



Second Quarter Report

For the three month period ended
June 30, 2006

Big Rock Brewery Income Trust

Management's Discussion and Analysis for the three and six month periods ended June 30, 2006

The following discussion and analysis should be read in conjunction with the Big Rock Brewery Income Trust ("Big Rock" or the "Trust") unaudited interim consolidated financial statements as at and for the three month and six month periods ended June 30, 2006 and the audited consolidated financial statements as at and for the year ended December 31, 2005. The consolidated financial statements of the Trust have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are denominated in Canadian dollars.

Accounting policies and methods followed in the preparation of the interim financial statements are the same as those summarized in note 2 to the consolidated financial statements of the Trust for the year ended December 31, 2005.

Big Rock is a regional producer, marketer, and distributor of bottles, cans, and kegs of premium quality specialty beers, also known as craft beers, with a brewery located in Calgary, Alberta. Big Rock has sales and distribution facilities at its brewery in Calgary, Alberta as well as in Edmonton, Alberta and has sales representatives resident in British Columbia, Saskatchewan and Manitoba. Big Rock products are available in Ontario, Newfoundland, and Nova Scotia through third party agents.

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

During the quarter Big Rock announced a proposed reorganization, adopted by a number of other income trusts, which will provide the Trust with a "flow-through" structure that will maximize the cash available for distribution to Unitholders by reducing the income taxes paid under the current structure. The reorganization would result in the existing business being carried on through a limited partnership owned directly by the Trust. The reorganization is conditional on obtaining a number of regulatory and third party approvals, including a favourable income tax ruling from Canada Revenue Agency and approval of Unitholders of the Trust. From a Unitholder's perspective, the reorganization will not result in a change to the number, type or ownership of outstanding Units of the Trust. Further, the reorganization will have no impact on the daily operations of the business.

If Big Rock receives a favourable income tax ruling and the Board of Directors decides to proceed with a reorganization, a Special Meeting of Unitholders will be called where Unitholders will be asked to approve a reorganization of the Trust and its subsidiaries. In this case, a detailed description of the reorganization will be contained in the Notice of Meeting and Management Information Circular that will be mailed to Unitholders in connection with the Special Meeting.

Results of Operations:

During the quarter ended June 30, 2006, Big Rock continued to focus on overall corporate profitability. Strategic brand and category growth combined with selling expense control resulted in a substantial increase in net income for the period.

Big Rock's premium brand strategy encompasses an increase in brand education and sampling while decreasing dependence on promotional aids. In the short term, premium sales volumes will decrease slightly as consumers look for other free offers in the marketplace but will rebound in the medium to long term as these new consumers establish loyalty to these brands.

These results are on plan as Management executes its strategy of repositioning Big Rock premium brands by reducing the use of "in-pack, on-pack, and near-pack" promotional items as an incentive to retail purchasers and by substituting education and assistance to retailers in the positioning and promotion of Big Rock beers. This will improve retailer profitability, build loyalty for premium brands and increase market share over the medium term.

Conversely, Big Rock's value category strategy has been to increase both volume and price, while minimizing the selling expenses in order to maximize the overall profitability of the category. We expect to see continued volume growth in our value brands until we reach the optimization point of price and volume.

Big Rock's value brands have continued impressive growth rates this year despite two price increases in the market place. Commensurate with this shift, selling costs for the quarter have decreased significantly compared to the same quarter last year.

These brand strategies are enhanced by our focus as a regional brewery as we continue to see both transportation and distribution costs spiral upwards.

For the three months ended June 30, 2006 sales volume was 55,977 HL, relatively flat compared to sales volume of 56,257 for the same quarter last year. As anticipated, the price increase implemented at the end of the 1st quarter of 2006 impacted 2nd quarter sales volume. For the six months ended June 30, 2006 sales volume was 101,055 HL, up 3% from 98,081 HL during the same period last year.

Our BC volumes continue to be affected by the sale of the Kamloops Brewery in October 2005 and a competitive local industry. Last year Kamloops contributed 1,925 HL to our 2nd quarter volume. Also, BC's competitive small breweries have had great success with the help of reduced local markup rates while Big Rock contends with higher markups and a cost of service charged to all out of province brewers. All of this adds up to lower profits per hectoliter in BC. Management is working to have cost of service fees reduced or removed.

For the quarter ended June 30, 2006, sales revenue decreased \$276,287 (3%) to \$10,555,007 from \$10,831,294 for the same period of 2005. Year-to-date revenue increased \$94,874 (1%) to \$18,874,709 from \$18,779,834 for the same period last year commensurate with the year-to-date increase in sales volume and the increase in sales of lower margin value and private label brands.

Cost of sales decreased to \$3,946,256 this quarter from \$3,995,800 in the same quarter last year primarily due to the decrease in sales volume. Production cost is consistent year-over-year at \$71/HL. Year-to-date cost of sales increased by \$85,082 to \$7,245,597 (\$72/HL) from \$7,160,515 (\$73/HL). An increase in the volume of lower cost of production canned beer offset the overall increase in production costs, particularly energy.

Gross profit for the quarter was down \$226,743 (3%) to \$6,608,751 from \$6,835,494 in the same quarter last year commensurate with the sales decrease. Year-to-date gross profit is flat at \$11,629,112 (2005 - \$11,619,319).

Selling expenses for the quarter ended June 30, 2006 decreased by \$660,213 (20%) to \$2,657,848 compared to \$3,318,061 in the same quarter last year. Year-to-date selling expenses decreased by \$491,387 (9%) to \$5,102,026 from \$5,593,413. Marketing expenses were significantly lower this quarter compared to last year as the “local import” campaign was charged to this quarter last year. The curtailing of promotional materials and point of sale giveaways also contributed to the reduction in sales and marketing expense.

General and administrative expenses decreased during the quarter ending June 30, 2006 by \$192,005 to \$895,903 from \$1,087,908 in the same quarter last year. Lower stock based compensation expense recorded during the quarter as well as a reduction in computer system support and professional fees contributed to the decrease. Year-to-date general and administrative expenses decreased by \$182,345 to \$1,718,160 from \$1,900,505 in the same period last year.

The income tax provision for the quarter was a recovery of \$(200,243) compared to an expense of \$210,795 in the same period last year, and is comprised of \$332,330 in current income tax expense and \$(532,573) in future income tax recovery. The future income tax recovery relates to a reduction in future federal and provincial income tax rates substantively enacted during the quarter.

Net income for the quarter ending June 30, 2006 was \$2,746,934 compared to \$1,695,494 for the quarter ended June 30, 2005, a 62% increase due primarily to the reduction in selling expenses and a future income tax recovery. Year-to-date net income was \$3,810,804 a 41% increase over the same period last year.

Net income per unit increased by 59% to \$0.46 for the quarter ended June 30, 2006 compared to \$0.29 in the same quarter last year. Units outstanding increased by 7,700 to 6,018,724 during the quarter from the exercise of options. Year-to-date net income per unit was \$0.63 up 37% from \$0.46 for the same period last year.

Cash distributions declared to unitholders for the quarter ended June 30, 2006 were \$1,984,947 or \$0.33 per unit (2005 - \$1,953,624 or \$0.33 per unit). Year-to-date distributions were \$3,967,914 or \$0.66 per unit (2005 - \$3,715,141 or \$0.63 per unit).

Financial Condition:

Big Rock's balance sheet gained strength during the quarter as total assets increased by \$662,895 and Unitholders equity improved by \$902,247, compared to March 31, 2006, after paying out cash distributions of \$1,984,011. Big Rock's liquidity is excellent with \$5,635,215 in cash and cash equivalents at quarter-end (December 31, 2005 - \$5,722,465) and no long-term or operating debt.

At June 30, 2006, accounts receivable decreased by \$1,188,893 (31%) to \$2,659,504 from \$3,848,397 as at December 31, 2005. Substantially all of Big Rock's accounts receivable are from provincial government liquor authorities and the timing of receipts of large balances often causes significant swings in accounts receivable over period ends.

Inventories as at June 30, 2006 increased by \$430,049 (14%) to \$3,478,659 from \$3,048,610 as at December 31, 2005 as Big Rock continued to build inventory for the summer season.

The net book value of property, plant and equipment increased by \$267,717 during the quarter ended June 30, 2006 to \$29,158,788 (December 31, 2005 - \$28,615,246). A \$1,200,000 expansion of the Calgary warehouse got underway during the quarter which will add 22,000 sq feet of finished goods space and two new loading docks. Big Rock has been using off-site refrigerated storage during peak periods. The additional new space will allow Big Rock to retain all inventory on-site thus reducing transportation costs and attendant damages.

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.

The ATB facilities impose a number of positive and negative covenants on Big Rock including the maintenance of certain financial ratios. At June 30, 2006 and 2005 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 June 30, 2006 accounts payable decreased by \$36,388 (1%) to \$2,710,080 from \$2,746,468 as at December 31, relatively unchanged.

The provision for future income taxes decreased by \$573,207 to \$7,486,960 as at June 30, 2006 from \$8,060,167 as at December 31, 2005. 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 quarter ended June 30, 2006, 7,700 unit options were exercised for proceeds to the Trust of \$64,260. In the quarter ended June 30, 2005 20,800 unit options were exercised for proceeds of \$475,042.

Contributed surplus of \$356,779 represents stock based compensation expense calculated using the Black-Scholes option pricing model less \$6,174 in conversion of Contributed Surplus to Trust Unitholders capital related to options exercised year-to-date. During the quarter, a 50,000 unit option grant resulted in additional salary expense of \$76,000 using the Black-Scholes model.

Cash Flows:

Cash provided by operating activities increased by \$90,851 (4%) to \$2,349,042 for the quarter ended June 30, 2006 from \$2,258,191 in the same quarter last year. Year-to-date cash flow from operations increased by \$1,903,762 from \$5,143,389 from \$3,239,627 in the same period last year. The increase arose primarily from a decrease in accounts receivable.

During the quarter cash distributions of \$1,984,011 (2005 - \$1,888,271) were paid to Unitholders. Year-to-date the Trust has paid cash distributions of \$3,965,611 (2005 - \$3,647,708) all of which are taxable in their hands. A portion of the distributions are characterized as interest and a portion as dividend income. There was no return of capital included in the distributions.

Unit options exercised during the quarter contributed \$64,260 of cash compared to \$475,042 for the quarter ended June 30, 2005. Year-to-date \$183,051 (2005 - \$631,122) has been received by the Trust from exercise of unit options.

Cash used in investing activities includes the purchase of plant, property and equipment assets of \$775,804 (2005 - \$1,263,090) expended primarily for warehouse expansion. Year-to-date capital expenditures of \$1,559,091 (2005 - \$2,455,813) also include upgrades to boilers and the purchase of a new brew kettle.

Summary of Quarterly Results:

| <u>Quarter Ended</u> | <u>Net Sales</u> | <u>Net Income</u> | <u>Earnings per unit</u> | | <u>Weighted Average Units Outstanding</u> |
|----------------------|------------------|-------------------|--------------------------|----------------|---|
| | | | <u>Basic</u> | <u>Diluted</u> | |
| 30-Jun-06 | \$10,555,007 | \$2,746,934 | \$0.46 | \$0.46 | 6,014,991 |
| 31-Mar-06 | \$8,319,702 | \$1,063,870 | \$0.18 | \$0.18 | 6,008,991 |
| 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 |

Liquidity and Capital Resources:

Big Rock continues to enjoy a strong working capital ratio (2.89). Big Rock's working capital (current assets less current liabilities) decreased by \$903,796 to \$7,970,458 as at June 30, 2006 from \$8,874,254 as at December 31, 2005, largely as a result of lower accounts receivable at quarter end.

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 operating fluctuations in cash requirements throughout the year.

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.

Big Rock Brewery Income Trust
Consolidated Balance Sheets
(unaudited)

| | 30-Jun-06 | 31-Dec-05 |
|--|----------------------------|----------------------------|
| Assets | | |
| Current | | |
| Cash and cash equivalents | \$5,635,215 | \$5,722,465 |
| Accounts receivable | 2,659,504 | 3,848,397 |
| Inventories | 3,478,659 | 3,048,610 |
| Prepaid expenses and other | 404,396 | 150,685 |
| | <u>12,177,774</u> | <u>12,770,157</u> |
| Property, plant and equipment | 29,158,788 | 28,615,246 |
| Deferred charges and other assets | 289,762 | 400,774 |
| Total assets | <u><u>\$41,626,324</u></u> | <u><u>\$41,786,177</u></u> |
| Liabilities and Unitholders' Equity | | |
| Current | | |
| Accounts payable and accrued liabilities | 2,710,080 | 2,746,468 |
| Income taxes payable | 835,177 | 489,679 |
| Distributions payable | 662,059 | 659,756 |
| | <u>4,207,316</u> | <u>3,895,903</u> |
| Future income taxes | 7,486,960 | 8,060,167 |
| | <u>11,694,276</u> | <u>11,956,070</u> |
| Unitholders' equity | | |
| Trust unitholders' capital (note 2) | 18,061,966 | 17,872,741 |
| Contributed surplus (note 2) | 356,779 | 286,953 |
| Undistributed income | 11,513,303 | 11,670,413 |
| Total Unitholders' equity | <u>29,932,048</u> | <u>29,830,107</u> |
| Total liabilities and Unitholders' equity | <u><u>\$41,626,324</u></u> | <u><u>\$41,786,177</u></u> |

See accompanying notes

Big Rock Brewery Income Trust
Consolidated Statements of Operations & Undistributed Income
(unaudited)

| | Three months ended June 30 | | Six months ended June 30 | |
|---|-------------------------------|----------------------------|-----------------------------|----------------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Revenue | \$10,555,007 | \$10,831,294 | \$18,874,709 | \$18,779,834 |
| Cost of sales | 3,946,256 | 3,995,800 | 7,245,597 | 7,160,515 |
| Gross profit | <u>6,608,751</u> | <u>6,835,494</u> | <u>11,629,112</u> | <u>11,619,319</u> |
| Expenses | | | | |
| Selling | 2,657,848 | 3,318,061 | 5,102,026 | 5,593,413 |
| General and administrative | 895,903 | 1,087,908 | 1,718,160 | 1,900,505 |
| Interest | 222 | 1,058 | 222 | 1,058 |
| Amortization | 508,087 | 522,178 | 1,015,549 | 1,025,988 |
| | <u>4,062,060</u> | <u>4,929,205</u> | <u>7,835,957</u> | <u>8,520,964</u> |
| Income before income taxes | <u>2,546,691</u> | <u>1,906,289</u> | <u>3,793,155</u> | <u>3,098,355</u> |
| Current income tax expense | 332,330 | 106,546 | 555,558 | 135,819 |
| Future income tax expense (recovery) | <u>(532,573)</u> | <u>104,249</u> | <u>(573,207)</u> | <u>265,617</u> |
| | <u>(200,243)</u> | <u>210,795</u> | <u>(17,649)</u> | <u>401,436</u> |
| Net income for the period | 2,746,934 | 1,695,494 | 3,810,804 | 2,696,919 |
| Undistributed income, beginning of period | 10,751,316 | 11,945,653 | 11,670,413 | 12,705,745 |
| Distributions declared | <u>(1,984,947)</u> | <u>(1,953,624)</u> | <u>(3,967,914)</u> | <u>(3,715,141)</u> |
| Undistributed income, end of period | <u><u>\$11,513,303</u></u> | <u><u>\$11,687,523</u></u> | <u><u>\$11,513,303</u></u> | <u><u>\$11,687,523</u></u> |
| Net income per unit | | | | |
| Basic | \$0.46 | \$0.29 | \$0.63 | \$0.46 |
| Diluted | \$0.46 | \$0.28 | \$0.63 | \$0.45 |

See accompanying notes

Big Rock Brewery Income Trust
Consolidated Statements of Cash Flows
(unaudited)

| | Three months ended June 30 | | Six months ended June 30 | |
|---|-------------------------------|--------------------|-----------------------------|--------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Operating Activities | | | | |
| Net income for the period | \$2,746,934 | \$1,695,494 | \$3,810,804 | \$2,696,919 |
| Items not affecting cash: | | | | |
| Amortization | 508,087 | 522,178 | 1,015,549 | 1,025,988 |
| Stock based compensation (note 2) | 76,000 | 258,660 | 76,000 | 258,660 |
| Future income taxes | (532,573) | 104,249 | (573,207) | 265,617 |
| | <u>2,798,448</u> | <u>2,580,581</u> | <u>4,329,146</u> | <u>4,247,184</u> |
| Net change in non-cash working capital relating to operating activities | (449,406) | (322,390) | 814,243 | (1,007,557) |
| Cash provided by operating activities | <u>2,349,042</u> | <u>2,258,191</u> | <u>5,143,389</u> | <u>3,239,627</u> |
| Financing Activities | | | | |
| Increase in bank indebtedness | - | 676,141 | - | 676,141 |
| Distribution payments | (1,984,011) | (1,888,271) | (3,965,611) | (3,647,708) |
| Cash received on exercise of options | 64,260 | 475,042 | 183,051 | 631,122 |
| Cash used in financing activities | <u>(1,919,751)</u> | <u>(737,088)</u> | <u>(3,782,560)</u> | <u>(2,340,445)</u> |
| Investing Activities | | | | |
| Purchase of property, plant and equipment | (775,804) | (1,263,090) | (1,559,091) | (2,455,813) |
| Deferred charges | - | (33,016) | 111,012 | (33,271) |
| Cash used in investing activities | <u>(775,804)</u> | <u>(1,296,106)</u> | <u>(1,448,079)</u> | <u>(2,489,084)</u> |
| Net increase (decrease) in cash | (346,513) | 224,997 | (87,250) | (1,589,902) |
| Cash and cash equivalents, beginning of period | 5,981,728 | 278,796 | 5,722,465 | 2,093,695 |
| Cash and cash equivalents, end of period | <u>\$5,635,215</u> | <u>\$503,793</u> | <u>\$5,635,215</u> | <u>\$503,793</u> |

See accompanying notes

Big Rock Brewery Income Trust
Notes to the Consolidated Financial Statements
June 30, 2006 (unaudited)

1. These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and should be read in conjunction with the audited consolidated financial statements of Big Rock Brewery Income Trust ("Big Rock") as at and for the year ended December 31, 2005. Accounting policies and methods followed in the preparation of these interim financial statements are the same as those summarized in note 2 to the consolidated financial statements of Big Rock for the year ended December 31, 2005.

2. Issued and Outstanding Trust units

| | <u># Units</u> | <u>Amount \$</u> |
|--|------------------|-------------------|
| Balance as at December 31, 2005 | 5,998,324 | 17,872,741 |
| Units issued on exercise of options | 12,700 | 118,791 |
| Transfer from contributed surplus related to options exercised | | 4,270 |
| Balance as at March 31, 2006 | <u>6,011,024</u> | <u>17,995,802</u> |
| Units issued on exercise of options | 7,700 | 64,260 |
| Transfer from contributed surplus related to options exercised | | 1,904 |
| Balance as at June 30, 2006 | <u>6,018,724</u> | <u>18,061,966</u> |

As at June 30, 2006 there were 414,350 unit options outstanding and exercisable at a weighted average price of \$17.76. During the three month period ended June 30, 2006, 50,000 options were granted at an exercise price of \$17.00 and 36,000 options were cancelled.

Stock based compensation of \$76,000 was charged to salary expense during the three month period ended June 30, 2006 (2005 - \$258,660). The 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 assumptions:

| | <u>2006</u> | <u>2005</u> |
|-----------------------------------|-------------|-------------|
| Risk-free interest rate | 4.1% | 3.4% |
| Dividend yield | 7.8% | 7.0% |
| Expected volatility | 24.5% | 14.4% |
| Expected hold period | 2 years | 2 years |
| Estimated value of option granted | \$1.52 | \$0.72 |

3. Cash distributions declared per trust unit issued and outstanding:

| <u>Period covered</u> | <u>Record date</u> | <u>Distribution date</u> | <u>Per Unit</u> |
|--------------------------------------|--------------------|--------------------------|-----------------|
| January 1, 2006 - January 31, 2006 | January 31 | February 15 | \$0.11 |
| February 1, 2006 - February 28, 2006 | February 28 | March 15 | \$0.11 |
| March 1, 2006 - March 31, 2006 | March 31 | April 17 | \$0.11 |
| April 1, 2006 - April 30, 2006 | April 30 | May 15 | \$0.11 |
| May 1, 2006 - May 31, 2006 | May 31 | June 15 | \$0.11 |
| June 1, 2006 - June 30, 2006 | June 30 | July 14 | \$0.11 |