

Consolidated Financial Statements of  
**BRICK BREWING CO. LIMITED**  
Years ended January 31, 2011 and 2010

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Brick Brewing Co. Limited

We have audited the accompanying consolidated financial statements of Brick Brewing Co. Limited, which comprise the consolidated balance sheets as at January 31, 2011 and 2010, the consolidated statements of income, comprehensive income and deficit, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Brick Brewing Co. Limited as at January 31, 2011 and 2010, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



KPMG LLP  
Chartered Accountants, Licensed Public Accountants  
April 20, 2011  
Waterloo, Canada

# BRICK BREWING CO. LIMITED

## Consolidated Balance Sheets January 31, 2011 and 2010

	2011	2010
		[restated - note 2]
<b>Assets</b>		
Current assets:		
Accounts receivable <i>[note 11]</i>	\$ 4,519,591	2,357,069
Inventories <i>[note 3]</i>	5,292,747	5,251,714
Prepaid expenses	321,899	412,351
Future income taxes <i>[note 14]</i>	720,000	566,000
	<b>10,854,237</b>	<b>8,587,134</b>
Property, plant and equipment <i>[notes 4 and 20]</i>	15,525,802	14,101,122
Intangible assets <i>[note 5]</i>	6,062,187	5,731,954
Other assets <i>[notes 6]</i>	45,000	188,871
Future income taxes <i>[note 14]</i>	2,233,000	1,034,000
	<b>\$ 34,720,226</b>	<b>\$ 29,643,081</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness <i>[note 7]</i>	\$ 371,543	\$ 1,792,406
Accounts payable and accrued liabilities <i>[note 8]</i>	5,118,947	3,187,915
Current portion of long-term debt <i>[note 2 and 9]</i>	624,000	816,100
Current portion of obligations under capital lease <i>[note 10]</i>	162,439	146,418
	<b>6,276,929</b>	<b>5,942,839</b>
Long-term debt <i>[note 2 and 9]</i>	3,026,731	1,158,395
Obligations under capital lease <i>[note 10]</i>	24,650	138,106
Shareholders' equity:		
Share capital <i>[note 12]</i>	34,598,668	34,678,264
Contributed surplus	891,160	772,455
Deficit <i>[note 2]</i>	<b>(10,097,912)</b>	<b>(13,046,978)</b>
	<b>25,391,916</b>	<b>22,403,741</b>
Commitments <i>[note 15]</i>		
Contingencies <i>[note 21]</i>		
Subsequent events <i>[note 23]</i>		
	<b>\$ 34,720,226</b>	<b>\$ 29,643,081</b>

The accompanying notes are an integral part of these 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, 2011 and 2010

	2011	2010
		[restated - note 2]
Gross revenue	\$ 64,732,543	\$ 63,277,345
Less production taxes and distribution fees	<b>(34,627,022)</b>	(33,360,935)
Net revenue	<b>30,105,521</b>	29,916,410
Cost of sales <i>[note 3]</i>	<b>21,420,037</b>	22,732,433
Gross profit	<b>8,685,484</b>	7,183,977
Selling, marketing and administration	<b>4,917,618</b>	4,041,627
Earnings before the undernoted	<b>3,767,866</b>	3,142,350
Other expenses:		
Depreciation and amortization <i>[notes 4 and 6]</i>	<b>1,774,829</b>	1,794,487
Impairment of intangible assets <i>[note 5]</i>	<b>50,000</b>	194,280
Interest on long-term debt and capital leases	<b>148,340</b>	137,409
Amortization of financing fees	<b>113,100</b>	19,035
Other	<b>44,798</b>	32,518
Severance costs <i>[note 19]</i>	<b>40,733</b>	69,501
	<b>2,171,800</b>	2,247,230
Net income before recovery of income taxes	<b>1,596,066</b>	<b>895,120</b>
Future income tax recovery <i>[note 14]</i>	<b>(1,353,000)</b>	(451,560)
Net income and comprehensive income	<b>2,949,066</b>	1,346,680
Deficit, beginning of period	<b>(13,046,978)</b>	(14,506,098)
Cumulative effect of adopting new accounting policies, net of tax <i>[note 2]</i>	-	112,440
Deficit, beginning of period restated	<b>(13,046,978)</b>	(14,393,658)
Deficit, end of period	<b>\$ (10,097,912)</b>	\$ (13,046,978)
Net earnings per share <i>[note 18]</i> :		
Basic	<b>\$ 0.10</b>	\$ 0.05
Diluted	<b>\$ 0.10</b>	\$ 0.05

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

# BRICK BREWING CO. LIMITED

## Consolidated Statements of Cash Flows Years ended January 31, 2011 and 2010

	2011	2010
		[restated - note 2]
<b>Cash provided by (used in):</b>		
Operations:		
Net income	\$ 2,949,066	\$ 1,346,680
Items not involving cash:		
Amortization of property, plant and equipment, intangibles and other assets [notes 4,5 and 6]	1,862,940	1,802,587
Impairment of intangible assets [note 5]	50,000	194,280
Stock based compensation	118,705	98,862
Notional interest representing accretion [note 8]	10,326	-
Future income tax recovery	(1,353,000)	(451,560)
Change in non-cash operating working capital	(192,397)	(1,036,392)
	<b>3,445,640</b>	<b>1,954,457</b>
Financing:		
Increase/(decrease) in bank indebtedness	(1,420,863)	1,792,406
Increase/(repayment) of long-term debt [note 2]	1,676,236	(904,965)
Repayment of obligation under capital lease	(97,435)	(134,758)
Change in capital stock (net of fees)	(80,296)	20,280
Stock options exercised	700	-
	<b>78,342</b>	<b>772,963</b>
Investing:		
Purchase of property, plant and equipment, and other assets	(3,107,610)	(2,411,793)
Purchase of intangible assets	(416,372)	(524,918)
	<b>(3,523,982)</b>	<b>(2,936,711)</b>
Net decrease in cash	-	(209,291)
Cash, beginning of period	-	209,291
Cash, end of period	-	-
Supplemental cash flow information:		
Cash paid for interest	\$ 181,986	\$ 147,608

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

# BRICK BREWING CO. LIMITED

Notes to Consolidated Financial Statements  
Years ended January 31, 2011 and 2010

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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 packaged 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 92% of gross revenue (2010 – 91%), and to licensed establishments.

## 1. Significant accounting policies:

### (a) Revenue recognition:

The Company recognizes revenue from the sale of goods when all of the following conditions have been fulfilled: all significant risks and rewards of ownership have been transferred to the buyer, all significant performance on part of the Company has been completed and the Company retains no continuing managerial involvement in, or effective control over, the goods; when persuasive evidence of an arrangement exists and the sales price is fixed or determinable; and when ultimate collection of the related receivable is reasonably assured.

Interest income is recognized as earned on an accrual basis. Co-pack revenue, arising from the use by others of the Company's resources, is recognized on an accrual basis in accordance with the substance of the relevant agreement.

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

### (b) Inventories:

Inventories are recorded at the lower of cost and net realizable value. Cost includes all expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated completion and selling costs.

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 bottles are recorded at cost net of amortization over their estimated useful lives.

Inventories are written down to net realizable value if that net realizable value is less than the carrying amount of the inventory item at the reporting date. If the net realizable value subsequently increases, a reversal of the loss initially recognized is applied to cost of goods sold.

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**(c) Property, plant and equipment:**

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. Cost includes the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by management. Expenditures which extend the useful life or increase the service capacity of an asset are capitalized, while expenditures that relate to day-to-day servicing to repair or maintain an asset are expensed as incurred. Major spare parts are recognized as items of property, plant and equipment when the Company expects to use them during more than one period.

The cost of an asset, less its estimated residual value (if any) is recognized in depreciation expense over its estimated useful life on the following basis:

Asset Class	Basis	Useful Life (years)
Buildings and leasehold improvements	Straight-line	5 – 30
Kegs	Straight-line	10
Machinery and equipment	Straight-line	3 – 30
Computer equipment	Straight-line	2 – 5
Furniture and fixtures	Straight-line	5
Vehicles	Straight-line	3
Major spares parts	Straight-line	4
Assets under capital leases	Straight-line	2 – 15

Assets to be disposed of by sale are not subject to depreciation but are separately presented on the face of the statements and reported at the lower of the carrying amount or fair value less costs to sell.

**(d) Asset retirement obligation:**

When incurred, a liability is established for the fair value of the estimated future legal obligation associated with restoration costs on leased facilities. A corresponding increase in the carrying amount of the related asset is recorded and depreciated over the life of the asset. The liability is accreted over time through annual charges to income. The amount of the liability is subject to re-measurement as a result of changes in cost estimates.

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**(e) Impairment of long-lived assets:**

Long-lived assets, including property, plant and equipment and intangible assets, 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.

**(f) Intangible assets:**

**Trademarks**

Trademarks are indefinite life intangibles that relate to brands, trade names, formulas or recipes that have been acquired by the Company. Trademarks are measured at acquisition cost less any impairment in value.

**Listings**

Listings relate to costs incurred by the Company to list its products within The Beer Store. Listings have indefinite lives unless a product is delisted, at which point, the Company recognizes an impairment loss for the full amount.

**Computer software and licenses**

Purchased software and licenses have finite useful lives and are carried at cost and amortized on a straight-line basis over three years. Costs associated with maintaining purchased computer software programmes are recognized as an expense as incurred. Expenditures on internally developed software are capitalized when the expenditures qualify as development activities; otherwise, they are expensed as incurred.

Where an intangible asset is disposed of, it is derecognized and the difference between its carrying value and the net sales proceeds is reported as amortization on disposal in the income statement in the financial year the disposal occurs.

**(g) 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

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from such exercises were used to acquire common shares at the average market price during the period.

***(h) 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 on a graded basis, compensation cost is recognized on a pro-rata basis over the vesting period. For awards that do not vest on a graded basis, compensation cost is recognized on a straight-line basis.

***(i) 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 amounts reported on the Company's consolidated financial statements which involve a greater degree of uncertainty, include inventory, property, plant and equipment, intangible assets, other assets and future income tax assets.

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## 2. Changes in Accounting Policies:

### (a) Transaction Costs

During the year ended January 31, 2011, the Company changed its accounting policy for transaction costs under section 3855 of the CICA handbook. The Company previously recognized all transaction costs as an expense as incurred. To better reflect and present the total cost of acquiring financial liabilities, transaction costs that are directly attributable to the acquisition or issue of a financial liability will be deferred and amortized. The related liability will be presented net of these transaction costs. The net impact of retroactively applying this change in policy is a decrease to the opening deficit for the year ended January 31, 2010 in the amount of \$112,440. A charge of \$19,035 has been recognized as a finance expense for the year ended January 31, 2010.

### (b) Future Accounting Changes

#### International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian publically accountable entities will be required to adopt International Financial Reporting Standards ("IFRS") effective for fiscal years beginning on or after January 1, 2011. The Company's first annual consolidated IFRS financial statements will be prepared for the year ending January 31, 2012 and will include the comparative figures for the year ending January 31, 2011. Commencing in the first quarter ended May 1, 2011, the Company will issue unaudited consolidated financial information in accordance with IFRS, including comparative information.

Further details regarding the Company's transition to IFRS are included in the Company's January 31, 2011 Management's Discussion and Analysis ("MD&A") filed on the System for Electronic Document Analysis and Retrieval ("SEDAR").

## 3. Inventories:

	2011		2010	
Promotional items	\$	28,008	\$	42,872
Returnable bottles		2,182,505		2,565,873
Raw materials and supplies		1,582,875		1,416,993
Work-in-process and finished goods		1,499,359		1,225,976
	\$	5,292,747	\$	5,251,714

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

# BRICK BREWING CO. LIMITED

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For the year ended January 31, 2011, the cost of inventories recognized as an expense was \$19,611,019 (2010 - \$20,700,803). Of this amount, \$39,195 (2010 - \$79,214) relates to impairment caused by obsolescence.

#### 4. Property, plant and equipment:

	2011		
	Cost	Accumulated amortization	Net book value
Land	\$ 275,000	\$ -	\$ 275,000
Buildings and leasehold improvements	3,785,328	1,781,283	2,004,045
Kegs	143,577	98,744	44,833
Machinery & equipment	29,879,058	17,380,689	12,498,369
Computer equipment	888,120	847,327	40,793
Furniture & fixtures	374,537	359,378	15,159
Vehicles	188,815	188,815	-
Major spare parts	359,163	244,591	114,572
	<b>35,893,598</b>	<b>20,900,827</b>	<b>14,992,771</b>
Assets under capital leases	1,121,300	588,269	533,031
	<b>\$ 37,014,898</b>	<b>\$ 21,489,096</b>	<b>\$ 15,525,802</b>

	2010		
	Cost	Accumulated amortization	Net book value
Land	\$ 275,000	\$ -	\$ 275,000
Buildings and leasehold improvements	3,157,539	1,612,694	1,544,845
Kegs	143,577	90,670	52,907
Machinery & equipment	27,666,548	16,182,201	11,484,347
Computer equipment	851,333	819,773	31,560
Furniture & fixtures	366,260	341,388	24,872
Vehicles	188,815	188,815	-
Major spare parts	770,793	604,115	166,678
	<b>33,419,865</b>	<b>19,839,656</b>	<b>13,580,209</b>
Assets under capital leases	1,048,218	527,305	520,913
	<b>\$ 34,468,083</b>	<b>\$ 20,366,961</b>	<b>\$ 14,101,122</b>

Amortization of plant and equipment totaled \$1,682,931 (2010 - \$1,752,715). Amortization of assets under capital leases totaled \$60,962 (2010 - \$50,000).

The Company's obligations under capital leases are described in note 10.

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Notes to Consolidated Financial Statements  
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## 5. Intangible assets

	2011		
	Cost	Accumulated amortization	Net book value
Trademark	\$ 4,089,024	\$ -	\$ 4,089,024
Listings	1,896,301	-	1,896,301
Software	113,000	36,138	76,862
	6,098,325	36,138	6,062,187

  

	2010		
	Cost	Accumulated amortization	Net book value
Trademark	\$ 4,089,024	\$ -	\$ 4,089,024
Listings	1,642,930	-	1,642,930
Software	-	-	-
	5,731,954	-	5,731,954

### (a) Trademarks

The Company performed the annual impairment test, as required under the CICA Handbook Section 3062, in the fourth quarter of 2011 and concluded that there was no impairment on trademarks. As a result, the second step of the annual impairment test under Section 3062 was not required to be performed.

### (b) Listings

Products were delisted during the year ended January 31, 2011. As such, an impairment charge of \$50,000 (2010 - \$ 194,280) was recognized and included as impairment expense in the consolidated financial statements. Similar to trademarks, the annual impairment test was performed in the fourth quarter of 2011 and the Company concluded that there was no further impairment on listings.

### (c) Software

Amortization of software for the year ended January 31, 2011 was \$36,138 (2010 - nil).

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Notes to Consolidated Financial Statements  
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## 6. Other assets:

	2011	2010
Waste treatment facility cost	\$ -	\$ 41,900
Trailer decals	-	66,971
Prepaid lease cost	<b>45,000</b>	80,000
	<b>45,000</b>	188,871

### (a) Waste treatment facility cost

The waste treatment facility cost relates to an amount, paid to a third party to offset the costs of upgrades to a waste treatment facility used by the Company for the processing and management of waste water effluent from its Formosa facility. Under the terms of the agreement, the Company received reduced fees for the treatment of its waste. Amortization for the year was \$41,900 (2010 - \$8,100), which takes into consideration management's revised estimate of the facility's benefit period.

### (b) Trailer decals

Trailer decals relate to costs incurred by the Company, net of amortization, to decal its delivery vehicles. Amortization of deferred trailer decal costs for the year ended January 31, 2011 was \$66,971 (2010 - \$41,772).

### (c) Prepaid lease cost

Prepaid lease cost relates to amounts prepaid by the Company in respect of certain leased assets. This cost is being charged to expense over the term of the lease. For the year ended January 31, 2011, \$35,000 (2010 - nil) was recognized in cost of sales.

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Years ended January 31, 2011 and 2010

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## 7. Bank indebtedness:

During the year ended January 31, 2011, the Company increased its bank operating line of credit from \$4,500,000 with interest at prime plus 0.25% to \$6,500,000 with interest at prime plus 1.5%. The Company utilized \$80,187 of the operating line of credit as of January 31, 2011 (2010 - \$1,483,788). Bank indebtedness includes outstanding cheques. Interest expense of \$33,849 (2010 - \$10,804) has been included as part of other expenses in the consolidated statement of income.

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

## 8. Asset retirement obligation

For the year ended January 31, 2011, the Company has recognized an asset retirement obligation and associated long-lived asset for future legal obligations to restore its leased facilities to their original form. At year end, the obligation consists of the following:

		2011		2010
Asset retirement obligation, beginning of year	\$	-	\$	-
Increase in obligation		<b>160,582</b>		-
Accretion expense		<b>10,326</b>		-
Asset retirement obligation, end of year	\$	<b>170,908</b>	\$	-

The total undiscounted amount of estimated cash flows required to restore its leased facilities is \$222,378. The liability is being accreted to income over a period of five years. The key assumptions used by management in computing the fair value of the future obligation are as follows: inflation at 2% and discount rate at 6.3%.

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## 9. Long-term debt:

	2011	2010
Mortgage payable to Roynat Inc., bearing interest at the lender's floating base rate plus 3.25% (4.95% at January 31, 2011), 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	\$ 1,050,000	\$ 1,350,000
Mortgage payable to Roynat Inc., bearing interest at the lender's floating base rate plus 3.25% (4.95% at January 31, 2011), net of transaction costs with monthly interest payments for 12 months of the year and six monthly principal payments of \$72,000 from May to October, maturing on May 15, 2013. Mortgage was established on May 6, 2010	2,600,731	-
Mortgage payable to Roynat Inc., bearing interest at the lender's floating base rate plus 3.25%, settled on May 6, 2010	-	116,500
Mortgage payable to Roynat Inc., bearing interest at the lender's floating base rate plus 3.25%, net of transaction costs, settled on May 6, 2010	-	507,995
	<b>3,650,731</b>	1,974,495
Less current portion	<b>624,000</b>	816,100
<b>Non-current portion of long term debt</b>	<b>3,026,731</b>	1,158,395

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 7), 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 in compliance with the financial covenants required under the terms of the mortgages payable.

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

2012	624,000
2013	732,000
2014	2,294,731
	<b>3,650,731</b>

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Subsequent to the year ended January 31, 2011, the long term debt payable to Roynat Inc. has been replaced with long term debt payable to HSBC Bank Canada (note 23). Under the new term loan, described in note 23, the aggregate maturities of long-term debt obligations are summarized as follows:

2012	621,450
2013	828,600
2014	828,600
2015	828,600
2016	1,338,100
2017 and thereafter	1,354,650
	<u>5,800,000</u>

## 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:

	2011	2010
2011	\$ -	\$ 155,238
2012	<b>163,196</b>	138,373
2013	<b>24,823</b>	-
2014 and thereafter	-	-
	<b>188,019</b>	293,611
Less amount representing interest	<b>(930)</b>	(9,087)
Present value of net minimum lease payments	<b>187,089</b>	284,524
Less current portion of capital lease	<b>162,439</b>	146,418
	\$ <b>24,650</b>	\$ 138,106

The Company recognized \$9,554 of interest expense on its capital leases at rates varying between 1% and 8% during the year (2010 - \$20,480)

The Company is in compliance with the financial covenants with respect to this capital lease.

## 11. Government grant:

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

The Company has recorded a receivable of \$1,000,000 (2010 - \$786,326) relating to the fourth and final payment that will be received by the Company during the year ended January 31, 2012. As a result of the Opportunity Fund, the Company has recognized a reduction to marketing expense of

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\$1,199,867 (2010 - \$2,057,084) during the year.

## 12. Share capital:

### (a) Share continuity

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 2011	Number of Warrants 2011	Stated value 2011	Number of shares 2010	Number of Warrants 2010	Stated value 2010
Issued, beginning of year	28,120,385	5,729,165	\$ 34,678,264	28,057,010	5,729,165	\$ 34,657,984
Shares issued under employee stock plan	31,275	-	19,704	63,375	-	20,280
Shares issued upon exercise of stock option plan	1,000	-	700	-	-	-
Transaction costs	-	-	(100,000)	-	-	-
	28,152,660	5,729,165	\$ 34,598,668	28,120,385	5,729,165	\$ 34,678,264

During the year ended January 31, 2011, the Company incurred legal costs in relation to the litigation referenced within note 21. The Company's insurer has confirmed that the Company has coverage for these defense costs, on an as incurred basis, under its Directors', Officers' and Company liability policy, subject to a deductible of \$100,000.

The Company has determined that the insurance deductible is an incremental cost that is incidental to the October 2008 private placement equity transaction. The Company has concluded that in the absence of the equity transaction and corresponding litigation, the insurance deductible would have been avoided and as such, has applied the \$100,000 cost as a reduction of share capital.

### (b) 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.

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(i) A summary of the status of the options outstanding under the Company's stock option plan as at January 31, 2011 and 2010 is presented below:

	Options January 31, 2011	Weighted average exercise price 2011	Options January 31, 2010	Weighted average exercise price 2010
Outstanding, beginning of year	1,350,000	\$ 0.77	1,050,000	\$ 0.88
Granted	-	-	550,000	0.65
Exercised	(1,000)	0.70	-	-
Expired	-	-	(250,000)	\$ 1.00
<b>Outstanding, end of year</b>	<b>1,349,000</b>	<b>\$ 0.77</b>	<b>1,350,000</b>	<b>\$ 0.77</b>

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

Exercise price	Number outstanding as at January 31, 2011	Weighted average remaining contractual life	Number exercisable at January 31, 2011
\$ 0.65	500,000	3.31	166,667
\$ 0.69	50,000	3.85	16,667
\$ 0.70	149,000	2.65	99,333
\$ 0.71	150,000	2.68	100,000
\$ 0.93	500,000	2.28	333,333
0.65 to 0.93	1,349,000	2.80	716,000

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

The weighted average share price of options exercised during the year ended January 31, 2011 was \$0.70. There were no options exercised during the year ended January 31, 2010.

For options granted, the fair value has been determined using the Black-Scholes fair value option pricing model and the following assumptions:

	2011	2010
Dividend yield	0%	0%
Expected volatility	45-51%	45-51%
Risk free interest rate	2%	2%
Weighted average expected life in years	5	5

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

# BRICK BREWING CO. LIMITED

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**(c) Employee share purchase plan:**

Employees are eligible to purchase an allotted number of common shares at a discount of 10% from the average closing market price during the five days immediately preceding the date of January 15, 2011. During fiscal 2011, 31,275 shares were issued under the plan (2010 – 63,375) for net proceeds of \$19,704 (2010 - \$20,280).

**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 30.71% (2010 – 32.90%) to income before income taxes. The reasons for the differences and related tax effects are as follows:

	2011	2010
Computed tax expense using statutory tax rates	\$ 518,837	\$ 302,499
Manufacturing and processing deduction	(36,432)	(20,672)
Permanent differences	40,581	37,560
Adjustment to future taxes for enacted changes in tax rates	-	441,726
Other	(75,986)	(12,673)
Income tax expense before valuation allowance	447,000	748,440
Change in valuation allowance	(1,800,000)	(1,200,000)
Income tax recovery	\$ (1,353,000)	\$ (451,560)

The Company recognized a valuation allowance of nil (2010 - \$1,800,000) to account for the portion of the non-capital losses carried forward which may not be realized.

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Tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at January 31, 2011 and 2010 are presented below:

Future tax assets:

Differences between tax and accounting values of property, plant and equipment	\$	1,157,000	\$	376,000
Differences between tax and accounting values of trademarks and listing fees		(654,000)		(350,000)
Non-capital loss carry-forwards, net of valuation allowance		2,449,000		1,558,000
Other		1,000		16,000
<b>Net future income tax asset</b>		<b>2,953,000</b>		<b>1,600,000</b>

The Company has non-capital loss carry-forwards of approximately \$9,600,000 expiring as follows:

2027	3,300,000
2028	5,300,000
2029	1,000,000
	<b>\$ 9,600,000</b>

## 15. Commitments:

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

2012	\$	1,194,596
2013		1,160,819
2014		1,096,428
2015		1,095,460
2016		674,422
	<b>\$</b>	<b>5,221,725</b>

## 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) 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 \$332,145 (2010 – \$318,938) were incurred by the Company. At January 31, 2011, the Company owed this vendor \$55,604 (2010 – \$40,864).

# BRICK BREWING CO. LIMITED

Notes to Consolidated Financial Statements  
Years ended January 31, 2011 and 2010

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## 17. Financial Instruments and financial risk management:

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

### Principles of risk management

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

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

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

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

The Company's financial instruments and their designations are:

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

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The Company does not enter into contractual arrangements involving derivative financial instruments such as interest rate swaps, forward currency and commodity contracts to hedge its risks associated with interest rate, foreign currency and commodity price fluctuations. The Company enters into contracts involving non-financial items for the purchase of raw materials and packaging supplies. These contracts are entered into and held for the purposes of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase sale or usage requirements.

### ***Fair value:***

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

Financial instruments classified as "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest rate method of amortization.

Financial instruments recorded on the balance sheet are categorized based on the fair value hierarchy of inputs. The three levels of the fair value hierarchy are described as follows:

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities. The Company does not use Level 1 inputs for its fair value measurements.
- Level 2 – inputs, other than quoted prices in active markets, that are observable for the asset or liability either directly or indirectly. The Company's Level 2 inputs include quoted market prices for interest rates and credit risk premiums. The Company obtains information from sources including the Bank of Canada and market exchanges. The Company uses Level 2 inputs for all of its financial instrument fair value measurements.
- Level 3 – inputs that are not based on observable market data. The Company does not use Level 3 inputs for any of its fair value measurements.

### ***Credit risk:***

At January 31, 2011, the Company has recorded an allowance for doubtful accounts of \$10,000 (2010 - \$48,500).

The maximum credit risk, being the risk of default on accounts receivable is \$3,355,301 (2010 - \$1,597,644) which represents the current carrying value. The Beer Store is the largest customer with accounts receivable totaling approximately \$3,049,535 (2010 - \$829,546).

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A summary of the aging of the trade accounts receivable is presented below:

	Less than 30 days	31-60	61-91	Greater than 90 days
<b>2011</b>	<b>95%</b>	<b>3%</b>	<b>0%</b>	<b>2%</b>
2010	86%	4%	2%	8%

### **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 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 2012 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, 2011, the Company had long-term debt which is subject to interest rate fluctuations. At January 31, 2011, if interest rates changed by 1%, the change in the Company's pre-tax earnings 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.

## **18. Earnings per share**

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

	<b>2011</b>	2010
Net Income	\$ <b>2,949,066</b>	\$ 1,346,680
Average number of shares outstanding		
Basic	<b>28,124,234</b>	28,069,332
Effect of warrants and stock options	<b>1,088,699</b>	18,582
Diluted	<b>29,212,933</b>	28,087,914
Earnings per share:		
Basic	\$ <b>0.10</b>	\$ 0.05
Diluted	\$ <b>0.10</b>	\$ 0.05

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## 19. Severance costs

During the year, the Company incurred severance costs in the amount of \$40,733 (2010 - \$69,501). As at January 31, 2011, no amounts were outstanding as a payable with respect to these costs (2010 - \$26,600).

## 20. 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.

## 21. Contingencies

On March 24, 2009, the Company announced that certain of its shareholders commenced a lawsuit against the Company claiming, among other things, that the non-brokered, non-arms' length private placement financing that closed on October 31, 2008 was prejudicial and unfairly disregarded them. The Company is of the view that the claim is without merit and no amount has been recorded in these consolidated financial statements.

On September 28, 2010, the Company signed an agreement with The Corporation of the Municipality of South Bruce (the "Municipality"). The Company will contribute to the cost of constructing a sewage treatment plant provided that certain construction timelines are met. Once the treatment plant is completed, the Company will pay \$8,000 per month to the Municipality over a period ranging from 60 to 120 months. Currently, the Company collects effluent and transports this waste out of the Municipality.

## 22. Comparative consolidated financial statements

Certain 2010 comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

## 23. Subsequent events

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

Under the agreement, Brick acquired the Canadian rights to the Seagram Coolers brand for a purchase price of \$7,300,000, plus the value of inventory on hand of approximately \$1,400,000. The purchase price was satisfied by a \$4,900,000 cash payment to Corby and the issuance of a secured promissory note for the remaining balance to be paid over the next four years. The promissory note is secured by a first charge over the intellectual property acquired by Brick. Payment of the inventory value is due

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one-year from closing.

In order to complete the transaction, Brick obtained a new term loan from HSBC Bank Canada ("HSBC") in the amount of \$5,800,000. The term loan is repayable over 7 years and has a floating rate of prime + 3%. As part of the agreement with HSBC, the Company will select a fixed rate option within 60 days of closing for a minimum of 50% of the loan value.

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

Concurrent with the issuance of the new term loan, HSBC increased the Company's maximum operating line of credit from \$6,500,000 to \$8,000,000. The terms for the operating line of credit remain unchanged. Upon closing, the Company withdrew approximately \$4,000,000 from its operating line, which included HST recoverable of \$949,000 and approximately \$200,000 in transaction costs.