result of the decrease in sales volumes during fiscal 2010, cost of sales decreased $0.6 million.

## SELLING, MARKETING AND ADMINISTRATION

In fiscal 2010, selling, marketing, and administration expenses totalled $4.0 million; a decrease of $0.5 million from the previous year's total expenditures of $4.5 million.

During the third quarter of fiscal 2010, the Company received a payment of $1.0 million from the Ontario Government under the four-year Ontario Craft Brewers Opportunity Fund (the "Opportunity Fund") which was established in fiscal 2009. 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 $0.8 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 January 31, 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 annual gross marketing expenditures for fiscal 2010 were $1.3 million higher than the same period last year resulting from increased outdoor and radio advertising. After accounting for the Opportunity Fund, the Company's net marketing expense for the year is consistent with fiscal 2009.

Selling expenses were $0.2 million lower than fiscal 2009 due to an overall reduction in spending.

Excluding legal costs discussed below, administrative expenses decreased by $0.7 million in fiscal 2010 compared to the previous year as a result of personnel restructuring in fiscal 2009, and targeted cost reductions. The Company is aggressively seeking cost saving opportunities in order to continue to strengthen its bottom line.

Legal costs increased by $0.4 million in fiscal 2010 compared to the previous year. These costs were in conjunction with the ongoing litigation between the Company and certain of its shareholders, against Mr. James Brickman, and between the Company and Anheuser-Busch, Incorporated ("Anheuser") and Labatt Brewing Company Limited ("Labatt").

In the second quarter of fiscal 2010, the Company settled a claim filed by Labatt regarding the Red Baron trademark.

Subsequent to year-end, the Company settled a claim filed by Labatt regarding the Red Baron Lime trademark.

With respect to litigation against the Company, legal costs will be mitigated through insurance coverage. A brief summary of the outstanding matter is as follows:

> 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.

As a percentage of net sales, selling, marketing and administration expenses were 13.5% for the year compared to 15.1% for the previous year. Excluding the impact of the Opportunity Fund, these expenses were 20.4% of net sales (2009 – 17.5%).

## DEPRECIATION AND AMORTIZATION

For the year ended January 31, 2010, total depreciation and amortization expense was $1.8 million (2009 - $1.8 million). In fiscal 2010, depreciation of property, plant and equipment was $1.7 million (2009 - $1.6 million). Amortization of other assets was $0.1 million this year as compared to $0.2 million last year.

## OTHER INCOME AND EXPENSES

For fiscal 2010, interest on long term debt was $0.1 million, compared to $0.3 million for fiscal 2009. The Company continued to reduce the principal balance of the long-term debt and obligations under capital leases. Also, the annual rate of interest declined during fiscal 2010 from approximately 5.4% to 4.1%. These factors resulted in a decline in interest expense for the year.

During fiscal 2009, the Company eliminated certain senior management positions resulting in severance costs of $0.6 million. Severance costs amounted to $0.1 million in fiscal 2010. On December 11, 2008, the Company's Founder and Executive Chairman retired and as a result, the Company incurred a retirement allowance of $0.4 million in fiscal 2009.

The relationship with Direct Cellars Beverages Co. ("Direct Cellars") ended on January 31, 2009. The Company recognized an equity loss on the long-term investment of $0.1 million in fiscal 2009.

The expenses incurred for the disposition of listing fees relates to the write off of discontinued listing fees. Listing fees are paid to TBS when a new Stock Keeping Unit ("SKU") is created for a particular product. If the SKU is subsequently delisted, the related fees are written off.

In fiscal 2009, as a result of shifting virtually all 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 $3.3 million. In fiscal 2010, management reviewed the carrying amounts of the assets at the Formosa facility and determined that these assets were not further impaired.

## FUTURE INCOME TAX PROVISION (RECOVERY)

In fiscal 2010, the Company recorded a future income tax recovery of $0.5 million compared to a provision of $1.0 million in fiscal 2009. The future income tax recovery is net of a change in the valuation allowance of $1.2 million. A valuation allowance of $1.8 million is recognized on the consolidated balance sheet to account for the portion of the non-capital losses carried forward which may not be realized (2009 - $3.0 million).

The future income tax recovery is also net of a charge of $0.4 million for an adjustment to future taxes for changes in enacted tax rates.

## NET EARNINGS

For the year ended January 31, 2010, net income was $1.4 million compared to a net loss of $7.4 million last year. Basic and diluted earnings per share for the year ended January 31, 2010 were $0.05 and $0.05 per share respectively, compared with basic and diluted loss of $0.31 per share and $0.31 last year.

## LIQUIDITY AND CAPITAL RESOURCES

### THE BEER STORE PAYMENT TERMS

Recently TBS announced significant changes in their payment terms. Currently, the Company receives a payment for each full week of shipments within one week. Effective May 2010, TBS will pay four weeks after the shipment week has concluded. As a result of this unexpected change in the pattern of cash receipts, the Company has arranged a $2 million increase in the operating line of credit and a $2.2 million increase in term debt. The facilities are described more fully below and will be available to the Company upon satisfactory completion of its annual financial statements.

CONSOLIDATED FINANCIAL POSITION

At January 31, 2010, the Company had bank indebtedness of $1.8 million (2009 – nil). This represents an increase of $1.8 million from the previous year. The funds received from the available line of credit along with the $2.0 million of cash generated from operations and $0.2 million of cash from the previous year, were utilized to pay $1.1 million of the outstanding long-term debt and obligation under capital lease and to purchase $2.9 million of capital assets and listing fees.

As at January 31, 2010, the Company had 28,120,385 common shares, 1,350,000 stock options and 5,729,165 warrants outstanding. Each stock option and warrant is exercisable for one common share.

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 closing of the Offering and contains standard anti-dilution provisions.

The Company's working capital position was $2.6 million at January 31, 2010 compared to $3.2 million at January 31, 2009.

Current assets of the Company were $8.6 million at January 31, 2010 compared to $8.6 million at January 31, 2009. Accounts receivable at January 31, 2010 includes the $0.8 million relating to the Opportunity Fund discussed above, under "Selling, Marketing, and Administration". At January 31, 2009, there was no amount included in receivables relating to the Opportunity Fund since the funds received exceeded costs incurred. This excess was presented as deferred grants on the consolidated balance sheet. Accounts receivable, excluding the marketing grant, decreased by $0.8 million (or 15%), from fiscal 2009 compared to the decline in gross revenues of 2.8%. This is due to a strong focus on improving the turnover of outstanding receivables.

The Company's finished goods inventory decreased by 20% due to improved inventory control along with decreased production as a result of lower sales volume. Raw materials inventory increased by 27% and is attributable to materials for producing canned products. In the prior year, the production of cans was done externally and therefore, no canning materials were in inventory last year in fiscal 2009. The increase is also attributable to packaging materials on hand for new brands launched during the year such as Red Baron Lime and Red Baron Light.

Property, plant and equipment increased by $0.5 million from the prior year. The increase is due to the purchase of $2.3 million of capital assets offset by depreciation of $1.8 million. In addition to maintenance capital expenditures of $0.8 million, the Company installed the canning line and completed various smaller projects aimed at improving the efficiency of the production facility.

Trademarks and listing fees increased by $0.3 million from the prior year due to the purchase of listing fees in the amount of $0.5 million, offset by the disposition of delisted products in the amount of $0.2 million. Listing fees additions included the cost of listing the Company's canned products, which are now produced domestically. The delisted products consisted of listing fees for the J.R. Brickman series of products which were discontinued in fiscal 2009.

Future income taxes (both current and long-term combined) increased by $0.5 million as at January 31, 2010 compared to January 31, 2009. The increase is the net result of the Company applying $0.3 million of losses carried forward from previous years to reduce the current taxes payable on net income generated during the year, a $0.4 million decrease relating to changes in enacted future rates, and a reduction to the valuation allowance of $1.2 million. Management expects the Company to be able to utilize more of the losses carried forward as a result of the increased profitability of the Company, and as such, the valuation allowance was decreased.

The Company's current liabilities were $5.9 million at January 31, 2010 compared to $5.5 million at January 31, 2009; an increase of $0.4 million. This increase is due primarily to the increase in bank indebtedness of $1.8 million offset by a decrease in accounts payable and accrued liabilities of $0.7 million due to management's efforts to closely monitor cash flows, decrease in the current portion of long-term debt and obligations under capital leases by $0.4 million, and the reduction of the deferred grant of $0.3 million.

Long-term debt decreased by $0.8 million and obligations under capital leases decreased by $0.1 million at January 31, 2010 compared to January 31, 2009. The decrease in long-term debt is due to principal repayments during the year. In fiscal 2009, the Company was in breach of a financial covenant with respect to both its long-term debt and the capital lease obligation. As such, the full balance of the capital lease obligation was presented as a current liability. With respect to the long-term debt, the breach was waived and therefore, the current and long-term portions were presented accordingly. As at January 31, 2010, the Company is in compliance with the financial covenants.

NEW TERM LOAN

Subsequent to January 31, 2010, the Company obtained additional term financing in the amount of $2.2 million for the purchase and upgrade of equipment. The term loan is subject to conditions of financing including, but not limited to, receipt of the Company's audited consolidated financial statements as at January 31, 2010 demonstrating no material adverse change in the Company's financial condition.

CASH FLOW

The Company generated $2.0 million in cash from operating activities in the year ended January 31, 2010, which is consistent with the prior year. Despite reduced sales volumes, the Company has maintained a consistent level of cash from operations through cost saving measures.

Financing activities generated $0.8 million in cash during the year primarily due to the utilization of the bank operating line of credit. In the prior year, the Company received net proceeds of $2.6 million from the equity private placement, permitting the Company to reduce its bank indebtedness by $2.8 million. Repayments of $1.0 million were made during the year on the outstanding long-term debt and obligations under capital leases, consistent with the previous year.

Investing activities used $2.9 million of cash during the year compared to $1.0 million last year. The increased capital expenditures in fiscal 2010 were funded through cash generated from operations and financing activities. The increase in investing activities is due to the large capital projects in progress during fiscal 2010 as well as payments for listing fees paid to TBS. The Company anticipates capital expenditures in fiscal 2011 to be approximately $2.3 million and plans to finance these through a combination of cash from operating activities as well as through the new term loan discussed above.

The Company has an authorized operating line of credit of $4.5 million at prime plus 0.25%. The Company is in compliance with the financial covenants required for the operating line of credit facility. At January 31, 2010, $1.5 million was drawn on the operating line of credit. Bank indebtedness on the consolidated balance sheet includes outstanding cheques.

INCREASE IN OPERATING LINE OF CREDIT

Subsequent to January 31, 2010, the operating line of credit will be increased to $6.5 million. The increase to the facility, similar to the Company's new term loan, is subject to conditions of financing including, but not limited to, receipt of the Company's audited consolidated financial statements as at January 31, 2010 demonstrating no material adverse change in the Company's financial condition.

The Company also 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. The total of the Company's future lease payments can be found in note 14 to the Company's fiscal 2010 audited consolidated financial statements.

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:

| | Long-term debt [3] | Capital lease | Operating leases | Other purchase commitments | Total |
|---|---|---|---|---|---|
| 2011 | 624,000 | 146,418 | 1,152,377 | 3,176,865 | **5,099,660** |
| 2012 | 732,000 | 138,106 | 978,150 | 301,530 | **2,149,786** |
| 2013 | 732,000 | - | 941,654 | 102,823 | **1,776,477** |
| 2014 | 2,141,000 | - | 939,864 | - | **3,080,864** |
| 2015 and thereafter | - | - | 1,457,229 | - | **1,457,229** |
| | 4,229,000 | 284,524 | 5,469,274 | 3,581,218 | **13,564,016** |

[3] Long-term debt commitments reflects the new term debt to be issued subsequent to year-end as discussed under "Consolidated Financial Position"

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. The dividend policy is reviewed from time to time.

## RISK FACTORS, STRATEGIES AND OUTLOOK

The beer industry is a highly competitive environment and has experienced an overall decline in beer sales over the past several years. The increase in the minimum retail price in fiscal 2009 reduced the price gap between value and mainstream brands, creating intense price competition throughout fiscal 2010. The LCBO recently announced a further increase in the MRP for beer effective April 12, 2010.

The Company's sales volumes have continued to decline with a volume decrease of 5.9% in fiscal 2010. The Laker brand declined and poor weather during the summer posed a challenge. The Company will continue to maintain the competitiveness of its products at TBS through increased radio exposure, outdoor advertisement co-marketing and lobby displays. On January 4, 2010, the Company announced the launch of its first ever TV campaign in support of its flagship Red Baron and Red Baron Light beer on CBC's Hockey Night in Canada.

Fiscal 2010 was a year of improvement in all aspects of the operations. Management critically examined the Company's processes and made significant changes in order to reduce costs and remove unnecessary complexity in the business. During the year, the Company ceased selling directly to licensees and the LCBO in order to further utilize TBS's strong distribution system. The Company expanded its current partnership with Ryder by outsourcing its distribution to TBS. In fiscal 2009 and in previous years, Laker cans were produced under license by High Falls Brewing Company, Inc. ("High Falls"). Effective April 30, 2009, High Falls no longer produced Laker cans for the Company and the Company commissioned a new canning line.

In order to strengthen the Company's profitability and fill the volume gaps, management will be aggressively seeking new opportunities in fiscal 2011 through co-packaging relationships as well as broadening the Company's distribution base. On January 28, 2010, the Company announced that that it renewed the contract manufacturing and sales agent agreements currently in place with Canada Dry Mott's Inc. The new agreements will both continue to December 31, 2014 unless terminated earlier in

accordance with their terms. Further, on March 1, 2010, the Company announced that it entered into a sales agent agreement with AMCA for Atlantic Canada. The new agreement will continue to December 31, 2012.

The Company will also further develop its relationship with Latis Imports as representatives for brands in Ontario from Palm Breweries, Belgium's largest independent brewer.

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

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 Brick is in compliance with all licenses, permits, and approvals.

In fiscal 2011, the Company anticipates manufacturing input costs for brewing materials to decrease due to reductions in the cost of malted barley and other brewing materials.

On May 5, 2009, the Company announced its appointment of Russell Tabata as Chief Technical Officer.

## FINANCIAL REPORTING PERIODS

Effective February 1, 2010, the Company will be changing its reporting period to thirteen week periods. For example, the first quarter of fiscal 2011 will be for the 13-week period ended May 2, 2010. The Company manages shipping and over-the-counter sales data on a weekly basis as opposed to 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.

## SUMMARY OF QUARTERLY RESULTS (1)

| $(000's) | Q4 2010 | Q3 2010 | Q2 2010 | Q1 2010 | Q4 2009 | Q3 2009 | Q2 2009 | Q1 2009 |
|---|---|---|---|---|---|---|---|---|
| Net Revenue | 5,679 | 7,280 | 9,316 | 7,641 | 6,601 | 7,295 | 8,675 | 7,335 |
| Selling, marketing & administration | 920 | 1,067 | 1,189 | 866 | 1,340 | 888 | 1,274 | 1,026 |
| EBITDA* | (131) | 717 | 1,308 | 1,155 | (1,134) | (423) | 454 | 363 |
| Net Income (Loss) | 232 | 241 | 461 | 432 | (6,697) | (647) | 30 | (78) |
| EPS (Basic) | $ 0.01 | $ 0.01 | $ 0.02 | $ 0.02 | $ (0.24) | $ (0.03) | $ - | $ - |
| EPS (Diluted) | $ 0.01 | $ 0.01 | $ 0.02 | $ 0.02 | $ (0.24) | $ (0.03) | $ - | $ - |

(1) The above summary has been adjusted to reflect the new accounting policy adopted during the year, as discussed below.

## SIGNIFICANT FOURTH QUARTER EVENTS

During the fourth quarter of fiscal 2010 gross revenues were $12.1 million, as compared to $13.6 million in the same period last year, a decrease of 10.6%. Revenues decreased primarily due to the continued decline of the Laker Family brand, which decreased 14% in volume compared to the same period last year. The Company has continued to focus on rejuvenating this brand including releasing new packaging for the Laker Family with fresh clean graphics, in the first quarter of fiscal 2011. The decline in volumes of Laker in the fourth quarter of fiscal 2010 was less than the decline of 30% experienced in the third quarter.

The Red Baron Family brand increased by 214% in the fourth quarter of fiscal 2010 compared to 76% in fiscal 2009. This brand experienced tremendous success in fiscal 2010.

In the fourth quarter of fiscal 2010, beer volumes (excluding the PC® and HEK brands) decreased by 7% over the same period last year, an improvement from the decrease experienced in the third quarter of 11%.

Gross revenues for the fourth quarter of fiscal 2010 included revenues of $0.7 million from co-pack activities, an increase from $0.6 million in the fourth quarter of fiscal 2009.

Net revenues for the fourth quarter of fiscal 2010 were $5.7 million compared to $6.6 million in the fourth quarter last year, a decrease of 14%. Net revenues are calculated by deducting from gross revenues, the costs of distribution fees paid to TBS and the LCBO and production taxes.

Selling, marketing and administration activities costs were $0.9 million in the fourth quarter of fiscal 2010 compared to $1.3 million in the fourth quarter of fiscal 2009 driven by reductions in salaries and non-essential services.

There was a recovery of $1.0 million of future income taxes during the fourth quarter in comparison to a provision of $1.4 million in the fourth quarter of fiscal 2009. The recovery is due to a reduction to the valuation allowance as a result of management's expectations that the Company will be able to utilize more of the losses carried forward as a result of the increased profitability of the Company.

The net loss in the fourth quarter of fiscal 2009 included a charge to income for the impairment of the long-term assets at the Formosa facility. With the shift of the brewing production to the Waterloo facility and the uncertainty regarding the future prospects for the Formosa facility, the Company recognized an impairment charge in the amount of $3.3 million in fiscal 2009, representing the excess of the carrying value of the assets over their fair value. With the renewal of the Mott's contract, management concluded that a further impairment of the Formosa facility was not required in fiscal 2010.

In the fourth quarter of fiscal 2009, a retirement allowance was paid to James Brickman and severance to other employees resulting in an increase in expenses during that period. There were nominal severance expenditures in the fourth quarter of fiscal 2010.

EBITDA* was a loss of $0.1 million in the fourth quarter of fiscal 2010, compared to a loss of $1.2 million in the fourth quarter of fiscal 2009.

## IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

The Company's accounting policies are discussed in detail in note 1 to the Company's fiscal 2010 audited consolidated financial statements.

Effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2008, the new CICA Handbook Section 3064 replaced 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 was effective for the Company beginning February 1, 2009. As a result of adopting this section, the Company adjusted the opening deficit in the comparative consolidated balance sheet by $182,080 (net of tax) to write off pre-production costs that are no longer permitted to be deferred. The opening deficit in the comparative consolidated statement of earnings and deficit was adjusted by $261,589. Further, amortization was reduced by $116,068 and future income tax expense has increased by $36,559 for the same period.

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 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

### A] Conversion Process

In February 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. 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, it presents significant differences on certain recognition, measurement and disclosure principles. 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.

The International Accounting Standards Board ("IASB") will continue to issue new accounting standards and/or amend existing accounting standards during the conversion period and, as a result, the Company continues to assess the financial reporting impacts of adopting IFRS in fiscal 2012. 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 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. The Company is now in the process of quantifying these differences and preparing the reconciliation tables mandated by IFRS, commencing with the Company's first interim IFRS financial statements (the first quarter ended April 30, 2011 with April 30, 2010 comparatives) from Canadian GAAP reported net income and equity to that reported under IFRS.

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.

**B] Potential Impact of Key Differences**

The following discussion has been prepared using the standards and interpretations currently issued and expected to be effective for the year ended January 31, 2012; the Company's first annual reporting period under IFRS. Certain accounting policies currently expected to be adopted under IFRS and the application of such policies to certain transactions or circumstances may be modified and, as a result, the impact may be different than management's current expectations. Further, the IASB is currently in the process of amending, or expects to amend, numerous accounting standards that will be applicable to the Company. As these IFRS standards are amended and management continues to evaluate the impact of adoption on its processes and accounting policies, the Company will provide updated disclosure where appropriate.

**C] Transitional Impact on Financial Statement Presentation and Classification**

The Company's Canadian GAAP financial statements will have a significantly different stylistic format upon transition to IFRS. The components of a complete set of IFRS financial statements are: (i) a statement of financial position (balance sheet); (ii) a statement of comprehensive income; (iii) a statement of changes in equity; (iv) a statement of cash flows; and (v) notes (including accounting policies). While an income statement is not a required component of a complete set of financial statements, it is a component of the statement of comprehensive income and, therefore, is in effect presented.

Balance sheets may be presented in ascending or descending order of liquidity and income statement line items may be classified by major functional area or by nature of expense. Extensive changes to the disclosure and presentation of accounting policies and supplementary notes are expected.

In addition to changes to the general format, there will also be differences in the classification of specific items as follows:

***Inventory***

IFRS requires reusable containers which are used for more than one period to be presented as property plant and equipment. 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.

***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.

***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.

**D] Transitional Policy Choices and Exemptions for Retroactive Application:**

IFRS contains the following policy choices with respect to first-time adoption:

***Property Plant and Equipment and Intangible Assets***

IFRS provides a choice between measuring property, plant and equipment at its fair value on the Transition Date and using those amounts as deemed cost or using the historical valuation under the prior GAAP.

**E] Mandatory applicable standards with retrospective application, not specifically exempt under initial adoption of IFRS**

***Property Plant and Equipment***

IFRS requires the use of component accounting whereby property, plant and equipment that can be separated into individual components with differing useful lives must be accounted for separately. Canadian GAAP provides similar guidance however it is less extensive.

***Intangible Assets***

Intangible assets can be revalued to fair value under the revaluation method provided that there is an active market for the intangible asset. Canadian GAAP requires intangible assets to be recorded at cost. Also, under IFRS, development costs can be included in the cost of intangible assets.

***Share-based Compensation***

The Company accounts for share-based compensation granted to employees using the fair value based method. Under Canadian GAAP, compensation expense is recognized on a straight-line basis over the vesting period. IFRS requires graded vesting awards to be accounted for as though each installment is a separate award. It does not permit the installments to be treated as a pool and recognize the expense on a straight-line basis.

## RELATED PARTY TRANSACTIONS

The Company's related party transactions are discussed in note 15 to the Company's fiscal 2010 audited consolidated financial statements.

The Company's transportation service provider, Laidlaw Carriers Van LP, is subject to significant influence by one of the Company's directors. This vendor provided distribution services to the Company during the year aggregating to $0.3 million (2009 - $0.1 million). As at January 31, 2010, the Company owed this vendor $0.04 million (2009 - $0.01 million).

On February 1, 2005 the Company acquired a 50% interest in Direct Cellars. Direct Cellars provides sales agency services to the Company. The cost of services was $0.6 million for the year ended January 31, 2009. In fiscal 2009, the Company recorded a loss of $0.08 million. Direct Cellars ceased operations on January 31, 2009 and as such, there were no transactions with Direct Cellars during the year ended January 31, 2010.

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

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

## CRITICAL ACCOUNTING ESTIMATES

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("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.

### *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 January 31, 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 option plan. Stock based compensation expense recognized during the year ended January 31, 2010 was $0.1 million (2009 - $0.2 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 January 31, 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.

## 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 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 generally accepted accounting principles 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 January 31, 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 January 31, 2010.

In the course of evaluating its IFCR as at January 31, 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 consolidated financial statements as the Company relies on certain compensating controls, including substantive periodic review of the 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.

## 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 contacts, 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 generally accepted accounting principles and may not be similar to measures presented by other companies. EBITDA represents earnings before interest, income taxes, depreciation and amortization. Management uses this measurement to evaluate the operating results of the Company. This measure is also important to management since it is used by the Company's lenders to evaluate the ongoing cash generating capability of the Company and therefore the amounts those lenders are willing to lend to the Company. Investors find EBITDA to be useful information because it provides a measure of the Company's operating performance.