



Third Quarter Report

For the three month period ended
September 30, 2006

Big Rock Brewery Income Trust

Management's Discussion and Analysis

for the three and nine month periods ended September 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 nine month periods ended September 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

In September 2006 Big Rock announced a proposed reorganization, adopted by a number of other income trusts, which would provide the Trust with a "flow-through" structure that would maximize the cash available for distribution to Unitholders by reducing the income taxes paid under the current structure. The reorganization is conditional on obtaining a number of regulatory and third party approvals, including a favourable income tax ruling from Canada Revenue Agency (CRA) and approval of Unitholders of the Trust.

Subsequent to quarter-end the Honourable Jim Flaherty, Canadian Minister of Finance, proposed changes to the taxation of Canadian income trusts. The relevant measures announced include a proposed tax on distributions paid by publicly traded income trusts and limited partnerships, and will result in less after-tax cash being available for payment to all unitholders. As an existing income trust, it is important to note that these measures will not apply to Big Rock until January 2011. Under the Government's proposal the existing tax treatment of distributions will remain in effect during the four-year grace period to 2011. The Trust is currently considering the effects of the Government's proposal on its previously announced internal reorganization. Consequently Big Rock does not intend to proceed with a previously announced special meeting of unitholders to consider the implementation of the internal reorganization until all aspects of the Government's proposal are considered.

Significant Events:

To celebrate the arrival of beer season, July saw the introduction of a new Big Rock Summer Variety pack (15 cans). This convenient form factor was very well received in the western Canadian market place and will likely become an annual addition to the product line complementing Big Rock's Winter Variety pack (12 bottles).

During the quarter Big Rock introduced nutrition information panels on bottles to emphasize the quality and purity of Big Rock's craft beers and to target increasingly health conscious consumers. More information on this industry first can be obtained on the website at www.bigrockbeer.com

Big Rock completed and commissioned a 22,000 sq. ft. warehouse expansion during the quarter at a capital cost of \$1,330,000. The additional space allows Big Rock to discontinue the use of third party warehouse storage thereby reducing costs and in-transit product damage and improving efficiencies.

A revision to the Excise Act effective July 1st, 2006 provides various reductions in excise duty paid by Canadian brewers based on annual volumes produced up to 75,000 hectoliters. This was enacted to provide relief to small and mid-sized brewers. Coincidentally, the rate of excise duty rate was raised on annual production in excess of 75,000 hectoliters from \$27.98 to \$31.22/hectoliter. Based on Big Rock's annual production levels the net effect of these changes is not expected to be material.

Management's strategy of increasing awareness of Big Rock craft beers in on-premise and off-premise locations ramped up this quarter through an increase in beer sampling opportunities for targeted consumer demographics.

During the quarter ended September 30, 2006, Big Rock continued to focus on controlling selling and marketing expenses by selective and strategic spending. As anticipated, the decreasing use of promotional items as sales enticements has resulted in a decrease in sales volume but an increase in profitability. As consumers establish loyalty over the medium term based on Big Rock's craft beer education programs and sampling strategy Management expects sales volumes to rebound.

Results of Operations:

For the three months ended September 30, 2006 sales volume was 52,860 HL, down 16% compared to sales volume of 62,740 HL for the same quarter last year. Decreased volumes are primarily a result of price increases in the value brand portfolio and a reduction of sales incentives on craft brands. For the nine months ended September 30, 2006 sales volume was 153,915 HL, down 4% from 160,820 HL during the same period last year. As previously discussed, Management's strategy this year emphasizes profitability over volume. Revenue per hectoliter during the quarter increased to \$212 from \$188 last year. This is partially due to an increase in Alberta volume as a percentage of total volume quarter over quarter as well as \$407,765 in reduced excise duty on the first 37,500 HL of production effective July 1, 2006. For the quarter ended September 30, 2006, sales revenue decreased \$553,297 (5%) to

\$11,222,738 from \$11,776,035 for the same period of 2005. Year-to-date revenue decreased \$458,422 (2%) to \$30,097,447 from \$30,555,869 for the same period last year. The reduction in sales revenue results from the decrease in volume mitigated by a reduction in federal excise tax.

Cost of sales decreased \$459,919 (10%) to \$3,968,922 this quarter from \$4,428,841 in the same quarter last year in line with sales volume. Year-to-date cost of sales decreased by \$374,837 (3%) to \$11,214,519 (\$73/HL) from \$11,589,356 (\$72/HL). Per hectoliter costs have increased due mainly to increases in packaging material costs.

Gross profit for the quarter was down \$93,378 (1%) to \$7,253,816 from \$7,347,194 in the same quarter last year, relatively flat. Year-to-date gross profit decreased by \$83,585 (<1%) to \$18,882,928 (2005 - \$18,966,513).

There was a significant decrease in selling and marketing expenses during the 3rd quarter compared to last year. Selling expenses decreased by \$612,407 (18%) to \$2,804,357 compared to \$3,416,764 in the same quarter last year. Year-to-date selling expenses have decreased by \$1,103,794 (12%) to \$7,906,383 from \$9,010,177. As discussed, the reduction in point of sale giveaways and marketing/sales programs which resulted in lower sales volume has positively impacted selling expenditures resulting in an improved bottomline. Management is currently assessing marketing and sales reinvestment programs in order to target Big Rock consumers more effectively.

Increases in recruitment fees, severance pay, IT systems support, insurance, and issuance of unit appreciation rights during the quarter resulted in an increase in general and administrative expenses of \$200,835 (23%) to \$1,089,685 during the quarter ending September 30, 2006 from \$888,850 in the same quarter last year. Year-to-date general and administrative expenses increased by \$18,490 to \$2,807,845 from \$2,789,355 in the same period last year.

The income tax provision for the quarter was a \$148,665 compared to an expense of \$288,680 in the same period last year, and is comprised of \$351,533 in current income tax expense and \$(202,868) in future income tax recovery. The future income tax recovery relates to a reduction in future federal and provincial income tax rates substantively enacted this year.

Net income for the quarter ending September 30, 2006 was \$2,685,263 compared to \$2,224,067 for the quarter ended September 30, 2005, a 21% increase due primarily to lower selling expenses, a future income tax recovery and the reduction in excise tax. Year-to-date net income was \$6,496,067 a 32% increase over the same period last year.

Net income per unit increased by 22% to \$0.45 for the quarter ended September 30, 2006 compared to \$0.37 in the same quarter last year. Units outstanding increased by 15,250 to 6,033,974 during the quarter from the exercise of options. Year-to-date net income per unit was \$1.08 up 30% from \$0.83 for the same period last year.

Cash distributions declared to unitholders for the quarter ended September 30, 2006 were \$1,990,056 or \$0.33 per unit (2005 - \$1,966,219 or \$0.33 per unit). Year-to-date distributions were \$5,957,970 or \$0.99 per unit (2005 - \$5,861,360 or \$0.96 per unit).

Financial Condition:

Big Rock's balance sheet gained strength again this quarter as total assets increased by \$483,071 and Unitholders equity improved by \$860,011, compared to June 30, 2006, after paying out cash distributions of \$1,988,398. Big Rock's liquidity is excellent with \$6,147,903 in cash and cash equivalents at quarter-end (December 31, 2005 - \$5,722,465) and no drawings on operating or long-term debt facilities.

At September 30, 2006, accounts receivable decreased by \$1,897,197 (49%) to \$1,951,200 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 September 30, 2006 increased by \$397,228 (13%) to \$3,445,838 from \$3,048,610 as at December 31, 2005. Inventory has been accumulated to service the busy Christmas season.

The net book value of property, plant and equipment increased by \$1,123,576 during the quarter ended September 30, 2006 to \$29,738,822 (December 31, 2005 - \$28,615,246). A \$1,330,000 expansion of the Calgary warehouse was completed 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. As at September 30, 2006 no funds have been borrowed on this facility.

The ATB facilities impose a number of positive and negative covenants on Big Rock including the maintenance of certain financial ratios. At September 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 September 30, 2006 accounts payable decreased by \$246,949 (9%) to \$2,499,519 from \$2,746,468 as at December 31, 2005. Purchases of raw materials inventory and timing of payments to suppliers generally dictate accounts payable balances at quarter end.

The provision for future income taxes decreased by \$776,075 to \$7,284,092 as at September 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 September 30, 2006, 15,250 unit options were exercised for proceeds to the Trust of \$187,325. In the quarter ended September 30, 2005 25,200 unit options were exercised for proceeds of \$186,391.

Contributed surplus of \$327,747 represents unit based compensation expense calculated using the Black-Scholes option pricing model less \$12,685 in conversion of Contributed Surplus to Trust Unitholders capital related to options exercised year-to-date and \$22,521 related to options converted by employees to unit appreciation rights.

Cash Flows:

For the quarter ended September 30, 2006, after deducting distributions to unitholders of \$1,988,398 (74% of net income) and investing \$1,105,198 in capital assets, Big Rock generated \$475,363 from operating activities.

Cash provided by operating activities increased by \$394,451 (12%) to \$3,568,959 for the quarter ended September 30, 2006 from \$3,174,508 in the same quarter last year. Year-to-date cash flow from operations increased by \$2,298,213 to \$8,712,348 from \$6,414,135 in the same period last year. The increase arose primarily from a decrease in accounts receivable and an increase in net income.

During the quarter cash distributions of \$1,988,398 (2005 - \$1,963,447) were paid to Unitholders. Year-to-date the Trust has paid cash distributions of \$5,954,009 (2005 - \$5,611,155) 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 \$187,325 of cash compared to \$186,391 for the quarter ended September 30, 2005. Year-to-date \$370,376 (2005 - \$817,513) 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 \$1,105,198 (2005 - \$449,679) expended primarily to complete a warehouse expansion. Year-to-date capital expenditures of \$2,664,289 (2005 - \$2,905,492) also include upgrades to boilers and the purchase of a several brewing vessels and ancillary equipment.

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-Sep-06	\$11,222,738	\$2,685,263	\$0.45	\$0.45	6,030,474
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

Liquidity and Capital Resources:

Big Rock's cash flow provided by operating activities both quarterly (\$3,568,959; 2005 - \$3,174,508) and year-to date (\$8,712,348; 2005 - \$6,414,135) continues to comfortably service required capital expenditures and cash distributions.

Big Rock continues to enjoy a strong working capital ratio (3.04). Working capital (current assets less current liabilities) decreased by \$865,375 to \$8,008,879 as at September 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-Sep-06	31-Dec-05
Assets		
Current		
Cash and cash equivalents	\$6,147,903	\$5,722,465
Accounts receivable	1,951,200	3,848,397
Inventories	3,445,838	3,048,610
Prepaid expenses	385,870	150,685
	11,930,811	12,770,157
Property, plant and equipment	29,738,822	28,615,246
Deferred charges and other assets	439,762	400,774
Total assets	\$42,109,395	\$41,786,177
Liabilities and Unitholders' Equity		
Current		
Accounts payable and accrued liabilities	2,499,519	2,746,468
Income taxes payable	758,696	489,679
Distributions payable	663,717	659,756
	3,921,932	3,895,903
Liability for unit appreciation rights (note 2)	111,312	-
Future income taxes	7,284,092	8,060,167
	11,317,336	11,956,070
Unitholders' equity		
Trust unitholders' capital (note 3)	18,255,802	17,872,741
Contributed surplus (note 3)	327,747	286,953
Undistributed income	12,208,510	11,670,413
Total Unitholders' equity	30,792,059	29,830,107
Total liabilities and Unitholders' equity	\$42,109,395	\$41,786,177
See accompanying notes		

Big Rock Brewery Income Trust				
Consolidated Statements of Cash Flows				
(unaudited)				
	Three months ended		Nine months ended	
	Sept 30		Sept 30	
	2006	2005	2006	2005
Operating Activities				
Net income for the period	\$2,685,263	\$2,224,067	\$6,496,067	\$4,920,986
Items not affecting cash:				
Amortization	525,164	528,833	1,540,713	1,554,821
Unit based compensation	(22,521)	-	53,479	258,660
Future income taxes	(202,868)	56,432	(776,075)	322,049
	2,985,038	2,809,332	7,314,184	7,056,516
Net change in non-cash working capital relating to operating activities	583,921	365,176	1,398,164	(642,381)
Cash provided by operating activities	3,568,959	3,174,508	8,712,348	6,414,135
Financing Activities				
Decrease in bank indebtedness	-	(172,348)	-	-
Distribution payments	(1,988,398)	(1,963,447)	(5,954,009)	(5,611,155)
Cash received on exercise of options	187,325	186,391	370,376	817,513
Cash used in financing activities	(1,801,073)	(1,949,404)	(5,583,633)	(4,793,642)
Investing Activities				
Purchase of property, plant and equipment	(1,105,198)	(449,679)	(2,664,289)	(2,905,492)
Deferred charges	(150,000)	(6,543)	(38,988)	(39,814)
Cash used in investing activities	(1,255,198)	(456,222)	(2,703,277)	(2,945,306)
Net increase (decrease) in cash	512,688	768,882	425,438	(1,324,813)
Cash and cash equivalents, beginning of period	5,635,215	-	5,722,465	2,093,695
Cash and cash equivalents, end of period	\$6,147,903	\$768,882	\$6,147,903	\$768,882
				See accompanying notes

Big Rock Brewery Income Trust
Notes to the Consolidated Financial Statements
September 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. On April 1, 2006 the Trust introduced a unit appreciation rights plan ("UAR") which will be used as a basis for incentive compensation to employees. Under the plan, employees who currently hold incentive unit options previously issued in June 2005 with an exercise price of \$19.07 (the "old options") may exchange each old option for a new UAR. Employees have until October 31, 2006 to exchange the old options. The UAR's vest after a three year period beginning on April 1, 2006 and are exercisable for two years thereafter at a price of \$17.00 per Trust unit (to be settled in cash).

New UAR's issued also vest after a three year period beginning from the date of issue and are exercisable for two years thereafter at a price of \$17.00 per trust unit (to be settled in cash)

At the end of each reporting period, the intrinsic value of the UAR's, as determined by the difference between the trading price of the Trust units at that date and the exercise price, is recorded as a liability on the balance sheet, on a pro rata basis over the vesting period. For UAR's issued in exchange for old options, to the extent this amount is less than the compensation expense originally recorded in 2005 for the old options, an offsetting amount is charged to contributed surplus. Any liability in excess of the amount previously recorded as compensation expense will be recorded as additional compensation expense in the current period.

As at September 30, 2006, 57,500 UAR's have been issued in exchange for the old options and 263,000 new UAR's have been issued and an amount of \$111,312 has been recorded as a liability in the accompanying balance sheet, with an offsetting charge of \$22,521 to contributed surplus and \$88,791 to compensation expense.

3. Issued and Outstanding Trust units

	# Units	Amount \$
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	6,011,024	17,995,802
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	6,018,724	18,061,966
Units issued on exercise of options	15,250	187,325
Transfer from contributed surplus related to options exercised		6,511
Balance as at September 30, 2006	6,033,974	18,255,802

As at September 30, 2006 there were 321,750 unit options outstanding and exercisable at a weighted average price of \$17.75

During the three month period ended September 30, 2006, 57,500 unit options were exchanged for UAR's and 19,850 unit options were cancelled.

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

Period covered	Record date	Distribution date	Per Unit
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
July 1, 2006 - July 31, 2006	July 31	August 15	\$0.11
August 1, 2006 - August 31, 2006	August 31	September 15	\$0.11
September 1, 2006 - September 30, 2006	September 30	October 16	\$0.11

5. Subsequent to quarter-end the Honourable Jim Flaherty, Canadian Minister of Finance, proposed changes to the taxation of Canadian income trusts. The relevant measures announced include a proposed tax on distributions paid by publicly traded income trusts and limited partnerships, and will result in less after-tax cash being available for payment to all unitholders. As an existing income trust, it is important to note that these measures will not apply to Big Rock until January 2011. Under the Government's proposal the existing tax treatment of distributions will remain in effect during the four-year grace period to 2011. The Trust is currently considering the effects of the Government's proposal on its previously announced internal reorganization.