



BIG ROCK BREWERY INC. QUARTERLY REPORT

THIRD QUARTER 2011 HIGHLIGHTS

| \$ thousands (unless otherwise stated) | Three months ended September 30 | | Nine months ended September 30 | |
|---|------------------------------------|---------|-----------------------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Sales volumes (hectolitres or hl) | 69,540 | 58,150 | 172,011 | 165,156 |
| Net revenue | 14,019 | 12,234 | 35,160 | 35,250 |
| Operating profit | 1,434 | 1,829 | 2,203 | 4,478 |
| Net income (loss) | 1,084 | 1,855 | 1,677 | (8,465) |
| Earnings (loss) per share (basic and diluted) | \$ 0.18 | \$ 0.31 | \$ 0.28 | \$ (1.40) |

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Big Rock Brewery Inc. (the "Corporation" or "Big Rock") for the three and nine months ended September 30, 2011, as compared to the same periods in 2010.

This MD&A should be read in conjunction with the unaudited consolidated financial statements of the Corporation and accompanying notes as at and for the three and nine months ended September 30, 2011 (the "Financial Statements"), which have been prepared using International Financial Reporting Standards ("IFRS"), and should be read in conjunction with the audited consolidated financial statements, which were prepared using Canadian accounting principles in effect prior to January 1, 2011 ("Pre-Changeover Canadian GAAP"), and the MD&A, contained within our 2010 Annual Report. All amounts are reported in thousands of Canadian dollars and comparative figures have been restated using IFRS, unless otherwise noted.

Readers should also read the "Forward-Looking Statements" contained at the end of this document.

The MD&A is dated November 3, 2011.

BASIS OF PRESENTATION AND TRANSITION TO IFRS

On January 1, 2011, Big Rock adopted International Financial Reporting Standards ("IFRS") for Canadian publicly accountable enterprises. Prior to the adoption of IFRS, the Corporation followed Canadian Generally Accepted Accounting Principles ("GAAP") - Part V ("Pre-Changeover Canadian GAAP"). While IFRS has many similarities to Pre-Changeover Canadian GAAP, some of Big Rock's accounting policies have changed as a result of its transition to IFRS. The most significant accounting policy changes that have had an impact on the results of operations are discussed within the applicable sections of this MD&A, and in more detail in the Accounting Changes section of this MD&A.

CORPORATE PROFILE

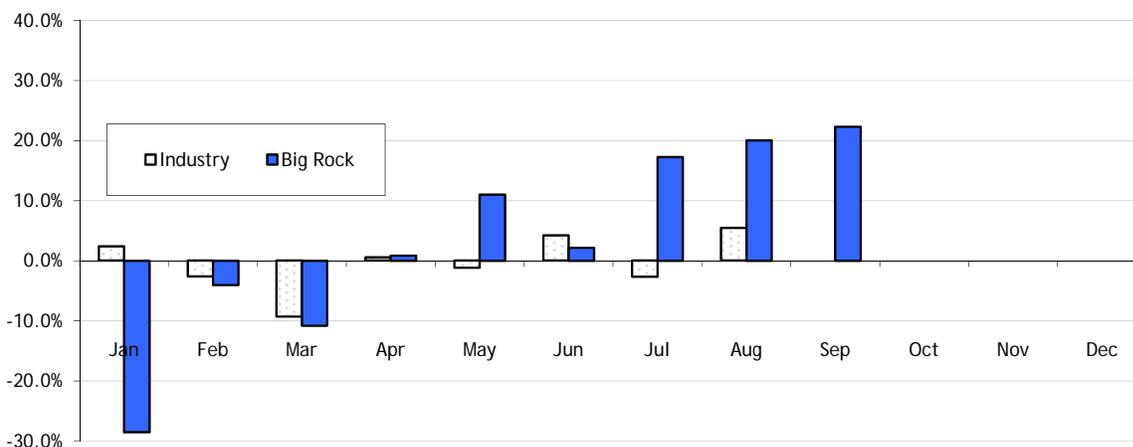
Big Rock Brewery - headquartered in Calgary, Alberta - produces premium, all-natural craft beers. As Canada's leading craft brewer, Big Rock boasts a family of eleven ales and lagers, Rock Creek dry apple cider, as well as an ongoing selection of seasonal beers.

Big Rock stands out as a Canadian producer, marketer, and distributor of premium quality specialty craft beers in an environment where the country's three largest breweries are foreign owned. We have sales and distribution facilities in Calgary and Edmonton, sales representatives resident in Alberta, British Columbia, Saskatchewan, Manitoba and Ontario and an agency arrangement for product sales in the Atlantic provinces. Big Rock products are sold in nine provinces and three territories in Canada and its products are exported to Korea and to Canadian Embassies throughout the world.

INDUSTRY TRENDS AND INDICATORS

The graph below illustrates the change in monthly sales volumes for January through September 2011 compared to 2010 for both Big Rock and the Canadian beer industry.

Year-over-year percentage change
in beer sales by volume (2011 vs 2010)



Source: Brewers Association of Canada, Domestic Sales Bulletin
- October 2011

For the three months ended September 30, 2011, Big Rock's sales volumes increased 19.6% and for the nine months ended September 30, 2011, Big Rock's sales volumes increased 4.2%. The most recent available industry data were for the period ended August 31, 2011. The Canadian industry beer sales increased 1.4% for the two months ended August 31, 2011 and declined by 0.1% for the eight months ended August 31, 2011.

Management believes the general trends in Big Rock's and the industry's performances are attributable to various factors, including:

- the impact on volumes as a result of last year's winter Olympics, especially in the first quarter; and
- continued difficult general economic conditions, causing a reduction in consumers' disposable income and a shift towards the value-priced category.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following is a summary of selected financial information of the Corporation for the last eight completed quarters:

| \$ thousands (unless otherwise stated) | 2011 | | | | 2010 | | | 2009 ⁽¹⁾ |
|--|---------|---------|---------|---------|---------|---------|----------|---------------------|
| | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 |
| Sales volumes (hl) | 69,540 | 60,479 | 41,993 | 47,315 | 58,151 | 57,832 | 49,174 | 52,110 |
| Net sales revenue | 14,019 | 12,339 | 8,802 | 9,880 | 12,234 | 12,471 | 10,545 | 10,529 |
| Operating profit | 1,434 | 776 | (7) | (345) | 1,829 | 1,405 | 1,244 | 60 |
| Net income (loss) | 1,084 | 619 | (26) | 270 | 1,855 | 2,670 | (12,990) | 569 |
| Earnings per share (basic and diluted) | \$ 0.18 | \$ 0.10 | \$ 0.00 | \$ 0.04 | \$ 0.31 | \$ 0.45 | \$(2.16) | \$ 0.09 |
| <i>Dividends per share</i> | \$ 0.20 | \$ 0.20 | \$ 0.20 | \$ 0.30 | \$ 0.30 | \$ 0.30 | \$ 0.30 | \$ 0.30 |

(1) 2009 represent Pre-Changeover Canadian GAAP figures

Big Rock experiences seasonal fluctuations in volumes, net sales revenue and net earnings with the second and third quarters typically being the highest and the first and fourth being the lowest. These seasonal variations are dependent on numerous factors, including weather, timing of community events, consumer behaviour, customer activity and overall industry dynamics, specifically in western Canada. The selected quarterly information is consistent with these expectations and industry trends.

RESULTS OF OPERATIONS

While sales volumes increased 19.6% for the three months ended September 30, 2011 as compared to the same period last year, Big Rock's consolidated net income for the three months ended September 30, 2011 decreased to \$1,084 compared to \$1,855 in 2010. The decline in earnings compared to the same three months last year was a result of three main factors: higher tax expense for the corporate entity in 2011 versus the income trust structure in 2010, increased packaging material costs and lower net sales revenues per hectolitre attributed to a change in product mix.

For the nine months ended September 30, 2011, net income increased to \$1,677 compared with a net loss of \$8,465 in 2010. The 2010 net loss included a \$10,686 charge for fair value losses relating to the trust units while Big Rock was an income trust, and charges of \$2,414 relating to distributions paid to shareholders, which IFRS considered a finance cost, for which no similar amounts were recorded in the nine months ended September 30, 2011.

Management believes operating profit to be a more meaningful comparison to assess the Corporation's performance. For the three months ended September 30, 2011, operating profit totalled \$1,434 compared to \$1,829 for the same period last year. The decline in operating profit was driven by lower net sales revenues per hectolitre due to a higher proportion of value-priced beer in the product mix, combined with higher packaging materials charges. For the nine months ended September 30, 2011, operating profit decreased to \$2,203 from \$4,478, driven primarily by the lower net sales revenues per hectolitre, which reduced revenues despite higher volumes.

Gross Profit

| \$ thousands (unless otherwise stated) | Three months ended September 30 | | | Nine months ended September 30 | | |
|--|------------------------------------|--------|--------|-----------------------------------|---------|---------|
| | 2011 | 2010 | Change | 2011 | 2010 | Change |
| Net sales revenue | 14,019 | 12,234 | 1,785 | 35,160 | 35,250 | (90) |
| Cost of sales: | | | | | | |
| Ingredients and packaging materials | 4,036 | 3,082 | 954 | 9,503 | 8,751 | 752 |
| Labour | 1,084 | 978 | 106 | 3,082 | 3,216 | (134) |
| Overhead | 788 | 685 | 103 | 2,251 | 2,126 | 125 |
| Inventory movement | 165 | (32) | 197 | (262) | (709) | 447 |
| Depreciation | 852 | 673 | 179 | 2,538 | 1,948 | 590 |
| Cost of sales | 6,925 | 5,386 | 1,539 | 17,112 | 15,332 | 1,780 |
| Gross profit | 7,094 | 6,848 | 246 | 18,048 | 19,918 | (1,870) |
| Sales volumes (hl) | 69,540 | 58,150 | 11,390 | 172,012 | 165,156 | 6,856 |

Net sales revenues include product (beer and cider) sales as well as revenues from a co-packaging contract which expired in May 2010. As noted earlier, Big Rock experiences seasonal fluctuations in sales volumes, net sales revenue and net earnings with the second and third quarters typically being the highest and the first and fourth quarters being the lowest. These seasonal variations are dependent on numerous factors, including: weather, historical consumer behaviour, and a cultural association of beer with outdoor activities and sporting events.

For the three months ended September 30, 2011, net sales revenue increased \$1,785 (14.6%) compared to the same period of 2010. The increase was primarily attributable to higher sales volumes, which increased 19.6% to 69,540 hl from 58,150 hl. The volume growth occurred predominantly in the value-priced segment, which was fuelled by growth in retail channels, but there was also moderate growth in premium flagship brands, particularly Grasshopper and Traditional. Sales revenues have not increased to the same extent as sales volumes when compared to the same quarter last year, as the higher proportion of value-priced product has resulted in a decline in overall revenue per hl.

Management believes the improvement in its third quarter sales volumes is the result of continued focus on opportunities to capture sustainable market share as well as sales associated with new packaging launched in February 2011. In addition, innovation through Big Rock's "la-beer-atory", including the Brewmaster's Series of beer, continues to be a key element of Big Rock's future growth strategy. The la-beer-atory was launched earlier in the second quarter and has been well received by customers in both retail and On-premise channels.

Although the biggest area of growth in volumes was the value-priced category, Big Rock also saw sales volumes increase in its premium craft brands - particularly Grasshopper and Traditional - which grew in both "packaged" and keg formats compared to the same quarter last year. The increase in sales volumes was primarily due to strategic retail promotions and increased On-Premise activity during the third quarter of 2011.

Geographically, Alberta and British Columbia continued to lead the growth in sales volumes, consistent with management's focus on the western provinces. Increased "packaged" sales volumes were driven primarily by new retail distribution agreements, particularly in Alberta, some of which were enabled by Big Rock's value-priced brands with future growth potential for core brands.

For the nine months ended September 30, 2011, net sales revenue decreased slightly compared to the same period of 2010 despite moderate growth in sales volumes of 4.2%. The decrease was primarily attributable to lower revenue per hl due to the change in product mix and the absence of the co-packaging deal which contributed to revenues in 2010. Throughout 2011, management has continued to focus on executing the Brewery's strategy of growing the business profitably, with an emphasis in the western provinces.

For the three and nine months ended September 30, 2011, total cost of sales increased by \$1,539 and \$1,780, respectively, compared to the same periods last year, as described below:

- For the quarter ended September 30, 2011, costs relating to ingredients and packaging materials increased \$954 due to higher production volumes and increased can and carton packaging costs combined with the impact of a lower volume rebate from a major packaging supplier, compared to same period in 2010. For the nine months ended September 30, 2011, costs relating to ingredients and packaging materials increased \$752 compared to the same period in 2010, primarily due to higher production volumes.
- Big Rock's labour costs relating to production are primarily fixed in nature. When compared to the same periods in 2010, labour charges for the third quarter increased \$106, due primarily to the timing of accruals under the Corporation's incentive program, while for the nine months ended September 30, 2011, labour costs decreased by \$134, primarily as a result of lower headcount. This decrease was partially offset by higher salary costs as a result of annual increases and benefit costs.
- Overhead costs include utilities, repairs and maintenance and other production related amounts, which are primarily fixed in nature. Overhead costs at September 30, 2011 increased by \$103 and \$125, respectively, compared to the three months and nine months ended September 30, 2010, due primarily to higher surcharges on waste water.
- Inventory movement is a timing difference relating to the absorption of production costs into finished goods inventory on the statement of financial position, and the eventual charge to earnings for those costs as finished goods inventory is sold. For the three and nine months ended September 30, 2011, charges relating to inventory movement increased by \$197 and \$447, respectively, compared with the same periods last year.
- On March 31, 2010, Big Rock commenced including depreciation charges on production equipment used to convert raw materials to finished goods as part of its cost of sales. Prior to this date, no depreciation was included in finished goods inventory. As a result, cost of sales for the three months ended September 30, 2011 included a reduction in costs of \$8 (2010 - \$83), relating to depreciation included in beginning finished goods inventory. Cost of sales for the nine months ended September 30, 2011 included a reduction in costs of \$27 (2010 - \$299) relating to depreciation included in beginning finished goods inventory.

On a per hectolitre basis, cost of sales increased by \$6.96 per hl (7.5%) and \$6.65 per hl (7.2%) for the three months and nine months ended September 30, 2011, respectively. Higher ingredients and packaging costs, increased impact of inventory movement and higher depreciation charges were the primary drivers of the increase, as detailed in the following table:

Per hectolitre cost of sales

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|-------------------------------------|------------------------------------|--------|--------|-----------------------------------|--------|--------|
| | 2011 | 2010 | Change | 2011 | 2010 | Change |
| Cost of sales: | | | | | | |
| Ingredients and packaging materials | 58.03 | 53.01 | 5.02 | 55.24 | 52.99 | 2.25 |
| Labour | 15.58 | 16.82 | (1.24) | 17.92 | 19.47 | (1.55) |
| Overhead | 11.33 | 11.78 | (0.45) | 13.09 | 12.87 | 0.22 |
| Inventory movement | 2.37 | (0.55) | 2.92 | (1.52) | (4.29) | 2.77 |
| Depreciation | 12.27 | 11.56 | 0.71 | 14.75 | 11.79 | 2.96 |
| Cost of sales | 99.58 | 92.62 | 6.96 | 99.48 | 92.83 | 6.65 |

Selling expenses

| \$ thousands (unless otherwise stated) | Three months ended September 30 | | | Nine months ended September 30 | | |
|--|------------------------------------|--------------|------------|-----------------------------------|---------------|------------|
| | 2011 | 2010 | Change | 2011 | 2010 | Change |
| Selling: | | | | | | |
| Delivery and distribution | 1,339 | 1,027 | 312 | 3,412 | 2,945 | 467 |
| Salaries and benefits | 1,038 | 859 | 179 | 3,027 | 2,885 | 142 |
| Promotional materials | 1,020 | 890 | 130 | 3,333 | 3,206 | 127 |
| Community sponsorship and other | 1,125 | 1,274 | (149) | 2,570 | 2,924 | (354) |
| Total selling expenses | 4,522 | 4,050 | 472 | 12,342 | 11,960 | 382 |

For the three months ended September 30, 2011, selling expenses increased by \$472 compared with the same period last year. For the nine months ended September 30, 2011, selling expenses increased by \$382 compared to the same period last year. These changes are detailed as follows:

- Delivery and distribution costs increased primarily as a result of higher volumes delivered in the quarter compared to the same periods last year. Delivery costs also reflect the impact of an increase in fuel surcharges as well as a higher proportion of sales volumes in northern Alberta.
- Salaries and benefit costs increased by \$179 for the quarter due primarily to higher accruals under the annual incentive plan. For the nine months ended September 30, 2011, salaries and benefit costs increased \$142 as compared to the prior year, due mainly to annual salary increases and benefit costs.
- Promotional materials increased primarily as a result of sales programs which were utilized in the second and third quarters to increase sales volumes and revenues. For the year to date period, these costs were partially offset by lower charges due to the timing of expenditures on point of sale promotional materials, which are expensed as incurred.
- Community sponsorship and other decreased by \$149 and \$354, respectively, as a result of lower charges for artwork and design, reduced travel expenses by the sales staff and the receipt of government grants relating to the haybale and new packaging programs, for which no similar amounts were received in 2010.

General and Administrative expenses

| \$ thousands (unless otherwise stated) | Three months ended September 30 | | | Nine months ended September 30 | | |
|--|------------------------------------|------------|------------|-----------------------------------|--------------|-------------|
| | 2011 | 2010 | Change | 2011 | 2010 | Change |
| General and Administrative: | | | | | | |
| Salaries and benefits | 583 | 479 | 104 | 1,671 | 1,628 | 43 |
| Professional fees | 108 | 67 | 41 | 484 | 655 | (171) |
| Building maintenance and taxes | 150 | 125 | 25 | 441 | 352 | 89 |
| Office, administrative and other | 123 | 148 | (25) | 339 | 366 | (27) |
| Reporting and filing fees | 28 | 20 | 8 | 133 | 91 | 42 |
| Insurance | 46 | 49 | (3) | 124 | 140 | (16) |
| Bank charges | 13 | 13 | — | 52 | 39 | 13 |
| Total general and administrative expenses | 1,051 | 901 | 150 | 3,244 | 3,271 | (27) |

For the three and nine months ended September 30, 2011, general and administrative expenses increased by \$150 and decreased by \$27, respectively, compared with the same periods last year as detailed below:

- Salaries and benefit costs increased for the three and nine months ended September 30, 2011 by \$104 and \$43, respectively, due primarily to higher stock compensation expenses. The current quarter also saw higher accruals under the annual incentive program compared to the same period in 2010.
- Professional fees, which include legal, audit, tax and accounting advisory services, were slightly higher for the quarter compared to the same three months last year. On a year-to-date basis, professional fees decreased by \$171, as a result of 2010 comparative amounts that included charges relating to work performed on Big Rock's corporate conversion and consulting fees associated with the transition to IFRS.
- Building maintenance and taxes increased primarily as a result of higher 2011 property taxes for both the three and nine months ended September 30, 2011 compared to the same periods last year.
- Office, administration and other, which include IT related amounts, memberships, dues and licenses, travel and automotive costs, and corporate hospitality, decreased for the three and nine months ended September 30, 2011 by \$25 and \$27, respectively, compared to the same periods last year. The decreases were primarily as a result of timing of the expenditures under these categories.
- Reporting and filing fees remained consistent for the three months ended September 30, 2011 compared to the same period last year. On a year-to-date basis, report and filing fees increased as a result of higher listing fees charged by the TSX following Big Rock's conversion to a corporation on January 1, 2011.
- Insurance expense in the current quarter remained consistent with amounts charged in the third quarter last year. On a year-to-date basis, insurance costs were slightly lower than for the same period in 2010, which included premiums for an insurance bond required for co-packaging services that was not renewed in 2011.
- Bank charges were consistent for the quarter, but increased by \$13 for the nine months ended September 30, 2011, when compared to the same periods last year. The increase in the nine month period resulted primarily from standby and administrative charges on the credit facilities which were put in place in August 2010.

Finance costs

| \$ thousands (unless otherwise stated) | Three months ended September 30 | | | Nine months ended September 30 | | |
|--|------------------------------------|-------|--------|-----------------------------------|-------|---------|
| | 2011 | 2010 | Change | 2011 | 2010 | Change |
| Interest on long-term debt | 32 | 36 | (4) | 100 | 104 | (4) |
| Interest on operating facility | 2 | 1 | 1 | 9 | 4 | 5 |
| Distributions to shareholders | — | — | — | — | 2,414 | (2,414) |
| Total finance costs | 34 | 37 | (3) | 109 | 2,522 | (2,413) |
| Weighted average effective interest rate | 4.30% | 4.09% | | 4.25% | 3.91% | |

The principal amount of long-term debt and bank indebtedness was \$2,858 as at September 30, 2011 compared to \$3,557 as at September 30, 2010. The interest rates applicable to all loans and borrowings are based on the lender's prime rate. The increase in interest expense on the operating facility for the three and nine months ended September 30, 2011 compared to the same periods last year, primarily reflects an increase in the prime rate. Principal repayments on the long-term debt began in November 2010; therefore, the impact of lower average borrowings did not have a material impact on interest costs for the three and nine months ended September 30, 2011.

Under Pre-Changeover Canadian GAAP, Big Rock's trust units were recorded as equity with distributions to shareholders recorded as a reduction in equity. However, IFRS 2 *Share-based Payments* and IAS 32 *Financial Instruments: Presentation* classified Big Rock trust units as a financial liability until May 2010 (see discussion later in this MD&A). Accordingly, IFRS considers distributions paid to shareholders during the first four months of 2010 to be a finance cost. Subsequent distribution payments were considered an equity transaction.

Depreciation and amortization

| \$ thousands (unless otherwise stated) | Three months ended September 30 | | | Nine months ended September 30 | | |
|--|------------------------------------|------|--------|-----------------------------------|-------|--------|
| | 2011 | 2010 | Change | 2011 | 2010 | Change |
| Depreciation included in cost of sales | 852 | 673 | 179 | 2,538 | 1,948 | 590 |
| Depreciation - other | 60 | 49 | 11 | 179 | 152 | 27 |
| Amortization | 27 | 19 | 8 | 80 | 57 | 23 |
| Total | 939 | 741 | 198 | 2,797 | 2,157 | 640 |

Upon transition to IFRS, an entity has the elective option to reset the cost of its Property, Plant and Equipment ("PP&E") based on fair value in accordance with the provisions of IFRS 1, and to use either the cost model or the revaluation model to measure its PP&E subsequent to transition. For the majority of its PP&E, Big Rock has elected to reset the cost based on fair values. Thereafter, Big Rock will use the cost model for all reporting periods.

The Corporation secured the services of an independent appraiser to complete valuations of its land and buildings. The appraisals utilized industry standards and accepted valuation methodologies which included the Cost Approach (for certain assets), the Income Approach and the Direct Comparison Approach to determine fair values. As at January 1, 2010, management applied the IFRS 1 election to deem the carrying value of its land and buildings at their fair values as estimated by each appraisal, with primary reliance based on the Direct Comparison Approach. This approach used recent market comparables/transactions from the local markets. Values were then adjusted for specific conditions relating to the corporation's land and buildings, including square footage, wear and tear and physical access.

In addition, the Corporation secured the services of an additional independent appraiser to complete valuations of its brewing assets and other property, plant and equipment. As at January 1, 2010, management applied the IFRS 1 election to deem the carrying value of its brewing assets and other PP&E at their fair values as estimated by the appraisal, with primary reliance based on the Cost Approach. The Cost Approach establishes a fair value based on the current "new" cost of reproducing or replacing the assets less depreciation from physical deterioration.

In estimating fair value, it was assumed the assets were in the same condition on the date the valuation work was performed as on the valuation date, January 1, 2010, except for normal wear and tear. In addition, no consideration was given to environmental matters. Environmental matters, if any, are discussed under Provisions.

The Cost Approach generally provides a meaningful indication of the fair value for specialized systems and customized machinery and equipment as these items do not routinely trade in the used equipment market. While the universe of market transactions is very small, it is not non-existent. In the rare circumstance in which market transactions for similar assets are observed these assets are generally transacted on a liquidation basis and accordingly were not appropriate for use in our analysis.

Under Pre-Changeover Canadian GAAP, Big Rock included software, naming rights and website costs with other PP&E, which were recorded at historical cost less amortization. Under IFRS, these assets are considered intangible assets.

The above adjustments were effective upon Big Rock's transition to IFRS on January 1, 2010, and do not impact the comparative amounts; however depreciation and amortization charges are determined on the reset costs.

For the three and nine months ended September 30, 2011, depreciation expense included in cost of sales increased by \$179 and \$590, respectively, compared with the same periods last year, primarily as a result of the timing of purchases for operations-related plant and equipment.

For the three and nine months ended September 30, 2011, other depreciation charges increased by \$11 and \$27, respectively, compared with the corresponding periods last year, for the same reason. Amortization expenses increased by \$8 and \$23, respectively, compared with the corresponding periods last year, for the same reason.

Other

| \$ thousands (unless otherwise stated) | Three months ended September 30 | | | Nine months ended September 30 | | |
|--|------------------------------------|------|--------|-----------------------------------|----------|--------|
| | 2011 | 2010 | Change | 2011 | 2010 | Change |
| Other income | 115 | 113 | 2 | 341 | 313 | 28 |
| Other expenses | 42 | 22 | 20 | 115 | 63 | 52 |
| Fair value gain (loss) on trust units liability | — | — | — | — | (10,686) | 10,686 |
| Fair value gain (loss) on share based payments liability | — | (4) | 4 | — | (151) | 151 |

Other income includes restaurant royalties, miscellaneous income (primarily from the sale of spent grains and rental of yard space), gains or losses on asset disposals and net revenues from tours, hospitality, and the dry goods store. The increase for the three and nine months ended September 30, 2011 is related primarily to higher sales volumes in the dry goods store, reflecting increased foot traffic in the brewery and the restaurant, and increased sales following customer tours of the brewery. The increases in the second and third quarters more than offset declines reported for the three months ended March 31, 2011.

Under Pre-Changeover Canadian GAAP, Big Rock's trust units were recorded as equity. However, IFRS 2 *Share-based Payments* and IAS 32 *Financial Instruments: Presentation* classify the units as a financial liability on the statement of financial position. Financial liabilities are recorded at fair value at each reporting date, with changes in fair value flowing through the statement of comprehensive income.

Following a shareholder approved change to the trust indenture in May 2010, an exception under IAS 32 allowed the trust units to be re-characterized as equity, and removed the fair value requirement. The \$10,686 charge represents the change in fair value of the units from January 1, 2010 to May 19, 2010.

Similarly, under Pre-Changeover Canadian GAAP, stock options were considered equity and reported as contributed surplus at the historical fair values at the date of each grant, less any amounts reclassified to share capital upon exercise. Under IFRS, the outstanding and exercisable stock options, for the 2010 comparative periods during which Big Rock was an income trust, are considered a liability. Accordingly, under IFRS the options were recorded at their fair value at each reporting date, with changes in fair value flowing through the statement of comprehensive income. The \$151 charge represents the change in fair value of the options from January 1, 2010 to September 30, 2010, of which \$4 related to the third quarter.

The IAS 32 exemption noted above does not apply to Big Rock's stock options, which retained their financial liability status for IFRS throughout 2010. Following Big Rock's conversion to a corporation on January 1, 2011, the options were re-characterized as equity.

Income taxes

| \$ thousands (unless otherwise stated) | Three months ended September 30 | | | Nine months ended September 30 | | |
|--|------------------------------------|------|--------|-----------------------------------|-------|--------|
| | 2011 | 2010 | Change | 2011 | 2010 | Change |
| Deferred income tax expense (recovery) | 389 | 24 | 365 | 643 | (166) | 809 |

During the three and nine months ended September 30, 2011, the Corporation recorded deferred income tax charges of \$389 and \$643, respectively, compared to deferred income tax expense of \$24 and recovery of \$166, respectively, for the same periods last year. The increases in expense are primarily due to the impact of a change in corporate structure, which occurred on January 1, 2011 when Big Rock converted from an income trust to a dividend paying corporation. Prior this change, distributions paid to shareholders were deductible in determining taxable income, whereas 2011 dividends are not.

The deferred income tax provision differs from the statutory rate of 26.66% (2010 - 28.26%) due to permanent timing differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for income tax purpose, as well as the effect of non-deductible amounts.

FINANCIAL CONDITION

The following chart highlights significant changes in the Consolidated Balance Sheets from December 31, 2010 to September 30, 2011:

| \$ thousands (unless otherwise stated) | Increase/ (Decrease) | Primary factors explaining change |
|--|-------------------------|---|
| Property, plant and equipment | (1,625) | Depreciation charge, net of asset additions |
| Intangible assets | (80) | Amortization charge |
| Inventories | (20) | Slight decrease in inventory balances on-hand |
| Accounts receivable | 304 | Increased sales volumes during the third quarter of 2011 compared to the fourth quarter of 2010 |
| Prepaid expenses and other | 40 | Timing of insurance, property tax and other similar charges |
| Long-term debt | (525) | Regular repayments of term loan |
| Deferred income taxes | 643 | Change to corporate structure from income trust |
| Accounts payable and accrued liabilities | 1,059 | Higher supplier payments relating to increased production, offset by a partial year of accruals under the annual incentive plan for 2011 versus a full year in 2010 |
| Dividends payable | 606 | Change from monthly to quarterly dividends and lower dividend per share |

LIQUIDITY AND CAPITAL RESOURCES

Capitalization

| \$ thousands (unless otherwise stated) | September 30, 2011 | December 31, 2010 |
|--|-----------------------|----------------------|
| Bank indebtedness (cash) | (2,141) | (769) |
| Total debt | 2,858 | 3,383 |
| Shareholders' equity: | | |
| Shareholders' capital | 99,954 | 99,954 |
| Contributed surplus | 497 | — |
| Accumulated deficit | (67,667) | (65,709) |
| Total shareholders' equity | 32,784 | 34,245 |
| Total capitalization (total debt plus shareholders' equity, net of cash balances) | 33,501 | 36,859 |
| Total debt to capitalization ratio | 8.5% | 9.2% |

Capital Strategy

The Corporation includes as capital its common shares plus short-term and long-term debt, net of cash balances, and has no externally imposed capital requirements. The Corporation's objectives are to safeguard the Corporation's ability to continue as a going concern, in order to support the Corporation's normal operating requirements and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. This allows management to maximize the profitability of its existing assets and create long-term value and enhance returns for its shareholders.

The Corporation manages the capital structure through prudent levels of borrowing, cash-flow forecasting and working capital management, and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents. In order to facilitate the management of its capital requirements, the Corporation prepares annual expenditure budgets, which are approved by the Board of Directors. These budgets are updated as necessary depending on various factors, including capital deployment, results from operations, and general industry conditions.

In addition, the Corporation monitors its capital using ratios of (i) debt to total capitalization, (ii) working capital, and (iii) earnings before interest, taxes, depreciation and amortization (EBITDA) to long-term debt. Debt to total capitalization is calculated as long-term debt, including current portion, plus bank indebtedness, divided by total capital. Working capital is calculated as current assets divided by current liabilities and EBITDA to long-term debt is calculated by dividing long-term debt by EBITDA. Both working capital and EBITDA to long-term debt are used for compliance with debt covenants.

These capital policies, which remain unchanged from prior periods, provide Big Rock with access to capital at a reasonable cost.

All of the borrowing facilities have financial tests and other covenants customary for these types of facilities, which are discussed later in this MD&A, and must be met at each reporting date. At September 30, 2011 and December 31, 2010, Big Rock was in compliance with all of its debt covenants.

Shareholders' Capital

| | # of shares | \$ Amount |
|--|-------------|-----------|
| As at December 31, 2010 | 6,057,678 | 99,954 |
| Quarter ended September 30, 2011: | | |
| Shares issued upon exercise of options | — | — |
| As at September 30, 2011 | 6,057,678 | 99,954 |

Big Rock is authorized to issue an unlimited number of common shares with no par value.

The Corporation's shares trade on the Toronto Stock Exchange under the symbol BR. As at November 3, 2011 there were 6,057,678 issued and outstanding shares and the closing price was \$11.88 per share. Based upon 6,057,678 issued shares, the Corporation has an approximate market capitalization of \$72.0 million.

Share Based Compensation Plan

The Corporation uses the fair value method of accounting for awards granted under its unit option plan. During the three months ended March 31, 2011, the Corporation granted 58,000 (2010 - nil) stock options to officers, employees and directors at an exercise price of \$16.60 with an expiry date of March 22, 2016. The weighted average fair value of the options issued during the three months ended March 31, 2011 was estimated at \$1.95 per option at the grant date using the Black-Scholes option pricing model. During the three months ended September 30, 2011, 51,500 (2010 - 120,000) stock options were granted by the Corporation to officers, employees and directors at an exercise price of \$11.88 with an expiry date of August 4, 2016. The weighted average fair value of the options issued during the three months ended September 30, 2011 was estimated at \$1.03 per option at the grant date using the Black-Scholes option pricing model.

The weighted average assumptions used for the calculation were:

| | August 2011 | March 2011 | August 2010 | October 2007 | February 2007 |
|---|----------------|---------------|----------------|-----------------|------------------|
| Weighted average fair value per option | 1.03 | 1.95 | 1.15 | 1.85 | 1.24 |
| Risk-free interest rate (%) | 1.48 | 2.30 | 1.80 | 5.00 | 3.97 |
| Expected life of the options (years) | 4 | 4 | 4 | 2 | 2 |
| Dividend rate (%) | 6.73 | 4.80 | 7.10 | 8.00 | 10.22 |
| Volatility in the price of the Corporation's shares (%) | 23.4 | 23.5 | 22.0 | 27.0 | 25.6 |

For the three months ended September 30, 2011, \$53 (2010 - \$nil) of share-based compensation was recognized in the statement of comprehensive income. For the nine months ended September 30, 2011, share-based compensation charges of \$166 (2010 - \$nil) for the options granted earlier in the year was recognized in the statement of comprehensive income. Share-based compensation costs have been included in general and administrative expenses.

The following is a summary of option transactions under the Corporation's stock option plan:

| | 2011 | | 2010 | |
|-----------------------|--------------|---------------------------------|--------------|---------------------------------|
| | # of options | Weighted average exercise price | # of options | Weighted average exercise price |
| Balance, January 1 | 262,000 | \$ 15.84 | 385,600 | \$ 17.10 |
| Forfeited | — | — | (48,500) | \$ 16.94 |
| Exercised | — | — | (22,200) | \$ 15.26 |
| Issued | 58,000 | \$ 16.60 | — | — |
| Balance, March 31 | 320,000 | \$ 16.31 | 314,900 | \$ 17.26 |
| Forfeited | — | — | (152,100) | \$ 19.07 |
| Exercised | — | — | (17,900) | \$ 15.26 |
| Issued | — | — | — | — |
| Balance, June 30 | 320,000 | \$ 16.31 | 144,900 | \$ 15.60 |
| Forfeited | (21,500) | \$ 16.86 | — | — |
| Exercised | — | — | (2,900) | \$ 15.26 |
| Issued | 51,500 | \$ 11.88 | 120,000 | \$ 17.00 |
| Balance, September 30 | 350,000 | \$ 15.62 | 262,000 | \$ 16.24 |

The following table summarizes information about stock options outstanding and exercisable at September 30, 2011:

| Exercise price | # of Options outstanding at September 30, 2011 | Weighted average remaining contractual life (years) | Weighted average exercise price | # of Options exercisable at September 30, 2011 |
|-----------------------|--|---|---------------------------------|--|
| \$11.88 to \$15.25 | 51,500 | 4.85 | \$ 11.88 | 51,500 |
| \$15.26 to \$17.71 | 278,500 | 2.45 | \$ 16.17 | 278,500 |
| \$17.72 | 20,000 | 1.00 | 17.72 | 20,000 |
| Balance, September 30 | 350,000 | 2.72 | \$ 15.62 | 350,000 |

As at November 3, 2011, there were a total of 350,000 unit options outstanding.

As at September 30, 2011, 228,000 Stock Appreciation Rights ("SARs") were outstanding (December 31, 2010 - 447,250). During the three months ended September 30, 2011, no SARs were issued (2010 - nil), no SARs were exercised (2010 - 15,000) and 9,000 SARs were cancelled (2010 - nil). Forfeited SARs related to individuals no longer employed with Big Rock. As at September 30, 2011, the trading price of the Corporation shares was less than the exercise price of the majority of the SARs, resulting in no liability being recorded in the financial statements (December 31, 2010 - \$nil).

Cash Flows

Cash Provided by Operating Activities

Cash provided by operating activities for the three months ended September 30, 2011 totalled \$4,997, an increase of \$833 compared to the same period last year. For the nine months ended September 30, 2011 cash provided by operating activities totalled \$6,028, an increase of \$2,284 compared to the same period in 2010. These increases were the largely the result of classification of distributions to shareholders as a finance cost in the 2010 comparative amounts, and consequently as a reduction of earnings. Additionally, cash flows from operating activities have increased reflecting higher sales, lower accounts payable due to timing of supplier payments, lower inventory balances on-hand, and lower accounts receivable as a result of timing of payments from government liquor boards.

Investing Activities

For the three and nine months ended September 30, 2011, capital spending, net of dispositions, was \$325 and \$1,101, respectively, compared to \$192 and \$955, respectively, for the same periods in 2010. Capital spending on PP&E, net of dispositions, for the three months ended September 30, 2011 included \$nil (2010 - \$70) for new kegs, \$186 (2010 - \$31) for brewing and packaging equipment, \$144 (2010 - \$57) for glass containers and \$2 (2010 - \$24) for the purchase of new vehicles.

Capital spending, net of dispositions, for the nine months ended September 30, 2011 included \$134 (2010 - \$210) for new kegs, \$498 (2010 - \$342) for brewing and packaging equipment, \$347 (2010 - \$97) for glass containers, \$140 (2010 - \$241) for the purchase of new vehicles, \$nil (2010 - \$23) for the purchase of office furniture and equipment and \$1 (2010 - \$47) relating to the building improvement and the construction of office space in the Calgary warehouse.

For the three months ended September 30, 2011 Capital spending on computer software, which under IFRS is considered an intangible asset, totalled \$nil (2010 - \$8) and for the nine months ended September 30, 2011 totalled \$nil (2010 - \$19).

Financing Activities

Cash used in financing activities for the three and nine months ended September 30, 2011 decreased by \$386 and increased by \$1,183 respectively, compared with the same periods in 2010. The decrease in cash used in the three months ended September 30, 2011 represents the effect of paying quarterly

dividends in 2011 compared to monthly distributions in 2010 together with the reduction of the per share payment amount. The increase in cash used in the nine months ended September 30, 2011 represents the principal repayments on the long term debt, which commenced in November 2010 and the proceeds received on the exercise of employee options in 2010, for which no similar amounts were received in 2011. This was partially offset by the inclusion of the result of the reclassification of 2010 distributions to shareholder payments discussed above. Adjusting for this presentation change, cash used in financing activities decreased by \$1,231 for the nine months ended September 30, 2011.

On April 30, 2010, Big Rock renewed its \$5.0 million demand operating facility with the Corporation's financial institution for a term of three years. The facility is secured through a general assignment of Big Rock's assets and bears interest at prime plus one per cent. The facility imposes a number of positive and negative covenants on Big Rock including the maintenance of certain financial ratios. Other than the term, all conditions imposed on the facility remained unchanged on renewal.

The balance drawn against the facility fluctuates depending on working capital requirements. At September 30, 2011, there was no balance owing on this facility (December 31, 2010 - nil).

On October 28, 2010, the Corporation renewed the term financing for a period of five years. The loan is repayable in blended instalments of approximately \$65.5 thousand per month, including interest at the financial institution's prime rate plus 1.25 per cent.

The facility imposes a number of positive and negative covenants on Big Rock including the maintenance of certain financial ratios including, (i) working capital, and (ii) earnings before interest, taxes, depreciation and amortization (EBITDA) to long-term debt. Working capital is calculated by dividing current assets by current liabilities and EBITDA to long-term debt is calculated by dividing long-term debt by EBITDA.

The calculation of EBITDA is a non-GAAP measure, whose nearest GAAP measure is net income with the reconciliation between the two as follows:

| \$ thousands (unless otherwise stated) | September 30, 2011 | September 30, 2010 |
|---|-----------------------|-----------------------|
| EBITDA | \$ 5,226 | \$ (3,953) |
| Deduct: Depreciation & Amortization | 2,797 | 2,156 |
| Earnings (loss) before interest and taxes | 2,429 | (6,109) |
| Deduct: Interest | 109 | 2,522 |
| Deduct: Income tax charge (add: recovery) | 643 | (166) |
| Net income (loss) | \$ 1,677 | \$ (8,465) |

At September 30, 2011 and December 31, 2010, Big Rock was in compliance with all of its debt covenants.

Cash Dividends

Each quarter the Board of Directors sets the cash dividend per share, considering the Corporation's requirements for capital expenditures, debt servicing, and current operating results compared to budget as well as projected net incomes.

The amount of dividends declared depends upon numerous factors, including profitability, fluctuations in working capital, sustainability of margins during seasons when sales volumes and income are traditionally low, debt repayments, capital expenditures and the actual cash amounts available for distribution by the Corporation.

The following cash dividends have been announced by the Corporation to date in 2011:

| | 2011 | | | 2010 | | |
|--------------|-------------|--------------|---------------|-------------|--------------|---------------|
| | Record Date | Payment Date | Per Unit | Record Date | Payment Date | Per Unit |
| January | | | | 29-Jan | 16-Feb | \$0.10 |
| February | | | | 26-Feb | 15-Mar | \$0.10 |
| March | 31-Mar | 15-Apr | \$0.20 | 31-Mar | 15-Apr | \$0.10 |
| April | | | | 30-Apr | 15-May | \$0.10 |
| May | | | | 31-May | 15-Jun | \$0.10 |
| June | 30-Jun | 15-Jul | \$0.20 | 30-Jun | 15-Jul | \$0.10 |
| July | | | | 30-Jul | 16-Aug | \$0.10 |
| August | | | | 31-Aug | 15-Sep | \$0.10 |
| September | 30-Sep | 17-Oct | \$0.20 | 31-Sept | 15-Oct | \$0.10 |
| Total | | | \$0.60 | | | \$0.90 |

Dividends for the three and nine months ended September 30, 2011 totalled \$1,212 (\$0.20 per unit) and \$3,635 (\$0.60 per unit) respectively, compared to \$1,817 (\$0.30 per unit) and \$5,442 (\$0.90 per unit), respectively, for the same periods in 2010. Dividends declared to shareholders may exceed net income generated during the period. Net income may not be an accurate indicator of the Corporation's liquidity, as it may be comprised of significant charges not involving cash including future income tax, changes to non-cash working capital and amortization related expenses.

Big Rock's intention is to continue to reward its investors with dividends consistent with the performance of the brewery. In determining actual dividend levels, the Board will consider the financial performance, capital plans, growth opportunities, expectations of future economic conditions and other factors. Since the level of dividends is highly dependent upon cash flow generated from operations, which fluctuates significantly in relation to changes in financial and operational performance, commodity prices, interest and exchange rates and many other factors, future dividends cannot be assured. Dividend amounts are subject to the risk factors described herein and in the Corporation's public disclosure documents including its current Annual Information Form.

Cash dividends are not guaranteed and will fluctuate with performance of the business.

CRITICAL ACCOUNTING ESTIMATES

Returnable Glass Containers

Returnable glass containers are initially recorded at cost. In order to account for wear and shrinkage, the cost of bottles is charged to operations over the estimated useful life of five years. The Corporation has purchased \$2,750 (December 31, 2010 - \$2,403) of returnable glass containers since converting to the Industry Standard Bottle in early 2002. The net book value of returnable glass containers as at September 30, 2011 is \$600 (December 31, 2010 - \$556).

Stock-based compensation

The Corporation 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 three and nine months ended September 30, 2011 was \$53 (2010 - \$nil) and \$166 (2010 - \$nil), respectively, as discussed earlier in this MD&A.

Property, Plant and Equipment

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 the assets exists. These assessments are critical due to their potential impact on income.

At each date of the statement of financial position, the Corporation reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating-unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

Keg Deposits

The Corporation requires that customers pay a deposit for each keg purchased, which is subsequently refunded to customers via invoice credits or cash payments when kegs are returned and these deposits are reflected as a liability on the Corporation's balance sheet. In the normal course of business there are a percentage of kegs that are never returned for refund. As a result the Corporation performs an analysis based on factors such as total kegs produced, current inventory rates and average keg turnover. In addition, return percentages are calculated and tracked to estimate an average keg turnover rate. Together this information is used to estimate a reasonable keg deposit liability at each reporting date. Any adjustments required to the keg liability account are applied to revenues.

RISKS RELATED TO THE BUSINESS AND INDUSTRY

Big Rock operates in an environment that is both highly competitive and highly government regulated. Due to the ongoing shifting effects of competition, the ability to predict future sales and profitability with any degree of certainty is limited. It is also difficult to anticipate changes in government regulation and legislation and the impact such changes might have on the Corporation's operations.

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 likely that price promotions due to competitive pressures will continue. Big Rock believes it is in an excellent position to increase sales volumes; 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, Big Rock's largest market, the Alberta Gaming and Liquor Commission provides the necessary licensing approvals. Other licenses have been obtained from various other government authorities. Management believes that Big Rock is in compliance with all licenses, permits, and approvals.

Financial Risk

The Corporation's principal financial instruments are its outstanding amounts drawn from its credit facilities, which, after cash flow from operations, are its main source of financing. Other financial assets and liabilities arising directly from its operations and corporate activities include cash, accounts receivable, bank indebtedness, accounts payable, long term debt and distributions payable. The primary risks arising from the Corporation's financial instruments are credit risk, liquidity risk, commodity price risk, interest rate risk and foreign exchange risk, each of which are discussed below.

Management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Credit Risk and Management

Credit risk is the risk that the counterparty to a financial asset will default, resulting in the Corporation incurring a financial loss.

Big Rock has a concentration of credit risk because a majority of its accounts receivable are from provincial liquor boards, under provincially regulated industry sale and payment terms. The Corporation is not exposed to significant credit risk as payment in full is typically collected by provincial liquor boards at the time of sale and receivables are with government agencies. While substantially all of Big Rock's accounts receivable are from provincial government liquor authorities, the timing of receipts of large balances may vary significantly from period to period. The majority of product sold outside of Canada, which is included in GST and other receivables, is done so on a 'Cash on Delivery' basis with no credit risk.

Co-packing receivables were billed on an "as produced" basis. The contract for these revenues expired in May 2010, and was not renewed at Big Rock's option. These amounts were fully collected in the first quarter of 2010. Supplier rebates, included in current receivables, are accrued throughout the year and are collected annually.

Credit risk associated with the potential non-performance by financial instrument counterparties has been minimized through the careful selection of vendors, the development of long term vendor relationships and the selective use of written arrangements to guarantee supply and payment terms.

Liquidity Risk and Management

Big Rock's principal sources of liquidity are its cash flows from operations and existing or new credit facilities. Liquidity risk is mitigated by maintaining banking facilities, continuously monitoring forecast and actual cash flows and, if necessary, adjusting levels of dividends to shareholders and capital spending to maintain liquidity.

Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Corporation's operations.

Commodity Price Risk and Management

The Corporation is exposed to commodity price risk in the areas of utilities (primarily electricity and natural gas), malted barley, water, glass and aluminum, where fluctuations in the market price or availability of these items could impact Big Rock's cash flow and production. To minimize the impact of this risk, the Corporation enters into contracts which secure supply and set pricing to manage the exposure to availability and pricing.

Big Rock's profitability depends on the selling price of its products to provincial liquor boards, which set minimum price thresholds. Although prices are otherwise controlled by the Corporation, they are subject to such factors as regional supply and demand, and to a lesser extent inflation and general economic conditions. As beer and cider sales are the only source of revenue for the Corporation, a 5% increase or decrease in these prices will result in a corresponding increase or decrease in revenue.

Interest Rate Risk and Management

Big Rock is exposed to interest rate risk on the variable rate of interest incurred on the amounts due under operating and credit facilities and on interest earned on bank deposits. The cash flow required to service the interest on these facilities will fluctuate as a result of changes to market rates.

The Corporation has not entered into any derivative instruments to manage interest rate fluctuations; however, management monitors interest rate exposure and given the relatively low expected rate of change in prime interest rates feels the risk is immaterial. Big Rock evaluates the policies surrounding interest rates on an as needed basis and is confident that this policy is sufficient based on current economic conditions, combined with the minimal amount of debt required by the Corporation.

The fair value interest rate risk on bank deposits is insignificant as the deposits are short-term and the fair value of the Corporation's long-term debt does not change as interest rates change.

The weighted average interest rate incurred by the Corporation in the three and nine months ended September 30, 2011 was 4.30% (2010 - 4.09%) and 4.25% (2010 - 3.91%), respectively.

Foreign Exchange Risk & Management

The Corporation currently transacts with only a few foreign suppliers providing small amounts of goods and thus has limited exposure to risk due to variations in foreign exchange rates. The Corporation has not entered into any derivative instruments to manage foreign exchange fluctuations; however, management monitors foreign exchange exposure.

The Corporation does not have any significant foreign currency denominated monetary liabilities.

For a more detailed discussion of risk factors that could materially affect Big Rock's results of operations and financial condition please refer to the Risk Factors section of the Corporation's Annual Information Form dated March 23, 2011 that is available on www.sedar.com.

RELATED PARTY TRANSACTIONS

Related party transactions are included in selling expenses and relate to the engagement of a consultant, related to the Chief Executive Officer, to coordinate work on special projects undertaken by the Corporation in the normal course of business. The value of transactions for the three and nine months ended September 30, 2011 total \$36 (2010 - \$36) and \$108 (2010 - \$108), respectively. As at September 30, 2011 and December 31, 2010, no amounts were owing to the consultant.

Transactions with the consultant are carried out at market rates and have been recorded at the exchange amount.

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENCIES

As at September 30, 2011, the Corporation was a party to the following contracts:

- Effective July 1, 2011, the Corporation locked in an agreement with a natural gas retailer to provide natural gas at a fixed price of \$4.83 per gigajoule for a period of two and one-half years, ending on December 31, 2013.
- In the third quarter of 2011, Big Rock entered into agreements for the purchase of promotional materials for a total cost of approximately \$129, of which \$65 was payable at September 30. These materials, which will be used in the normal course of business, are expected to be received during the fourth quarter of 2011.
- Big Rock has a contract for the supply of malt barley for the 2011 fiscal year, at a fixed price of \$500 per metric tonne. The barley will be used in the brewery's normal course of business, and delivered, as needed over a reasonable period of time, in quantities to ensure production targets are met.

- In August 2010, the Corporation entered into an agreement with an electricity retailer to provide electricity for a period of three years beginning September 1, 2010 and ending August 31, 2015 at a fixed rate of \$67.61 per megawatt hour.

The Corporation has received various government grants, which have certain terms and conditions, as disclosed in note 1 of the financial statements. A violation of these terms and conditions may result in Big Rock having to repay an amount, up to and including the total funds received under the grant. For the three and nine months ended September 30, 2011 and 2010, no such violations have occurred; consequently no provision for repayment has been included in the financial statements.

ACCOUNTING STANDARDS ADOPTION

Transition to IFRS

The Corporation adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Prior to the adoption of IFRS, the Corporation followed Pre-Changeover Canadian GAAP. While IFRS uses a conceptual framework similar to Canadian GAAP and has many similarities to Pre-Changeover Canadian GAAP, several of the Corporation's significant accounting policies have changed. The most significant of these accounting policy changes impacting the results of operations have been outlined in earlier sections of this MD&A. (please refer to the sections on selling expenses, depreciation and amortization charges, and finance costs).

Upon adopting IFRS on January 1, 2011, Big Rock was required to restate its comparative 2010 annual and interim financial positions and results of operations, effective from January 1, 2010. The 2010 comparative amounts have not been audited by the Corporation's external auditor; however review procedures have been performed. Note 3 of the unaudited interim consolidated financial statements as at and for the three and nine months ended September 30, 2011 provides a complete list of Big Rock's IFRS 1 elections, detailed reconciliations between Pre-Changeover Canadian GAAP and IFRS of shareholders' equity as at January 1, September 30, and December 31, 2010, respectively, and of net earnings and comprehensive income for the three and nine months ending September 30 and the twelve months ending December 31, 2010, as well as information regarding the impacts of IFRS transition on our cash flows. Note 4 outlines our IFRS accounting policies.

FUTURE ACCOUNTING PRONOUNCEMENTS

IFRS Policies

The Corporation's interim financial statements as at and for the three and nine months ended September 30, 2011 and 2010 and the statements of financial position as at January 1 and December 31, 2010, respectively, have been prepared using the IFRS standards and interpretations currently issued and expected to be effective at the end of Big Rock's first annual IFRS reporting period of December 31, 2011. Accounting policies currently adopted under IFRS are subject to change as a result of either new standards being issued with an effective date of December 31, 2011 or prior, or as a result of a voluntary change in accounting policy made by the Corporation during 2011. A change in an accounting policy used may result in material changes to Big Rock's reported financial position, results of operations and cash flows.

Future Accounting Changes

The IASB has issued the following pronouncements:

- IFRS 9 *Financial Instruments* which replaces IAS 39 *Financial Instruments: Recognition and Measurement*.
- IFRS 10 *Consolidated Financial Statements* which replaces portions of IAS 27 *Consolidated and Separate Financial Statements* and Interpretation SIC 12 *Consolidation - Special Purpose Entities*. In addition, IASB has re-issued *IAS 27 Separate Financial Statements* as a result of IFRS 10 noted above. IAS 27 will only apply when an entity prepares separate financial statements for its interests in subsidiaries, joint ventures and associates.
- IFRS 12 *Disclosure of Interests in Other Entities* which includes disclosure requirement about subsidiaries, joint ventures and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements.
- IFRS 13 *Fair Value Measurement* establishes a single source of guidance for fair value measurements, which fair value is required or permitted under IFRS.

The above pronouncements shall be applied to annual periods beginning on or after January 1, 2013 with early adoption permitted.

Big Rock has not early adopted these standards, amendments and interpretations; however, the Corporation is currently assessing what impact the application of these standards or amendments will have on the financial statements of the Corporation.

DISCLOSURE CONTROLS AND PROCEDURES

The Corporation's management under the supervision of, and with the participation of, the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of Big Rock Brewery Operations Corp. (the administrator of the Corporation), have designed and evaluated the effectiveness and operation of its disclosure controls and procedures, as defined under National Instrument 52 - 109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"). Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed with Canadian securities regulatory authorities is recorded, processed, summarized and reported in a timely fashion. The disclosure controls and procedures are designed to ensure that information required to be disclosed by the Corporation in such reports is then accumulated and communicated to management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure. Due to the inherent limitations in all control systems, an evaluation of the disclosure controls can only provide reasonable assurance over the effectiveness of the controls. The disclosure controls are not expected to prevent and detect all misstatements due to error or fraud. Based on the evaluation of disclosure controls and procedures, the CEO and CFO have concluded that, subject to the inherent limitations noted above, the Corporation's disclosure controls and procedures are effective as of September 30, 2011.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Corporation's management under the supervision of, and with the participation of, the CEO and CFO, has designed and implemented internal controls over financial reporting ("ICFR"), as defined under NI 52-109. The Corporation's management used the COSO Internal Control over Financial Reporting - Guidelines for Smaller Public Companies (2006) as its framework.

The process used involved four steps as follows: establishment of a foundation, which involved assessing the tone at the top, the organization structure and baseline of current internal controls; design and execution, which involved prioritizing risk, identifying controls and evaluation of control effectiveness; assess and report, which involved summarizing and reporting on the findings; and conclusion on controls supported by documented evidence.

The purpose of internal controls over financial reporting is to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements in accordance with GAAP, focusing in particular on controls over information contained in the annual and interim financial statements. The internal controls are not expected to prevent and detect all misstatements due to error or fraud.

The CEO and CFO acknowledge responsibility for the design of ICFR and confirm that there were no changes in the Corporation's controls over financial reporting during the third quarter ended September 30, 2011, that have materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting.

Based upon their evaluation of these controls as of September 30, 2011, the CEO and CFO have concluded that the Corporation's ICFR were effective as at that date. In addition, there were no material changes to Big Rock's internal controls over financial reporting since the most recent interim period.

OUTLOOK

In spite of the current economic uncertainty and general stagnant or declining trends across the beer industry, Big Rock has been able to increase its 2011 volumes compared to 2010 and management expects consumer demand for its products to remain positive throughout the remainder of the year. In response to consumer-driven demand, management will continue to invest in targeted marketing opportunities to create brand awareness as well as product innovation and continued efforts to secure new On-premise and retail channels, all of which should contribute to sustained volume growth throughout the end of 2011 and into 2012.

In addition, management will continue to monitor and assess the selling prices on certain of its products, and will continue to actively manage operating costs, assess regional profitability and focus on operating efficiencies, all of which are intended to maximize profit margins and deliver stable returns to our shareholders.

FORWARD LOOKING INFORMATION

This MD&A contains forward-looking information that reflects management's expectations related to expected future events, financial performance and operating results of the Corporation. Investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur.

All statements, other than statements of historical fact included in the MD&A, may be forward-looking information. Forward-looking information are not facts, but only predictions and generally can be identified by the use of statements that include words or phrases such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements are not guarantees of our future performance and are subject to known and unknown risks, uncertainties and other factors that may cause Big Rock's actual results or events to differ materially from those anticipated in such forward-looking statements.

Big Rock believes that the expectations reflected in these forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors as actual results may vary. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement.

In particular this MD&A contains forward-looking statements pertaining to the following:

- expected volumes;
- projections of market prices and costs;
- treatment under governmental regulatory and taxation regimes; and

- supply and demand of Big Rock's products.

With respect to forward-looking statements listed above and contained in this MD&A, Big Rock has made assumptions regarding, among other things, the following:

- volumes in the current fiscal year will remain constant or will increase;
- input costs for brewing and packaging materials will remain constant or will not significantly increase or decrease;
- there will be no material change to the regulatory environment in which Big Rock operates; and
- there will be no supply issues with Big Rock's vendors.

Big Rock's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth above and as set out under the heading "Risk Factors" in the Corporation's 2010 Annual Information Form (as filed on SEDAR on March 23, 2011). Readers are cautioned that the foregoing lists of factors are not exhaustive.

The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. Big Rock does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.

ADDITIONAL INFORMATION

Additional information on the Corporation, including the Annual Information Form for the year ended December 31, 2010, can be found on SEDAR at www.sedar.com

Information about Big Rock can also be found on Big Rock's corporate website at <http://bigrockbeer.com>

BIG ROCK BREWERY INC.

Condensed Consolidated Statements of Comprehensive Income (Loss)

Unaudited

(In thousands of Canadian dollars, except per share amounts)

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|------------------------------------|-----------------|-----------------------------------|-------------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net revenue (Note 4) | \$ 14,019 | \$ 12,234 | \$ 35,160 | \$ 35,250 |
| Cost of sales (Note 5) | 6,925 | 5,386 | 17,112 | 15,332 |
| Gross profit | 7,094 | 6,848 | 18,048 | 19,918 |
| Expenses | | | | |
| Selling expenses (Notes 6 and 23) | 4,522 | 4,050 | 12,342 | 11,960 |
| General and administrative (Notes 7 and 24) | 1,051 | 901 | 3,244 | 3,271 |
| Depreciation and amortization | 87 | 68 | 259 | 209 |
| Operating profit | 1,434 | 1,829 | 2,203 | 4,478 |
| Finance costs (Note 8) | 34 | 37 | 109 | 2,522 |
| Fair value loss on trust units liability (Notes 16 and 22) | — | — | — | 10,686 |
| Fair value loss on share based payments liability (Notes 16 and 22) | — | 4 | — | 151 |
| Other income | 115 | 113 | 341 | 313 |
| Other expenses | 42 | 22 | 115 | 63 |
| Income (loss) before income taxes | 1,473 | 1,879 | 2,320 | (8,631) |
| Income tax expense (recovery) (Note 9) | 389 | 24 | 643 | (166) |
| Net income (loss) and comprehensive income (loss) for the period | \$ 1,084 | \$ 1,855 | \$ 1,677 | \$ (8,465) |

Net income (loss) per share (Note 10)

| | | | | |
|-------------------|---------|---------|---------|-----------|
| Basic and diluted | \$ 0.18 | \$ 0.31 | \$ 0.28 | \$ (1.40) |
|-------------------|---------|---------|---------|-----------|

See accompanying notes to the condensed consolidated financial statements

BIG ROCK BREWERY INC.
Condensed Consolidated Statements of Financial Position
Unaudited
(In thousands of Canadian dollars)

| | September 30, 2011 | December 31, 2010 | January 1, 2010 |
|--|-----------------------|----------------------|--------------------|
| ASSETS (Note 18) | | | |
| Non-current assets | | | |
| Property, plant and equipment (Note 11) | \$ 36,970 | \$ 38,595 | \$ 40,889 |
| Intangible assets (Note 12) | 206 | 286 | 344 |
| | 37,176 | 38,881 | 41,233 |
| Current | | | |
| Inventories (Note 13) | 3,931 | 3,951 | 3,333 |
| Accounts receivable (Notes 14 and 22) | 2,093 | 1,789 | 3,617 |
| Prepaid expenses and other (Note 15) | 437 | 397 | 305 |
| Cash | 2,141 | 769 | 728 |
| | 8,602 | 6,906 | 7,983 |
| Total assets | \$ 45,778 | \$ 45,787 | \$ 49,216 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| EQUITY | | | |
| Shareholders' capital (Note 16) | \$ 99,954 | \$ 99,954 | \$ — |
| Contributed surplus (Notes 16 and 17) | 497 | — | — |
| Accumulated deficit | (67,667) | (65,709) | (52,666) |
| | 32,784 | 34,245 | (52,666) |
| LIABILITIES | | | |
| Non-current | | | |
| Long term debt (Notes 18 and 22) | 2,158 | 2,683 | 3,557 |
| Trust units (Notes 16 and 22) | — | — | 88,536 |
| Share based payments (Notes 16 and 22) | — | 331 | 199 |
| Deferred income taxes (Note 9) | 4,849 | 4,206 | 4,865 |
| | 7,007 | 7,220 | 97,157 |
| Current | | | |
| Accounts payable and accrued liabilities (Notes 19 and 22) | 4,075 | 3,016 | 4,725 |
| Dividends payable (Notes 20 and 22) | 1,212 | 606 | — |
| Current portion of long-term debt (Notes 18 and 22) | 700 | 700 | — |
| | 5,987 | 4,322 | 4,725 |
| Commitments (Note 26) | | | |
| Total liabilities and unitholders' equity | \$ 45,778 | \$ 45,787 | \$ 49,216 |

See accompanying notes to the condensed consolidated financial statements

On behalf of the Board:

“signed”

Ed. E. McNally
Director

“signed”

Michael G. Kohut
Director

BIG ROCK BREWERY INC.
Condensed Consolidated Statements of Cash Flow
Unaudited
(In thousands of Canadian dollars)

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|------------------------------------|-----------------|-----------------------------------|-----------------|
| | 2011 | 2010 | 2011 | 2010 |
| OPERATING ACTIVITIES | | | | |
| Net income (loss) for the period | \$ 1,084 | \$ 1,855 | \$ 1,677 | \$ (8,465) |
| Items not affecting cash: | | | | |
| Depreciation and amortization | 939 | 741 | 2,797 | 2,157 |
| Gain on sale of assets | (7) | — | (19) | (4) |
| Stock based compensation | 53 | (32) | 166 | 3 |
| Change in fair value of financial liabilities | — | — | — | 10,686 |
| Change in fair value of other liabilities | — | 4 | — | 151 |
| Deferred income tax expense (recovery) | 389 | 24 | 643 | (166) |
| | 2,458 | 2,592 | 5,264 | 4,362 |
| Net change in non-cash working capital related to operations (note 25) | 2,539 | 1,572 | 764 | (618) |
| Cash provided by operating activities | 4,997 | 4,164 | 6,028 | 3,744 |
| FINANCING ACTIVITIES | | | | |
| Dividend payments | (1,212) | (1,817) | (3,030) | (3,028) |
| Principal repayments of long-term debt | (175) | — | (525) | — |
| Cash received on exercise of options | — | 44 | — | 656 |
| Cash used in financing activities | (1,387) | (1,773) | (3,555) | (2,372) |
| INVESTING ACTIVITIES | | | | |
| Purchase of property, plant and equipment | (332) | (193) | (1,120) | (960) |
| Purchase of intangibles | — | (8) | — | (19) |
| Net change in non-cash working capital related to investing | — | — | — | — |
| Proceeds from sale of equipment | 7 | 1 | 19 | 5 |
| Cash used in investing activities | (325) | (200) | (1,101) | (974) |
| Net increase in cash | 3,285 | 2,191 | 1,372 | 398 |
| Cash (bank indebtedness), beginning of period | (1,144) | (1,065) | 769 | 728 |
| Cash, end of period | \$ 2,141 | \$ 1,126 | \$ 2,141 | \$ 1,126 |

| Supplemental cash-flow information | | | | |
|------------------------------------|-------|-------|--------|--------|
| Cash interest paid | \$ 36 | \$ 37 | \$ 112 | \$ 108 |
| Cash taxes paid | \$ — | \$ — | \$ — | \$ — |

See accompanying notes to the condensed consolidated financial statements

BIG ROCK BREWERY INC.
Condensed Consolidated Statements of Changes in Shareholders' Equity
Unaudited
(In thousands of Canadian dollars)

| | Share Capital | Contributed Surplus | Accumulated deficit | Total |
|--|------------------|------------------------|------------------------|-------------|
| Balance as at January 1, 2010 (Note 3) | \$ — | \$ — | \$ (52,666) | \$ (52,666) |
| Total comprehensive loss for the three months ended March 31, 2010 | — | — | (12,990) | (12,990) |
| Balance as at March 31, 2010 | — | — | (65,656) | (65,656) |
| Reclassification of trust units | 99,879 | — | — | 99,879 |
| Shares issued on exercise of options | 26 | — | — | 26 |
| Total comprehensive income for the three months ended June 30, 2010 | — | — | 2,670 | 2,670 |
| Dividends declared for the three months ended June 30, 2010 | — | — | (1,211) | (1,211) |
| Balance as at June 30, 2010 | 99,905 | — | (64,197) | 35,708 |
| Shares issued on exercise of options | 49 | — | — | 49 |
| Total comprehensive income for the three months ended September 30, 2010 | — | — | 1,855 | 1,855 |
| Dividends declared for the three months ended September 30, 2010 | — | — | (1,817) | (1,817) |
| Balance as September 30, 2010 | 99,954 | — | (64,159) | 35,795 |
| Total comprehensive income for the remainder of the year ended December 31, 2010 | — | — | 267 | 267 |
| Dividends declared for the remainder of the year ended December 31, 2010 | — | — | (1,817) | (1,817) |
| Balance as at December 31, 2010 | 99,954 | — | (65,709) | 34,245 |
| Stock options issued on Corporate conversion | — | 331 | — | 331 |
| Share-based payments | — | 113 | — | 113 |
| Total comprehensive loss for the three months ended March 31, 2011 | — | — | (26) | (26) |
| Dividends declared for the three months ended March 31, 2011 | — | — | (1,211) | (1,211) |
| Balance as at March 31, 2011 | 99,954 | 444 | (66,946) | 33,452 |
| Total comprehensive income for the three months ended June 30, 2011 | — | — | 619 | 619 |
| Dividends declared for the three months ended June 30, 2011 | — | — | (1,212) | (1,212) |
| Balance as at June 30, 2011 | 99,954 | 444 | (67,539) | 32,859 |
| Total comprehensive income for the three months ended September 30, 2011 | — | — | 1,084 | 1,084 |
| Share-based payments | — | 53 | — | 53 |
| Dividends declared for the three months ended September 30, 2011 | — | — | (1,212) | (1,212) |
| Balance as at September 30, 2011 | \$ 99,954 | \$ 497 | \$ (67,667) | \$ 32,784 |

See accompanying notes to the condensed consolidated financial statements

BIG ROCK BREWERY INC.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

1. CORPORATE INFORMATION

Big Rock Brewery Inc. ("Big Rock" or the "Corporation") is a publicly listed Corporation incorporated in Canada with limited liability under the legislation of the Province of Alberta and its shares are listed on the Toronto Stock Exchange. On January 1, 2011, Big Rock announced it had completed its conversion from an income trust to a corporation. The common shares of Big Rock Brewery Inc. began trading on the Toronto Stock Exchange on January 7, 2011. The common shares trade under the symbol "BR". The Trust units, which traded under the symbol "BR.UN", were delisted the same day.

References to the Corporation and to shareholders' equity in these condensed consolidated financial statements (the "Financial Statements") include Big Rock Brewery Income Trust and unitholders' equity, respectively, in the comparative period.

Big Rock is a regional producer of premium all-natural craft beers and cider which are sold in nine provinces and three territories in Canada, as well as exported to Korea and select Canadian embassies. The head office, principal address and records office of the Corporation are located at 5555 - 76th Avenue SE, Calgary, Alberta, T2C 4L8.

These Financial Statements include the accounts of Big Rock Brewery Inc. and all its wholly owned subsidiaries. Subsidiaries are those enterprises controlled by the Corporation. The following companies have been consolidated with the Big Rock financial statements:

| Subsidiary | Registered | Holding | Functional Currency |
|--------------------------------------|------------|----------------|---------------------|
| Big Rock Brewery Inc. | Alberta | Parent Company | Canadian dollar |
| Big Rock Brewery Operations Corp. | Alberta | 100% | Canadian dollar |
| Big Rock Brewery Limited Partnership | Alberta | 100% | Canadian dollar |

Inter-company balances and transactions, and any unrealized gains arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These IFRS Financial Statements are for part of the year that will be covered by the Corporation's first IFRS consolidated annual financial statements for the year ending December 31, 2011. Previously, the Corporation prepared its annual and interim consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") - Part V ("Pre-Changeover Canadian GAAP").

An entity is required to adopt IFRS in its first annual financial statements by making an explicit and unreserved statement in those financial statements that it is in compliance with IFRS. Big Rock will make this statement when it issues its 2011 annual consolidated financial statements.

These Financial Statements are unaudited and have been prepared in accordance with IAS 34 *Interim Financial Reporting* ("IAS 34") using accounting policies consistent with the IFRS issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

BIG ROCK BREWERY INC.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

As these Financial Statements are for part of the Corporation's first year of presenting financial statements in accordance with IFRS, the Corporation's disclosures exceed the minimum requirements under IAS 34. The Corporation has exceeded the minimum requirements in order to present the Corporation's accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Corporation's 2010 annual consolidated financial statements prepared in accordance with Pre-Changeover Canadian GAAP. These Financial Statements should be read in conjunction with Big Rock's 2010 annual consolidated financial statements.

For reporting periods after December 31, 2011, the Corporation may not provide the same amount of disclosure in its Financial Statements under IFRS as the reader will be able to rely on the annual consolidated financial statements which will be prepared in accordance with IFRS.

2.2 Basis of presentation

These Financial Statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business.

The Financial Statements have been prepared on the historical cost basis. The comparative figures presented in these Financial Statements are in accordance with IFRS and have not been audited.

The Financial Statements are presented in Canadian dollars and all values are rounded to the nearest thousand dollars except where otherwise indicated.

2.3 Future accounting pronouncements

The IASB has issued the following pronouncements:

- IFRS 9 *Financial Instruments* which replaces IAS 39 *Financial Instruments: Recognition and Measurement*.
- IFRS 10 *Consolidated Financial Statements* which replaces portions of IAS 27 *Consolidated and Separate Financial Statements* and Interpretation SIC 12 *Consolidation - Special Purpose Entities*. In addition, IASB has re-issued *IAS 27 Separate Financial Statements* as a result of IFRS 10 noted above. IAS 27 will only apply when an entity prepares separate financial statements for its interests in subsidiaries, joint ventures and associates.
- IFRS 12 *Disclosure of Interests in Other Entities* which includes disclosure requirement about subsidiaries, joint ventures and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements.
- IFRS 13 *Fair Value Measurement* establishes a single source of guidance for fair value measurements, which fair value is required or permitted under IFRS.

The above pronouncements shall be applied to annual periods beginning on or after January 1, 2013 with early adoption permitted.

Big Rock has not early adopted these standards, amendments and interpretations; however, the Corporation is currently assessing what impact the application of these standards or amendments will have on the financial statements of the Corporation.

3. FIRST-TIME ADOPTION OF IFRS

The Corporation adopted IFRS on January 1, 2011 with a transition date of January 1, 2010.

Under IFRS 1 '*First-time Adoption of International Financial Reporting Standards*' ("IFRS 1"), the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as previously recorded under Pre-Changeover Canadian GAAP taken to retained earnings, unless certain exemptions are applied.

i. Elected exemptions from full retrospective application:

In preparing these Financial Statements in accordance with IFRS 1, the Corporation has applied an optional exemption from full retrospective application of IFRS. The optional exemption is described below:

Business Combinations:

The Corporation has applied the business combinations exemption in IFRS 1, to not to apply IFRS 3 '*Business Combinations*' retrospectively to past business combinations. Accordingly, the Corporation has not restated business combinations that took place prior to the transition date.

ii. Mandatory exceptions to retrospective application:

In preparing these Financial Statements in accordance with IFRS 1, the Corporation has applied a mandatory exception from full retrospective application of IFRS. The mandatory exception applied from full retrospective application of IFRS is described below:

Estimates:

Hindsight was not used to create or revise any other estimates and accordingly the estimates previously made by the Corporation under Pre-Changeover Canadian GAAP are consistent with their application under IFRS.

BIG ROCK BREWERY INC.
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

The Pre-Changeover Canadian GAAP consolidated statement of financial position as of the transition date has been reconciled to IFRS as follows:

| | Note | Canadian GAAP | Effect of transition to IFRS | IFRS |
|--|------|------------------|------------------------------------|------------------|
| ASSETS | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | i | \$ 27,948 | \$ 12,941 | \$ 40,889 |
| Intangible assets | i | — | 344 | 344 |
| Deferred charges and other assets | i | 37 | (37) | — |
| | | 27,985 | 13,248 | 41,233 |
| Current | | | | |
| Inventories | ii | 3,730 | (397) | 3,333 |
| Accounts receivable | | 3,617 | — | 3,617 |
| Prepaid expenses and other | | 305 | — | 305 |
| Cash | | 728 | — | 728 |
| | | 8,380 | (397) | 7,983 |
| Total assets | | \$ 36,365 | \$ 12,851 | \$ 49,216 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| EQUITY | | | | |
| Shareholders' capital | | \$ 18,431 | \$ (18,431) | \$ — |
| Contributed surplus | | 741 | (741) | — |
| Retained earnings (accumulated deficit) | | 6,529 | (59,195) | (52,666) |
| | | 25,701 | (78,367) | (52,666) |
| LIABILITIES | | | | |
| Non-current | | | | |
| Long term debt | | 3,557 | — | 3,557 |
| Trust units | iii | — | 88,536 | 88,536 |
| Share based payment liabilities | iii | — | 199 | 199 |
| Deferred income taxes | iv | 2,382 | 2,483 | 4,865 |
| | | 5,939 | 91,218 | 97,157 |
| Current | | | | |
| Accounts payable and accrued liabilities | | 4,124 | 601 | 4,725 |
| Distributions payable | | 601 | (601) | — |
| | | 4,725 | — | 4,725 |
| Total liabilities and unitholders' equity | | \$ 36,365 | \$ 12,851 | \$ 49,216 |

BIG ROCK BREWERY INC.
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

Reconciliation under Pre-Changeover Canadian GAAP to IFRS:

IFRS employs a conceptual framework that is similar to Pre-Changeover Canadian GAAP. While the adoption of IFRS has not changed the actual cash flows of the Corporation, the adoption has resulted in significant changes to the reported financial position and results of operations of the Corporation. Presented below are reconciliations prepared by Big Rock to reconcile to IFRS the assets, liabilities, equity, net income and cash flows of the Corporation from those reported under Pre-Changeover Canadian GAAP.

3.1 Shareholders' equity

The following is a reconciliation of the Corporation's shareholders' equity reported in accordance with Pre-Changeover Canadian GAAP to its shareholders' equity in accordance with IFRS at the transition date:

| | Share Capital | Contributed Surplus | Retained Earnings (accumulated deficit) | Total |
|--|---------------|---------------------|---|-------------|
| As reported under Pre-Changeover Canadian GAAP - December 31, 2009 | \$ 18,431 | \$ 741 | \$ 6,529 | \$ 25,701 |
| Differences increasing (decreasing) reported amounts: | | | | |
| Property, Plant and Equipment i | — | — | 12,904 | 12,904 |
| Intangible assets i | — | — | 344 | 344 |
| Inventories ii | — | — | (397) | (397) |
| Trust units iii | (18,431) | — | (70,105) | (88,536) |
| Share based payment liabilities iii | — | (741) | 542 | (199) |
| Deferred income taxes iv | — | — | (2,483) | (2,483) |
| As reported under IFRS - January 1, 2010 | \$ — | \$ — | \$ (52,666) | \$ (52,666) |

The following is a reconciliation of the Corporation's shareholders' equity reported in accordance with Pre-Changeover Canadian GAAP to its shareholders' equity in accordance with IFRS at September 30, 2010:

| | Share Capital | Contributed Surplus | Retained Earnings (accumulated deficit) | Total |
|---|---------------|---------------------|---|-------------|
| As reported under Pre-Changeover Canadian GAAP - September 30, 2010 | \$ 19,163 | \$ 666 | \$ 6,785 | \$ 26,614 |
| Differences increasing (decreasing) reported amounts: | | | | |
| Property, Plant and Equipment i | — | — | 11,905 | 11,905 |
| Intangible assets i | — | — | 287 | 287 |
| Inventories ii | — | — | (552) | (552) |
| Trust units iii | 80,791 | — | (80,791) | — |
| Share based payment liabilities iii | — | (666) | 392 | (274) |
| Deferred income taxes iv | — | — | (2,185) | (2,185) |
| As reported under IFRS - September 30, 2010 | \$ 99,954 | \$ — | \$ (64,159) | \$ (35,795) |

BIG ROCK BREWERY INC.**Notes to the Condensed Consolidated Financial Statements**

(Unaudited)

The following is a reconciliation of the Corporation's shareholders' equity reported in accordance with Pre-Changeover Canadian GAAP to its shareholders' equity in accordance with IFRS at December 31, 2010:

| | Share Capital | Contributed Surplus | Retained Earnings (accumulated deficit) | Total |
|---|------------------|------------------------|--|-----------|
| As reported under Pre-Changeover Canadian GAAP - December 31, 2010 | \$ 19,163 | \$ 803 | \$ 5,387 | \$ 25,353 |
| Differences increasing (decreasing) reported amounts: | | | | |
| Property, Plant and Equipment | i | — | 11,578 | 11,578 |
| Intangible assets | i | — | 267 | 267 |
| Inventories | ii | — | (519) | (519) |
| Trust units | iii | \$ 80,791 | (80,791) | — |
| Share based payment liabilities | iii | — | 472 | (331) |
| Deferred income taxes | iv | — | (2,103) | (2,103) |
| As reported under IFRS - December 31, 2010 | \$ 99,954 | \$ — | \$ (65,709) | \$ 34,245 |

Notes to the IFRS reconciliations above:**i. Property, plant and equipment ("PP&E") and intangible assets**

Upon transition to IFRS, an entity has the elective option to reset the cost of its PP&E based on fair value in accordance with the provisions of IFRS 1, and to use either the cost model or the revaluation model to measure its PP&E subsequent to transition. For the majority of its PP&E, Big Rock has elected to reset the cost based on fair values. Thereafter, Big Rock will use the cost model for all reporting periods.

The Corporation secured the services of an independent appraiser to complete valuations of its land and buildings. The appraisals utilized industry standard and accepted valuation methodologies which included the Cost Approach (for certain assets), the Income Approach and the Direct Comparison Approach to determine fair values. As at January 1, 2010, management applied the IFRS 1 election to deem the carrying value of its land and buildings at their fair values as estimated by each appraisal, with primary reliance based on the Direct Comparison Approach. This approach used recent market comparables/transactions from the local markets. Values were then adjusted for specific conditions relating to the corporation's land and buildings, including square footage, wear and tear and physical access.

In addition, the Corporation secured the services of an additional independent appraiser to complete valuations of its brewing assets and other property, plant and equipment. As at January 1, 2010, management applied the IFRS 1 election to deem the carrying value of its brewing assets and other PP&E at their fair values as estimated by the appraisal, with primary reliance based on the Cost Approach. The Cost Approach establishes a fair value based on the current "new" cost of reproducing or replacing the assets less depreciation from physical deterioration.

In estimating fair value, it was assumed the assets were in the same condition on the date the valuation work was performed as on the valuation date, January 1, 2010, except for normal wear and tear. In addition, no consideration was given to environmental matters. Environmental matters, if any, are discussed under Provisions.

BIG ROCK BREWERY INC.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

The Cost Approach generally provides a meaningful indication of the fair value for specialized systems and customized machinery and equipment as these items do not routinely trade in the used equipment market. While the universe of market transactions is very small, it is not non-existent. In the rare circumstance in which market transactions for similar assets are observed these assets are generally transacting on a liquidation basis and accordingly were not appropriate for use in our analysis.

Under Pre-Changeover Canadian GAAP, Big Rock included software, naming rights and website costs with other PP&E, which were recorded at historical cost less amortization. Under IFRS, these assets are considered intangible assets.

These adjustments to retained earnings represent the cumulative unrealized gain in respect of the Corporation's PP&E, primarily land, buildings and production equipment, net of amounts reclassified as intangible assets, and accumulated amortization.

ii. Inventories

Under Pre-Changeover Canadian GAAP, Big Rock included promotional and marketing materials to be used in the normal course of business with inventory. Under IFRS, these are considered a selling expense at the time the materials are purchased and received.

This adjustment to retained earnings represents the cumulative amount of such promotional items on hand at January 1, 2010.

iii. Trust units and share based payment liabilities

Under Pre-Changeover Canadian GAAP, Big Rock's trust units were recorded as equity. However, IFRS 2 *Share-based Payments* and IAS 32 *Financial Instruments: Presentation* classify the units as a financial liability on the statement of financial position. Financial liabilities are recorded at fair value at each reporting date, with changes in fair value flowing through the statement of comprehensive income.

Under Pre-Changeover Canadian GAAP, stock options were considered equity and reported as contributed surplus at the historical fair values at the date of each grant, less any amounts reclassified to share capital upon exercise.

Under IFRS, the outstanding and exercisable stock options, for the comparative periods when Big Rock was an income trust, are considered other liabilities, as the options are settled in trust units, which other than for the IAS 32 *Financial Instruments: Presentation* (IAS 32) exception noted above, would be classified as a liability.

Although the IAS 32 exception permits the trust units to be re-characterized as equity, following a change to the trust indenture in May 2010, it does not apply to the stock options, which retain their financial liability status throughout 2010.

Accordingly, the above adjustments reflect the reporting of the trust units and options as liabilities at their fair value on January 1, 2010 and for each reporting period thereafter for 2010. Following Big Rock's conversion to a corporation on January 1, 2011, the options were re-characterized as equity.

iv. Deferred income taxes

The adjustment related to deferred income taxes (referred to as future income taxes under Pre-Changeover Canadian GAAP) reflects the change in temporary differences resulting from the impact of the above differences between Pre-Changeover Canadian GAAP and IFRS not already recorded in net income.

BIG ROCK BREWERY INC.
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

3.2 Net income

The following is a reconciliation of the Corporation's total comprehensive income reported in accordance with Pre-Changeover Canadian GAAP to its total comprehensive income in accordance with IFRS for year ended December 31, 2010 and the three and nine months ended September 30, 2010:

| | Three months ended September 30, 2010 | Nine months ended September 30, 2010 | Year ended December 31, 2010 |
|--|--|---|------------------------------------|
| As reported under Pre-Changeover Canadian GAAP | \$ 1,970 | \$ 5,698 | \$ 6,117 |
| Differences increasing (decreasing) reported amount: | | | |
| Property, Plant and Equipment i | (330) | (999) | (1,326) |
| Intangible assets i | (20) | (57) | (77) |
| Inventories ii | 201 | (154) | (122) |
| Trust units iii | | (13,100) | (13,100) |
| Share based payment liabilities iii | (4) | (151) | (70) |
| Deferred income taxes iv | 38 | 298 | 380 |
| As reported under IFRS | \$ 1,855 | \$ (8,465) | \$ (8,198) |

Notes to the IFRS reconciliations above:

i. PP&E and intangible assets

As noted above, Big Rock elected to reset the cost for the majority of its PP&E based on fair value at the transition date. In addition, certain assets previously reported under PP&E under Pre-Changeover Canadian GAAP have been reclassified to intangible assets under IFRS.

These adjustments to net income represent the resulting increase in depreciation and amortization charges.

ii. Inventories

Under Pre-Changeover Canadian GAAP, Big Rock included promotional and marketing materials to be used in the normal course of business with inventory. Under IFRS, these assets are considered a selling expense at the time the materials are purchased and received.

These adjustments to net income represent the cost of purchases relating promotional items for the periods.

iii. Trust units and share based payment liabilities

As noted above, under Pre-Changeover Canadian GAAP trust units and stock options were considered equity and reported as contributed surplus until exercise when the applicable amount was reclassified to share capital.

Under IFRS, trust units and stock options are considered liabilities, which are re-valued and reported at fair value for each reporting period.

Accordingly, these adjustments to net income reflect the corresponding change in the fair values of the units and stock options for the periods.

BIG ROCK BREWERY INC.
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

iv. Deferred income taxes

The adjustment related to deferred income taxes reflects the change in temporary differences resulting from the impact of the above differences between Pre-Changeover Canadian GAAP and IFRS not already recorded in net income.

3.3 Cash flows

The adoption of IFRS has had no impact on the net cash flows of the Corporation. The changes made to the statements of financial position and statements of consolidated comprehensive income have resulted in reclassifications of various amounts on the statements of cash flows, however as there have been no changes to the net cash flows, no reconciliations have been presented.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Significant accounting judgments and estimates

The preparation of these financial statements requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses.

Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgements and estimates.

Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates relate to recoverability of accounts receivable; inventory valuation; capital assets, including amortization; valuation of future income tax amounts; impairment testing and the calculation of share-based payments, all of which by their nature are subject to uncertainty. Actual results could differ materially from those estimates and assumptions used by management due to factors such as fluctuations in interest rates, changes in economic conditions, and legislative and regulatory changes in the environments in which Big Rock operates.

4.2 Revenue recognition

Big Rock recognizes net sales revenues on product sales at the time the product is shipped and when the following conditions exist: title has passed to the purchaser according to the shipping terms, the price is fixed and reasonably determinable, and collection of the sales proceeds is reasonably assured.

| | Three months ended September 30 | | Nine months ended September 30 | |
|----------------------------------|------------------------------------|-----------|-----------------------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Gross Product Revenues | \$ 18,192 | \$ 15,843 | \$ 45,061 | \$ 44,755 |
| Co-Packing Revenue | — | — | — | 290 |
| Excise Taxes | (1,860) | (1,641) | (4,296) | (4,226) |
| AGLC Commissions | (2,331) | (1,985) | (5,641) | (5,611) |
| British Columbia Cost of Service | 18 | 17 | 36 | 42 |
| Net Revenue | \$ 14,019 | \$ 12,234 | \$ 35,160 | \$ 35,250 |

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Revenue for Alberta represents gross sales to the provincial liquor control board less excise taxes and commissions arriving at the net proceeds to Big Rock. Revenue for other provincial jurisdictions represents net sales to the liquor control boards, after excise taxes and commissions. Excise taxes are assessed on beer production at tiered rates up to \$31.22 per hectolitre, and provincial liquor control board commissions cover distributions and other service charges.

Product which has passed its expiration date for freshness, or has been damaged, and is returned by distributors is accepted and destroyed.

4.3 Government assistance

Big Rock receives government grants under the Government of Alberta's Department of Agriculture "Growing Forward" program. Grants in respect of operating expenses are credited to earnings in the period they are received. Grants in respect of PP&E are recorded as a reduction to the cost of the asset. The grants contain certain terms and conditions, including a requirement that the projects are completed within the timeframes outlined in each application and that regular status updates are provided to the Department of Agriculture. In addition, the terms and conditions preclude the general partner from becoming insolvent, being wound-up, liquidated, or amalgamated. A violation of these terms and conditions may result in an obligation to repay some or all of the amounts received.

During the three months ended September 30, 2011 Big Rock did not receive any government assistance relating to operating expenses (2010 - \$nil). During the nine months ended September 30, 2011, Big Rock received government assistance relating to operating expenses in the amount of \$74 (2010 - \$14). In addition, during the three and nine months ended September 30, 2011, the Corporation did not receive any government assistance in respect of PP&E (2010 - \$nil).

4.4 Accounts receivable

Substantially all of Big Rock's accounts receivable are from provincial government liquor authorities which issue weekly or monthly remittances on account. Given that terms are set and receivables over 60 days generally average between three and five percent of total amounts owing, the Corporation has a policy of reviewing, reconciling and if necessary, writing off balances older than one year.

4.5 Inventories

Big Rock categorizes inventories as raw materials (materials and supplies to be consumed in the production process), brews in progress (in the process of production for sale), finished product (held for sale in the ordinary course of business), consignment product (consigned to provincial warehouses for sale) and resale goods (to be sold in the ordinary course of business in the dry-goods store).

Inventories are valued at the lower of cost and net realizable value. Cost is determined using a weighted average cost method.

4.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of PP&E consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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Depreciation is provided at rates calculated to write off the cost of PP&E, less their estimated residual value, using the straight line method over the following expected useful lives:

| | |
|--------------------------------|---------------|
| Buildings | 35 - 40 years |
| Machinery and equipment | 5 - 40 years |
| Mobile equipment | 7 - 10 years |
| Office furniture and equipment | 5 - 15 years |
| Leasehold improvements | 10 - 40 years |
| Returnable containers | 5 - 10 years |

Depreciation of these assets commences when the assets are ready for their intended use.

Management revised its estimate of the useful life of the Edmonton warehouse in conjunction with the appraisal described in Note 3.1. The revised estimated useful life did not have a material impact on annual or cumulative depreciation amounts for this asset.

An item of PP&E is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statement of comprehensive income.

The Corporation conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for PP&E and any changes arising from the assessment are applied by the Corporation prospectively.

4.7 Intangible assets

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses. The cost of an intangible asset consists of the purchase price, any costs directly attributable to bringing the asset to the condition necessary for its intended use.

Amortization is provided at rates calculated to write off the cost of intangible assets, less their estimated residual values, using the straight line method over the following expected useful lives:

| | |
|-----------------------|----------|
| Computer software | 3 years |
| Intellectual property | 10 years |
| Website | 6 years |

Amortization of these assets commences when the assets are ready for their intended use.

An intangible asset is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statement of comprehensive income.

The Corporation conducts an annual assessment of the residual balances, useful lives and amortization methods being used for intangible assets and any changes arising from the assessment are applied by the Corporation prospectively.

4.8 Share-based payments

Share-based payment transactions

Employees (including directors and senior executives) of the Corporation receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

Equity settled transactions

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense reflects the Corporation's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in contributed surplus.

4.9 Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

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Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

4.10 Keg deposits

Big Rock requires that customers pay deposits for kegs purchased which are reflected as a liability on the Corporation consolidated statement of financial position. The deposits are subsequently refunded to customers via invoice credits or cash payments when kegs are returned. In the normal course of business, there are a percentage of kegs which are never returned for refund. As a result, big Rock performs an analysis based on factors such as total kegs produced, current inventory rates and average keg turnover. In addition, return percentages are calculated and tracked to estimate an average keg turnover rate. Together, this information is used to estimate a keg deposit liability at each reporting date. Any adjustments required to the keg liability account are recorded through revenues.

4.11 Earnings per share

The basic earnings per share are computed by dividing the net income by the weighted average number of common shares outstanding during the period. The diluted earnings per share reflects the potential dilution of common share equivalents, such as outstanding stock options, in the weighted average number of common shares outstanding during the year, if dilutive. The "treasury stock method" is used for the assumed proceeds upon the exercise of the options that are used to purchase common shares at the average market price during the period.

4.12 Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans-and-receivables or at fair value through profit or loss ("FVTPL"). Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost. Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. At September 30, 2011, the Corporation has not classified any financial assets as FVTPL, available-for-sale or held-to-maturity.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

4.13 Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other-financial-liabilities.

Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial liabilities are subsequently measured at amortized cost using the effective interest method.

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The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income. Big Rock's trust units were classified as FVTPL for the March 31, 2010 comparative period and were classified as equity from the June 30, 2010 comparative period.

4.14 Impairment of non-financial assets

At each date of the statement of financial position, the Corporation reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating-unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

4.15 Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

4.16 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

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5. COST OF SALES

The cost of sales of the Corporation is broken down into its cash and non-cash components as follows:

| | Three months ended September 30 | | Nine months ended September 30 | |
|-------------------------------|------------------------------------|----------|-----------------------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Operating expenses | \$ 6,072 | \$ 4,714 | \$ 14,574 | \$ 13,384 |
| Depreciation and amortization | 853 | 672 | 2,538 | 1,948 |
| Cost of sales | \$ 6,925 | \$ 5,386 | \$ 17,112 | \$ 15,332 |

6. SELLING EXPENSES

The selling expenses for the Corporation are broken down as follows:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---------------------------------|------------------------------------|----------|-----------------------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Delivery and distribution costs | \$ 1,339 | \$ 1,027 | \$ 3,412 | \$ 2,945 |
| Salaries and benefits | 1,038 | 859 | 3,027 | 2,885 |
| Promotional material | 1,020 | 890 | 3,333 | 3,206 |
| Community sponsorship and other | 1,125 | 1,274 | 2,570 | 2,924 |
| Selling expenses | \$ 4,522 | \$ 4,050 | \$ 12,342 | \$ 11,960 |

7. GENERAL AND ADMINISTRATION EXPENSES

The general and administration expenses for the Corporation are broken down as follows:

| | Three months ended September 30 | | Nine months ended September 30 | |
|--------------------------------------|------------------------------------|--------|-----------------------------------|----------|
| | 2011 | 2010 | 2011 | 2010 |
| Salaries and benefits ⁽¹⁾ | \$ 583 | \$ 479 | \$ 1,671 | \$ 1,628 |
| Professional fees | 108 | 67 | 484 | 655 |
| Reporting and filing fees | 28 | 20 | 133 | 91 |
| Insurance | 46 | 49 | 124 | 140 |
| Building maintenance and taxes | 150 | 125 | 441 | 352 |
| Bank charges | 13 | 13 | 52 | 39 |
| Office, administrative and other | 123 | 148 | 339 | 366 |
| General and administrative expenses | \$ 1,051 | \$ 901 | \$ 3,244 | \$ 3,271 |

⁽¹⁾ For the three and nine months ended September 30, salaries and benefits included stock-based compensation (a non-cash charge) of \$53 (2010 - \$nil) and \$166 (2010 - \$nil), respectively.

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8. FINANCE COSTS

The finance costs for the Corporation are broken down as follows:

| | Three months ended September 30 | | Nine months ended September 30 | |
|--------------------------------|------------------------------------|-------|-----------------------------------|----------|
| | 2011 | 2010 | 2011 | 2010 |
| Interest on long-term debt | \$ 32 | \$ 36 | \$ 100 | \$ 104 |
| Interest on operating facility | 2 | 1 | 9 | 4 |
| Distributions to shareholders | — | — | — | 2,414 |
| Finance costs | \$ 34 | \$ 37 | \$ 109 | \$ 2,522 |

Under IFRS, the trust units outstanding up to the May 20, 2010 Annual General Meeting, when the trust indenture was changed by the shareholders, were considered a financial liability. Consequently, distributions declared on those units during the first five months of 2010 were considered a finance cost and recorded as a charge to earnings. Following the change to the trust indenture, the trust units and corresponding distributions were recorded as equity transactions.

9. INCOME TAXES

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

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|------------------------------------|----------|-----------------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Income (loss) before income taxes | \$ 1,472 | \$ 1,879 | \$ 2,320 | \$ (8,631) |
| Income tax expense (recovery) at statutory rate of 26.66% (2010 - 28.26%) | 392 | 531 | 618 | (2,439) |
| Effect on taxes of: | | | | |
| Stock-based compensation expenses | 12 | — | 42 | — |
| Non-deductible expenses | 10 | 9 | 20 | 20 |
| True-up of opening timing differences | — | — | 2 | 16 |
| Current period change in timing differences | — | (1) | 1 | 6 |
| Impact of rate change on temporary differences | (25) | (3) | (40) | 24 |
| Change in fair value of trust units and options | — | (512) | — | 2,207 |
| Deferred income tax expense (recovery) | \$ 389 | \$ 24 | \$ 643 | \$ (166) |

Deferred income taxes were comprised of the following:

| | September 30, 2011 | December 31, 2010 |
|--------------------------------|--------------------|-------------------|
| Property, plant and equipment | \$ 4,386 | \$ 4,330 |
| Share issue costs | (23) | (18) |
| Deferral of partnership income | 486 | — |
| Other | — | (106) |
| Deferred income tax liability | \$ 4,849 | \$ 4,206 |

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10. INCOME (LOSS) PER SHARE

The calculation of income (loss) per share for the relevant periods is based on the following data:

| Basic | Three months ended September 30 | | Nine months ended September 30 | |
|---|------------------------------------|-----------|-----------------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net income (loss) | \$ 1,084 | \$ 1,855 | \$ 1,677 | \$ (8,465) |
| Shares outstanding, beginning of the period | 6,057,678 | 6,054,778 | 6,057,678 | 6,014,678 |
| Weighted average # of shares issued during the period | — | 467 | — | 29,101 |
| Basic # shares outstanding during the period | 6,057,678 | 6,055,245 | 6,057,678 | 6,043,779 |
| Basic Income (loss) per share | \$ 0.18 | \$ 0.31 | \$ 0.28 | \$ (1.40) |

| Diluted | Three months ended September 30 | | Nine months ended September 30 | |
|--|------------------------------------|-----------|-----------------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net income (loss) | \$ 1,084 | \$ 1,855 | \$ 1,677 | \$ (8,465) |
| Basic # shares outstanding during the period | 6,057,678 | 6,055,245 | 6,057,678 | 6,043,779 |
| Weighted average # of shares issuable on dilutive options, during the period | 2,776 | 9,668 | 10,212 | 7,952 |
| Diluted # shares outstanding during the period | 6,060,454 | 6,064,913 | 6,067,890 | 6,051,731 |
| Diluted income (loss) per share | \$ 0.18 | \$ 0.31 | \$ 0.28 | \$ (1.40) |

11. PROPERTY, PLANT AND EQUIPMENT

The Property, plant and equipment for the Corporation is broken down as follows:

| | Land | Buildings | Machinery and equipment | Mobile equipment | Office furniture and equipment | Leasehold improvements | Returnable containers | Total |
|--------------------------------------|----------|-----------|-------------------------|------------------|--------------------------------|------------------------|-----------------------|-----------|
| Cost | | | | | | | | |
| As at January 1, 2010 | \$ 8,365 | \$ 10,856 | \$ 19,760 | \$ 401 | \$ 300 | \$ 212 | \$ 995 | \$ 40,889 |
| Nine months ended September 30, 2010 | | | | | | | | |
| Additions * | — | 47 | 342 | 241 | 23 | — | 307 | 960 |
| Disposals | | | | (42) | | | | (42) |
| As at September 30, 2010 | 8,365 | 10,903 | 20,102 | 600 | 323 | 212 | 1,302 | 41,807 |
| Balance of year | | | | | | | | |
| Additions * | — | — | (63) | (18) | 25 | — | (4) | (60) |
| Disposals | — | — | — | (23) | — | — | — | (23) |
| As at December 31, 2010 | 8,365 | 10,903 | 20,039 | 559 | 348 | 212 | 1,298 | 41,724 |
| Nine months ended September 30, 2011 | | | | | | | | |
| Additions * | — | 1 | 498 | 140 | — | — | 481 | 1,120 |
| Disposals | — | — | (1) | (78) | — | — | — | (79) |
| As at September 30, 2011 | \$ 8,365 | \$ 10,904 | \$ 20,536 | \$ 621 | \$ 348 | \$ 212 | \$ 1,779 | \$ 42,765 |
| Accumulated depreciation | | | | | | | | |
| As at January 1, 2010 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Nine months ended September 30, 2010 | | | | | | | | |
| Charge for the period | — | 206 | 1,806 | 80 | 30 | 12 | 265 | 2,399 |
| Eliminated on disposals | | | | (41) | | | | (41) |
| As at September 30, 2010 | — | 206 | 1,806 | 39 | 30 | 12 | 265 | 2,358 |
| Balance of year | | | | | | | | |
| Charge for the period | — | 69 | 602 | 20 | 11 | 3 | 88 | 793 |
| Eliminated on disposals | — | — | — | (22) | — | — | — | (22) |
| As at December 31, 2010 | — | 275 | 2,408 | 37 | 41 | 15 | 353 | 3,129 |
| Nine months ended September 30, 2011 | | | | | | | | |
| Charge for the period | — | 212 | 1,942 | 94 | 43 | 13 | 441 | 2,745 |
| Eliminated on disposals | — | — | — | (79) | — | — | — | (79) |
| As at September 30, 2011 | \$ — | \$ 487 | \$ 4,350 | \$ 52 | \$ 84 | \$ 28 | \$ 794 | \$ 5,795 |
| Net book value | | | | | | | | |
| As at December 31, 2010 | \$ 8,365 | \$ 10,628 | \$ 17,631 | \$ 522 | \$ 307 | \$ 197 | \$ 945 | \$ 38,595 |
| As at September 30, 2011 | \$ 8,365 | \$ 10,417 | \$ 16,186 | \$ 569 | \$ 264 | \$ 184 | \$ 985 | \$ 36,970 |

* Additions shown net of government assistance. See Note 4.3 for additional information regarding government assistance.

For the three and nine months ended September 30, 2011 and 2010, there were no indicators of impairment in the carrying value of the Corporation's PP&E. Accordingly no provisions have been recorded in these Financial Statements.

12. INTANGIBLE ASSETS

The Corporation's intangible assets are broken down as follows:

| | Computer software | Intellectual property | Website costs | Total |
|--------------------------------------|-------------------|-----------------------|---------------|--------|
| Cost | | | | |
| As at January 1, 2010 | \$ 152 | \$ 170 | \$ 22 | \$ 344 |
| Nine months ended September 30, 2010 | | | | |
| Additions | 19 | — | — | 19 |
| As at September 30, 2010 | 171 | 170 | 22 | 363 |
| Balance of year | | | | |
| Additions | — | — | — | — |
| As at December 31, 2010 | 171 | 170 | 22 | 363 |
| Nine months ended September 30, 2011 | | | | |
| Additions | — | — | — | — |
| As at September 30, 2011 | \$ 171 | \$ 170 | \$ 22 | \$ 363 |

| | Computer software | Intellectual property | Website costs | Total |
|--------------------------------------|-------------------|-----------------------|---------------|--------|
| Accumulated amortization | | | | |
| As at January 1, 2010 | \$ — | \$ — | \$ — | \$ — |
| Nine months ended September 30, 2010 | | | | |
| Charge for the period | 40 | 14 | 3 | 57 |
| As at September 30, 2010 | 40 | 14 | 3 | 57 |
| Balance of year | | | | |
| Charge for the period | 15 | 5 | — | 20 |
| As at December 31, 2010 | 55 | 19 | 3 | 77 |
| Nine months ended September 30, 2011 | | | | |
| Charge for the period | 61 | 16 | 3 | 80 |
| As at September 30, 2011 | \$ 116 | \$ 35 | \$ 6 | \$ 157 |

| | Computer software | Intellectual property | Website costs | Total |
|--------------------------|-------------------|-----------------------|---------------|--------|
| Net book value | | | | |
| As at December 31, 2010 | \$ 116 | \$ 151 | \$ 19 | \$ 286 |
| As at September 30, 2011 | \$ 55 | \$ 135 | \$ 16 | \$ 206 |

For the three and nine months ended September 30, 2011 and 2010, there were no indicators of impairment in the carrying value of the Corporation's intangible assets. Accordingly no provisions have been recorded in these Financial Statements.

13. INVENTORIES

The inventories for the Corporation are categorized as follows:

| | September 30, 2011 | December 31, 2010 | January 1, 2010 |
|---|--------------------------|----------------------|--------------------|
| Raw materials and returnable glass containers | \$ 994 | \$ 1,154 | \$ 1,054 |
| Brews in progress | 841 | 834 | 657 |
| Finished product | 1,964 | 1,829 | 1,518 |
| Consignment product | 114 | 97 | 50 |
| Dry goods store (resale goods) | 18 | 37 | 54 |
| | \$ 3,931 | \$ 3,951 | \$ 3,333 |

During the three and nine months ended September 30, 2011, charges of \$30 (2010 - \$23) and \$296 (2010 - \$138), respectively, were recorded to net income relating to obsolete, damaged or unsellable packaging inventory and promotional and resale goods, and damaged finished goods inventory.

There were no reversals of amounts previously charged to income in respect of write-downs of inventory for the years ended December 31, 2010 and 2009.

Finished goods inventory includes \$244 (December 31, 2010 - \$215; January 1, 2010 - \$nil) of amortization charges on production equipment used to convert raw materials to finished goods.

14. TRADE AND OTHER RECEIVABLES

The Corporation's receivables arise from three main sources: trade receivables from the sale of beer and cider to provincial liquor boards, co-packing revenues and supplier rebates and other amounts. Other receivables include amounts due from sales to international customers and GST balances. The accounts receivable balances are broken down as follows:

| | September 30, 2011 | December 31, 2010 | January 1, 2010 |
|---|--------------------------|----------------------|--------------------|
| Provincial liquor boards | \$ 1,860 | \$ 1,488 | \$ 1,884 |
| Supplier rebates and co-packing customers | 84 | 137 | 1,538 |
| Other receivables | 149 | 164 | 195 |
| Total accounts receivable | \$ 2,093 | \$ 1,789 | \$ 3,617 |

Below is an aged analysis of the Corporation's trade and other receivables:

| | September 30, 2011 | December 31, 2010 | January 1, 2010 |
|----------------------------------|--------------------------|----------------------|--------------------|
| Less than 30 days | \$ 1,635 | \$ 1,436 | \$ 2,452 |
| 30 - 60 days | 334 | 183 | 339 |
| 60 - 90 days | 56 | 40 | 284 |
| Over 90 days | 68 | 130 | 542 |
| Total accounts receivable | \$ 2,093 | \$ 1,789 | \$ 3,617 |

The Corporation holds no collateral for any receivable amounts outstanding as at September 30, 2011.

15. PREPAID EXPENSES AND DEPOSITS

The prepaid expenses and deposits for the Corporation are categorized as follows:

| | September 30, 2011 | December 31, 2010 | January 1, 2010 |
|----------------------------------|--------------------------|----------------------|--------------------|
| Community sponsorship | \$ 80 | \$ 36 | \$ 56 |
| Prepaid insurance | 125 | 62 | 56 |
| Property taxes | 32 | 19 | 8 |
| Equipment rental and maintenance | 60 | 60 | 61 |
| Public filing fees | 17 | 2 | 1 |
| Other | 39 | 23 | 20 |
| Promotional materials | 84 | 155 | 103 |
| Employee benefits | — | 40 | — |
| | \$ 437 | \$ 397 | \$ 305 |

16. SHARE CAPITAL

16.1 Common shares

| | # of shares | \$ Amount |
|---|-------------|-----------|
| As at January 1, 2010 | 6,014,678 | — |
| Quarter ended March 31, 2010 | | |
| Shares issued upon exercise of options | 22,200 | — |
| As at March 31, 2010 | 6,036,878 | — |
| Quarter ended June 30, 2010 | | |
| Shares issued upon exercise of options prior to May 20, 2010 | 16,400 | — |
| Reclassification of trust liability to equity on May 20, 2010 | 6,053,278 | 99,879 |
| Shares issued upon exercise of options | 1,500 | 26 |
| As at June 30, 2010 | 6,054,778 | 99,905 |
| Balance of year | | |
| Shares issued upon exercise of options | 2,900 | 49 |
| As at December 31, 2010 | 6,057,678 | 99,954 |
| Quarters ended March 31, June 30 and September, 2011 | | |
| Shares issued upon exercise of options | — | — |
| As at March 31, June 30 and September 30, 2011 | 6,057,678 | 99,954 |

Big Rock is authorized to issue an unlimited number of common shares with no par value.

Under Pre-Changeover Canadian GAAP, Big Rock's trust units were recorded as equity. However, IFRS 2 *Share-based Payments* and IAS 32 *Financial Instruments: Presentation* classify the units as a financial liability on the statement of financial position. Financial liabilities are recorded at fair value at each reporting date, with changes in fair value flowing through the statement of comprehensive income. Following a change to the trust indenture in May 2010, the trust units were reclassified to equity at the fair value on that date.

17. SHARE-BASED PAYMENTS

17.1 Stock option plan

The Corporation has a stock option plan which permits the Board of Directors of the Corporation to grant options to acquire common shares of the Corporation at the closing trading price on the date of the grant or the volume weighted average closing price for the five days preceding the date of grant, if no shares traded on the grant date. The Compensation and Benefits Committee determines and makes recommendations to the Board of Directors as to the recipients of, and nature and size of, share-based compensation awards in compliance with applicable securities law, stock exchange and other regulatory requirements - including the terms of the option plan. The Corporation is authorized to issue options for a maximum of 10% of the issued and outstanding common shares pursuant to the stock option plan.

The general terms of stock options granted under the amended plan include a maximum exercise period of 5 years and vesting immediately. The options granted in the three and nine months ended September 30, 2011 were granted with an exercise period of 5 years and vested immediately.

During the three months ended September 30, 2011, 51,500 (2010 - 120,000) stock options were granted by the Corporation to officers, employees and directors at an exercise price of \$11.88 with an expiry date of August 4, 2016. The weighted average fair value of the options issued during the three months ended September 30, 2011 was estimated at \$1.03 per option at the grant date using the Black-Scholes option pricing model.

During the three months ended March 31, 2011, the Corporation granted 58,000 (three months ended March 31, 2010 - nil) stock options to officers, employees and directors at an exercise price of Cdn\$16.60 with an expiry date of March 22, 2016. The weighted average fair value of the options issued during the three months ended March 31, 2011 was estimated at \$1.95 per option at the grant date using the Black-Scholes option pricing model. The weighted average assumptions used for the calculation were:

| | August 2011 | March 2011 | August 2010 | October 2007 | February 2007 |
|---|----------------|---------------|----------------|-----------------|------------------|
| Weighted average fair value per option | 1.03 | 1.95 | 1.15 | 1.85 | 1.24 |
| Risk-free interest rate (%) | 1.48 | 2.30 | 1.80 | 5.00 | 3.97 |
| Expected life of the options (years) | 4 | 4 | 4 | 2 | 2 |
| Dividend rate (%) | 6.73 | 4.80 | 7.10 | 8.00 | 10.22 |
| Volatility in the price of the Corporation's shares (%) | 23.4 | 23.5 | 22.0 | 27.0 | 25.6 |

A share-based compensation charge of \$166 for the options granted in the nine months ended September 30, 2011 (2010 - \$nil) was recognized in statement of comprehensive income. Share-based compensation costs have been included in general and administrative expenses.

17.2 Stock appreciation rights plan

On April 1, 2006 the Corporation introduced a stock appreciation rights plan ("SAR") to be used as a basis for incentive compensation to employees. Under the plan, employees who held incentive stock options previously issued in June 2005 with an exercise price of \$19.07 (the "old" options) could exchange each old option for a new SAR. The SARs vest after a three year period beginning April 1, 2006 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 fair value of the SARs, as determined by the difference between the trading price of the Corporation's shares 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 SARs 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 year.

As at September 30, 2011, 228,000 SARs were outstanding (December 31, 2010 - 447,250). During the three months ended September 30, 2011, no SARs were issued (2010 - nil), no SARs were exercised (2010 - 15,000) and 9,000 SARs were forfeited (2010 - nil). Forfeited SARs related to individuals no longer employed with Big Rock or to rights which were not exercised within the five year life.

As at September 30, 2011, the trading price of the Corporation's shares was less than the exercise price of the majority of the SARs, resulting in no liability being recorded in the financial statements (December 31, 2010 - \$nil).

17.3 Outstanding stock options

The following is a summary of option transactions under the Corporation's stock option plan:

| | 2011 | | 2010 | |
|-----------------------|--------------|---------------------------------|--------------|---------------------------------|
| | # of options | Weighted average exercise price | # of options | Weighted average exercise price |
| Balance, January 1 | 262,000 | \$ 15.84 | 385,600 | \$ 17.10 |
| Forfeited | — | — | (48,500) | \$ 16.94 |
| Exercised | — | — | (22,200) | \$ 15.26 |
| Issued | 58,000 | \$ 16.60 | — | — |
| Balance, March 31 | 320,000 | \$ 16.31 | 314,900 | \$ 17.26 |
| Forfeited | — | — | (152,100) | \$ 19.07 |
| Exercised | — | — | (17,900) | \$ 15.26 |
| Issued | — | — | — | — |
| Balance, June 30 | 320,000 | \$ 16.31 | 144,900 | \$ 15.60 |
| Forfeited | (21,500) | \$ 16.86 | — | — |
| Exercised | — | — | (2,900) | \$ 15.26 |
| Issued | 51,500 | \$ 11.88 | 120,000 | \$ 17.00 |
| Balance, September 30 | 350,000 | \$ 15.62 | 262,000 | \$ 16.24 |

The following table summarizes information about stock options outstanding and exercisable at September 30, 2011:

| Exercise price | # of Options outstanding at September 30, 2011 | Weighted average remaining contractual life (years) | Weighted average exercise price | # of Options exercisable at September 30, 2011 |
|-----------------------|--|---|---------------------------------|--|
| \$11.88 to \$15.25 | 51,500 | 4.85 | \$ 11.88 | 51,500 |
| \$15.26 to \$17.71 | 278,500 | 2.45 | \$ 16.17 | 278,500 |
| \$17.72 | 20,000 | 1.00 | 17.72 | 20,000 |
| Balance, September 30 | 350,000 | 2.72 | \$ 15.62 | 350,000 |

Under IFRS, the outstanding and exercisable stock options, for the 2010 comparative periods during which Big Rock was an income trust, are considered a liability. Accordingly, the options are recorded at their fair value for each of the comparative reporting periods in 2010.

18. BANK INDEBTEDNESS AND LONG-TERM DEBT

18.1 Operating facility

On April 30, 2010, Big Rock renewed its \$5.0 million demand operating facility with the Corporation's financial institution for a term of three years. The facility, which bears interest at prime plus one percent, is used to fund working capital requirements and allows for borrowing, repayment, and additional borrowing up to the amount specified as necessary. Collateral for these borrowings is a general assignment of Big Rock's assets.

As at September 30, 2011, no balance (December 31, 2010 - nil) was outstanding on the facility. The facility imposes a number of positive and negative covenants on Big Rock including the maintenance of certain financial ratios. As at September 30, 2011 and December 31, 2010, Big Rock was in compliance with all covenants.

18.2 Long-term debt and credit facility

On October 28, 2010, the Corporation renewed the term financing for a period of five years. The loan is repayable in monthly instalments of approximately \$58 plus interest at the financial institution's prime plus 1.25 per cent.

Big Rock also signed a \$6.5 million credit facility which is available in two tranches of \$2.0 million each and one tranche of \$2.5 million to finance capital asset expansions. Once advances under a tranche total \$2.0 million or \$2.5 million as outlined above, the respective tranche will convert to a reducing term loan. Until such time as the facility is converted, interest will be payable at the financial institution's prime plus 1.25 per cent. Following conversion, the term loans will be amortized over periods up to 10 years, with terms ranging from 1 to 5 years. Undrawn amounts under the facility may expire on April 30, 2012, if not extended.

The term financing and credit facility impose a number of positive and negative covenants on Big Rock including the maintenance of certain financial ratios. As at September 30, 2011 and December 31, 2010, Big Rock was in compliance with all covenants.

19. ACCOUNTS PAYABLES AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities of the Corporation are principally comprised of amounts outstanding for trade purchases relating to brewing, selling, and general and administrative activities. The usual credit period taken for trade purchases is between 30 to 90 days.

The following is an aged analysis of the trade and other payables:

| | September 30, 2011 | December 31, 2010 | January 1, 2010 |
|---|--------------------------|----------------------|--------------------|
| Less than 30 days | \$ 4,021 | \$ 2,341 | \$ 4,711 |
| 30 - 60 days | — | — | — |
| 60 - 90 days | 4 | 163 | — |
| Over 90 days | 50 | 512 | 14 |
| Total accounts payable and accrued liabilities | \$ 4,075 | \$ 3,016 | \$ 4,725 |

20. DIVIDENDS PAYABLE

Big Rock declared dividends during the three and nine months ended September 30, 2011 in the amount of \$1,212 (\$0.20 per unit) and \$3,635 (\$0.60 per unit), respectively, compared to \$1,817 (\$0.30 per unit) and \$5,438 (\$0.90 per unit), respectively, for the same periods in 2010. Dividends were paid on April 15, July 15, 2011 and October 17, 2011 (October 15, 2010; \$606 in respect of income for September 2010).

Over the long term it is management's intention that Big Rock's dividends to its shareholders are funded by cash flow from operating activities with the remaining cash from operations directed towards capital spending and debt repayments. The Corporation intends to provide dividends to shareholders that are sustainable to the Corporation considering its liquidity and long-term operational strategies. Since the level of dividends is highly dependent upon cash flow generated from operations, which fluctuates significantly in relation to changes in financial and operational performance, commodity prices, interest and exchange rates and many other factors, future dividends cannot be assured.

Distributions declared to shareholders may exceed net income generated during a given period. Net income may not be an accurate indicator of the Corporation's liquidity, as it may be comprised of significant items not involving cash including deferred income tax and depreciation and amortization related expenses.

21. CAPITAL RISK MANAGEMENT

The Corporation includes as capital its common shares plus short-term and long-term debt, net of cash balances, and has no externally imposed capital requirements. The Corporation's objectives are to safeguard the Corporation's ability to continue as a going concern, in order to support the Corporation's normal operating requirements and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. This allows management to maximize the profitability of its existing assets and create long-term value and enhance returns for its shareholders.

| | September 30, 2011 | December 31, 2010 |
|--|--------------------------|----------------------|
| Bank indebtedness (cash) | \$ (2,141) | \$ (769) |
| Total debt | 2,858 | 3,383 |
| Shareholders' equity: | | |
| Shareholders' capital | 99,954 | 99,954 |
| Contributed surplus | 497 | — |
| Accumulated deficit | (67,667) | (65,709) |
| Total shareholders' equity | 32,784 | 34,245 |
| Total capitalization (total debt plus shareholders' equity, net of cash balances) | \$ 33,501 | \$ 36,859 |

The Corporation manages the capital structure through prudent levels of borrowing, cash-flow forecasting, and working capital management, and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents. In order to facilitate the management of its capital requirements, the Corporation prepares annual expenditure budgets, which are approved by the Board of Directors. These budgets are updated as necessary depending on various factors, including capital deployment, results from operations, and general industry conditions.

In addition, the Corporation monitors its capital using ratios of (i) debt to total capitalization, (ii) working capital, and (iii) earnings before interest, taxes, depreciation and amortization (EBITDA) to long-term debt. Debt to total capitalization is calculated as long-term debt, including current portion, plus bank indebtedness divided by total capital. Working capital is calculated by current assets by current liabilities and EBITDA to long-term debt is calculated by dividing long-term debt by EBITDA. Both working capital and EBITDA to long-term debt are used for compliance with debt covenants.

These capital policies, which remain unchanged from prior periods, provide Big Rock with access to capital at a reasonable cost.

22. FINANCIAL INSTRUMENTS

22.1 Categories of financial instruments

The Corporation's principal financial instruments are its outstanding amounts drawn from its credit facilities, which, after cash flow from operations, are its main source of financing. Financial assets and liabilities arising directly from its operations and Big Rock's activities include accounts receivable, bank indebtedness, accounts payable and accrued liabilities, long term debt and dividends payable.

Big Rock's financial instruments and their designations are:

| Classification of Financial Instrument | Designated as |
|--|-----------------------------|
| Accounts receivable | Loans and receivables |
| Bank indebtedness | Other financial liabilities |
| Accounts payable and accrued liabilities | Other financial liabilities |
| Long-term debt | Other financial liabilities |
| Dividends payable | Other financial liabilities |

The primary risks arising from the Corporation's financial instruments are credit risk, liquidity risk, commodity price risk, interest rate risk and foreign exchange risk, and are discussed later in this note.

22.2 Fair value

All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-to-maturity", "available-for-sale", "loans and receivables", fair value through profit or loss ("FVTPL"), or "other financial liabilities".

Financial instruments recorded in the consolidated balance sheets are categorized based on the fair value hierarchy of inputs. The three levels of the fair value hierarchy are described as follows:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities. Big Rock does not use Level 1 inputs for any of its fair value measurements.
- Level 2 - Inputs, other than quoted prices in active markets, that are observable for the asset or liability either directly or indirectly. Big Rock's Level 2 inputs include quoted market prices for interest rates and credit risk premiums. Big Rock obtains information from sources including the Bank of Canada and market exchanges. Big Rock uses Level 2 inputs for all of its financial instruments fair value measurements.
- Level 3 - Inputs that are not based on observable market data. Big Rock does not use Level 3 inputs for any of its fair value measurements.

Non-derivative financial assets and liabilities

Fair values for accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and distributions payable are not materially different from their carrying amounts due to their short-term nature.

The fair value of the Corporation's long-term debt approximates its carrying value as the debt bears interest at variable rates.

22.3 Financial risk management objectives and policies

The Corporation's financial instruments include cash, accounts receivable, accounts payable and amounts due under line of credit facilities. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Currency risk

The Corporation currently relies on only a few foreign suppliers providing small amounts of goods and thus has limited exposure to risk due to variations in foreign exchange rates. The Corporation has not entered into any derivative instruments to manage foreign exchange fluctuations; however, management monitors foreign exchange exposure.

The Corporation does not have any significant foreign currency denominated monetary liabilities.

Foreign currency sensitivity analysis

An increase or decrease in US currency foreign exchange of 3 percent would result in a change to net income for the three and nine months ended September 30, 2011 would be affected by \$nil (2010 - \$nil) and \$nil (2010 - \$nil), respectively.

(ii) Interest rate risk

Big Rock is exposed to interest rate risk on the variable rate of interest incurred on the amounts due under operating and credit facilities and on interest earned on bank deposits. The cash flow required to service the interest on these facilities will fluctuate as a result of changes to market rates.

The Corporation has not entered into any derivative instruments to manage interest rate fluctuations, however, management monitors interest rate exposure and given the relatively low expected rate of change in prime interest rates feels the risk is immaterial. Big Rock evaluates the policies surrounding interest rates on an as needed basis and is confident that this policy is sufficient based on current economic conditions, combined with the minimal amount of debt required by the Corporation.

The fair value interest rate risk on bank deposits is insignificant as the deposits are short-term and the fair value of the Corporation's long-term debt does not change as interest rates change.

The weighted average interest rate incurred by the Corporation in the three and nine months ended September 30, 2011 was 4.30% (2010 - 4.09%) and 4.25% (2010 - 3.91%), respectively.

Interest rate sensitivity analysis

In the event interest rates changed by 75 basis points, the Corporation's net income for the three and nine months ended September 30, 2011 would be affected by \$4 (2010 - \$5) and \$12 (2010 - \$14), respectively.

The sensitivity analysis assumes the change takes place at the beginning of the financial year and is held constant throughout the reporting period.

(iii) Credit risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in the Corporation incurring a financial loss.

Big Rock has a concentration of credit risk because a majority of its accounts receivable are from provincial liquor boards, under provincially regulated industry sale and payment terms. The Corporation is not exposed to significant credit risk as payment in full is typically collected by provincial liquor boards at the time of sale and receivables are with government agencies. While substantially all of Big Rock's accounts receivable are from provincial government liquor authorities, the timing of receipts of large balances may vary significantly from period to period. The majority of product sold outside of Canada, which is included in GST and other receivables, is done so on a 'Cash on Delivery' basis with no credit risk.

Co-packing receivables were billed on an "as produced" basis. The contract for these revenues expired in May 2010, and was not renewed at Big Rock's option. These amounts were fully collected in the first quarter of 2010. Supplier rebates, included in current receivables, are accrued throughout the year and are collected annually.

Credit risks associated with the potential non-performance by financial instrument counterparties has been minimized through the careful selection of vendors, the development of long term vendor relationships and the selective use of written arrangements to guarantee supply and payment terms.

(iv) Liquidity risk

Big Rock's principal sources of liquidity are its cash flows from operations and existing or new credit facilities. Liquidity risk is mitigated by maintaining banking facilities, continuously monitoring forecast and actual cash flows and, if necessary, adjusting levels of dividends to shareholders and capital spending to maintain liquidity.

Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Corporation's operations.

(v) Commodity price risk

The Corporation is exposed to commodity price risk in the areas of utilities (primarily electricity and natural gas), malted barley, water, glass and aluminum, where fluctuations in the market price or availability of these items could impact Big Rock's cash flow and production. To minimize the impact of this risk, the Corporation enters into contracts which secure supply and set pricing to manage the exposure to availability and pricing.

Big Rock's profitability depends on the selling price of its products to provincial liquor boards. While these prices are controlled by the Corporation, they are subject to such factors as regional supply and demand, and to a lesser extent inflation and general economic conditions. As beer and cider sales are the only source of revenue for the Corporation, a 5% increase or decrease in these prices will result in a corresponding increase or decrease in revenue.

23. RELATED PARTY TRANSACTIONS

Related party transactions are included in selling expenses and relate to the engagement of a consultant, related to the Chief Executive Officer, to coordinate work on special projects undertaken by the Corporation in the normal course of business. The value of transactions for the three and nine months ended September 30, 2011 total \$36 (2010 - \$36) and \$108 (2010 - \$108), respectively. As at September 30, 2011 and December 31, 2010, no amounts were owing to the consultant.

All amounts have been recorded at the exchange amount.

24. KEY MANAGEMENT PERSONNEL COMPENSATION

The remuneration of directors and other members of key management, which is included in general and administrative expenses, is as follows:

| | Three months ended September 30 | | Nine months ended September 30 | |
|--|------------------------------------|---------------|-----------------------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| Salaries and other short-term benefits | \$ 157 | \$ 163 | \$ 496 | \$ 538 |
| Bonuses | — | — | 130 | 234 |
| Stock-based compensation | 38 | — | 125 | — |
| Total compensation | \$ 195 | \$ 163 | \$ 751 | \$ 772 |

Key management includes the Directors (executive and non-executive), the Chief Executive Officer, the Chief Financial Officer, and the President.

25. CHANGE IN NON-CASH WORKING CAPITAL

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|------------------------------------|-----------------|-----------------------------------|-----------------|
| | 2011 | 2010 | 2011 | 2010 |
| Accounts payable and accrued liabilities | \$ 229 | \$ (630) | \$ 1,060 | \$ (830) |
| Inventory | 662 | 237 | 48 | (819) |
| Accounts receivable | 1,537 | 1,815 | (304) | 1,023 |
| Prepaid expenses | 111 | 150 | (40) | 8 |
| Total change in non-cash working capital | \$ 2,539 | \$ 1,572 | \$ 764 | \$ (618) |

26. COMMITMENTS FOR EXPENDITURE

As at September 30, 2011, the Corporation was a party to the following contracts:

- Effective July 1, 2011, the Corporation locked in an agreement with a natural gas retailer to provide natural gas at a fixed price of \$4.83 per gigajoule for a period of two and one-half years, ending on December 31, 2013.
- In the third quarter of 2011, Big Rock entered into agreements for the purchase of promotional materials for a total cost of approximately \$129, of which \$65 was payable at September 30. These materials, which will be used in the normal course of business, are expected to be received during the fourth quarter of 2011.
- Big Rock has a contract for the supply of malt barley for the 2011 fiscal year, at a fixed price of \$500 per metric tonne. The barley will be used in the brewery's normal course of business, and delivered, as needed over a reasonable period of time, in quantities to ensure production targets are met.

- In August 2010, the Corporation entered into an agreement with an electricity retailer to provide electricity for a period of three years beginning September 1, 2010 and ending August 31, 2015 at a fixed rate of \$67.61 per megawatt hour.

The Corporation has received various government grants, which have certain terms and conditions, as disclosed in note 1. A violation of these terms and conditions may result in Big Rock having to repay an amount, up to and including the total funds received under the grant. For the three and nine months ended September 30, 2011 and 2010, no such violations have occurred; consequently no provision for repayment has been included in the financial statements.

27. SEGMENTED INFORMATION

The Corporation conducts its business as a single operating segment being the producer of craft beer and cider in Canada. All property, plant and equipment are situated in Canada. Investment revenues were earned from domestic sources.

28. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements of Big Rock Brewery Inc. for the three and nine months ended September 30, 2011 were approved and authorized for issue by the Audit Committee on November 3, 2011.