TREE BREWING COMPANY LTD.

DATE OF REPORT

99-03-10

ISSUER ADDRESS

1083 Richter Street
Kelowna, B.C.
V1Y 2K6

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Contact Person
Geoff Twyman

Contact Position
President

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(250) 860-8836

CERTIFICATE

Schedual “A” required to complete this Annual Report are attached and the disclosure contained there in has been approved by the board of directors. A copy of this Report will be provided to any shareholder who requests it.

Director's Signature

“G. Twyman”	“M. Skinner”
Geoff Twyman	Malcolm Skinner
Date Signed : March 10,1999	Date Signed : March 10,1999

TREE BREWING COMPANY LTD.

SCHEDUAL A

See Financial Statements

Related Party Transactions – During the year, there were no related party transactions.

In February of 1998, $175,000 of debt to Britton Capital Corp was converted to 175,000 shares of Tree Brewing Company Ltd. An additional 18,750 shares were issued to Britton Capital Corp. upon becoming an exchange issuer.

In June of 1998, $74,000 payable to shareholders was repaid.

On April 17, 1998, 200,000 performance shares were issued to Geoff Twyman.

Tree Brewing Company Ltd.

Consolidated Financial Statements

October 31, 1998 and 1997

Tree Brewing Company Ltd.

Consolidated Financial Statements

October 31, 1998 and 1997

Auditors' Report

To the Shareholders of
Tree Brewing Company Ltd.

We have audited the consolidated balance sheets of Tree Brewing Company Ltd. as at October 31, 1998 and 1997 and the consolidated statements of operations, deficit and cash flows for the years ended October 31, 1998 and October 31, 1997. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free from 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, the financial position of the company as at October 31, 1998 and 1997 and the results of its operations and its cash flows for the years then ended, in accordance with generally accepted accounting principles. As required by the Company Act of British Columbia we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Kelowna, Canada **"MacKay and Partners"**

January 13, 1999 **Chartered Accountants**

Tree Brewing Company Ltd.

Consolidated Statements of Operations

For the years ended October 31,	1998	1997
Sales		
Sales	**$ 2,572,045**	$ 1,913,865
Government taxes and commissions	(1,427,846)	(988,081)
	1,144,199	925,784
Cost of sales	**501,711**	476,333
Gross margin	**642,488**	449,451
Distribution expenses		
Salaries	58,137	54,044
Storage and delivery	138,902	102,677
	197,039	156,721
Marketing expenses		
Advertising and promotion	188,474	119,239
Automotive	14,867	13,125
Salaries and commissions	210,395	139,939
Travel and telephone	58,235	37,970
	471,971	310,273
General and administrative expenses		
Amortization	115,183	90,746
Bank charges and interest	32,157	5,215
Insurance	15,939	6,657
Interest on long-term debt	38,640	41,423
Laboratory	2,118	20,232
Licences, fees and dues	9,273	7,548
Miscellaneous	123	2,996
Office	11,233	13,527
Professional fees	54,416	43,733
Rent and utilities	129,461	136,643
Repairs and equipment rentals	22,255	29,521
Shop supplies	6,606	47,763
Wages and benefits	170,217	133,426
	607,621	579,430
Total expenses	**1,276,631**	1,046,424
Net loss	**634,143**	596,973
Earnings per share (note 10)	**$ (0.18)**	$ (0.37)

Tree Brewing Company Ltd.

Consolidated Statements of Deficit

For the years ended October 31,	1998	1997
Deficit, beginning of year	$ 1,452,721	$ 636,682
Net loss	634,143	596,973
Share issuance costs (note 9)	385,465	162,621
Related party adjustment (note 12)	-	56,445
Deficit, end of year	$ 2,472,329	$ 1,452,721

Tree Brewing Company Ltd.

Consolidated Balance Sheets

October 31,	1998	1997
Assets		
Current		
Cash	$ 221,507	$ 12,706
Accounts receivable	253,144	126,584
Inventory (note 2)	149,495	148,912
Prepaid expenses	46,403	27,515
	670,549	315,717
Equipment (note 3)	**1,315,379**	1,308,487
	$ 1,985,928	$ 1,624,204
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 258,539	$ 464,990
Bottle and keg deposits	109,496	70,059
Payable to Britton Capital Corporation (note 4)	-	200,000
Payable to shareholders (note 5)	-	57,000
Current portion of long-term debt (note 6)	97,503	100,000
	465,538	892,049
Payable to Britton Capital Corporation (note 4)	**-**	175,000
Long-term debt (note 6)	**190,000**	287,507
	655,538	1,354,556
Shareholders' Equity		
Share capital (note 7)	**3,802,719**	1,582,183
Share subscriptions received (note 7)	**-**	140,186
Deficit	**(2,472,329)**	(1,452,721)
	1,330,390	269,648
	$ 1,985,928	$ 1,624,204

Commitments (note 8)

Approved by the Directors

“Geoff Twyman”, Director

“Malcolm Skinner”, Director

Tree Brewing Company Ltd.

Consolidated Statements of Cash Flows

For the years ended October 31,	1998	1997
Cash flow sources (uses)		
Operating activities		
Cash receipts from customers	$ 1,017,639	$ 924,245
Cash paid to suppliers and employees	(1,778,847)	(1,228,730)
Interest paid	(70,797)	(46,638)
	(832,005)	(351,123)
Financing activities		
Advances from Britton Capital Corporation	(200,000)	275,000
Proceeds from long-term debt	-	300,000
Repayment of long-term debt	(100,004)	(50,004)
Share issuance costs	(385,465)	(162,621)
Issuance of shares	1,905,350	638,188
Advances from (repayment to) shareholders	(57,000)	57,000
	1,162,881	1,057,563
Investing activities		
Purchase of equipment	**(122,075)**	(642,848)
Purchase of Okanagan Juice and Wine Laboratory Inc.	-	(63,903)
	(122,075)	(706,751)
Increase (decrease) in cash and cash equivalents	**208,801**	**(311)**
Cash and cash equivalents, beginning of year	**12,706**	13,017
Cash and cash equivalents, end of year	**$ 221,507**	$ 12,706

1. Accounting Policies

The company was incorporated under the laws of the Province of British Columbia on March 15, 1995 and remained inactive until November 30, 1995. Between December 1, 1995 and April 29, 1996, the company was establishing its micro brewery operations. The following is a summary of the significant accounting policies used by management in the preparation of these consolidated financial statements. On April 30, 1996 the company commenced selling its products.

(a) Continuing operations
These financial statements have been prepared on the basis that the company's operations will continue in the normal course. Continuing operations of the company are dependent upon the ability to acquire continued financing from shareholders and other lenders and the ability of the company to increase its sales volume to produce positive cash flow.

(b) Equipment
Equipment is recorded at original cost plus any costs of betterment less accumulated amortization and excludes any assets not in current use. Amortization is calculated by the declining balance method or the straight line method at the annual rates set out in note 3.

(c) Inventory
Inventory is valued at the lower of cost and net realizable value. Cost of finished product includes only direct material, direct labour and an applicable share of overhead expenses.

(d) Revenue recognition
Sales revenue is recognized at the time of shipment at the gross sales price charged to the purchaser. Excise taxes are recognized and charged to operations upon production of inventory.

(e) Share issuance costs
Costs related to the issuance of commonshares are charged to retained earnings in the period incurred.

(f) Principles of Consolidation
These consolidated financial statements include the accounts of the company and its wholly owned subsidiary, Okanagan Juice & Wine Laboratory Inc. All significant intecompany accounts and transactions have been eliminated. The purchase method has been used to account for the combination.

(g) Income taxes
Income taxes are accounted for using the deferred income taxes method. The future income taxes method will be adopted in 1999 on a retroactive basis.

(h) Financial instruments
All significant financial assets, financial liabilities and equity instruments of the company are either recognized or disclosed in the financial statements together with available information for a reasonable assessment of future cash flows, interest rate risk and credit risk.

2. Inventory

	1998	1997
Beer - finished product	$ 95,217	$ 71,221
Merchandise	3,858	3,221
Packaging materials	19,903	30,279
Point of sale material	3,066	11,366
Raw materials	27,451	32,825
	$ 149,495	$ 148,912

3. Equipment

1998

	Rate	**Cost**	**Accumulated Amortization**	**Net Book Value**
Brewing equipment	5%	$ 680,292	$ 48,237	$ 632,055
Office equipment	20%	45,765	19,968	25,797
Tap Towers	20%	15,613	-	15,613
Computer	30%	14,058	7,986	6,072
Computer software	100%	5,096	893	4,203
Bottles	1/2 S.L.	157,167	100,894	56,273
Leasehold improvements	1/9 S.L.	92,421	23,147	69,274
Brewing equipment (other)	1/15 S.L.	322,650	56,551	266,099
Kegs	1/20 S.L.	245,426	5,433	239,993
		$1,578,488	$ 263,109	**$1,315,379**

Kegs are amortized over 20 years net of an estimated salvage value of $184,000.

1997

	Rate	**Cost**	**Accumulated Amortization**	**Net Book Value**
Brewing equipment	5%	$ 674,538	$ 26,634	$ 647,904
Office equipment	20%	37,454	6,562	30,892
Computer	30%	7,737	3,066	4,671
Computer software	100%	893	893	-
Bottles	1/2 S.L.	118,169	46,441	71,728
Leasehold improvements	1/9 S.L.	91,416	12,981	78,435
Brewing equipment (other)	1/15 S.L.	317,224	37,931	279,293
Kegs	1/20 S.L.	198,519	2,955	195,564
		$ 1,445,950	$ 137,463	$ 1,308,487

Kegs are amortized over 20 years net of an estimated salvage value of $149,000.

4. Payable to Britton Capital Corporation

On July 15, 1997, the company entered into an agreement with Britton Capital Corporation to convert the amounts owing to Britton Capital Corporation regarding trade advances to July 15, 1997 ($237,000) and the existing convertible loan ($100,000) to a new convertible loan with a face value of $375,000. The new convertible loan is unsecured, bears interest at 8% per annum and is due on December 31, 1998. The principal amount of the loan is convertible into common shares at the option of the holder of the note at $1 per share until the Receipt Date of Tree Brewing Company Ltd.'s initial public offering and at the initial public offering price thereafter.

In November, 1997 $200,000 of this debt was repaid as described in Note 10.

In February, 1998 the remaining $175,000 of this debt was converted to shares.

5. Payable to Shareholders

The amounts payable to shareholders are secured by a charge on the assets of the company ranking after the charges described in Note 6 and bear interest at 10% per annum. Loans totalling $48,000 are convertible into common shares at $1 per share until such time as the initial public offering. Subsequent to this date the loans are convertible at the initial public offering price. If not converted within six months of the date of the initial public offering, the loans are repayable from the initial public offering proceeds.

Interest on the amounts payable to shareholders totalling $2,300 has been expensed in 1997.

The loans were repaid in 1998.

6. Long-Term Debt

	1998	1997
Bank of Montreal demand loan payable with agreed monthly payments of $4,167 plus interest at Bank of Montreal prime plus 2.25% per annum and secured by a general security agreement creating a first fixed and floating charge over all the assets of the company	$ 37,503	$ 87,507
Business Development Bank loan payable with monthly interest only payments until December 31, 1997 and monthly instalments commencing January 1998 of $5,000 plus interest at the Business Development Bank base rate plus 3.25% per annum secured by a general security agreement creating a second charge over all the assets of the company	250,000	300,000
	287,503	387,507
Current portion	97,503	100,000

	$ 190,000	$ 287,507

6. Long Term Debt (continued)

Estimated aggregate repayments of long-term debt are as follows:

1999	$ 97,503
2000	60,000
2001	60,000
2002	60,000
2003	10,000
	$ 287,503

7. Share Capital

Authorized

100,000,000 Common shares with no par value

Issued	**1998**	1997
4,792,938 shares (1997 - 2,374,402 shares)	**$ 3,802,719**	$ 1,582,183

During the year ended October 31, 1998, a total of 2,418,536 shares were issued for cash of $2,220,536. During the year ended October 31, 1997, 915,802 shares were issued for cash of $618,802.

Share subscriptions for 140,186 shares at $1 per share totalling $140,186 in cash had been received to October 31, 1997 pursuant to the Offering Memorandum dated August 31, 1997. As of October 31, 1997, the shares had not yet been issued and so were recorded as share subscriptions received. During 1998 the shares were issued.

Options for the issuance of 290,000 shares have been granted to employees and directors of the company. The exercise price is at the initial public offering price.

In 1998 the company issued 12,500 shares at the initial offering price of $1 per share to Britton Capital Corporation upon becoming an exchange issuer as additional consideration for the convertible note described in note 4.

The company has granted a warrant allowing McDermid St. Lawrence to purchase up to 280,050 shares at the initial public offering price. The warrant expires one year from the Listing Date of the company.

As described in Notes 4 and 5, $423,000 of loans made to the company were eligible to be converted into 423,000 shares. In 1998, $175,000 of loans were converted. The remainder were repaid in 1998.

7. Share Capital (continued)

The company has issued 688,000 shares issued to the principals of the company for proceeds of $0.01 per share. In accordance with the policies of the British Columbia Securities Commission, the Company and its principals intend to enter into an escrow agreement whereby the release of the shares will be subject to the direction or determination of the relevant regulatory authorities.

8. Commitments

The company rents its premises under a lease contract expiring December 31, 1999. Future minimum lease payments including applicable triple net charges are $84,837 for 1998, $85,406 for 1999 and $14,234 for 2000.

The company has entered into lease agreements for certain equipment as follows:

	Expiry Date	**Annual Payment**
Vehicles	April to December 1, 1999	$ 24,134
Equipment - forklift	March 1, 1999	$ 3,262

9. Share Issuance Costs

Share issuance costs relate to the Offering Memorandums dated December 15, 1995, as amended August 31, 1997 and the Final Prospectus dated March 4, 1998.

	1998	1997
Commission on sale of shares	$ 112,000	$ 21,150
Legal fees	115,895	88,094
Audit fees	13,082	17,480
Other	144,488	35,897
Total	**$ 385,465**	$ 162,621

10. Earnings Per Share

Earnings per share have been calculated using the weighted average number of shares outstanding at the end of each month. Fully diluted earnings per share has not been calculated as it would decrease the loss per share.

In November, 1997 200,000 shares of the company were issued for cash of $200,000 and the proceeds used to retire $200,000 of the outstanding convertible debt at October 31, 1997. Interest accrued in operations for the year ended October 31, 1997 on the amount of the debt retired was $4,667. Removing the interest from the loss for the year and assuming the shares had been outstanding for the entire year, pro-forma basic earnings per share would be ($0.33). No fully diluted calculation has been made as it would decrease the loss per share.

10. Earnings Per Share (continued)

During the year, 375,000 shares of the company were issued for cash of $375,000 and proceeds used to retire $375,000 of the outstanding convertible debt. Removing the interest from the loss for the year and assuming the shares had been outstanding for the entire year, adjusted basic earnings per share would be ($0.17). No fully diluted adjusted calculation has been made as it would decrease the loss per share.

11. Income Taxes

The company has the following amounts available to reduce taxable income of future years:

Non-capital losses available to 2003	$ 482,153
Non-capital losses available to 2004	516,255
Non-capital losses available to 2005	624,572
Excess of undepreciated capital cost over net book value of equipment	252,035
	$ 1,875,015

The potential effect on future years' income arising from the availability of these amounts has not been recorded in the accounts.

12. Business Combination

On May 2, 1997, Tree Brewing Company Ltd. acquired for cash 100% of the issued shares of Okanagan Juice and Wine Laboratory Inc., a company with directors in common, for total consideration of $65,503. Okanagan Juice and Wine Laboratory Inc. is a company involved in the chemical testing of beer and wine samples. The combination is being accounted for under the purchase method and the results of operations of Okanagan Wine and Juice Laboratory Inc. since May 2, 1997 are included in these consolidated financial statements.

The net assets acquired, at carrying amounts, are:

Cash	$ 1,600
Accounts receivable	1,534
Inventory	9,334
Equipment (net)	14,662
Accounts payable	(18,072)
Related party adjustment	56,445
	$ 65,503

The related party adjustment represents the difference between the consideration paid and the carrying value of the net assets. This amount is charged to the deficit.

13. Uncertainties - Year 2000 Computer Issue

The effects of the Year 2000 Issue on the company may be experienced before, on, or after January 1, 2000. If not satisfactorily addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the conduct of normal business operations. It is not possible, at the present time, to be certain that all aspects of the Year 2000 Issue affecting the company including those related to the efforts of customers, suppliers, or other third parties, will be satisfactorily resolved.

14. Comparative Figures

Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current year.