



December 31, 2003
Annual Report

big Rock

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Annual General Meeting

The AGM will be held at 3:00 pm on May 14, 2004 at the offices of Big Rock Brewery.

Corporate Profile

Big Rock Brewery is a regional producer and marketer of premium quality beers in Calgary, Alberta, Canada.

Big Rock products are available in draught, bottles and cans. Big Rock is committed to three business fundamentals:

- **Consistently brewing distinctive, premium quality beers;**
- **Constantly providing superior, personalized customer service; and**
- **Creating and sustaining strong community relationships.**

Big Rock products are marketed in five provinces and three territories in Canada, and in the United States.

Financial Highlights

	Dec 31, 2003 <small>(nine months)</small>	March 31, 2003	2002	2001	2000
Net Sales	\$28,503,840	\$30,463,010	\$24,909,081	\$23,199,678	\$22,716,926
EBITDA	6,953,491	5,050,077	3,755,594	3,782,486	4,146,042
Net Income	4,555,856	2,292,997	1,217,786	1,352,573	1,461,119
Earnings per unit/share	0.82	0.43	0.24	0.29	0.31
Unitholders'/ Shareholders' Equity	26,686,519	24,748,880	21,784,134	19,037,719	16,629,450

The Most Distinctive Beers in Canada

At Big Rock, beer quality and taste is our number one priority. Big Rock beers are handcrafted with a carefully balanced combination of specialty hops, select malts, water and our own special top fermenting yeast - nothing more. Big Rock's beers have received worldwide recognition for taste and quality, a key ingredient behind our phenomenal success. Beer critic, Michael Jackson, praises Big Rock ales, hailing them as, "the most distinctive beers in Canada."



Big Rock has become much stronger

Market dynamics continue to present both risks and rewards to the brewing industry as competition for market share is intensified. In response to these competitive pressures and negligible industry growth, Big Rock's business strategies substantially increased both its sales and profits in 2003. Value to unitholders has been and will continue to be our primary objective.

The Challenges

In 1993 Alberta was the first province to privatize liquor sales. In spite of criticism at the time, consumers today enjoy a much wider selection of liquor products available through an extensive province wide network of retail outlets. Although it initially was a difficult transition Big Rock has become a much stronger, competitive and diversified company as it continues to adapt to the open market conditions in Alberta.

The markets external to Alberta have essentially remained regulated with little indication that these markets are likely to be privatized in the new future. In the event these policies should change in the future your company has a decade of experience with privatization and is capable of successfully competing in both regulated and deregulated markets.

The proliferation of beer products – both domestic and foreign in the marketplace, has required the company to become more responsive to consumer preference and pricing expectations. In this regard, Big Rock has become more active in the lager segment of the beer market to accommodate consumers. We have also adopted pricing strategies that take into account that our primary competition is foreign and domestic specialty products. The lager segment of this market – as opposed to the ale segment, presents the greatest opportunity for continued growth.

The on-going consolidation – through mergers, acquisitions, partnerships, and strategic alliances among the world's largest brewers, requires Big Rock to manage its relatively limited resources in a very efficient manner. While not being able to compete with the major brewers in the "big ticket" arena of media advertising and promotional activities, Big Rock has been able to maximize its limited resources in a targeted and brand strategic manner. We will continue to maintain and, where necessary, improve on this strategy.

The Market

Your company continues to experience changes in the marketplace as consumers are presented with more product choices. Most noticeable of these are the spirit-based coolers, ultra-light beer products, and non-alcoholic beverages. Big Rock has recognized the importance of adapting to the changing marketplace and making available to consumers a variety of quality, specialty, craft style products at prices that enhance the company's ability to increase market share and return to unitholders.

Brand Development

Big Rock continues to place primary emphasis on its established brands – Traditional and Grasshopper, and the development and improvement of new, or relatively new brands. For example, Honey Brown, a relatively new category in the lager segment, and Jack Rabbit, a low carbohydrate beer, have been widely accepted by consumers since the release of these products. Alberta Genuine Draft has quickly become a widely established lager in a market already inundated with both domestic and foreign offerings in this category.

Your company continues to sell, promote and position non-beer products such as its cider (Rock Creek) and cooler (Joe Stiff's) brands. We do not envisage these products becoming a significant source of revenue for the company, however, for strategic reasons we continue to offer these products to our customers with some success. Various other products are in the development and trial phases, and will be launched in the future once potential market acceptance is determined. The company combines its creativity, market intelligence and established reputation for making quality products to ensure that we remain competitive and able to adapt to both changes and new developments in the marketplace.

Fiscal Management

Big Rock's management team fully recognizes the importance of responsible and accountable fiscal management in all aspects of its operations. We believe, with our focus on corporate governance; our improved management reporting systems; and, our increased ability to utilize the extensive data that is now available to management in a timely manner, that this critical area of importance will continue to improve.

Big Rock Team

The people who work at Big Rock are our greatest asset. This is reflected by our low turnover of key staff who are both stakeholders and proud partners in what we all consider an exciting and rewarding business. The brewing, packaging, sales and marketing teams demonstrated again that they are among the best in the business and have faced many challenges with a level of commitment and professionalism that makes us proud and appreciative.

During the 2003 fiscal year the company revised the compensation and benefits package to further recognize the talent, dedication and value of our employees. The most significant change was the introduction of a company-wide bonus program that ensures that all employees share in the success of a growing and profitable company. We will continue to evaluate our employee compensation package to determine if we can improve on our existing program.

One area where more emphasis needs to be placed is on staff training. We recognize that while our team is second to none in the industry, we believe that skills can be honed and performance can be incrementally improved if employees are provided with practical, job-related training on a timely and consistent basis.

Achievements

Big Rock is a results oriented organization that recognizes the importance of profitable growth and maximizing value to unitholders. In this regard, your company outperformed the industry by a wide margin during the 2003 fiscal year. Sales grew by more than 20% across Canada, in a market where the industry has shown virtually no growth. However, growth alone is not a sustaining characteristic of a successful company, and we strive for increased profitable growth both through increased sales, and prudent controls over expenses and inefficiencies that have a negative impact on the company's bottom line. In this regard, our net income per unit more than doubled from 2002, and as a result your company was able to announce in December 2003 that the distribution to unitholders would be increased effective January 2004.

The Future

As noted earlier, we have successfully introduced new products, and will continue to do so in 2004. We have more than kept pace with industry competitors. We have achieved a level of performance that raises the bar to new heights.

Big Rock will continue to build its business based on the core values that have sustained the company for almost 20 years – namely, producing quality products, excellence in customer service, competitive pricing, and community involvement. While the dynamics of the beer industry will continue to present challenges for Big Rock, we nevertheless believe that if we remain true to our roots and values, we will continue to be successful. We remain focused and ready for the challenges the company will face in 2004.

We sincerely express our gratitude to our dedicated staff, the hundreds of loyal customers, and to the thousands of consumers who are responsible for the considerable success enjoyed by your company.



Ed McNally
Chairman and Chief Executive Officer



Bob King
President

A more targeted approach

March 17, 2004

Management's Discussion and Analysis for the nine months ended December 31, 2003

The following discussion and analysis should be read in conjunction with Big Rock Brewery Income Trust (the "Trust") consolidated financial statements and accompanying notes included herein. The consolidated financial statements of the Trust have been prepared in accordance with Canadian Generally Accepted Accounting Principals ("GAAP") and are denominated in Canadian dollars.

Additional information regarding Big Rock Brewery Income Trust including the Company's Annual Information Form is available on SEDAR at www.sedar.com

Effective January 10, 2003 a plan of arrangement was completed whereby Big Rock Brewery Ltd. ("Big Rock" or the "Company") was reorganized into Big Rock Brewery Income Trust. To be consistent with the fiscal year end of the Trust the fiscal year end of Big Rock was changed to December 31 from March 31, the date used previously for annual reporting by Big Rock. Accordingly, the accompanying audited financial statements include the consolidated accounts as at and for the nine month period ended December 31, 2003.

Big Rock's last audited financial statements were as at and for the year ended March 31, 2003. The results of operations for the year ended March 31, 2003 include the consolidated accounts of Big Rock Brewery Ltd. for the period from April 1, 2002 to January 9, 2003 on a continuity of interest basis of accounting reflecting the Trust as a continuation of Big Rock Brewery Ltd.

Big Rock is a regional producer, marketer, and distributor of bottles, cans, and kegs of premium quality specialty beers, also known as craft beers. The Company has sales and distribution facilities at its brewery in Calgary, Alberta as well as in Edmonton, Alberta. The Company also has sales representatives resident in British Columbia, Saskatchewan, Manitoba and Ontario. The Company's products are also distributed in the Western United States by third party agents.

On July 1, 2002, the Company added brewing and distribution facilities in Kamloops, British Columbia with the purchase of Bear Brewing Company Ltd. During the period, Bear Brewing Company Ltd. became Kamloops Brewery Ltd. It is Management's opinion that this name change will assist the Brewery in better connecting with customers in its service area.

Kamloops Brewery produces Black Bear Ale and several private label beer brands as well as Joe Stiff's Spiked Root Beer and Joe Stiff's Whipped Orange, which are vodka based beverages, Rock Creek cider, and the Whistler and Bowen Island products.

Big Rock brews many varieties of natural, micro-filtered beer, its current products include: Traditional Ale, Grasshopper Wheat Ale, Warthog Cream Ale, India Pale Ale, McNally's Extra Ale, McNally's Reserve, Köld Lager, Honey Brown Lager, Alberta Genuine Draft and Jack Rabbit Low Carb Lager. Köld, Alberta Genuine Draft and Honey Brown were introduced to appeal to the lager market, which accounts for approximately 90% of beer sales in Canada.

Jack Rabbit Lager was introduced in December 2003. This premium priced beer contains only 2 grams of carbohydrate per bottle and 3.8% alcohol by volume. Jack Rabbit has proven to be very popular with beer drinkers who wish to reduce their intake of complex carbohydrates.

In recognition of the importance of lager style products, the largest segment of the beer market, Big Rock will continue to develop new lager products to satisfy consumer preferences. This change in policy direction from Big Rock's original ale products has become more necessary as the multi-national breweries are more active in the niche specialty premium beer segment with their own craft style products and with the expansion of foreign breweries into this segment supported by the national breweries' infrastructure and distribution systems. The Company believes that its continued success depends on its ability to respond to changes in consumer tastes and preferences.

The large multi-national beer companies have substantially greater resources for support of marketing and distribution activities and compete aggressively with extensive television, radio, and billboard advertising and promotion campaigns. Big Rock uses a more targeted approach by sponsoring cultural and community events, beer festivals and entertainment venues to create awareness of its product. Big Rock also uses posters, shirts, glassware and other items bearing the Company's name, logo and trademarks to promote sales of the Company's products.

Beer sales are generally dependant to a significant degree on the weather and the seasons. The second and third quarters, summer and autumn, are historically stronger than spring and winter, the first and fourth quarters. The higher sales volumes in the summer months are also affected by weather conditions and holidays.

Selected Information

	9 months ended 31-Dec-03	Year ended 31-Mar-03
Sales Revenue	\$36,875,008	\$39,330,418
Net Income	4,555,856	2,292,997
Earnings/unit	0.82	0.43
Distributions per unit	0.54	0.16
Total assets	40,811,176	36,576,023
Total long-term liabilities	9,166,319	6,341,666

Financial Condition

Big Rock's balance sheet strengthened during the nine month period ended December 31, 2003 as Unitholders' equity increased by \$1,937,639 (8%) after deducting cash distributions of \$3,004,004.

At December 31, 2003, accounts receivable increased by \$869,431 (44%) to \$2,849,244 from \$1,979,813 as at March 31, 2003 due primarily to the seasonality of beer sales. December is a strong month for beer sales when compared to March due to the festive season.

Income taxes recoverable of \$2,195,000 at December 31, 2003 arose from the deferral of income for income tax purposes by the formation of the Big Rock Brewery Partnership (the "Partnership"). Effective January 1, 2003, Big Rock together with its wholly owned subsidiaries Whistler Brewing Company Ltd. and Kamloops Brewery Ltd. contributed substantially all of their brewing assets to the Partnership in exchange for partnership interests. This created a loss for income tax purposes for the year ended December 31, 2003. This loss will be carried back to recover income taxes paid in prior years thus resulting in income taxes recoverable.

Inventories as at December 31, 2003 rose by \$428,043 (10%) to \$4,512,097 from \$4,084,054 as at March 31, 2003. December raw materials purchases, particularly proprietary bottle purchases for Joe Stiff's coolers, resulted in higher ending inventories when compared to March.

Prepaid expenses and deposits decreased by \$565,565 (60%) to \$380,165 as at December 31, 2003 from \$945,730 as at March 31, 2003. The difference was principally deposits paid on fermenting tanks that have since been received and recorded as capital assets.

Capital assets increased by \$1,223,896 during the nine month period ended December 31, 2003 to \$29,745,239. (March 31, 2003 - \$28,521,343) The expansion of the Kamloops Brewery warehouse was completed during the period. The balance of capital asset additions were primarily new fermentors for the Calgary brewery as well as upgrades to the canning and bottling lines. Although the facility has the space capacity to brew and package 300,000 hl of beer annually, the purchase of sufficient fermentation tanks to process all of this capacity has been deferred by the Company. Currently, fermentation tank capacity is approximately 200,000 hl annually. Fermentation capacity can be added in increments of 400 hl at a cost of approximately \$90,000 per tank. In the year ended March 31, 2003, Big Rock upgraded the packaging lines at a cost of \$275,325, expanded the fermenting hall at the Calgary brewery at a cost of \$65,515 and began expansion of the Kamloops brewery warehouse at a cost of \$513,059. These capital assets were financed through cash provided by operating activities.

Goodwill of \$727,218 (March 31, 2003 - \$727,218) arose from the previous purchase of Bear Brewing Company Ltd. and Whistler Brewing Company Ltd. Management is of the opinion that there has been no impairment of the value of this goodwill during the period based on the results of operations and the outlook for the business.

Bank indebtedness was \$1,574,393 at December 31, 2003 a \$226,347 decrease from March 31, 2003. This demand operating loan bears interest at Royal Bank prime rate plus 0.5%. The balance of this facility fluctuates as working capital requirements dictate.

At December 31, 2003 accounts payable decreased by \$242,610 (11%) to \$1,948,094 from \$2,190,704 as at March 31, 2003 due primarily to the timing of raw materials inventory purchases.

Long-term debt increased by \$688,500 (26%) to \$3,367,247 as at December 31, 2003 from \$2,678,747 as at March 31, 2003. Principal payments of \$25,000 per month are made on the Royal Bank term debt. The Royal Bank term facility is a \$3,000,000 non-revolving loan bearing interest at Royal Bank prime plus 0.75% due January 30, 2006. In November, the Company sold a bankers acceptance for \$1,500,000 which fixed the rate on a portion of the term facility at 2.94% for 180 days.

The Royal Bank facilities impose a number of positive and negative covenants on Big Rock including the maintenance of certain financial ratios. At December 31, 2003 Big Rock was in compliance with all of its debt covenants. Security for these borrowings is a general assignment of the Partnership's assets.

Long-term debt also includes an \$800,000 mortgage secured by the Kamloops Brewery land and building. This third party mortgage has no fixed repayment terms and bears interest at 9%. Subsequent to year-end this interest rate was reduced to 6%/annum. A principal payment of \$61,500 was made on this mortgage during the period.

The provision for future income taxes increased by \$2,074,653 to \$6,899,072 as at December 31, 2003 from \$4,824,419 as at March 31, 2003. Future income tax reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

During the nine months ended December 31, 2003, 55,300 unit options were exercised for proceeds to the Trust of \$361,637. Thus Unitholders' capital increased by this amount during the period. In the year ended March 31, 2003, 5,500 unit options were exercised for proceeds of \$26,575 and 195,168 stock options were exercised for proceeds of \$756,785.

Results of Operations

Big Rock changed its fiscal year end from March 31 to December 31 during 2003. Presented below, for comparison purposes, are the results for the nine months ended December 31, 2003 and 2002, together with the year ended March 31, 2003. In order to compare the nine months ended December 31, 2003 with the year ended March 31, 2003 a "\$ per hectoliter" (HL) figure has been calculated. (A hectoliter is a unit of volume equal to 100 liters)

	Nine months ended 31-Dec-03 (audited)		Nine months ended 31-Dec-02 (unaudited)		Year ended 31-Mar-03 (audited)	
Hectoliters sold	147,087		123,351		156,715	
	\$	\$/HL	\$	\$/HL	\$	\$/HL
Sales	\$36,875,008	\$251	\$30,850,205	\$250	\$39,330,418	\$251
Government taxes and commissions	8,371,168	57	6,936,679	56	8,867,408	57
Net sales	28,503,840	194	23,913,526	194	30,463,010	194
Cost of sales	10,298,575	70	9,181,501	74	11,728,022	75
Gross Profit	18,205,265	124	14,732,025	119	18,734,988	119
Selling expenses	8,155,972	55	7,413,622	60	9,573,047	61
General & administrative expenses	3,095,802	21	2,199,432	18	3,201,955	20
Reorganization costs	-		728,890	5	909,909	6
Interest	248,902	2	203,643	2	280,203	2
Amortization	1,257,190	9	1,232,549	10	1,729,510	11
	12,757,866	87	11,778,136	95	15,694,624	100
Net income before taxes	5,447,399	37	2,953,889	24	3,040,364	19
Income tax expense	891,543	6	1,200,000	10	747,367	5
Net income for the period	\$4,555,856	\$31	\$1,753,889	\$14	\$2,292,997	\$15

Sales volume in hectoliters for the nine months ended December 31, 2003 increased to 147,087 from 123,351 for the nine months ended December 31, 2002, a 19% increase. Volume for the year ended March 31, 2003 was 156,715 hectoliters.

The rapid growth of Alberta Genuine Draft, a value priced lager, and Honey Brown Lager, a premium beer, in western Canadian markets during the period contributed substantially to this increase.

Gross sales revenue increased by \$6,024,803 to \$36,875,008 during the nine months ending December 31, 2003 from \$30,850,205 for the same period last year, a 20% increase. Comparing the year ended March 31, 2003 to the nine months ended December 31, 2003 the gross revenue per hectoliter is equivalent.

Big Rock continues to benefit from the lower Alberta markup charged on beer from brewers producing less than 200,000 hectoliters annually. Government taxes and commissions increased from \$6,936,679 for the nine month period last year to \$8,371,168 for the nine months this year, a 21% increase. This is consistent with the growth in gross sales revenue. Comparing the year ended March 31, 2003 to the nine months ended December 31, 2003 the markup per hectoliter is equivalent.

For the nine month period, net sales revenue, which is gross sales less government taxes and commissions, rose to \$28,503,840 from \$23,913,526 for the same period last year, a 19% increase. Comparing the year ended March 31, 2003 to the nine months ended December 31, 2003 the net revenue per hectoliter is equivalent.

Cost of sales increased from \$9,181,501 for the nine months last year to \$10,298,575 for the nine months ending December 31, 2003. Cost of sales as a percentage of sales was 28% in for the nine months ending December 31, 2003 down from 30% for the same period last year. Comparing the year ended March 31, 2003 to the nine months ended December 31, 2003 the cost of sales per hectoliter fell by \$5. The growing popularity of cans has changed our sales mix during the period. Our high speed canning line results in lower labor costs than bottle production. Thus if can sales continue to increase as a percentage of sales, the cost of sales per hectoliter should continue to fall.

Gross profit for the nine months, which is net sales less cost of sales, was up 24% from \$14,732,025 last year to \$18,205,265 this year commensurate with the volume increase and slightly lower cost of sales. Comparing the year ended March 31, 2003 to the nine months ended December 31, 2003 the gross margin per hectoliter increased by \$5 due entirely to reduced cost of sales per hectoliter.

Selling expenses for the nine months ended December increased to \$8,155,972 this period compared to \$7,413,622 for the same period last year, a 10% increase. Comparing the year ended March 31, 2003 to the nine months ended December 31, 2003 selling expenses per hectoliter decreased from \$61 to \$55. The decrease can be attributed to Management's initiative of ensuring that promotional spend is supported by a measurable return on investment. Big Rock has been working more closely with our customers to ensure that promotions are mutually beneficial by being effective in increasing pull through of Big Rock products both on-premise and off-premise. This has resulted in a decrease in the rate of growth of selling expenses as volumes increase.

During the nine months ending December 31, 2003, General and administrative expenses increased to \$3,095,802 from \$2,199,432 the previous year. This \$896,370 (41%) increase resulted from the addition of management and overhead at the Kamloops Brewery together with the addition of administrative personnel at the Calgary office. In addition, a one-time charge to earnings of \$397,234 was recorded in the nine month period ended December 31, 2003. This charge arose from the termination in 2002 of an agreement with a competitor relating to the distribution of their product in western Canada. A dispute ensued regarding amounts owing under the agreement. At the time Big Rock believed that no additional amount was owing based upon releases contained in the Termination Agreement signed by the competitor. However, in May 2003 Big Rock received a claim from the competitor seeking further amounts owing. Following investigation, Big Rock agreed to pay \$397,234 in full and final settlement of the claim.

Non-recurring costs of reorganization of Big Rock into a Trust were booked in the nine month period last year resulting in a charge of \$728,890 to earnings. Total costs incurred over the twelve month period ended March 31, 2003 related to the creation of the Trust were \$909,909 and all such costs were expensed.

EBITDA (earnings before interest, taxes, depreciation and amortization) for the nine months ending December 31, 2003 was \$6,953,491 compared to last year's EBITDA of \$4,390,081 (a 58% increase). EBITDA per hectoliter increased from \$32 for the year ended March 31, 2003 to \$48 per hectoliter for the nine months ended December 31, 2003. This \$16 per hectoliter increase is due primarily to lower cost of sales (\$5 per hectoliter), lower selling expenses (\$6 per hectoliter), and non-recurring reorganization costs (\$6 per hectoliter) recorded during the year ended March 31, 2003.

Amortization for the nine months ended December 31, 2003 was \$9 per hectoliter compared with \$11 per hectoliter for the year ended March 31, 2003. The difference is due to the additional three months of amortization booked for the year as opposed to the nine month period.

An income tax recovery of \$1,183,110 was recognized this period as a result of the formation of the partnership and the creation of the Trust. The Partnership's first year-end for income tax purposes is January 1, 2004. Thus for the nine month period ended December 31, 2003 there was no allocation of partnership income to the partners, Big Rock Brewery Ltd, Whistler Brewing Company Ltd. and Kamloops Brewery Ltd. which all have December 31 as a year end. This created a loss for income tax purposes which may be carried back to recover income taxes paid in prior periods.

Net income for the nine months ending December 31, 2003 was \$4,555,856 compared to \$1,753,889 the same period last year, a 160% increase. Net income per hectoliter increased from \$15 for the year ended March 31, 2003 to \$31 per hectoliter for the nine month period ended December 31, 2003, a 107% increase.

On January 10, 2003 the Trust announced a policy of monthly distributions of \$0.06 per trust unit for the remainder of 2003 and declared a distribution of \$0.04 per trust unit to be paid on February 15, 2003 for the period from January 10, 2003 to January 31, 2003. The Trust declared total cash distributions of \$0.54 per trust unit for the nine months ending December 31, 2003 amounting to \$3,004,004 in total.

Cash Flows

Cash provided by operating activities in the period increased by \$2,008,221 (81%) to \$4,488,787 from \$2,480,566. The increase reflects the improved operating results.

Financing activities for the period include a repayment of \$226,347 of operating debt. Long-term debt increased by \$688,500 during the period which is the net of a \$750,000 increase in bank term debt and a principal payment of \$61,500 on the Kamloops Brewery mortgage. Long-term debt decreased by \$1,381,812 in the year ended March 31, 2003.

During the period cash distributions of \$3,000,686 were paid to Unitholders, all of which are taxable in their hands. Cash distributions of \$554,078 were paid to Unitholders in the year ended March 31, 2003. Stock options exercised during the year contributed \$361,637 of cash compared to \$783,360 for the year ended March 31, 2003.

Cash used in investing activities includes the purchase of capital assets of \$2,102,096 (March 31, 2003 - \$2,303,073) relating to completion of the Kamloops warehouse expansion, upgrades to the canning and bottling lines and the purchase of additional fermentation vessels .

Summary of Quarterly Results

<u>Quarter Ended</u>	<u>Sales</u>	<u>Net Income (Loss)</u>	<u>Earnings per share/unit</u>		<u>Weighted Average Units Outstanding</u>
			<u>Basic</u>	<u>Diluted</u>	
31-Dec-03	\$11,431,172	\$1,242,421	\$0.22	\$0.22	5,562,930
30-Sep-03	\$12,969,097	\$1,770,302	\$0.32	\$0.31	5,559,874
30-Jun-03	\$12,474,739	\$1,543,133	\$0.28	\$0.28	5,550,357
31-Mar-03	\$8,480,213	\$539,108	\$0.10	\$0.10	5,513,590
31-Dec-02	\$9,246,750	\$27,074	\$0.00	\$0.00	5,442,856
30-Sep-02	\$11,269,829	\$925,129	\$0.17	\$0.17	5,320,856
30-Jun-02	\$10,333,625	\$801,686	\$0.15	\$0.15	5,259,456
31-Mar-02	\$7,278,619	(\$301,317)	(\$0.06)	(\$0.06)	5,167,741

Liquidity and Capital Resources

Big Rock's working capital (current assets less current liabilities) increased by \$3,585,859 to \$5,282,434 as at December 31, 2003 from \$1,696,575 as at March 31, 2003.

Each month the Board of Director's sets the cash distribution rate per unit considering the Company's requirements for capital expenditure and debt servicing requirements. It is Management's opinion that Big Rock will continue to be able to meet all of its commitments for capital expenditures, debt servicing, and cash distributions to Unitholders from cash flow generated by operations.

The Company's revolving bank operating line of \$3,000,000 is sufficient to fund operating fluctuations in cash requirements throughout the year.

Contractual Obligations and Commitments

	Total	Payments due by Period		
		Up to 1 year	2 years	3 years
Long term debt	\$3,367,247	\$1,100,000	\$300,000	\$1,967,247
Operating leases	201,074	106,252	68,900	25,922
Capital spending	392,000	392,000	-	-
Total	3,960,321	1,598,252	368,900	1,993,169

Critical Accounting Estimates

Returnable glass containers are initially recorded at cost. In order to charge operations for wear and disappearance, the cost of bottles is charged to operations over the estimated useful life of five years. The Company has purchased \$334,399 of returnable glass containers since converting to the Industry Standard Bottle in early 2002. Net book value of returnable glass containers as at December 31, 2003 is \$271,469.

Changes in Accounting Policies including Initial Adoption

Stock-based compensation - Effective from April 1, 2002 the Trust adopted the new CICA recommendations for stock based compensation on a prospective basis and chose not to recognize compensation expense when options with no cash settlement feature were granted to employees and directors under the option plan.

The standard required the presentation of pro-forma net income as if the Trust had accounted for its employee stock/unit options granted after March 31, 2002 under the fair value method.

Effective April 1, 2003 the Trust adopted on a prospective basis new CICA recommendations to recognize 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 period was \$24,150 based on the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 4%, dividend yield of 8.5%, expected volatility of 18% and expected hold period prior to exercise of 4 years.

Financial Instruments

Big Rock enters into interest rate swaps to fix interest on its borrowings. At December 31, 2003 and March 31, 2003 Big Rock had a swap agreement to exchange a floating interest rate for a fixed interest rate on \$1,100,000 at a rate of 6.77% with maturity on March 31, 2004. At December 31, 2003, a cash payment of approximately \$22,350 (March 31, 2003 - \$3,250) would have been required to settle the Trust's interest rate swap agreement.

Any payments or receipts incurred under the swaps are recorded as part of interest expense over the terms of the swaps.

Risks Related to the Business and the Industry

Big Rock operates in an environment that is both highly competitive and highly government regulated. Due to the ongoing shifting effects of competition, the ability to predict future sales and profitability with any degree of certainty is limited. There is a continuing entry of premium and super premium beers from other smaller craft breweries and the larger national and multi-national brewers with products that compete directly with craft beers. A large number of imports are also being sold in the same markets where Big Rock competes for business. With the large choice of brands now available, and the advertising initiatives of the major breweries, it is Management's opinion that price promotions due to competitive pressures will continue. The Company believes it is in an excellent position to increase volume of sales; however, the selling price may vary more frequently due to these increasing competitive pricing pressures.

The Company requires various permits, licenses, and approvals from several government agencies in order to operate in its market areas. In Alberta, the Company's largest market, the Alberta Gaming and Liquor Commission provides the necessary licensing approvals. Other licenses have been obtained from the British Columbia Liquor Distribution Board, the Saskatchewan Liquor and Gaming Authority, the Manitoba Liquor Control Commission, the Liquor Control Board of Ontario, Canada Customs and Revenue Agency – Excise, and the U.S. Bureau of Alcohol, Tobacco and Firearms. Management believes that the Company is in compliance with all licenses, permits, and approvals.

Forward-looking Statements

This discussion and analysis contains forward-looking statements relating to future events or future performance. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates" and similar expressions. These statements represent management's expectations or beliefs concerning, among other things, future operating results and various components thereof or the economic performance of Big Rock. Undue reliance should not be placed on these forward-looking statements which are based upon management's assumptions and are subject to known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. Big Rock undertakes no obligation to update publicly or revise any forward-looking statements contained herein and such statements are expressly qualified by the cautionary statement.

Management Report

March 8, 2004

The accompanying consolidated financial statements in the annual report are the responsibility of management. The consolidated financial statements of the Trust have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and, when necessary, management has made informed judgements and estimates in accounting for transactions which were not complete at the balance sheet date. Where alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances as indicated in the notes to the consolidated financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are protected and financial records are properly maintained to provide reasonable assurance that financial information is relevant and reliable.

The Audit Committee is appointed by the Board of Directors, and is comprised of directors, all of which are not officers or employees of the Company. The Committee meets regularly with management to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is discharging its responsibilities and to review the financial statements and the external auditors' report. The Audit Committee has approved the financial statements.



Edward E. McNally
Chairman and Chief Executive Officer



Timothy A. Duffin
Chief Financial Officer

Auditors' Report

To the Unitholders of

Big Rock Brewery Income Trust

We have audited the consolidated balance sheets of **Big Rock Brewery Income Trust** as at December 31, 2003 and March 31, 2003 and the consolidated statements of operations and undistributed income and cash flows for the nine months ended December 31, 2003 and the year ended March 31, 2003. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2003 and March 31, 2003 and the results of its operations and its cash flows for the nine months ended December 31, 2003 and the year ended March 31, 2003 in accordance with Canadian generally accepted accounting principles.

Calgary, Canada
March 8, 2004



Chartered Accountants

Big Rock Brewery Income Trust

As at

	December 31, 2003 \$	March 31, 2003 \$
ASSETS [notes 7 & 8]		
Current		
Cash and cash equivalents	257,258	—
Accounts receivable	2,849,244	1,979,813
Income tax recoverable	2,195,000	117,670
Inventories [note 4]	4,512,097	4,084,054
Prepaid expenses and other	380,165	945,730
Investments	47,008	54,785
	10,240,772	7,182,052
Capital assets [note 6]	29,745,239	28,521,343
Deferred charges and other	97,947	145,410
Goodwill [note 5]	727,218	727,218
	40,811,176	36,576,023
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness [note 7]	1,574,393	1,800,740
Accounts payable and accrued liabilities	1,948,094	2,190,704
Distributions payable	335,851	332,533
Current portion of long-term debt [note 8]	1,100,000	1,161,500
	4,958,338	5,485,477
Long-term debt [note 8]	2,267,247	1,517,247
Future income taxes [note 10]	6,899,072	4,824,419
Total liabilities	14,124,657	11,827,143
Commitments [note 11]		
Unitholders' equity		
Trust unitholders' capital [note 9]	15,051,988	14,690,351
Contributed surplus [note 9]	24,150	—
Undistributed income	11,610,381	10,058,529
	26,686,519	24,748,880
	40,811,176	36,576,023

See accompanying notes

On behalf of the Board:


E.E. McNally
Director


Gordon Tallman
Director

Big Rock Brewery Income Trust

	Nine months ended December 31, 2003 \$	Year ended March 31, 2003 \$
Revenue		
Sales	36,875,008	39,330,418
Government taxes and commissions	(8,371,168)	(8,867,408)
	28,503,840	30,463,010
Cost of sales	10,298,575	11,728,022
Gross profit	18,205,265	18,734,988
Expenses		
Selling	8,155,972	9,573,047
General and administrative	3,095,802	3,201,955
Reorganization costs [note 2]	—	909,909
Interest on long-term debt	190,727	257,273
Interest on short-term debt	58,175	22,930
Amortization	1,257,190	1,729,510
	12,757,866	15,694,624
Income before income taxes	5,447,399	3,040,364
Income tax expense [note 10]	891,543	747,367
Net income for period	4,555,856	2,292,997
Undistributed income/retained earnings, beginning of period	10,058,529	8,652,143
Cash distributions declared	(3,004,004)	(886,611)
Undistributed income, end of period	11,610,381	10,058,529
Net income per unit		
Basic	0.82	0.43
Diluted	0.81	0.42

See accompanying notes

Big Rock Brewery Income Trust

	Nine months ended December 31, 2003	Year ended March 31, 2003
	\$	\$
OPERATING ACTIVITIES		
Net income for the period	4,555,856	2,292,997
Items not affecting cash		
Amortization and write down of assets	1,257,190	1,755,833
Stock based compensation [note 9]	24,150	—
Future income taxes	2,074,653	185,019
	7,911,849	4,233,849
Net change in non-cash working capital [note 13]	(3,423,062)	(1,753,283)
Cash provided by operating activities	4,488,787	2,480,566
FINANCING ACTIVITIES		
Decrease in bank indebtedness	(226,347)	(57,142)
Increase (repayment) of long-term debt	688,500	(1,381,812)
Distribution payments	(3,000,686)	(554,078)
Cash received on exercise of options [note 9]	361,637	783,360
Cash used in financing activities	(2,176,896)	(1,209,672)
INVESTING ACTIVITIES		
Purchase of capital assets	(2,102,096)	(2,303,073)
Acquisition of interest in Bear View [note 5]	—	(215,000)
Cash acquired on acquisition of Bear & Bear View	—	159,625
Deferred charges and other assets	47,463	71,396
Cash used in investing activities	(2,054,633)	(2,287,052)
Net increase (decrease) in cash	257,258	(1,016,158)
Cash and cash equivalents, beginning of period	—	1,016,158
Cash and cash equivalents, end of period	257,258	—

See accompanying notes

December 31, 2003 and March 31, 2003

1. DESCRIPTION OF BUSINESS

Big Rock Brewery Income Trust ("Big Rock" or the "Trust") produces and markets its own brands of specialty draught and bottled beer for sale across Canada and in the western United States. Big Rock trust units are listed on The Toronto Stock Exchange (the "TSX"). The consolidated financial statements include the accounts of the Trust, Big Rock Brewery Partnership, Big Rock Brewery Ltd. and its wholly owned subsidiaries, Whistler Brewing Company Ltd. ("Whistler"), and Kamloops Brewing Company Ltd. ("Kamloops", formerly Bear Brewing Company Ltd).

2. REORGANIZATION

On December 4, 2002 an amalgamation agreement among Bear View Developers Ltd, 607313 (B.C.) Ltd. (operating as Bowen Island Brewing Company), Mountain View Brewing Company Ltd., and Whistler Brewing Company, all wholly owned subsidiaries of Big Rock Brewery Ltd. was executed with the amalgamated entity called Whistler Brewing Company Ltd.

On December 19, 2002 Big Rock Brewery (Saskatchewan) Ltd., a wholly-owned subsidiary of Big Rock, was voluntarily dissolved and its assets and liabilities distributed to Big Rock Brewery Ltd.

On January 2, 2003, Big Rock Brewery Ltd. and its wholly-owned subsidiaries, Bear Brewing Company Ltd. and Whistler Brewing Company Ltd. established the Big Rock Brewery Partnership. All assets and liabilities other than head office furniture and equipment and bank debt were transferred to the Partnership in return for a partnership interest.

Effective January 10, 2003 Big Rock Brewery Ltd. was reorganized into Big Rock Brewery Income Trust. Shareholders of Big Rock Brewery Ltd. received one Big Rock Brewery Income Trust unit for each common share held. Those share optionholders of Big Rock Brewery Ltd. who did not exercise their "in-the money" share options upon conversion to Trust units received replacement Trust unit options with the same vesting, exercise price and expiry date as the share options. The unitholders of the Trust are entitled to receive cash distributions paid by the Trust and are entitled to one vote for each Trust unit held at unitholders meetings. The Trust units of the Trust commenced trading on the TSX under the symbol "BR.UN" on January 15, 2003. The Trust units are not listed for trading on the NASDAQ system. The Trust is an unincorporated open-ended limited purpose trust established under the laws of the Province of Alberta. The Trust owns all the securities of Big Rock Brewery Ltd. which entitles the Trust to receive all cash flow available for distribution from the business of Big Rock after debt service payments, maintenance capital expenditures and other cash requirements.

The costs of the reorganization, amounting to \$909,909, were expensed in the year ended March 31, 2003.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Trust have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ materially from those estimates and assumptions. The consolidated financial statements, in management's opinion, have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Basis of Presentation

The results of operations for the year ended March 31, 2003 include the consolidated accounts of Big Rock Brewery Ltd. for the period from April 1, 2002 to January 9, 2003 on a continuity of interest basis as if the reorganization referred to in note 2 had occurred at the beginning of the year (see note 14 for a breakdown of the results).

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid investments subject to minimal risk of changes in value and which have original maturities of three months or less..

Inventories

Inventories of raw materials, supplies, promotional goods and dispensing units are valued at the lower of cost (weighted average) and replacement cost. Inventories of brews in progress and finished product are valued at the lower of cost (including direct materials, labour and overhead costs) and net realizable value.

Goodwill

Effective April 1, 2002, in accordance with a new Canadian Institute of Chartered Accountants ("CICA") pronouncement regarding goodwill and other intangible assets, goodwill is not being amortized however, it is tested for impairment on an annual basis with any impairment charged to earnings. There was no impairment of goodwill recognized in the nine months ended December 31, 2003 or the year ended March 31, 2003.

Capital Assets

Capital assets are stated at cost less accumulated amortization. Amortization is recorded on the straight-line basis over the estimated useful lives of the assets. Amortization rates per annum are as follows

Buildings	2.5%
Production equipment	2.3 - 10%
Returnable glass containers	20%
Vehicles	25%
Furniture and fixtures	4 - 15.4%

Big Rock completes a yearly assessment of its capital assets for impairment by assessing the estimated future net cash flows from the assets, less directly attributable general and administrative costs, carrying costs, future removal costs and income taxes. If it is determined that an asset's undiscounted cash flows are less than it's carrying value, the asset is written down to it's net realizable value.

Returnable glass containers are initially recorded at cost. In order to charge operations for wear and disappearance, the cost of bottles is charged to operations over the estimated useful life of five years.

Deferred Charges

Deferred charges include new product artwork and trademark costs and are stated at cost less accumulated amortization. Amortization is recorded on a straight-line basis over five to seven years. The deferral of these costs is reviewed periodically for possible revisions to the amortization period or writedown to net realizable value.

Revenue Recognition

Revenue is recognized upon shipment of product at the gross sales price charged to the purchaser. Invoices for sales to Canadian customers are submitted to the respective provincial liquor control boards who pay Big Rock after deducting liquor control board commissions. Excise taxes, which are assessed on production, and liquor control board commissions, which are assessed on sales, are recorded as reductions to gross sales prices.

Income Taxes

Big Rock follows the liability method of accounting for the tax effect of temporary differences between the carrying amount and the tax basis of assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in income taxes payable for the year or later period. Income tax expense for the period is the tax payable for the period and any change during the period in future income tax assets and liabilities.

Future income taxes are recorded at the income tax rates that are expected to apply when the future tax liability is settled or the future tax asset is realized. The effect on future income tax assets and liabilities of a change in the tax rates is recognized in income in the period in which the change occurs.

Foreign Exchange

Transactions in foreign currencies are recorded in Canadian dollars at the exchange rates in effect at the date of the transaction. Monetary assets and liabilities in foreign currencies have been converted to Canadian dollars at exchange rates in effect at the balance sheet date. Foreign exchange gains and losses included in earnings are not material for the periods presented.

Net Income Per Unit

The Trust follows the treasury stock method for determining per unit amounts. Under this method proceeds that would arise from the exercise of options would be used to purchase units at the weighted average market price in the determination of diluted per unit amounts. Net income per unit is calculated using the weighted average number of units outstanding during each period which was: basic - 5,562,930 units for the nine months ended December 31, 2003 (year ended March 31, 2003 - 5,394,279); diluted - 5,660,367 units for the nine months ended December 31, 2003 (year ended March 31, 2003 - 5,440,669).

Unit-based Compensation Plan

The Trust has established a unit option plan whereby options for a maximum of 553,672 units may be granted to employees and directors and consultants of the Trust. Options granted under the plan are generally exercisable immediately and expire five years after the grant date. All options are granted at or above the market price of the units on the date of grant. Pursuant to CICA recommendations for stock-based compensation for the year ended March 31, 2003 the pro-forma impact of recognizing the fair value of unit options granted to employees and directors was disclosed in the notes to the Trust's financial statements. In accordance with more recent CICA recommendations the fair value of options granted in the nine month period ended December 31, 2003 has been reflected as a charge to earnings with a corresponding credit to contributed surplus. The fair value of the unit options is determined using the Black-Scholes option pricing model. When direct awards of units are granted they are also accounted for using the fair value method based on the quoted price of the Trust's units..

4. INVENTORIES

	Nine months ended December 31, 2003 \$	Year ended March 31, 2003 \$
Raw materials and returnable glass containers	1,870,460	1,467,912
Brews in progress	470,319	451,423
Finished product	1,466,974	1,403,462
Promotional goods and dispensing units	704,344	761,257
	4,512,097	4,084,054

5. ACQUISITION OF BEAR BREWING COMPANY AND BEAR VIEW DEVELOPERS LTD.

On July 1, 2002, 100% of the issued and outstanding shares of Bear Brewing Company Ltd. ("Bear") were acquired in exchange for 100,000 shares of Big Rock valued at \$7.75 per share for total consideration of \$775,000. Bear is a British Columbia based company that produces and markets its own brands of specialty draught and bottled beer. Simultaneously, an option to increase Big Rock's ownership of Bear View Developers Ltd. ("Bear View") from 50% to 100% for consideration of \$215,000 cash was exercised. The initial 50% interest in Bear View was acquired effective January 1, 2002 for cash of \$227,222 (including transaction costs of \$27,222), and was accounted for using the equity method from the date of acquisition through to June 30, 2002. Bear View owned the land and building from which Bear operates its brewery. The acquisitions were accounted for using the purchase method. The results of Bear's and Bear View's operations have been included in the consolidated financial statements from the effective date of acquisition.

The following table summarizes the estimated fair value of Bear's assets acquired and liabilities assumed at the date of acquisition.

	\$
Cash	158,106
Accounts receivable	10,867
Due from BWB Joint Venture	363,700
Inventories	238,002
Prepaid expenses and other	50,548
Capital assets	650,000
Goodwill	475,388
Total assets acquired	1,946,611
Accounts payable and accrued liabilities	535,081
Income tax payable	8,530
Loan payable to Big Rock	500,000
Future income tax	128,000
Total liabilities assumed	1,171,611
Net assets acquired for 100,000 common shares @\$7.75	775,000

The following table summarizes the estimated fair value of Bear View's assets acquired and liabilities assumed at the date of acquisition.

	\$
Cash	1,519
Prepaid expenses	20,150
Capital assets	1,425,292
Total assets acquired	1,446,961
Accounts payable and accrued liabilities	24,000
Long-term debt assumed	870,000
Future income tax	95,000
Consideration paid for initial 50% interest in Bear View	242,961
Total liabilities assumed	1,231,961
Net assets acquired for cash	215,000

6. CAPITAL ASSETS

	December 31, 2003		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Land	2,396,234	—	2,396,234
Buildings	12,134,226	2,495,397	9,638,829
Production equipment	26,111,210	9,324,324	16,786,886
Vehicles	459,007	158,570	300,437
Furniture and fixtures	1,590,194	967,341	622,853
	42,690,871	12,945,632	29,745,239

	March 31, 2003		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Land	2,699,259	—	2,699,259
Buildings	10,118,707	1,297,400	8,821,307
Production equipment	25,286,221	8,809,795	16,476,426
Vehicles	342,121	192,204	149,917
Furniture and fixtures	1,169,952	795,518	374,434
	39,616,260	11,094,917	28,521,343

During the nine months ended December 31, 2003, the Company capitalized labour of \$63,222 (year ended March 31, 2003 - \$63,997) relating to certain enhancements at its brewing facilities.

7. BANK INDEBTEDNESS

Big Rock has a demand revolving credit facility with a maximum limit of \$3,000,000. Advances under the facility bear interest at the Royal Bank prime rate plus 0.5% (Royal Bank prime rate prior to January 10, 2003) and the effective rate at December 31, 2003 was – 5% (March 31, 2003 – 4.75%). Collateral provided for this loan is the same as described in note 8.

8. LONG-TERM DEBT

	Nine months ended December 31, 2003 \$	Year ended March 31, 2003 \$
Non-revolving bank loans with monthly principal payments of \$25,000 due January 30, 2006	1,067,247	1,817,247
Revolving 180 day Bankers' Acceptance bearing interest at 2.94% renewable May 27, 2004 and due January 30, 2006	1,500,000	—
Mortgage, secured by land and building in Kamloops, B.C. with no fixed repayment terms bearing interest at 9% per annum.	800,000	861,500
	3,367,247	2,678,747
Less current portion	1,100,000	1,161,500
	2,267,247	1,517,247

A fixed and floating charge debenture and supplemental debenture for \$7,000,000 covering all assets, a general security agreement and an assignment of fire insurance have been provided as collateral for the short-term and long-term credit facilities.

The bank loans impose a number of positive and negative covenants on Big Rock including the maintenance of certain financial ratios. At December 31, 2003 Big Rock was in compliance with all of its debt covenants.

The bank loans bear variable rates of interest ranging from Royal Bank prime plus 1/2% to prime plus 3/4% depending on Big Rock's average quarterly interest coverage ratios. The average interest rate realized on the facilities (including the effect of interest rate swaps – see note 12) for the nine month period ended December 31, 2003 was 10.9% (year ended March 31, 2003 – 9.6%). Cash interest payments made during the nine month period ended December 31, 2003 amounted to \$190,727 (year ended March 31, 2003 - \$198,980).

Estimated principal payments required for subsequent fiscal years are as follows:

	\$
2004	1,100,000
2005	300,000
2006	1,967,247
	<u>3,367,247</u>

9. TRUST UNITHOLDERS' CAPITAL

Authorized

Unlimited number of Trust Units.

Issued and outstanding

Trust units	Shares/Units #	Amount \$
Balance as at March 31, 2002	5,241,556	13,131,991
Shares issued on exercise of stock options	195,168	756,785
Shares issued on acquisition of Bear [note 5]	100,000	775,000
Shares converted to Trust units – January 10, 2003	(5,536,724)	(14,663,776)
Trust units issued on conversion of shares	5,536,724	14,663,776
Trust units issued on exercise of options	5,500	26,575
Balance as at March 31, 2003	5,542,224	14,690,351
Trust units issued on exercise of options	55,300	361,637
Balance as at December 31, 2003	5,597,524	<u>15,051,988</u>

Unit-based compensation plan

A summary of the status of the Trust's incentive option plan as of December 31, 2003 and March 31, 2003 and changes during the periods ending on those dates is presented below:

	Nine months ended December 31, 2003		Year ended March 31, 2003	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Balance, beginning of period	497,200	\$6.54	677,250	\$5.84
Cancelled	(54,100)	\$7.13	(338,450)	\$6.11
Granted	57,500	\$8.50	308,000	\$6.54
Exercised	(55,300)	\$6.54	(149,600)	\$5.21
Balance, end of period	445,300	\$6.72	497,200	\$6.54

The following table summarizes information about incentive unit options outstanding at December 31, 2003:

Exercise Price	Number Outstanding at December 31, 2003	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable at December 31, 2003
\$4.50 - \$5.05	85,400	1.73	\$4.89	85,500
\$5.90 - \$6.70	204,400	3.95	\$6.62	204,400
\$7.23 to \$8.50	155,500	2.85	\$7.86	155,500
	445,300	3.14	\$6.72	445,300

Stock based compensation of \$24,150 was charged to salary expense during the period. In the year ended March 31, 2003 stock based compensation was not charged to salary expense. The pro-forma impact had such amounts been charged to earnings based on the fair value method would be as follows:

Year ended March 31, 2003	As Reported \$	Pro Forma \$
Net Income	2,292,997	2,123,713
Net Income per unit	0.43	0.40

The weighted average fair value of the options granted has been estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Nine months ended December 31, 2003	Year ended March 31, 2003
Risk free interest rate	4%	3.14%
Dividend yield	8.5%	10.3%
Expected volatility	18%	27%
Expected hold period	4 years	4 years
Fair value of option granted	\$0.42	\$0.89

10. INCOME TAXES

Income tax expense varies from the amounts that would be computed by applying the Canadian Federal and Provincial income tax rates to earnings before provision for income taxes as shown in the following table:

	Nine months ended December 31, 2003 \$	Year ended March 31, 2003 \$
Income before income taxes	5,447,399	3,040,364
Income tax expense at statutory rate of 36.78% (38.6% for year ended March 31, 2003)	2,003,681	1,174,189
Effect on taxes of		
Trust distributions	(972,301)	(448,000)
Manufacturing and processing profits deduction	(139,610)	(128,000)
Non-deductible expenses	46,620	207,000
Large Corporation tax	50,000	53,000
Income tax rate adjustments	(128,413)	(75,000)
Other	31,566	(35,822)
Income tax expense	891,543	747,367
Current income tax	(1,183,110)	562,348
Future income tax	2,074,653	185,019
Income tax expense	891,543	747,367

Future income tax reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of the Trust's future tax assets and liabilities are as follows:

	Nine months ended December 31, 2003 \$	Year ended March 31, 2003 \$
Future tax assets (liabilities):		
Non-capital loss carry-forwards	314,636	97,422
Capital assets	(4,472,812)	(4,632,197)
Partnership	(2,772,032)	(360,540)
Deferred charges	(33,909)	(6,000)
Share issue costs	15,861	47,525
Cumulative eligible capital	49,184	29,371
Net future tax liability	(6,899,072)	(4,824,419)

Cash income taxes paid during the period were \$895,190 (March 31, 2003 - \$620,617).

11. COMMITMENTS

Big Rock leases office equipment and vehicles under operating leases. Annual lease payments are as follows

	\$
2004	106,252
2005	68,900
2006	25,922
	<u>201,074</u>

The Trust also has commitments under its capital spending program for plant and equipment amounting to \$392,000 as at December 31, 2003.

12. FINANCIAL INSTRUMENTS

Financial instruments of the Trust consist of cash and cash equivalents, accounts receivable, short-term investments, income taxes recoverable, bank indebtedness, accounts payable and accrued liabilities, distributions payable, long-term debt and interest rate swaps. As at December 31, 2003 and March 31, 2003 there were no significant differences between the carrying amounts reported on the balance sheet (excluding the interest rate swaps), and their estimated market values. At December 31, 2003, a cash payment of approximately \$22,350 (March 31, 2003 - \$3,250) would have been required to settle the interest rate swap agreement.

Big Rock entered into interest rate swaps to fix interest on its borrowings. At December 31, 2003 and March 31, 2003 Big Rock had a swap agreement to exchange a floating interest rate for a fixed interest rate on \$1,100,000 at a rate of 6.77% with maturity on March 31, 2004.

Any payments or receipts incurred under the swaps are recorded as part of interest expense over the terms of the swaps.

The Trust is exposed to currency risk on cash, trade receivables, amounts drawn in United States dollars under its available line of credit, and accounts payable denominated in U.S. dollars, totalling U.S. \$37,669 at December 31, 2003 (March 31, 2003 - U.S. \$312,861).

The Trust has a concentration of credit risk because substantially all of its accounts receivable are from government owned provincial liquor boards. However, no individual customer accounts for greater than 10% of sales in any period other than the Alberta and British Columbia liquor authorities.

13. NET CHANGE IN NON-CASH WORKING CAPITAL

The net change in non-cash working capital relating to operating activities consists of:

	Nine months ended December 31, 2003 \$	Year ended March 31, 2003 \$
Accounts receivable	(869,431)	136,512
Inventories	(428,043)	(1,188,002)
Prepaid expenses and other	565,565	(528,285)
Prepaid deposits on capital assets reclassified	(382,308)	—
Investments	7,777	(8,420)
Accounts payable and accrued liabilities	(242,610)	856,382
Income tax recoverable	(2,077,330)	(586,564)
Distributions payable	3,318	—
Bear/Bear View working capital purchased	—	(434,906)
	(3,423,062)	(1,753,283)

14. SUPPLEMENTAL OPERATIONS INFORMATION

	Big Rock Brewery Ltd.	Big Rock Brewery Income Trust	Big Rock Brewery Income Trust
	Period from April 1, 2002 to January 9, 2003 \$	Period from January 10, 2003 to March 31, 2003 \$	Year ended March 31, 2003 \$
Revenue			
Sales	30,850,205	8,480,213	39,330,418
Government taxes and commissions	(6,955,531)	(1,911,877)	(8,867,408)
	23,894,674	6,568,336	30,463,010
Cost of sales	9,181,501	2,546,521	11,728,022
Gross profit	14,713,173	4,021,815	18,734,988
Expenses			
Selling	7,414,138	2,158,909	9,573,047
General and administrative	2,256,010	945,945	3,201,955
Reorganization costs	728,890	181,019	909,909
Interest on long term debt	260,604	19,599	280,203
Amortization	1,243,899	485,611	1,729,510
	11,903,541	3,791,083	15,694,624
Income before income taxes	2,809,632	230,732	3,040,364
Income tax expense	747,367	—	747,367
Net income	2,062,265	230,732	2,292,997

15. CASH DISTRIBUTIONS DECLARED PER TRUST UNIT

Period Covered	Record Date	Distribution Date	Per Unit
January 11, 2003 – January 31, 2003	Jan 31	Feb 15	\$0.04
February 1, 2003 – February 28, 2003	Feb 28	Mar 15	\$0.06
March 1, 2003 – March 31, 2003	Mar 31	Apr 15	\$0.06
Total cash distributions declared for the period			<u>\$0.16</u>
April 1, 2003 – April 30, 2003	Apr 30	May 15	\$0.06
May 1, 2003 – May 31, 2003	May 30	Jun 16	\$0.06
June 1, 2003 – June 30, 2003	Jun 30	Jul 15	\$0.06
July 1, 2003 – July 31, 2003	Jul 31	Aug 15	\$0.06
August 1, 2003 – August 31, 2003	Aug 29	Sep 15	\$0.06
September 1, 2003 – September 30, 2003	Sep 30	Oct 15	\$0.06
October 1, 2003 – October 31, 2003	Oct 31	Nov 17	\$0.06
November 1, 2003 – November 30, 2003	Nov 28	Dec 15	\$0.06
December 1, 2003 – December 31, 2003	Dec 31	Jan 15	\$0.06
Total cash distributions declared for the period			<u>\$0.54</u>

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.



Corporate Information

Directors

Edward E. McNally
Chairman &
Chief Executive Officer
Big Rock Brewery Ltd.
Calgary, Alberta

Robert J. King
President
Big Rock Brewery Ltd.
Calgary, Alberta

Robert H. Hartley
Rancher
High River, Alberta

Charles Wilson
Past President &
Chief Executive Officer
Shell Canada Limited
Pagusa Spring, Colorado

Kathleen McNally-Leitch
Partner
McNally and Cerveny Associates Limited
Calgary, Alberta

Robert G. Peters
Chairman of the Board
Peters & Co. Limited
Calgary, Alberta

James M. Jackson
Developer
Jackson & Jackson
Durango, Colorado

J. Cameron Millikin
Chairman
Bay Mount Capital Resources, Inc.
Calgary, Alberta

Gordon G. Tallman
Past Senior Vice President - Prairies
RBC Financial Group
Calgary, Alberta

Officers and Senior Personnel

Edward E. McNally
Chairman &
Chief Executive Officer

Robert J. King
President

Larry Kerwin
General Manager,
Brewery Operations

Timothy A. Duffin
Chief Financial Officer

Mike Hogan
General Manager,
Sales and Marketing

Christine Fowler
Corporate Secretary

Head Office

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Auditors

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Chartered Accountants
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Transfer Agents

Valiant Trust Company
510, 550 – 6 Avenue SW
Calgary, Alberta T2P 0S9





Big Rock Brewery Income Trust

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