



## Financial Highlights

	2005	2004	2003	2002
Net Sales	\$40,563,180	\$38,789,564	\$35,053,324	\$24,909,081
Net Income	6,619,876	6,766,908	5,094,964	1,217,786
Earnings per unit/share	1.12	1.17	0.92	0.24
Unitholders'/ Shareholders' Equity	29,830,107	29,520,151	26,686,519	21,784,134

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return to our roots

## Message to Unitholders

### Another Strong Year

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Following a successful 2004, Big Rock Brewery enjoyed another year of strong performance in 2005. The growth of our brands and production levels in 2005 provided an enhanced cash flow position and set in place the foundation for our future growth.

Sales volumes increased by 12% in 2005, thanks largely to our investment in private label and value brands that allowed us to take advantage of our excess capacity and distribution in Alberta. These private label and value brands allowed us to reduce our per hectolitre cost and improve our per case distribution cost while reducing our selling expenses. Although the changing product mix has decreased our margin per hectolitre, we have been able to achieve excellent product distribution in both on-premise and retail locations.

In April 2005, these improvements prompted the Board of Directors to increase the monthly distribution rate to 11 cents per unit.

Premium beers continue to be Big Rock's focus for the future, but we recognize that there is a strong market for both private label and value beers. Properly maintaining this balance between two distinctly different strategies will allow us to grow our brands and volumes resulting in financial success.

As we enter 2006, we are very well positioned to take advantage of our unique story, our quality beer craftsmen, and the link to the communities that we serve.

### Industry Trends

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While generally the Canadian economy has provided an improved disposable income, per capita beer consumption rates are flat or are decreasing in most areas of the country. In the beer industry, premium beer and value beers have been experiencing significant growth across all parts of the country, while mainstream brands have continued to struggle.

The premium beer segment is comprised of imported beer from other countries and domestic specialty beers brewed by craft and other brewers. These beers are typically higher priced and known for their quality and distinctive taste.

The value beer segment is comprised of low priced beer regardless of origin and usually is easily replaced by a lower priced alternative each time the product is purchased.

Today's consumer is much more concerned about what they drink, how much they drink, and when they drink. A desire for healthy living has increased the trends toward quality ingredients and the superior taste of food and beverages. The consumer is indulging less, but is willing to pay more to get the level of quality that they want. Big Rock has been a leader in the creation of high quality, naturally brewed beers for many years. This dedication to quality ingredients and distinctive taste has awakened consumer awareness of the great tasting, distinctive beers that are available.

Within the sales channels, changes continue to occur in both our on-premise and retail sales environments.

On-premise locations continue to be affected by changes to smoking and VLT legislation with more of the beer market moving to the retail sales channel. Draught beer now comprises only 9.7% of the total beer market and continues to decline annually. At the same time, the mix of products within this channel continues to change with bars and restaurants focused on a shift to premium brand name products, specifically wine and spirits. Profits on these items are greater and encourage a more affluent customer base.

Within the retail network, the number of overall stores is increasing despite the consolidation of both private and chain grocery stores. This together with the emergence of the value segment, now up to 35% in some stores, has eaten into the margins of many liquor retailers. Many retailers have answered by offering private label beers to enhance both their profit and their store's brand value.

The trend toward a further segmentation of beer based on its price will continue with consumers moving to either higher priced premium beers or toward low-priced average beers. Big Rock is well positioned to compete strongly in both of these areas.

### **Direction for 2006 – A return to our Roots!**

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Big Rock has recognized that what made us successful and different from other Canadian brewers has been the passion for great, naturally produced quality beers made by skilled craftsmen with a focus on our community.

Part of the plan to help us communicate what makes Big Rock great was to create a Purpose, Vision, and Culture statement for the entire organization to rally around. This statement is needed to provide clarity for a variety of stakeholders while being simple and yet inspirational for the employees of Big Rock.

Big Rock has looked back to its roots and to the founder's passion to clearly communicate the organization's purpose, vision, and desired culture. This statement will help us to describe and keep our focus over the coming years:

## For the Love of Big Rock Beer

*The statement that guides the organization in all we do is:*

### **Purpose**

To create exceptional beers for discriminating consumers.

*We aspire to this through our:*

### **Vision**

To be recognized as a superb brewery, renown for our premium products, community involvement and strong business performance.

*Living our Purpose and Vision entails:*

### **Culture**

- ✦ Passion for premium beers.
- ✦ Confidence to be different and defy conventionality.
- ✦ Driven by consumer wants and desires.
- ✦ Employees reflect the founder's entrepreneurial spirit.
- ✦ Known for our integrity and ethical business practices.
- ✦ To educate consumers/licensees on the proper serving of natural, unpasteurized beers.
- ✦ Engage employees in achieving success.
- ✦ Encourage innovation, creativity and adaptability.
- ✦ Demonstrate respect and dignity in all we do.
- ✦ Big Rock is a fun place to work.
- ✦ Pride in our dedicated and hardworking employees.
- ✦ Advocate intelligent consumption.

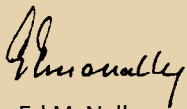


As a result of our new Purpose, Vision and Culture statement, we have realigned the organization to celebrate our top three advantages:

1. Passion for brewing Quality, Premium Beers
2. Our Dedicated and Accomplished Beer Craftsmen
3. Support of the Grassroots Community

In 2006 we will re-focus on our customers and the things that make our consumers so loyal to their favorite Big Rock beer. By connecting with our current loyal consumers and giving the opportunities for fellow beer-lovers to try some sensational beers we will grow our brands and our profits.

Big Rock Brewery and the story of Ed McNally is a great one – we intend to tell our story and share some premium beers in the process.



Ed McNally  
Chairman



Ken Barbet  
President



Grasshopper 2005 summer campaign



**Big Rock has looked back to its roots and to the founder's passion to clearly communicate the organization's purpose, vision and culture.**

**Vision: to be recognized as a superb brewery, renown for our premium products, community involvement and strong business performance.**



## Management Discussion and Analysis for the year ended December 31, 2005

March 16, 2006

The following discussion and analysis should be read in conjunction with the 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](http://www.sedar.com)

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 and Manitoba and sales agents in Ontario, Nova Scotia, and Newfoundland.

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

Big Rock will continue to develop new products to satisfy changing consumer preferences and market trends.

Big Rock uses a targeted approach for promotion of its products by sponsoring cultural and community events, beer festivals and entertainment venues to create awareness of its products. 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 dependant on the weather and the seasons. Sales in the second and third quarters, spring and summer, are historically stronger than autumn and winter, the fourth and first quarters.

## Kamloops Brewery Sale:

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On October 12, 2005, Big Rock sold all of the assets used in connection with the brewery located in Kamloops, British Columbia (the "Kamloops Brewery") to a British Columbia based arm's length private investor group. Land, building, brewery equipment and intellectual property/goodwill with a net book value of \$3,476,239 and inventory with a book value of \$1,219,541 were sold for net cash proceeds of \$4,724,209 after deducting legal and other costs related to the sale in the amount of \$242,246. The gain on sale of Kamloops Brewery was \$28,429.

Soon after Big Rock purchased the Kamloops Brewery in 2002 the B.C. Liquor authority revised the provincial markup structure classifying Big Rock with the large national and international brewers. This reduced the advantage to Big Rock of owning a brewery in the province of British Columbia.

The Kamloops Brewery produced mainly private label draft beers for three restaurant chains as well as Rock Creek Cider, Joe Stiff's vodka based beverages and a small amount of Whistler brand beers. Though production was maintained over the past three years, it became apparent that these assets were redundant as production could be handled more efficiently in Calgary. Accordingly, the Board of Directors determined that it was in the best interests of the Unitholders to sell the Kamloops assets. Big Rock retained the Rock Creek Cider brand and moved that production to the Calgary brewery.

The Whistler and Kamloops brands as well as the names "Whistler Brewing Company Ltd." and "Kamloops Brewery Ltd." were included with the asset sale. However, the actual Whistler and Kamloops entities were retained by Big Rock as these wholly owned subsidiaries are partners in Big Rock Brewery Partnership. The two companies were amalgamated effective December 31, 2005 and renamed Pine Creek Brewing Company Ltd.

## Selected financial information:

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	2005	2004
Net Sales Revenue	40,563,180	38,789,564
Net Income	6,619,876	6,766,908
Earnings/unit - basic	1.12	1.17
Cash provided by operating activities	9,021,553	12,566,720
Weighted average # of units o/s	5,932,849	5,781,470
Distributions per unit	1.29	0.98
Total assets	41,786,177	40,928,468

## Results of Operations:

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Rain and cool weather in western Canada throughout the summer of 2005 put a damper on outdoor activities in Big Rock's major markets and had an adverse impact on sales. Even so, Big Rock's sales force achieved a product sales volume increase of 12% to 215,166 hectoliters (HL) for the year ended December 31, 2005 from 192,674 HL in 2004. This volume increase is attributable to new business in value and private label brands.

For the year ended December 31, 2005, net sales revenue rose 5% to \$40,563,180 from \$38,789,564 in 2004. Year-over-year net revenue per hectoliter decreased by \$12 reflecting the increase in sales of lower margin value and private label brands.

During the year, the Canadian beer industry continued to experience significant growth in the popularity of value priced beers. While Big Rock has been able to maintain its volume in the premium beer segment year-over-year, the increase in Big Rock's value beer brand sales has been impressive. Big Rock is very well positioned to compete aggressively in the value segment in Alberta. The brewery is among the most modern and efficient in North America and was designed/built with scalability to cost-effectively meet increases in production demands.

Big Rock has benefited significantly from the Alberta small brewer's markup regime whereby brewers with an annual worldwide production of less than 400,000 HL are assessed a markup rate of \$0.40 per liter on the first 200,000 HL sold in Alberta and \$0.98 per liter on the next 200,000 HL sold in Alberta up to and including 400,000 HL of worldwide production. Once a small brewer exceeds 400,000 HL the markup rate is \$0.98 per liter on all Alberta sales. This policy provides Big Rock with the ability to increase its volume up to 400,000 HL while maintaining the small brewer mark-up benefit on the first 200,000 HL of sales in Alberta. The potential for continued profitable growth of the Company's business is significantly enhanced as a result of this policy.

Cost of sales increased from \$13,696,549 last year to \$15,255,008 for the year ending December 31, 2005 due to the increase in production volumes. Cost of sales was consistent year-over-year at \$71 per HL. Gross profit for the year was up \$215,157 (1%) to \$25,308,172 from \$25,093,015 last year commensurate with the volume increase and shifting sales mix to lower priced value beers.

Selling expenses for the year ended December 31, 2005 increased by 5% to \$11,669,731 compared to \$11,149,364 last year. Increasingly competitive promotional programs require constant innovation by Big Rock marketing and sales staff to encourage the pull through of Big Rock products both on-premise and off-premise. Selling expenses also include the cost of delivering beer. Selling cost decreased by \$4 per HL year-over year reflecting the increase in sales of value and private label brands.

Income tax expense for the year of \$1,127,036 (2004 - \$928,858) is comprised of \$461,000 in current income tax expense and \$666,036 in future income tax expense. The income trust structure shelters \$5,586,894 of net income by shifting the tax burden to the unitholders and reducing the effective income tax rate from 34.55% to 14.55%.

Net income for the year ending December 31, 2005 was \$6,619,876 compared to \$6,766,908 for the year ended December 31, 2004, a 2% decrease. The increase in income tax expense of \$198,178 is primarily responsible for this decrease.

Net income per unit decreased to \$1.12 for the year ended December 31, 2005 from \$1.17 for the year ended December 31, 2004. Units outstanding increased by 138,900 to 5,998,324 during the year.

Cash distributions declared to unitholders for the year ended December 31, 2005 were \$7,655,208 or \$1.29 per unit (2004 - \$5,671,544 or \$0.98 per unit).

### **Financial Condition:**

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Big Rock is very healthy financially with \$5,722,465 in cash and cash equivalents at year-end (December 31, 2004 - \$2,093,695) and no long-term debt or bank indebtedness. After paying out cash distributions of \$7,581,394 during 2005 (2004 - \$5,421,453) the Trust continues to enjoy good liquidity with a current ratio of 3.3:1 (2004 – 2.5:1). Cash includes a \$4,500,000 Banker's acceptance purchased with proceeds from the sale of the Kamloops Brewery.

At December 31, 2005, accounts receivable increased by \$1,090,151 (40%) to \$3,848,397 from \$2,758,246 as at December 31, 2004 reflecting increased beer sales in the fourth quarter and the timing of receipt of government payments. Sales growth resulted from Big Rock's continuing push in the value and lager markets.

Inventories as at December 31, 2005 decreased by \$1,619,340 (35%) to \$3,048,610 from \$4,667,950 as at December 31, 2004. Finished goods inventory of bottled beer was stockpiled in December, 2004 as the bottle washer was scheduled for a major overhaul in January and the bottling line would be down for a considerable period. Inventory also decreased as a result of the sale of the Kamloops Brewery.

Prepaid expenses and deposits decreased by \$276,484 (65%) to \$150,685 as at December 31, 2005 from \$427,169 as at December 31, 2004. The difference was principally a deposit paid on Big Rock promotional glassware on order at December 31, 2004.

The net book value of property, plant & equipment decreased by \$1,282,222 during the year ended December 31, 2005 to \$28,615,246 (2004 - \$29,897,468). The decrease was caused by the sale of the Kamloops Brewery and amortization offset by capital additions. Major capital additions included upgrades to the packaging lines at a cost of \$1,049,000 and expanding fermenting capacity at a cost of \$1,224,000. The brewery has the capacity to brew, ferment, and package up to 400,000 hl of beer annually depending on the lager/ale mix.

Goodwill of \$727,218 at December 31, 2004 was related to the Kamloops Brewery and no longer exists .

Big Rock has a \$5,000,000 demand operating facility provided by Alberta Treasury Branches (ATB) which bears interest at ATB prime rate. The balance of this facility will fluctuate as working capital requirements dictate but there were no drawings against the facility at December 31, 2005 or December 31, 2004.

The ATB facilities impose a number of positive and negative covenants on Big Rock including the maintenance of certain financial ratios. At December 31, 2005 and 2004 Big Rock was in compliance with all of its debt covenants. Collateral for these borrowings is a general assignment of the Partnership's assets.

At December 31, 2005 accounts payable decreased by \$429,636 (14%) to \$2,746,468 from \$3,176,104 as at December 31, 2004 due primarily to the timing of raw materials inventory purchases.

Big Rock Brewery was reorganized as an Income Trust in January, 2003. As part of the restructuring, a note in the amount of \$39,906,389 was created between Big Rock Brewery Ltd. (the operating company) and Big Rock Brewery Income Trust. At 14% interest this note generates interest payable to the Trust in the amount of \$5,586,894 annually which is paid out to the Unitholders as monthly cash distributions. As this interest is deductible for income tax purposes as an expense in the operating company it effectively shelters \$5,586,894 of income. As Big Rock's income exceeds this amount the excess becomes taxable at a corporate rate of 34.55%. Current income tax payable at December 31, 2005 has increased by \$237,539 to \$489,679 (2004 - \$252,140 )

The liability for future income taxes increased by \$666,036 to \$8,060,167 as at December 31, 2005 from \$7,394,131 as at December 31, 2004. 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 and the deferral of taxes payable as a result of the Trust's structure.

During the year ended December 31, 2005, 138,900 unit options were exercised for proceeds to the Trust of \$1,086,628. In the year ended December 31, 2004 261,900 unit options were exercised for proceeds of \$1,702,976.

Contributed surplus of \$286,953 represents stock based compensation expense calculated using the Black-Scholes option pricing model less \$31,149 in conversion of Contributed Surplus to Trust Unitholders capital related to options exercised. Stock based compensation expense recognized during the year ended December 31, 2005 was \$258,660 (2004 - \$35,292).

## Cash Flows:

Cash provided by operating activities decreased by \$3,545,167 (28%) to \$9,021,553 for the year ended December 31, 2005 from \$12,566,720 in the year ended December 31, 2004. The decrease arose primarily from the receipt last year of \$2,195,000 in income taxes recoverable.

During the period cash distributions of \$7,581,394 (2004 - \$5,421,453) were paid to Unitholders, all of which are taxable in their hands. Stock options exercised during the year contributed \$1,086,628 of cash compared to \$1,702,976 for the year ended December 31, 2004.

Cash used in investing activities includes the purchase of capital assets of \$3,578,174 (2004 - \$2,078,424) relating to upgrades to the canning and bottling and kegging lines, the addition of stainless steel fermentation vessels and cellar expansion.

## Summary of Quarterly Results:

Quarter Ended	Net Sales	Net Income	Earnings per unit		Weighted Average Units Outstanding
			Basic	Diluted	
31-Dec-05	\$10,007,311	\$1,698,890	\$0.29	\$0.29	5,981,357
30-Sep-05	\$11,776,035	\$2,224,067	\$0.37	\$0.37	5,958,241
30-Jun-05	\$10,831,294	\$1,695,494	\$0.29	\$0.28	5,920,074
31-Mar-05	\$7,948,540	\$1,001,425	\$0.17	\$0.17	5,871,724
31-Dec-04	\$8,809,353	\$1,267,684	\$0.22	\$0.22	5,850,791
30-Sep-04	\$10,118,479	\$1,861,971	\$0.32	\$0.31	5,821,424
30-Jun-04	\$11,575,836	\$2,213,802	\$0.38	\$0.38	5,753,307
31-Mar-04	\$8,285,896	\$1,423,451	\$0.25	\$0.24	5,700,357

## Liquidity and Capital Resources:

Big Rock's working capital (current assets less current liabilities) increased by \$2,941,380 to \$8,874,254 as at December 31, 2005 from \$5,932,874 as at December 31, 2004, largely as a result of the sale of Kamloops Brewery.

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 \$5,000,000 is sufficient to fund fluctuations in operating cash requirements throughout the year.

**Contractual Obligations and Commitments:**

	Total	Payments due by Period		
		Up to 1 year	2 years	3 years
Operating leases	27,334	24,451	2,883	-
Capital spending	1,950,000	1,950,000	-	-
Total	1,977,334	1,974,451	2,883	0

Contractual obligations and commitments will be funded by cash generated from operating activities.

On February 1, 2006, Big Rock entered into a purchase contract for the purchase of approximately 136,000 GJ of natural gas at a fixed price of \$9.58 per GJ for the period from March 1, 2006 to February 29, 2009.

Big Rock has contracted to purchase malt for 2006 requirements at a fixed price of \$395 per MT.

**Critical Accounting Estimates:****Returnable glass containers -**

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 \$1,031,796 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, 2005 is \$621,470 (2004 - \$195,012).

**Stock-based compensation -**

The Trust recognizes compensation expense when options with no cash settlement feature are granted to employees and directors under the option plan. Stock based compensation expense recognized during the year ended December 31, 2005 was \$258,660 (2004 - \$35,292) based on the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 4%, dividend yield of 7%, expected volatility of 14.4% and expected hold period prior to exercise of 2 years.

**Plant, Property and Equipment (PP&E) -**

Accounting for PP&E involves making estimates of the life of the assets, the selection of an appropriate method of depreciation and determining whether an impairment of Big Rock's assets exists. These assessments are critical due to their potential impact on earnings. Big Rock completes a yearly assessment of the carrying value of its property, plant and equipment for indications of impairment. If there are indications of impairment, a comparison of carrying value to the estimated undiscounted future net cash flows from the assets is undertaken. If it is determined that an asset's undiscounted future net cash flows are less than its carrying value, the asset is written down to its net realizable value.

### **Risks Related to the Business and the Industry:**

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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 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. Big Rock 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.

Big Rock 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 and the Canada Revenue Agency – Excise. Management believes that the Company is in compliance with all licenses, permits, and approvals.

### **Disclosure Controls and Procedures:**

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The Trust has established disclosure controls and procedures to ensure timely and accurate preparation of financial and other reports. Disclosure controls and procedures are designed to provide reasonable assurance that material information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to the appropriate members of management and properly reflected in the Trust's filings. The Chief Executive Officer and the Chief Financial Officer oversee this evaluation process and have concluded that the design and operation of these disclosure controls and procedures are adequate and effective in ensuring that the information required to be disclosed by the Trust in reports filed with the Canadian Securities Administrators is accurate and complete and filed within the time periods required. The Chief Executive Officer and the Chief Financial Officer have individually signed certifications to this effect.

### **Forward-looking Statements:**

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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

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March 16, 2006

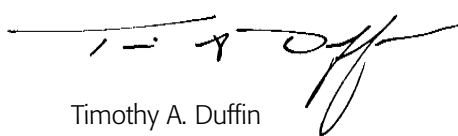
The accompanying consolidated financial statements in the annual report are the responsibility of management. The consolidated financial statements of the Trust have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In the opinion of management, the financial 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.



Ken Barbet  
President and Chief Executive Officer



Timothy A. Duffin  
Chief Financial Officer

## Auditors' Report

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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, 2005 and 2004 and the consolidated statements of operations and undistributed income and cash flows for the years then ended. 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, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Canada  
March 16, 2006

*Ernst + Young LLP*  
Chartered Accountants

# Consolidated Balance Sheets

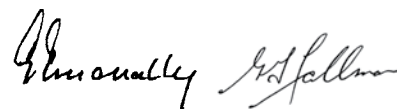
## Big Rock Brewery Income Trust

As at December 31,

	2005 \$	2004 \$
<b>ASSETS</b> [note 6]		
<b>Current</b>		
Cash and cash equivalents	5,722,465	2,093,695
Accounts receivable	3,848,397	2,758,246
Inventories [note 3]	3,048,610	4,667,950
Prepaid expenses and other	150,685	427,169
	<b>12,770,157</b>	9,947,060
Property, plant and equipment [note 4]	28,615,246	29,897,468
Deferred charges and other assets	400,774	356,722
Goodwill	—	727,218
	<b>41,786,177</b>	40,928,468
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	2,746,468	3,176,104
Income taxes payable	489,679	252,140
Distributions payable	659,756	585,942
	<b>3,895,903</b>	4,014,186
Future income taxes [note 8]	8,060,167	7,394,131
	<b>11,956,070</b>	11,408,317
<b>Commitments</b> [note 9]		
<b>Unitholders' equity</b>		
Trust unitholders' capital [note 7]	17,872,741	16,754,964
Contributed surplus [note 7]	286,953	59,442
Undistributed income	11,670,413	12,705,745
	<b>29,830,107</b>	29,520,151
	<b>41,786,177</b>	40,928,468

See accompanying notes

On behalf of the Board:



E.E. McNally  
Director

Gordon Tallman  
Director

# Consolidated Statements of Operations and Undistributed Income

## Big Rock Brewery Income Trust

Year ended December 31

	2005 \$	2004 \$
<b>Revenue</b>		
Net sales	<b>40,563,180</b>	38,789,564
Cost of sales	<b>15,255,008</b>	13,696,549
<b>Gross profit</b>	<b>25,308,172</b>	25,093,015
<b>Expenses</b>		
Selling	<b>11,669,732</b>	11,149,364
General and administrative	<b>3,808,582</b>	4,201,112
Interest on long-term debt	—	120,578
Amortization	<b>2,111,375</b>	1,926,195
Gain on sale of Kamloops Brewery <i>[note 5]</i>	<b>(28,429)</b>	—
	<b>17,561,260</b>	17,397,249
<b>Income before income taxes</b>	<b>7,746,912</b>	7,695,766
Income tax expense <i>[note 8]</i>	<b>1,127,036</b>	928,858
<b>Net income for the year</b>	<b>6,619,876</b>	6,766,908
Undistributed income, beginning of year	<b>12,705,745</b>	11,610,381
Cash distributions declared	<b>(7,655,208)</b>	(5,671,544)
<b>Undistributed income, end of year</b>	<b>11,670,413</b>	12,705,745
<b>Net income per unit <i>[note 2]</i></b>		
Basic	<b>1.12</b>	1.17
Diluted	<b>1.11</b>	1.15

See accompanying notes

# Consolidated Statements of Cash Flows

## Big Rock Brewery Income Trust

Year ended December 31

	2005 \$	2004 \$
<b>OPERATING ACTIVITIES</b>		
Net income for the year	<b>6,619,876</b>	6,766,908
Items not affecting cash		
Amortization	<b>2,111,375</b>	1,926,195
Gain on sale of Kamloops Brewery [note 5]	<b>(28,429)</b>	—
Unit based compensation [note 7]	<b>258,660</b>	225,292
Future income taxes [note 8]	<b>666,036</b>	495,059
	<b>9,627,518</b>	9,413,454
Net change in non-cash working capital [note 11]	<b>(605,965)</b>	3,153,266
<b>Cash provided by operating activities</b>	<b>9,021,553</b>	12,566,720
<b>FINANCING ACTIVITIES</b>		
Repayment of bank indebtedness	—	(1,574,393)
Repayment of long-term debt	—	(3,367,247)
Distribution payments	<b>(7,581,394)</b>	(5,421,453)
Cash received on exercise of options [note 7]	<b>1,086,628</b>	1,702,976
<b>Cash used in financing activities</b>	<b>(6,494,766)</b>	(8,660,117)
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	<b>(3,578,174)</b>	(2,078,424)
Deferred charges and other assets, net	<b>(44,052)</b>	8,258
Net proceeds on sale of Kamloops Brewery [note 5]	<b>4,724,209</b>	—
<b>Cash provided by (used in) investing activities</b>	<b>1,101,983</b>	(2,070,166)
<b>Net increase in cash</b>	<b>3,628,770</b>	1,836,437
Cash and cash equivalents, beginning of year	<b>2,093,695</b>	257,258
<b>Cash and cash equivalents, end of year</b>	<b>5,722,465</b>	2,093,695

See accompanying notes

## Big Rock Brewery Income Trust

December 31, 2005 and 2004 and for the twelve month periods then ended

### 1. DESCRIPTION OF BUSINESS

Big Rock Brewery Income Trust ("Big Rock" or the "Trust") produces its own and private label brands of specialty draught and bottled beer for sale across Canada. 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 subsidiary Pine Creek Brewing Company Ltd., (formerly Whistler Brewing Company Ltd. and Kamloops Brewing Company Ltd.)

### 2. 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.

#### 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

Goodwill, which represents the excess of the purchase price of net assets acquired over their fair value at the date of acquisition is not amortized however it is assessed for impairment at least annually. Impairment is assessed based on a comparison of the fair value of the net assets acquired to their carrying value, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, an impairment charge is recorded to the extent that the carrying amount of the goodwill exceeds its fair value.

#### Property, plant and equipment

Property, plant and equipment 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 the carrying value of its property, plant and equipment for indications of impairment. If there are indications of impairment, a comparison of carrying value to the estimated undiscounted future net cash flows from the assets is undertaken. If it is determined that an asset's undiscounted future net cash flows are less than its carrying value, the asset is written down to its net realizable value.

Returnable glass containers purchased are initially recorded at cost. In order to charge operations for wear and disappearance, the cost of new 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 to the purchaser and represents sales to the respective provincial liquor control boards less excise taxes of \$5,987,441 (2004 – \$5,352,165) which are assessed on beer production at \$27.985 per hectoliter, and provincial liquor control board commissions deducted in arriving at the net proceeds to Big Rock. The commissions cover distribution and other service charges.

#### **Income taxes**

The Trust is a mutual fund trust for the purposes of the Income Tax Act, and is only subject to statutory income taxes on taxable income not distributed to unitholders. There is no recognition of future income tax assets or liabilities on temporary differences within the Trust; however, the liability method of accounting for income taxes is followed within the subsidiaries of the Trust. Under this method, future tax assets and liabilities are determined based on 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. 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 becomes substantively enacted.

### 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 year which was: basic – 5,932,849 (2004 – 5,781,470); diluted – 5,968,310 (2004 – 5,873,830).

### Unit-based compensation plan

The Trust has established a unit option plan whereby options for a maximum of 599,832 units may be granted to employees, 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. The fair value of options granted are charged 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. Participants in the plan, upon exercising their options may request to receive either a cash payment equal to the difference between the exercise price and the market price of the Trust's units or units issued from Treasury. Irrespective of the participant's request, the Trust may choose to only issue units.

### Cash and cash equivalents

Short term investments with initial maturity of not more than 90 days are considered to be cash equivalents, and are recorded at cost, which approximates current market value.

## 3. INVENTORIES

	<b>2005</b>	<b>2004</b>
	\$	\$
Raw materials and returnable glass containers	917,577	2,068,119
Brews in progress	503,968	427,244
Finished product	1,143,733	1,770,495
Promotional goods and dispensing units	483,332	402,092
	<u>3,048,610</u>	<u>4,667,950</u>

#### 4. PROPERTY, PLANT AND EQUIPMENT

	<b>2005</b>		
	<b>Cost</b> \$	<b>Accumulated Amortization</b> \$	<b>Net Book Value</b> \$
Land	<b>2,396,234</b>	–	<b>2,396,234</b>
Buildings	<b>9,757,184</b>	<b>1,865,642</b>	<b>7,891,542</b>
Production equipment	<b>29,319,693</b>	<b>11,676,399</b>	<b>17,643,294</b>
Vehicles	<b>707,921</b>	<b>345,775</b>	<b>362,146</b>
Furniture and fixtures	<b>1,403,041</b>	<b>1,081,011</b>	<b>322,030</b>
	<b>43,584,073</b>	<b>14,968,827</b>	<b>28,615,246</b>

	<b>2004</b>		
	<b>Cost</b> \$	<b>Accumulated Amortization</b> \$	<b>Net Book Value</b> \$
Land	2,396,234	–	2,396,234
Buildings	12,228,828	2,814,682	9,414,146
Production equipment	28,160,142	10,840,095	17,320,047
Vehicles	586,499	258,269	328,230
Furniture and fixtures	1,437,242	998,431	438,811
	44,808,945	14,911,477	29,897,468

#### 5. KAMLOOPS BREWERY SALE

On October 12, 2005, Big Rock sold all of the assets used in connection with the brewery located in Kamloops, British Columbia (the “Kamloops Brewery”) to a British Columbia based arm’s length private investor group. Land, building, brewery equipment and intellectual property/goodwill with a net book value of \$3,476,239 and inventory with a book value of \$1,219,541 were sold for net cash proceeds of \$4,724,209 after deducting legal and other costs related to the sale in the amount of \$242,246. The gain on sale of Kamloops Brewery was \$28,429.

#### 6. AVAILABLE CREDIT FACILITY

Big Rock has available a \$5 million demand revolving credit facility with ATB Financial (“ATB”). Advances under the facility bear interest at ATB prime. The facility imposes a number of positive and negative covenants on Big Rock including the maintenance of certain financial ratios. At December 31, 2005 and 2004 Big Rock was in compliance with all of its covenants but had no outstanding indebtedness. A first floating charge over all of Big Rock’s assets is held as collateral for drawings under the facility.

## 7. TRUST UNITHOLDERS' CAPITAL

### Authorized

Unlimited number of Trust Units.

### Issued and outstanding

	Units #	Amount \$
<b>Balance as at December 31, 2003</b>	5,597,524	15,051,988
Trust units issued on exercise of options	261,900	1,702,976
<b>Balance as at December 31, 2004</b>	5,859,424	16,754,964
Trust units issued on exercise of options	138,900	1,086,628
Transfer from contributed surplus related to options exercised		31,149
<b>Balance as at December 31, 2005</b>	5,998,324	17,872,741

### Unit-based compensation plan

A summary of the status of the Trust's incentive option plan as of December 31, 2005 and 2004 and changes during the twelve month period then ended is presented below:

	2005		2004	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Balance, beginning of year	222,150	8.30	445,300	\$6.72
Cancelled	(19,550)	13.41	(13,200)	8.70
Granted	359,250	19.07	51,950	12.87
Exercised	(138,900)	7.81	(261,900)	6.50
Balance, end of year	422,950	17.38	222,150	\$8.30

The following table summarizes information about incentive unit options outstanding at December 31, 2005:

	Number Outstanding at December 31, 2005	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable at December 31, 2005
\$4.50 to \$4.85	2,500	0.734	4.50	2,500
\$5.00 to \$6.35	2,400	1.808	6.35	2,400
\$6.70 to \$7.60	27,350	2.046	6.81	27,350
\$8.50 to \$12.65	34,950	3.111	10.60	34,950
\$12.66 to \$13.76	3,500	3.285	13.76	3,500
\$13.77 to \$19.07	352,250	4.455	19.07	352,250
	422,950	4.141	17.38	422,950

Stock based compensation of \$258,660 was charged to salary expense during 2005 (2004 - \$35,292).

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:

	<b>2005</b>	<b>2004</b>
	\$	\$
Risk free interest rate	<b>4%</b>	4%
Dividend yield	<b>7%</b>	7.5%
Expected volatility	<b>14.4%</b>	19.7%
Expected hold period	<b>2 years</b>	5 years
Fair value of option granted	<b>\$0.72</b>	\$0.68

During 2004, the Trust granted an equity appreciation right, the value of which was determined by the change in the price of a unit from the date of grant to the expiry date on June 30, 2005. The fair value of this right was \$190,000 using the closing unit price on December 31, 2004 and is included as a general and administrative expense in the consolidated statement of operations. In 2005, the right was exercised and an additional expense of \$68,660 was incurred and charged to general and administrative expense.

## 8. 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:

	<b>2005</b>	<b>2004</b>
	\$	\$
Income before income taxes	<b>7,746,912</b>	7,695,766
Income tax expense at statutory rate of 34.55% (34.70% for 2004)	<b>2,676,558</b>	2,670,431
Effect on taxes of		
Trust distributions	<b>(1,831,222)</b>	(1,773,478)
Manufacturing and processing profits deduction	<b>(19,221)</b>	(13,675)
Non-deductible expenses	<b>116,075</b>	53,724
Large Corporation tax	<b>31,000</b>	15,000
Income tax rate adjustments	<b>(68,604)</b>	(120,012)
Other	<b>222,450</b>	96,868
Income tax expense	<b>1,127,036</b>	928,858
Current income tax	<b>461,000</b>	433,799
Future income tax	<b>666,036</b>	495,059
Income tax expense	<b>1,127,036</b>	928,858

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 income tax liability are as follows:

	<b>2005</b>	<b>2004</b>
	\$	\$
Future tax assets (liabilities):		
Non-capital loss carry-forwards	—	403,764
Capital assets	<b>(4,660,993)</b>	(4,531,585)
Partnership	<b>(3,393,804)</b>	(3,373,366)
Deferred charges	<b>(15,676)</b>	(20,312)
Share issue costs	<b>10,306</b>	17,851
Cumulative eligible capital	—	44,860
Accrued expenditures	—	64,657
Net future tax liability	<b>(8,060,167)</b>	(7,394,131)

Cash income taxes paid during the period were \$241,955 (2004 - \$60,464).

## 9. COMMITMENTS

Big Rock leases vehicles under operating leases. Annual lease payments are as follows:

	\$
2006	24,451
2007	2,883
	27,334

The Trust also has commitments under its capital spending program for plant and equipment amounting to \$86,850 as at December 31, 2005.

Subsequent to year-end the Trust entered into a three year contract to purchase approximately 136,000 GJ of natural gas at a fixed price of \$9.58 per GJ for Big Rock's own use during the period March 1, 2006 to February 28, 2009.

The Trust has also entered into a contract to purchase malt for Big Rock's 2006 supply requirements at a fixed price of \$395 per metric tonne.

## 10. FINANCIAL INSTRUMENTS

Financial instruments of the Trust consist of cash and cash equivalents, accounts receivable, accounts payable and distributions payable. There were no significant differences between the carrying amounts reported on the balance sheet and their estimated market values.

The Trust is exposed to currency risk totalling \$203,532 at December 31, 2005 (2004 - \$66,889) comprised of \$187,457 in cash, \$693 in trade receivables, and \$15,382 in accounts payable.

No individual customer accounts for greater than 10% of sales in any period other than the Alberta and British Columbia liquor authorities.

### 11. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
Accounts receivable	<b>(1,090,151)</b>	(129,027)
Income tax recoverable	—	2,195,000
Inventories	<b>1,619,340</b>	(155,853)
Disposition of Kamloops Inventory	<b>(1,219,541)</b>	—
Prepaid expenses and other	<b>276,484</b>	(47,004)
Accounts payable and accrued liabilities	<b>(429,636)</b>	1,038,010
Income tax payable	<b>237,539</b>	252,140
	<b>(605,965)</b>	3,153,266

### 12. CASH DISTRIBUTIONS DECLARED PER TRUST UNIT

Period Covered	2005			2004		
	Record Date	Distribution Date	Per Unit	Record Date	Distribution Date	Per Unit
January	<b>Jan 31</b>	<b>Feb 15</b>	<b>\$0.10</b>	Jan 30	Feb 15	\$0.07
February	<b>Feb 28</b>	<b>Mar 15</b>	<b>\$0.10</b>	Feb 27	Mar 15	\$0.07
March	<b>Mar 31</b>	<b>Apr 15</b>	<b>\$0.10</b>	Mar 31	Apr 15	\$0.07
April	<b>Apr 29</b>	<b>May 16</b>	<b>\$0.11</b>	Apr 30	May 15	\$0.08
May	<b>May 31</b>	<b>Jun 15</b>	<b>\$0.11</b>	May 31	Jun 16	\$0.08
June	<b>Jun 30</b>	<b>Jul 15</b>	<b>\$0.11</b>	Jun 30	Jul 15	\$0.08
July	<b>Jul 29</b>	<b>Aug 15</b>	<b>\$0.11</b>	Jul 30	Aug 16	\$0.08
August	<b>Aug 31</b>	<b>Sep 15</b>	<b>\$0.11</b>	Aug 31	Sep 15	\$0.08
September	<b>Sep 30</b>	<b>Oct 14</b>	<b>\$0.11</b>	Sep 30	Oct 15	\$0.09
October	<b>Oct 31</b>	<b>Nov 15</b>	<b>\$0.11</b>	Oct 29	Nov 17	\$0.09
November	<b>Nov 30</b>	<b>Dec 15</b>	<b>\$0.11</b>	Nov 30	Dec 15	\$0.09
December	<b>Dec 31</b>	<b>Jan 16</b>	<b>\$0.11</b>	Dec 31	Jan 17	\$0.10
Total			<b>\$1.29</b>			\$0.98

### 13. COMPARATIVE FIGURES

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



*“ To create a masterpiece  
no compromise may be tolerated “*

*Ed McNally, Founder*