

THE BIG ROCK FAMILY

TRADITIONAL
ALE

Big Rock's original. A traditional English-style amber ale with a soft but distinctive taste.

Grasshopper
WHEAT ALE

A unique wheat ale that is easy to drink and exceptionally refreshing. Influenced by Germany's Kristall Weizen, Grasshopper is delicately hopped and delivers a smooth, bright finish.

WARTHOG CREAM ALE

A smooth ale with a clean, pure and refreshing taste. A thirst quenching beastly brew, for everyone to enjoy.

McNALLY'S
EXTRA
ALE

Our famous hearty brew of Irish descent with 7% alcohol content. "As good an Irish ale as can be found anywhere" Michael Jackson's The New World Guide to Beer.

ALBERTA
GENUINE
DRAFT

Alberta Genuine Draft is brewed using only 100% Alberta grown barley malt, select hops, Rocky Mountain water and special lager yeast. It has a crisp, clean, thirst quenching flavour with no after-taste.

PALE
India Pale Ale

Our dry-hopped, fermenter conditioned India Pale Ale is brewed in the traditional IPA method. The result is an exceptionally well balanced, flavourful ale; refined and subtle.

BLACK
AMBER
ALE

Our dark Alberta stout is a hearty, full-flavoured, rich, rewarding, soul-uplifting beer that is deeply satisfying. Made with dark roasted imported and domestic malts.

McNALLY'S
RESERVE

Soft, creamy and as dry as Irish humor; this refreshing mild stout has hints of espresso, licorice and black pepper. The beer is dark in colour with a dense head of pillowy foam, a creamy body and a rich roasted dryness in the finish.

KÖLD
ALL ABOUT THE BIG ROCK

A single malt lager made from glacial spring water, choice hops and our own lager yeast. The result is an unusually clean, crisp beer with no bitter aftertaste.

ROCK
CREEK
PREMIUM
DRY CIDER
APPLE

Rock Creek Dry Cider is a premium Okanagan Cider consisting of a unique blend of Okanagan and European apple varieties grown in the Central Okanagan. Brewed with a combination of premium ingredients, the end result is an all natural refreshing dry cider.

REPORT TO SHAREHOLDERS

Big Rock Brewery, one of North America's leading specialty brewers, is pleased to announce its results for the second quarter ended September 30, 2002.

Gross sales revenue increased to \$11,269,829 this quarter from \$10,519,665 in the same quarter last year, a 7% increase.

In terms of volume, hectoliters sold increased to 44,614 from 38,555 the previous year, a 16% increase.

The acquisition of Bear Brewing Company Ltd. contributed sales volume of 4,700 hectoliters for the quarter including sales of Joe Stiff's Spiked Root Beer.

A changing sales mix reflecting the large increase in sales of the Company's new value-priced lager, Alberta Genuine Draft, has caused a drop in revenue per hectoliter this year over last year.

Revenue net of government taxes and commissions increased to \$8,849,698 from \$7,800,233 last year a 13% increase. This improvement is primarily due to increased sales volume as well as the decrease in the Alberta Government markup on beer charged to the small brewery sector effective April 5, 2002.

EBITDA (earnings before interest, taxes, depreciation and amortization) for the quarter was \$2,093,257 a 38% increase over last year EBITDA at \$1,517,079.

Net income for the quarter was \$925,129 up 30% from \$709,260 last year.

Earnings per share for the quarter were \$0.17 compared to \$0.14 last year.

At quarter-end the Company had utilized \$741,150 (2001 – \$1,857,882) of its \$3,000,000 bank operating line of credit. This credit facility bears interest at Royal Bank prime rate.

The Company's long-term debt facility with the Royal Bank of Canada, was paid down by \$461,293 during the quarter to \$2,277,285. At the current rate of debt reduction the Company's long-term bank debt will be eliminated in approximately fifteen months.

On July 1st, Big Rock acquired 100% of Bear Brewing Company Ltd. of Kamloops, B.C. for 100,000 Big Rock shares valued at \$7.75 for a total consideration of \$775,000. Bear Brewing Company Ltd. is an established craft brewer with several popular brands including, Black Bear Ale, Brown Bear Ale, and Polar Bear Lager. The Company also produces Joe Stiff's Spiked Root Beer, a vodka based beverage and several private brand products. Bear Brewing contributed \$115,000 in net income this quarter.

Simultaneously with the Bear acquisition, Big Rock exercised its option to acquire the remaining 50% of Bear View Developers Ltd. for a cash payment of \$215,000. Bear View owns the land and building that Bear Brewing

occupies. Big Rock had acquired its initial 50% of Bear View in the previous fiscal year. The Company assumed an existing \$870,000 mortgage on the land and building.

On September 20th, the Board of Directors unanimously approved a proposal to reorganize Big Rock into an income trust. Closing of the reorganization will be subject to finalization and execution of transaction documentation and shareholder, court, and applicable regulatory approvals. The Board believes that the reorganization is in the best interest of Big Rock and its shareholders and a special meeting of shareholders will be held in early January, 2003 to consider the proposed reorganization. An information circular describing the reorganization in detail will be mailed to shareholders of record in late November, 2002. The reorganization would be implemented by way of a Plan of Arrangement (the "Arrangement"). Pursuant to the Arrangement, Big Rock shareholders would receive one unit in the Big Rock Trust for every one Big Rock common share.

The Board believes that Big Rock is well suited for an income trust structure for the following reasons:

- Big Rock's share of the beer brewing market is stable and growing such that the Company is in a position to generate an adequate annual cash flow;
- Big Rock has low ongoing maintenance and capital cash requirements relative to its ability to generate relatively stable cash flow;
- The income trust provides an efficient structure for Big Rock to provide unitholders with regular cash distributions at a rate well in excess of current fixed income rates and common share dividend yields; and
- Big Rock believes that there are growth opportunities in the specialty beer brewing industry. By reorganizing into an income trust, Big Rock believes it will have improved access to equity capital which will enable Big Rock to pursue growth strategies and allow investors to more directly participate in the cash flow derived from its operations.

On behalf of the Board of Directors and staff of Big Rock, I thank you for your interest and support.

Cheers!

Edward E. McNally,
Chief Executive Officer
November, 2002
Calgary, Alberta, Canada

CONSOLIDATED BALANCE SHEETS

| (Canadian \$) | 30-Sep-02 (unaudited) | 31-Mar-02 (audited) |
|---------------------------------------------------|--------------------------|------------------------|
| ASSETS | | |
| CURRENT | | |
| Cash & cash equivalents | \$ 649,564 | \$ 1,016,158 |
| Accounts receivable | 2,438,514 | 2,116,325 |
| Inventories | 3,450,863 | 2,896,052 |
| Prepaid expenses & other | 542,836 | 417,445 |
| Investments | 7,817 | 46,365 |
| | 7,089,594 | 6,492,345 |
| Capital assets <i>[note 1]</i> | 27,925,420 | 25,872,488 |
| Long-term investment <i>[note 1]</i> | – | 227,222 |
| Deferred charges | 229,261 | 216,806 |
| Goodwill <i>[notes 1 and 2]</i> | 727,218 | 251,830 |
| TOTAL ASSETS | \$35,971,493 | \$33,060,691 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT | | |
| Bank indebtedness | \$ 741,150 | \$ 1,857,882 |
| Accounts payable and accrued liabilities | 1,825,953 | 1,334,322 |
| Income tax payable | 972,224 | 468,894 |
| Current portion of long-term debt | 1,696,784 | 1,696,784 |
| | 5,236,111 | 5,357,882 |
| Long-term debt | 1,450,501 | 1,502,275 |
| Future income taxes | 4,711,235 | 4,416,400 |
| TOTAL LIABILITIES | 11,397,847 | 11,276,557 |
| SHAREHOLDERS' EQUITY | | |
| Share capital <i>[note 3]</i> | 14,194,688 | 13,131,991 |
| Retained earnings | 10,378,958 | 8,652,143 |
| TOTAL SHAREHOLDERS' EQUITY | 24,573,646 | 21,784,134 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$35,971,493 | \$33,060,691 |

CONSOLIDATED STATEMENTS OF OPERATIONS & RETAINED EARNINGS

| (Canadian \$) | Six Months Ended Sept 30 (unaudited) | | Three Months Ended Sept 30 (unaudited) | |
|-----------------------------------------|-----------------------------------------|---------------------|-------------------------------------------|---------------------|
| | 2002 | 2001 | 2002 | 2001 |
| REVENUE | | | | |
| Sales | \$21,603,455 | \$19,724,651 | \$11,269,829 | \$10,519,665 |
| Government taxes and commissions | 4,890,747 | 5,224,049 | 2,420,131 | 2,719,432 |
| | 16,712,708 | 14,500,602 | 8,849,698 | 7,800,233 |
| Cost of sales | 6,609,296 | 5,746,141 | 3,398,328 | 3,027,006 |
| GROSS PROFIT | 10,103,412 | 8,754,461 | 5,451,460 | 4,773,227 |
| EXPENSES | | | | |
| Selling, general and administrative | 6,412,291 | 6,085,379 | 3,358,203 | 3,256,148 |
| Interest | 141,697 | 193,317 | 111,175 | 101,070 |
| Amortization | 802,262 | 639,654 | 441,912 | 339,654 |
| | 7,356,250 | 6,918,350 | 3,911,290 | 3,696,872 |
| INCOME BEFORE INCOME TAXES | 2,747,162 | 1,836,111 | 1,540,170 | 1,076,355 |
| Current income tax expense | 948,512 | 198,564 | 571,577 | 110,129 |
| Future income tax expense | 71,835 | 463,316 | 43,464 | 256,967 |
| | 1,020,347 | 661,880 | 615,041 | 367,096 |
| Net income for the period | 1,726,815 | 1,174,231 | 925,129 | 709,260 |
| Retained earnings, beginning of period | 8,652,143 | 7,484,082 | 9,453,829 | 7,899,328 |
| Redemption of common shares | – | (49,725) | – | – |
| RETAINED EARNINGS, END OF PERIOD | \$10,378,958 | \$ 8,608,588 | \$10,378,958 | \$ 8,608,588 |
| NET INCOME PER SHARE | | | | |
| Basic and diluted | \$0.32 | \$0.23 | \$0.17 | \$0.14 |

see accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOW

(Canadian \$)

| | September 30 | |
|------------------------------------------------|---------------------|---------------------|
| | (unaudited) 2002 | (unaudited) 2001 |
| OPERATING ACTIVITIES | | |
| Net income for period | \$ 1,726,815 | \$1,174,231 |
| Items not affecting cash: | | |
| Amortization and writedown of assets | 830,400 | 639,654 |
| Future income taxes | 71,835 | 463,316 |
| | <u>2,629,050</u> | <u>2,277,201</u> |
| Net change in non-cash working capital | (243,485) | (341,077) |
| CASH PROVIDED BY OPERATING ACTIVITIES | 2,385,565 | 1,936,124 |
| FINANCING ACTIVITIES | | |
| Decrease in bank indebtedness | (1,116,732) | (1,072,811) |
| Repayment of long-term debt | (919,524) | (914,783) |
| Share repurchase | - | (107,998) |
| Shares issued by private placement | - | 990,000 |
| Shares issued on exercise of options | 287,698 | - |
| CASH USED IN FINANCING ACTIVITIES | (1,748,558) | (1,105,592) |
| INVESTING ACTIVITIES | | |
| Purchase of capital assets | (763,295) | (1,565,409) |
| Deferred charges | (25,306) | - |
| Acquisition of Bear View | (215,000) | - |
| CASH USED IN INVESTING ACTIVITIES | (1,003,601) | (1,565,409) |
| NET DECREASE IN CASH | (366,594) | (734,877) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 1,016,158 | 1,602,202 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | <u>\$ 649,564</u> | <u>\$ 867,325</u> |

see accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2002

These interim consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements as at and for the year ended March, 31, 2002. Accounting policies and methods followed in the preparation of these financial statements are the same as those summarized in note 2 to the consolidated financial statements for the year ended March 31, 2002 except as noted below.

1. ACQUISITIONS

On July 1, 2002 the Company completed the acquisition of 100% of the issued and outstanding shares of Bear Brewing Company Ltd. ("Bear") in exchange for 100,000 shares of Big Rock Brewery Ltd. valued at \$7.75 per share. Bear is a British Columbia based company that produces and markets its own brands of specialty draught and bottled beer. Simultaneously, the Company exercised its option to increase its ownership of Bear View Developers Ltd. ("Bear View") from 50% to 100% for consideration of \$215,000 cash. Bear View owns the land and building from which Bear operates its brewery. The acquisitions have been accounted for using the purchase method with the results of operations of Bear and Bear View accounted for from the date of acquisition. The following table summarizes the estimated fair value of the assets acquired and the liabilities assumed from these transactions, including acquisition costs, in the current period:

| | <u>Bear \$</u> | <u>Bear View \$</u> |
|----------------------------------------------------------|------------------|---------------------|
| Working capital | 277,612 | (2,331) |
| Capital assets | 650,000 | 1,409,553 |
| Goodwill | 475,388 | - |
| | <u>1,403,000</u> | <u>1,407,222</u> |
| Long-term debt assumed | (500,000) | (870,000) |
| Future income taxes | (128,000) | (95,000) |
| Consideration paid for initial 50% interest in Bear View | - | (227,222) |
| | <u>775,000</u> | <u>215,000</u> |

2. CHANGES IN ACCOUNTING POLICY

Goodwill - During the first quarter of 2002, the Company adopted the new Canadian Institute of Chartered Accounts ("CICA") recommendations for goodwill. Previously, the Company amortized goodwill over 20 years. Under the new standard, goodwill is no longer amortized but is instead subjected to an impairment test at least annually with any resulting impairment charged to earnings. There was no impairment of goodwill upon adoption of this standard.

Stock Compensation - On April 1, 2002, the Company adopted the new CICA recommendations for stock-based compensation. The Company has applied the change prospectively for new awards and has chosen not to recognize compensation expense when stock options are granted to employees and directors under the stock option plan with no cash settlement feature.

The new standard requires that stock-based payments to non-employees be accounted for in accordance with the fair value method. The fair value of direct awards of stock are determined by the quoted market price of the Company's stock and the fair value of stock options are determined using the Black Scholes option pricing model.

This new standard requires the presentation of pro-forma net income as if the Company had accounted for its employee stock options granted after March 31, 2002 under the fair value method. During the period there were 30,250 stock options granted at an exercise price of \$7.23

| | <u>Three Months Ended September 30, 2002 \$</u> | <u>Six Months Ended September 30, 2002 \$</u> |
|--------------------------------------------------|---------------------------------------------------------|-------------------------------------------------------|
| Net income for the period as reported | 925,129 | 1,726,815 |
| Compensation expense | 35,566 | 35,566 |
| Pro forma net income for the period | <u>889,563</u> | <u>1,691,249</u> |
| Reported earnings per share – basic and diluted | 0.17 | 0.32 |
| Compensation expense per share | - | - |
| Pro forma earnings per share – basic and diluted | <u>0.17</u> | <u>0.32</u> |

The estimated fair value of stock options was determined using the Black-Scholes model using the following weighted average assumptions:

| | <u>2002</u> |
|------------------------------------------------------------|-------------|
| Risk free interest rate (%) | 2.83 |
| Estimated hold period prior to exercise (years) | 4.00 |
| Volatility in the price of the Company's common shares (%) | 28.00 |
| Dividend Yield (%) | <u>0.00</u> |

The weighted average fair value of the stock option granted in the period was \$1.90.

3. ISSUED AND OUTSTANDING COMMON SHARES

| | <u># Shares</u> | <u>Amount \$</u> |
|--------------------------------------------|------------------|-------------------|
| Balance as at March 31, 2002 | 5,241,556 | 13,131,991 |
| Shares issued on exercise of stock options | 35,800 | 175,480 |
| Balance as at June 30, 2002 | <u>5,277,356</u> | <u>13,307,471</u> |
| Shares issued for acquisition of Bear | 100,000 | 775,000 |
| Shares issued on exercise of stock options | 22,800 | 287,698 |
| Balance as at September 30, 2002 | <u>5,400,156</u> | <u>14,194,689</u> |

big Rock

Second Quarter Report

Six Months Ended September 30, 2002



BIG ROCK BREWERY LTD.