BIG ROCK BREWERY INC.
QUARTERLY REPORT

THIRD QUARTER 2012 HIGHLIGHTS

$ thousands (unless otherwise stated)	Three months ended September 30 2012	Three months ended September 30 2011	Nine months ended September 30 2012	Nine months ended September 30 2011
Sales volumes (hectolitres or hl)	62,276	69,540	171,458	172,012
Net revenue	13,281	14,019	35,818	35,160
Operating profit	2,395	1,434	4,786	2,203
Net income	1,749	1,084	3,540	1,677
Earnings per share (basic and diluted)	$ 0.28	$ 0.18	$ 0.58	$ 0.28

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, 2012, as compared to the same period in 2011.

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, 2012 (the "Financial Statements") and in conjunction with the December 30, 2011 audited consolidated financial statements and MD&A contained within our 2011 Annual Report. The financial statements have been prepared using International Financial Reporting Standards ("IFRS"). All amounts are reported in thousands of Canadian dollars unless otherwise noted.

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

The MD&A is dated November 2, 2012.

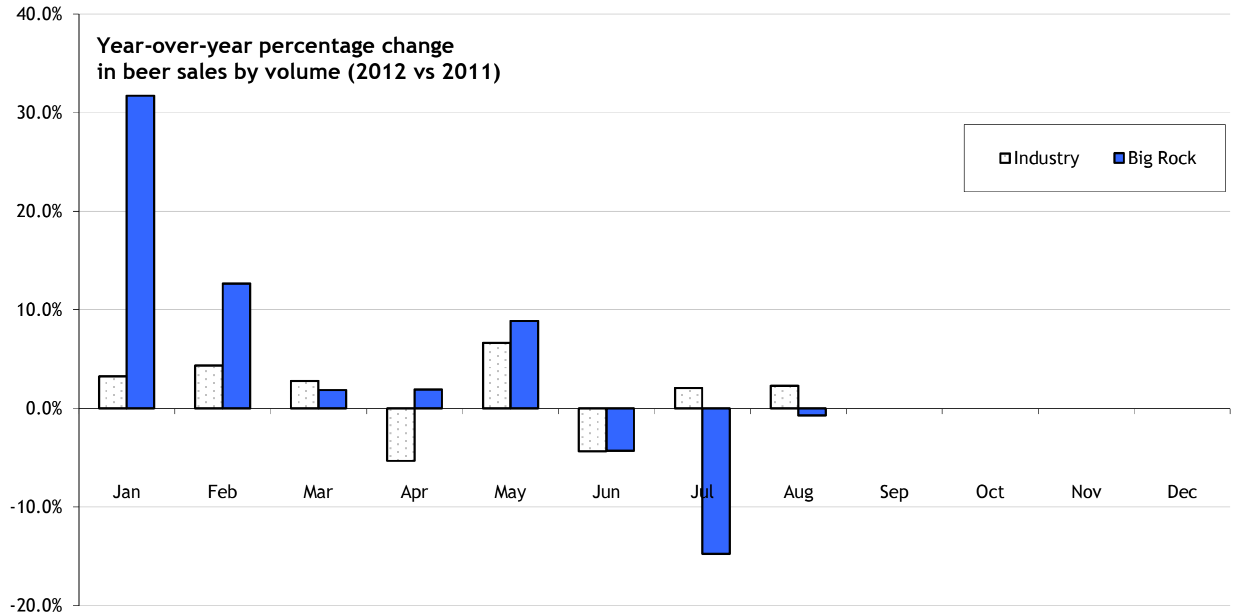
CORPORATE PROFILE

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 twelve ales and lagers, Rock Creek dry apple cider, as well as an on-going selection of seasonal beers. The Corporation also produces premium private label products for key retail and on premise accounts.

Big Rock stands out as a Canadian producer, marketer, and distributor of premium quality specialty craft beers. The Corporation has sales and distribution facilities in Calgary and Edmonton, sales staff resident in Alberta, British Columbia, Saskatchewan and Manitoba, sales staff and agents in 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.

INDUSTRY TRENDS AND INDICATORS

The graph below illustrates the change in monthly sales volumes for January through August 2012 compared to 2011 for both Big Rock and the Canadian beer industry.



Source: Brewers Association of Canada, Domestic Sales Bulletin (September 2012 volumes were unavailable at November 2, 2012) - November 2012

For the eight months ended August 31, 2012, Big Rock's volume growth was 3.4%, while for the Canadian industry it was 1.4%. Management believes the general trends in Big Rock's and the industry's performances are attributable to above average growth in the craft and value-priced beer categories. As discussed later in this MD&A, Big Rock's current quarter volumes declined compared to 2011 due to a reduction in price-related promotional activities. Big Rock trends may therefore not be directly comparable to the industry for this period.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

	2012			2011				2010
$ thousands (unless otherwise stated)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Sales volumes (hl)	62,276	61,615	47,567	48,961	69,540	60,479	41,993	47,315
Net revenue	13,281	12,935	9,602	10,023	14,019	12,339	8,802	9,880
Operating profit (loss)	2,395	2,311	80	1,140	1,434	776	(7)	(345)
Net income (loss)	1,749	1,683	108	856	1,084	619	(26)	270
Earnings per share (basic and diluted)	$0.28	$ 0.28	$ 0.02	$ 0.14	$ 0.18	$ 0.10	$ 0.00	$ 0.04
Dividends per share	$0.20	$ 0.20	$ 0.20	$ 0.20	$ 0.20	$ 0.20	$ 0.20	$ 0.30

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.

RESULTS OF OPERATIONS

Sales volumes decreased 10% for the three months ended September 30, 2012 as compared to the same period last year and Big Rock's net revenue decreased 5% to $13,281 compared to $14,019 in 2011. The smaller decrease in net revenue compared to product volumes was a result of price increases across most regions and core products in the first half of 2012 as well as the net impact of less extensive limited time offers than in 2011. The latter impacted both volumes and net revenue, as 2011 volumes had been driven higher by the limited time price reduction. Sales volumes for the nine months ended September 30, 2012 were 171,458, which was a decrease of 0.3% over the same period in 2011. Revenue for the nine months ended September 30, 2012 increased by 2% to $35,818 as compared to $35,160 in the same period in 2011.

Net income for the third quarter of 2012 increased to $1,749 compared to $1,084 for the same period in 2011. For the three months ended September 30, 2012, operating profit totalled $2,395 compared to $1,434 for the same period last year, while for the nine months ended September 30, 2012, operating profit was $4,786 compared to $2,203 in 2011. The increased operating profit results largely from the impact on gross profit of higher prices and less extensive limited time offers, combined with lower selling expenses and cost of sales per hl, but offset partially by higher general and administrative costs.

Gross Profit

	Three months ended September 30			Nine months ended September 30		
$ thousands (unless otherwise stated)	2012	2011	Change	2012	2011	Change
Net sales revenue	13,281	14,019	(738)	35,818	35,160	658
Cost of sales:						
Ingredients and packaging materials	3,458	4,036	(578)	9,146	9,503	(357)
Labour	1,092	1,084	8	3,358	3,082	276
Overhead	666	788	(122)	1,715	2,251	(536)
Inventory movement	(15)	165	(180)	(157)	(262)	105
Depreciation	684	852	(168)	2,047	2,538	(491)
Cost of sales	5,885	6,925	(1,040)	16,109	17,112	(1,003)
Gross profit	7,396	7,094	302	19,709	18,048	1,661
Sales volumes (hl)	62,276	69,540	(7,264)	171,458	172,012	(554)

Net sales revenues include product sales for beer and cider.

Net sales revenue decreased $738 and increased $658 for the three months and nine months ended September 30, 2012, respectively, compared to the same periods in 2011. Lower revenue in the quarter is due to lower volumes, offset partially by higher prices, while for the year to date, higher volumes and prices resulted in increased net revenue.

Lower volumes in the quarter were experienced in the "core" and value categories, due largely to the less extensive limited time offers on these products in 2012 as compared to the same period in 2011. Volume growth occurred in the private label and premium-priced signature brands. Management believes the latter to be the early result of renewed focus on innovation in Big Rock's product assortment, including the Brewmaster's Edition seasonal beers. Product innovation continues to be a key element of Big Rock's future growth strategy.

Geographically, Alberta continued to lead the growth in sales volumes, as management sharpens its focus on the most profitable products and markets.

When compared to the same periods in 2011, for the three months ended September 30, 2012, total cost of sales decreased by $1,040, while for the nine months ended September 30, 2012 cost of sales decreased $1,003. These changes are described below:

- For the quarter and year to date ended September 30, 2012, costs relating to ingredients and packaging materials decreased $578 and $357 respectively, due primarily to lower production volumes and a slight trend away from bottles towards cans and kegs.

- Big Rock's labour costs relating to production are primarily fixed in nature. When compared to the same period in 2011, labour charges for the third quarter of 2012 increased $8 and for the year to date increased $276, due to higher accruals under the Corporation's incentive program, annual salary increases and higher overtime costs.

- Overhead costs include utilities, repairs and maintenance and other production related amounts, which are primarily fixed in nature. Overhead costs at September 30, 2012 decreased by $122 compared to the three months ended September 30, 2011 and decreased $536 on a year to date basis due to lower on-going water utilities and a refund on 2011 water utilities received in the first quarter of 2012.

- 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 quarter and year to date ended September 30, 2012, charges relating to inventory movement decreased by $180 and increased by $105, respectively, compared with the same period last year.

- Big Rock includes depreciation charges on production equipment used to convert raw materials to finished goods as part of its cost of sales and finished goods inventory. Cost of sales for the three months ended September 30, 2012 included an increase in costs of $8 (2011 – reduction in costs of $8), relating to depreciation included in beginning finished goods inventory. For the nine months ended September 30, 2012 cost of sales included an increase in costs of $31 (2011 – reduction in costs of $27) for the same reason.

On a per hectolitre basis, cost of sales decreased by $5.08 per hl (5.1%) for the three months ended September 30, 2012 compared to the same period in 2011. For the nine months ended September 30, 2012, cost of sales decreased by $5.53 per hl (5.6%). Reduced depreciation, decreased overhead, and lower packaging material costs due to product mix were the primary drivers of the decrease, as detailed in the following table:

Per hectolitre cost of sales

	Three months ended September 30			Nine months ended September 30		
	2012	2011	Change	2012	2011	Change
Net sales revenue	213.26	201.60	11.66	208.90	204.40	4.50
Cost of sales:						
Ingredients and packaging materials	55.54	58.03	(2.49)	53.35	55.24	(1.89)
Labour	17.53	15.58	1.95	19.58	17.92	1.66
Overhead	10.69	11.33	(0.64)	10.00	13.09	(3.09)
Inventory movement	(0.24)	2.37	(2.61)	(0.92)	(1.52)	0.60
Depreciation	10.98	12.27	(1.29)	11.94	14.75	(2.81)
Cost of sales	94.50	99.58	(5.08)	93.95	99.48	(5.53)

Selling expenses

	Three months ended September 30			Nine months ended September 30		
$ thousands (unless otherwise stated)	2012	2011	Change	2012	2011	Change
Selling:						
Delivery and distribution	1,064	1,339	(275)	3,054	3,412	(358)
Salaries and benefits	918	1,038	(120)	2,835	3,027	(192)
Trade marketing	394	350	44	771	856	(85)
Regional sales	1,067	1,392	(325)	3,525	4,316	(791)
Community sponsorship and other	315	403	(88)	597	731	(134)
Total selling expenses	3,758	4,522	(764)	10,782	12,342	(1,560)

Selling expenses have decreased for both the three months and nine months ended September 30, 2012 as a result of concerted cost management efforts. Compared to the same periods in the prior year, selling expenses were lower by $764 for the three months and by $1,560 for the nine months ended September 30, 2012, as detailed below:

- Delivery and distribution costs decreased primarily as a result of lower volumes delivered to Ontario and BC in the quarter and the nine months year to date as compared to the same periods last year.

- Salaries and benefit costs decreased by $120 for the third quarter and $192 for the year to date due primarily to lower headcount, partially offset by annual salary increases and higher accruals under the annual incentive plan.

- Trade marketing decreased $85 on a year to date basis primarily as a result of reduced spending on marketing research, consultants and advertising but increased $44 in the quarter due to enhanced marketing initiatives and new product development.

- Regional sales expenses decreased by $325 and $791 for the quarter and year to date ended September 30, 2012, respectively. These decreases were mainly due to reduced spending on sales programs and lower meals and travel expenses as well as lower costs associated with stale product returns, partially offset by higher commissions as a result of the transition to an agency arrangement in Ontario.

- Community sponsorship and other expenses for the three and nine months ended September 30, 2012 were reduced somewhat due to reduced activity as well as cost containment.

On a per hectolitre basis, selling expenses decreased by $4.69 per hl (7.2%) for the three months ended September 30, 2012 compared to the same period in 2011. For the nine months ended September 30, 2012, selling expenses decreased by $8.87 per hl (12.4%). Reduced delivery and distribution, and regional sales expenses were the primary drivers of the decrease, as detailed in the following table:

Per hectolitre selling expenses

	Three months ended September 30			Nine months ended September 30		
	2012	2011	Change	2012	2011	Change
Selling:						
Delivery and distribution	17.08	19.25	(2.17)	17.81	19.83	(2.02)
Salaries and benefits	14.74	14.93	(0.19)	16.53	17.60	(1.07)
Trade marketing	6.33	5.03	1.30	4.50	4.98	(0.48)
Regional sales	17.13	20.02	(2.89)	20.56	25.09	(4.53)
Community sponsorship and other	5.06	5.80	(0.74)	3.48	4.25	(0.77)
Total selling expenses	60.34	65.03	(4.69)	62.88	71.75	(8.87)

General and Administrative expenses

	Three months ended September 30			Nine months ended September 30		
$ thousands (unless otherwise stated)	2012	2011	Change	2012	2011	Change
General and Administrative:						
Salaries and benefits	613	583	30	2,263	1,671	592
Professional fees	199	108	91	558	484	74
Building maintenance and taxes	150	150	—	436	441	(5)
Office, administrative and other	101	123	(22)	338	339	(1)
Reporting and filing fees	12	28	(16)	64	133	(69)
Insurance	52	46	6	151	124	27
Bank charges	26	13	13	63	52	11
Total general and administrative expenses	1,153	1,051	102	3,873	3,244	629

For the three months ended September 30, 2012, general and administrative expenses increased by $102 and $629 for the year to date as compared with the same periods in 2011 as detailed below:

- Salaries and benefit costs increased by $30 for the three months ended September 30, 2012 as compared to the same period in 2011 as a result of salary increases and higher accruals under the annual incentive program. The larger increase of $592 on a year to date basis is due largely to one-time items, including severance payments, recruiting costs and a change in timing of the annual employee service awards, which in prior years were held during the third quarter. Increases were also experienced due to higher stock compensation expenses as compared to 2011.

- Professional fees, which include legal, audit, tax and accounting advisory services, were $91 higher for the third quarter compared to the same three months last year and were $74 higher on a year to date basis due to higher legal and advisory fees on new product introductions and strategic initiatives.

- Office, administration and other, which include IT related amounts, memberships, dues and licenses, travel and automotive costs, and corporate hospitality decreased $22 for the three months ended September 30, 2012 and $1 for the year to date compared to the 2011 comparative periods.

- Reporting and filing fees for the quarter and year to date ended September 30, 2012 were $16 and $69 lower, respectively, than in the same periods of 2011, which had included costs associated with Big Rock's conversion to a corporation on January 1, 2011.

- Insurance expense in the current quarter and the year to date were higher by $6 and $27, respectively, due to additional coverage.

- Bank charges were higher by $13 for the three months and $11 for the year to date ended September 30, 2012 when compared to the same period last year as a result of fees associated with Big Rock's credit facility.

Finance costs

$ thousands (unless otherwise stated)	Three months ended September 30 2012	2011	Change	Nine months ended September 30 2012	2011	Change
Interest on long-term debt	24	32	(8)	78	100	(22)
Interest on operating facility	(7)	2	(9)	(9)	9	(18)
Total finance costs	17	34	(17)	69	109	(40)
Weighted average effective interest rate	4.34%	4.30%		4.30%	4.25%	

The principal amount of long-term debt was $2,158 as at September 30, 2012 compared to $2,858 as at September 30, 2011. The interest rates applicable to all loans and borrowings are based on the lender's prime rate. The decrease in interest expense for the three and nine months ended September 30, 2012 compared to the same periods last year reflects the impact of lower average borrowings.

Depreciation and amortization

$ thousands (unless otherwise stated)	Three months ended September 30 2012	2011	Change	Nine months ended September 30 2012	2011	Change
Depreciation included in cost of sales	685	852	(167)	2,048	2,538	(490)
Depreciation - other	71	60	11	209	179	30
Amortization	19	27	(8)	59	80	(21)
Total	775	939	(164)	2,316	2,797	(481)

For the three months ended September 30, 2012, depreciation expense included in cost of sales decreased by $167 and was also lower by $490 on a year to date basis compared with the same periods last year due to the timing of a true-up on component calculations in 2011. Amortization expenses decreased by $8 for the quarter and $21 for the year to date compared with the corresponding periods last year for the same reason. Amortization relates to intangible assets, which include software, naming rights and website costs. Other depreciation, which relates to non-production assets, increased by $11 for the third quarter and $30 for the year to date as compared to 2011 due to asset additions in 2012.

Other

$ thousands (unless otherwise stated)	Three months ended September 30 2012	2011	Change	Nine months ended September 30 2012	2011	Change
Other income	56	115	(59)	266	341	(75)
Other expenses	54	42	12	100	115	(15)

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.

Income taxes

$ thousands (unless otherwise stated)	Three months ended September 30 2012	2011	Change	Nine months ended September 30 2012	2011	Change
Current income tax expense	139	—	139	466	—	466
Deferred income tax expense	492	389	103	877	643	234

During the three months ended September 30, 2012, the Corporation recorded a deferred income tax charge of $492, bringing the year to date future tax charge to $877 compared to $389 and $643 for the same periods last year.

The deferred income tax provision differs from the statutory rate of 25.71% (2011 - 26.66%) due to permanent 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.

Current income tax expenses of $139 were recorded for the three months ended September 30, 2012 (2011 – $nil) bringing the year to date current tax expense to $466 (2011 - $nil).

FINANCIAL CONDITION

The following chart highlights significant changes in the Consolidated Balance Sheets from December 30, 2011 to September 30, 2012:

$ thousands (unless otherwise stated)	Increase/ (Decrease)	Primary factors explaining change
Property, plant and equipment	(900)	Depreciation charge, net of asset additions
Intangible assets	(59)	Amortization charge
Inventories	(300)	December 30, 2011 build-up of inventories was drawn down in 2012
Accounts receivable	(738)	Fewer days sales outstanding from AGLC in September 2012 compared to December 2011
Prepaid expenses and other	210	Timing of sponsorships, trade shows and purchases of promotional materials
Long-term debt	(525)	Regular repayments of term loan
Deferred income taxes	877	Tax effect of changes in temporary differences
Current taxes	466	Higher income tax charge
Accounts payable and accrued liabilities	59	Higher excise taxes payable
Share based payments liability	182	New share appreciation rights plan in 2012

LIQUIDITY AND CAPITAL RESOURCES

Capitalization

$ thousands (unless otherwise stated)	September 30, 2012	December 30, 2011
Bank indebtedness (cash)	(3,719)	(655)
Total debt	2,158	2,683
Shareholders' equity:		
Shareholders' capital	100,080	99,954
Contributed surplus	706	517
Accumulated deficit	(68,120)	(68,022)
Total shareholders' equity	32,666	32,449
Total capitalization (total debt plus shareholders' equity, net of cash balances)	31,105	34,477
Total debt to capitalization ratio	6.9%	7.8%

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. See "Financing Activities" for a reconciliation of EBITDA to net income (loss), which is the most similar IFRS measure.

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, 2012 and December 30, 2011, Big Rock was in compliance with all of its debt covenants.

Shareholders' Capital

	# of shares	$ Amount
As at December 30, 2011	6,057,678	99,954
Issued on exercise of stock options	9,000	126
As at September 30, 2012	6,066,678	100,080

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 2, 2012 there were 6,066,678 issued and outstanding shares and the closing price was $14.00 per share. Based upon 6,066,678 issued shares, the Corporation has an approximate market capitalization of $84.9 million.

Share Based Compensation Plan

During the three months ended September 30, 2012, 58,500 (2011 – 51,500), stock options were granted by the Corporation to officers, employees and directors at an exercise price of $13.56 with an expiry date of August 3, 2017. The weighted average fair value of the options issued during the three months ended September 30, 2012 was estimated at $1.59 per option at the grant date using the Black-Scholes option pricing model.

The weighted average assumptions used for the calculation were:

	August 2012	March 2012	December 2011	August 2011	March 2011	August 2010	October 2007
Weighted average fair value per option	**1.59**	1.97	1.44	1.03	1.95	1.15	1.85
Risk-free interest rate (%)	**1.25**	1.47	1.17	1.48	2.30	1.80	5.00
Expected life of the options (years)	**4**	4	4	4	4	4	2
Dividend rate (%)	**5.96**	5.71	6.43	6.73	4.80	7.10	8.00
Volatility in the price of the Corporation's shares (%)	**28.1**	28.5	28.5	23.4	23.5	22.0	27.0

A share-based compensation charge of $93 for the options granted in the three months ended September 30, 2012 (2011 - $53) was recognized in statement of comprehensive income. A share-based compensation charge of $208 for the options granted in the nine months ended September 30, 2012 (2011 - $166) was recognized in 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:

	2012		2011	
	# of options	Weighted average exercise price	# of options	Weighted average exercise price
Balance, January 1	354,000	$ 15.50	262,000	$ 15.84
Forfeited	(117,000)	$ 15.26	(21,500)	16.86
Exercised	(9,000)	$ 11.88	—	—
Issued	117,000	$ 13.51	108,500	$ 14.40
Balance, September 30	345,000	$ 15.00	349,000	$ 15.62

The following table summarizes information about stock options at September 30, 2012:

Exercise price	# of Options outstanding and exercisable at September 30, 2012	Weighted average remaining contractual life (years)	Weighted average exercise price
$11.88 to $13.51	114,000	4.21	$ 12.76
$13.52 to $16.80	109,000	4.21	$ 14.97
$16.81 to $17.72	122,000	2.42	$ 17.12
Balance, September 30	345,000	3.58	$ 15.00

On April 1, 2006 the Corporation introduced a stock appreciation rights ("SAR") plan 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. These SARs vested after a three year period beginning April 1, 2006 and are exercisable for three years thereafter at a price of $17.00 per share (to be settled in cash).

In March 2012, the Corporation introduced a new SAR plan. These SARs vest immediately and are exercisable for five years thereafter. The SARs granted in March 2012 have an exercise price of $12.51 (to be settled in cash). In August 2012, the Corporation granted SARs with an exercise price of $13.56.

At the end of each reporting period, the fair value of the SARs, as determined by the Black Scholes model, is recorded as a liability on the balance sheet and recorded as compensation expense.

As at September 30, 2012, 111,600 SARs were outstanding (December 30, 2011 – 227,000). During the three months ended September 30, 2012, 54,300 SARs were issued (2011 – nil), no SARs were exercised (2011 – nil) and 7,000 SARs expired (2011 – 9,000). As at September 30, 2012, the fair value of the SARs was calculated and resulted in a liability of $65 being recorded in compensation expense (December 30, 2011 - $nil).

Cash Flows

Cash Provided by Operating Activities

Cash provided by operating activities for the three months ended September 30, 2012 totalled $4,090, a decrease of $907 compared to the same period last year, mainly as a result of the change in non-cash working capital. Cash provided by operating activities for the nine months ended September 30, 2012 totalled $8,442, an increase of $2,414 compared to the same period last year, mainly as a result of the increase in net income.

Investing Activities

For the three and nine months ended September 30, 2012, capital spending, net of dispositions, was $303 and $1,235, respectively, compared to $325 and $1,101 for the same periods in 2011. Capital spending for the quarter ended September 30, 2012, net of dispositions, included $127 (2011 – $144) for glass containers, net dispositions of $23 (2011 – additions of $2) of vehicles, $169 (2011 – $186) for brewing and packaging equipment, $25 (2011 – $nil) relating to buildings and warehouse and $5 (2011 – $nil) for the purchase of office furniture and equipment.

Capital spending, net of dispositions, for the nine months ended September 30, 2012 included $477 (2011 – $134) for new kegs, $360 (2011 – $347) for glass containers, $63 (2011 – $140) for the purchase of new vehicles, $197 (2011 – $498) for brewing and packaging equipment, $111 (2011 – $1) relating to buildings and warehouses and $27 (2011 - $nil) for the purchase of office furniture and equipment.

Financing Activities

Cash used in financing activities for the three months ended September 30, 2012 was comparable to the same period in 2011 and for the nine months ended September 30, 2012 increased by $501 compared with the same period in 2011. The increase is a result of having one month of 2010 distributions paid in the first quarter of 2011 versus one full quarter of dividends in the first quarter of 2012 partially offset by impact of the option exercise in the second quarter of 2012.

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, 2012, there was no balance owing on this facility (December 30, 2011 - 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.

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 ATB'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 expire on April 30, 2013, if not extended.

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, 2012	September 30, 2011
EBITDA	$ 7,268	$ 5,226
Deduct: Depreciation & Amortization	2,316	2,797
Earnings before interest and taxes	4,952	2,429
Deduct: Interest	69	109
Deduct: Income tax charge	1,343	643
Net income	$ 3,540	$ 1,677

At September 30, 2012 and December 30, 2011, 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 2012:

	2012			2011		
	Record Date	Payment Date	Per Share	Record Date	Payment Date	Per Unit
March	30-Mar	16-Apr	$0.20	31-Mar	15-Apr	$0.20
June	29-Jun	16-Jul	$0.20	30-Jun	15-Jul	$0.20
September	28-Sep	15-Oct	$0.20	30-Sep	17-Oct	$0.20
Total			$0.60			$0.60

Dividends for the three months ended September 30, 2012 totalled $1,214 ($0.20 per share), which was equivalent to the dividends incurred during the same period in 2011. 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 $3,261 (December 30, 2011 - $2,900) 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, 2012 is $717 (December 30, 2011 - $762).

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 and on changes in the fair value of outstanding SARs at each reporting date. Stock based compensation expense recognized during the three months ended September 30, 2012 was $157 (2011 – $53) 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 craft brands now available, and the advertising initiatives of pseudo-craft divisions of the major breweries, it is likely that competitive pressures on price will continue.

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.

Each provincial authority has its own tax or "mark-up" structure by which fees are levied on brewers' sales within that jurisdiction. These regulations may be changed from time to time, which may positively or negatively impact Big Rock's profitability.

The Alberta government has recently undertaken a review of its mark-up rates, but no changes to existing regulations have yet been formally announced. As Alberta is Big Rock's predominant market, any changes to this mark-up rate structure could have significant impacts on the Corporation's financial results.

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 dividends 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.

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, 2012 was 4.34% (2011 – 4.30%) and 4.30% (2011 – 4.25%) 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 20, 2012 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 Chairman, 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, 2012 total $nil (2011 - $36) and $36 (2011 - $108), respectively. As at September 30, 2012 no amounts were owing to the consultant (December 30, 2011 - $10). The consultant is no longer providing services to the Corporation.

In January 2012, a company controlled by the Chairman of Big Rock commenced providing temporary general labour services to the Corporation in the normal course of business. The value of the transactions for the three and nine months ended September 30, 2012 total $nil and $10, respectively (2011 - $nil). As at September 30, 2012 no amounts were owing to the related party.

These transactions are carried out at market rates and have been recorded at the exchange amount.

FUTURE ACCOUNTING PRONOUNCEMENTS

IFRS Policies

The Corporation's interim financial statements as at and for the three and nine months ended September 30, 2012 and 2011 and the statements of financial position as at December 30, 2011, respectively, have been prepared using the IFRS standards and interpretations currently issued and expected to be effective at December 30, 2012. Accounting policies currently adopted under IFRS are subject to change as a result of new standards being issued with an effective date of December 31, 2012 or prior. 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, 2012.

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 IFRS, 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, 2012, 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, 2012, 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

Contrary to declining trends across the domestic beer industry, Big Rock has been able to maintain volumes for the nine months ended September 30, 2012 as compared to the same period in 2011 despite a reduction in the volume-inducing limited price offers which compromise profits. Management expects consumer demand for its products to remain positive throughout the remainder of the year. Competition continues to intensify at the value-priced end of the beer spectrum, but is also increasing for premium craft beer, particularly in Alberta, which, unlike most other Canadian jurisdictions, has relatively few barriers to entry for out-of-province producers.

In response to consumer-driven demand, management will continue to invest in targeted marketing opportunities to create brand awareness and to emphasize the innovation program, which will provide additional great beers to the Big Rock portfolio. At the same time, management has sharpened its focus on increased return on sales rather than simply on volume growth. Through reductions in the extent of promotional pricing activities and other initiatives, volumes may actually decline but profits should increase.

In addition, management will continue to monitor and adjust the selling prices 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 2011 Annual Information Form (as filed on SEDAR on March 20, 2012). 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 30, 2011, 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 Interim Consolidated Statements of Comprehensive Income

Unaudited

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

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Net revenue (Note 3)	$ 13,281	$ 14,019	$ 35,818	$ 35,160
Cost of sales (Note 4)	5,885	6,925	16,109	17,112
Gross profit	7,396	7,094	19,709	18,048
Expenses				
Selling expenses (Notes 5 and 20)	3,758	4,522	10,782	12,342
General and administrative (Note 6)	1,153	1,051	3,873	3,244
Depreciation and amortization (Note 9)	90	87	268	259
Operating expenses	5,001	5,660	14,923	15,845
Operating profit	2,395	1,434	4,786	2,203
Finance costs (Note 7)	17	34	69	109
Other income	56	115	266	341
Other expenses	54	42	100	115
Income before income taxes	2,380	1,473	4,883	2,320
Current income tax expense	139	—	466	—
Deferred income tax expense	492	389	877	643
Net income and comprehensive income for the period	$ 1,749	$ 1,084	$ 3,540	$ 1,677
Net income per share (Note 8)				
Basic and diluted	$ 0.28	$ 0.18	$ 0.58	$ 0.28

See accompanying notes to the condensed interim consolidated financial statements

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

	September 30, 2012	December 30, 2011
ASSETS		
Non-current assets		
Property, plant and equipment (Note 9)	$ 35,974	$ 36,874
Intangible assets	148	207
	36,122	37,081
Current		
Inventories (Note 10)	4,129	4,429
Accounts receivable (Note 11)	2,050	2,788
Prepaid expenses and other (Note 12)	427	217
Cash	3,719	655
	10,325	8,089
Total assets	$ 46,447	$ 45,170
LIABILITIES AND SHAREHOLDERS' EQUITY		
EQUITY		
Shareholders' capital (Note 13)	$100,080	$ 99,954
Contributed surplus (Note 14)	706	517
Accumulated deficit	(68,120)	(68,022)
	32,666	32,449
LIABILITIES		
Non-current		
Long term debt (Notes 15 and 18)	1,458	1,983
Share based payment liabilities (Note 14)	182	—
Deferred income taxes	6,040	5,163
	7,680	7,146
Current		
Accounts payable and accrued liabilities (Note 16)	3,722	3,663
Dividends payable (Note 17)	1,213	1,212
Current portion of long-term debt (Notes 15 and 18)	700	700
Current taxes payable	466	—
	6,101	5,575
Total liabilities and shareholders' equity	$ 46,447	$ 45,170

See accompanying notes to the condensed interim consolidated financial statements

	“signed”	**“signed”**
On behalf of the Board:	Ed. E. McNally	Michael G. Kohut
	Director	Director

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

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
OPERATING ACTIVITIES				
Net income for the period	$ 1,749	$ 1,084	$ 3,540	$ 1,677
Items not affecting cash:				
Depreciation and amortization	775	939	2,316	2,797
Gain on sale of assets	—	(7)	(4)	(19)
Stock based compensation	158	53	391	166
Deferred income tax expense	492	389	877	643
	3,174	2,458	7,120	5,264
Net change in non-cash working capital related to operations (Note 21)	916	2,539	1,322	764
Cash provided by operating activities	4,090	4,997	8,442	6,028
FINANCING ACTIVITIES				
Dividend payments	(1,214)	(1,212)	(3,638)	(3,030)
Principal repayments of long-term debt	(175)	(175)	(525)	(525)
Cash received on exercise of options	—	—	107	—
Cash used in financing activities	(1,389)	(1,387)	(4,056)	(3,555)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(348)	(332)	(1,326)	(1,120)
Proceeds from sale of equipment	—	7	4	19
Cash used in investing activities	(348)	(325)	(1,322)	(1,101)
Net increase in cash	2,353	3,285	3,064	1,372
Cash (bank indebtedness), beginning of period	1,366	(1,144)	655	769
Cash, end of period	$ 3,719	$ 2,141	$ 3,719	$ 2,141

Supplemental cash-flow information				
Cash interest paid	$ 24	$ 36	$ 89	$ 112
Cash taxes paid	$ —	$ —	$ —	$ —

See accompanying notes to the condensed interim consolidated financial statements

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

	Share Capital	Contributed Surplus	Accumulated deficit	Total
Balance as at December 31, 2010	$ 99,954	$ —	$ (65,709)	$ 34,245
Stock options issued on Corporate conversion	—	331	—	331
Share-based payments for the nine months ended September 30, 2011	—	166	—	166
Total comprehensive income for the nine months ended September 30, 2011	—	—	1,677	1,677
Dividends declared for the nine months ended September 30, 2011	—	—	(3,635)	(3,635)
Balance as at September 30, 2011	$ 99,954	$ 497	$ (67,667)	$ 32,784
Share-based payments for the remainder of the year	—	20	—	20
Total comprehensive income for the remainder of the year	—	—	856	856
Dividends declared for the remainder of the year	—	—	(1,211)	(1,211)
Balance as at December 30, 2011	$ 99,954	$ 517	$ (68,022)	$ 32,449
Stock options exercised during the nine months ended September 30, 2012	126	(19)	—	107
Share-based payments for the nine months ended September 30, 2012	—	208	—	208
Total comprehensive income for the nine months ended September 30, 2012	—	—	3,540	3,540
Dividends declared for the nine months ended September 30, 2012	—	—	(3,638)	(3,638)
Balance as at September 30, 2012	$ 100,080	$ 706	$ (68,120)	$ 32,666

See accompanying notes to the condensed interim consolidated financial statements

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 and trade under the symbol "BR".

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 condensed interim consolidated financial statements (the "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 entities have been consolidated with the Big Rock financial statements:

	Registered	Holding	Functional Currency
Subsidiary			
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 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").

These Financial Statements should be read in conjunction with Big Rock's 2011 annual consolidated financial statements.

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, 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. 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	
	2012	2011	2012	2011
Gross Product Revenues	$ 17,023	$ 18,192	$ 45,949	$ 45,061
Excise Taxes	(1,614)	(1,860)	(4,439)	(4,296)
AGLC Commissions	(2,140)	(2,331)	(5,726)	(5,641)
British Columbia Cost of Service	12	18	34	36
Net Revenue	$ 13,281	$ 14,019	$ 35,818	$ 35,160

4. 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	
	2012	2011	2012	2011
Operating expenses	$ 5,200	$ 6,072	$ 14,061	$ 14,574
Depreciation	685	853	2,048	2,538
Cost of sales	$ 5,885	$ 6,925	$ 16,109	$ 17,112

5. SELLING EXPENSES

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

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Delivery and distribution costs	$ 1,064	$ 1,339	$ 3,054	$ 3,412
Salaries and benefits	918	1,038	2,835	3,027
Trade marketing	394	350	771	856
Regional sales	1,067	1,392	3,525	4,316
Community sponsorship and other	315	403	597	731
Selling expenses	$ 3,758	$ 4,522	$ 10,782	$ 12,342

6. GENERAL AND ADMINISTRATIVE EXPENSES

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

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Salaries and benefits (1)	$ 613	$ 583	$ 2,263	$ 1,671
Professional fees	199	108	558	484
Reporting and filing fees	12	28	64	133
Insurance	52	46	151	124
Building maintenance and taxes	150	150	436	441
Bank charges	26	13	63	52
Office, administrative and other	101	123	338	339
General and administrative expenses	$ 1,153	$ 1,051	$ 3,873	$ 3,244

(1) For the three and nine months ended September 30, salaries and benefits included stock-based compensation (a non-cash charge) of $158 (2011 – $53) and $391 (2011 – $166), respectively.

7. FINANCE COSTS

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

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Interest on long-term debt	$ 24	$ 32	$ 78	$ 100
Interest on operating facility	(7)	2	(9)	9
Finance costs	$ 17	$ 34	$ 69	$ 109

8. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the relevant periods is based on the following data:

	Three months ended September 30		Nine months ended September 30	
Basic	2012	2011	2012	2011
Net income	$ 1,749	$ 1,084	$ 3,540	$ 1,677
Shares outstanding, beginning of the period	6,066,678	6,057,678	6,057,678	6,057,678
Weighted average # of shares issued during the period	—	—	4,664	—
Basic # shares outstanding during the period	6,066,678	6,057,678	6,062,342	6,057,678
Basic earnings per share	$ 0.28	$ 0.18	$ 0.58	$ 0.28

	Three months ended September 30		Nine months ended September 30	
Diluted	2012	2011	2012	2011
Net income	$ 1,749	$ 1,084	$ 3,540	$ 1,677
Basic # shares outstanding during the period	6,066,678	6,057,678	6,062,342	6,057,678
Weighted average # of shares issuable on dilutive options, during the period	7,814	2,776	5,940	10,212
Diluted # shares outstanding during the period	6,074,492	6,060,454	6,068,282	6,067,890
Diluted earnings per share	$ 0.28	$ 0.18	$ 0.58	$ 0.28

9. PROPERTY, PLANT AND EQUIPMENT

The Property, plant and equipment ("PP&E") 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, 2011	$ 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
Balance of year								
Additions	–	56	38	24	9	–	150	277
Disposals	–	–	–	(21)	–	–	–	(21)
As at December 30, 2011	8,365	10,960	20,574	624	357	212	1,929	43,021
Nine months ended September 30, 2012								
Additions	–	111	197	154	27	–	837	1,326
Disposals	–	–	–	(91)	–	–	–	(91)
As at September 30, 2012	$ 8,365	$ 11,071	$ 20,771	$ 687	$ 384	$ 212	$ 2,766	$ 44,256

	Land	Buildings	Machinery and equipment	Mobile equipment	Office furniture and equipment	Leasehold improvements	Returnable containers	Total
Accumulated depreciation								
As at January 1, 2011	$ –	$ 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
Balance of year								
Charge for the period	–	63	247	66	5	2	(16)	367
Eliminated on disposals	–	–	–	(15)	–	–	–	(15)
As at December 30, 2011	–	550	4,597	103	89	30	778	6,147
Nine months ended September 30, 2012								
Charge for the period	–	208	1,413	134	39	12	420	2,226
Eliminated on disposals	–	–	–	(91)	–	–	–	(91)
As at September 30, 2012	$ –	$ 758	$ 6,010	$ 146	$ 128	$ 42	$ 1,198	$ 8,282

	Land	Buildings	Machinery and equipment	Mobile equipment	Office furniture and equipment	Leasehold improvements	Returnable containers	Total
Net book value								
As at December 30, 2011	$ 8,365	$ 10,410	$ 15,977	$ 521	$ 268	$ 182	$ 1,151	$ 36,874
As at September 30, 2012	$ 8,365	$ 10,313	$ 14,761	$ 541	$ 256	$ 170	$ 1,568	$ 35,974

For the three and nine months ended September 30, 2012 and 2011, 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.

10. INVENTORIES

The inventories for the Corporation are categorized as follows:

	September 30, 2012	December 30, 2011
Raw materials and returnable glass containers	$ 942	$ 1,087
Brews in progress	777	599
Finished product	2,299	2,636
Consignment product	89	92
Dry goods store (resale goods)	22	15
	$ 4,129	$ 4,429

During the three and nine months ended September 30, 2012, charges of $78 (2011 - $30) and $153 (2011 - $296), respectively, were recorded to net income relating to obsolete, damaged or unsellable packaging inventory and promotional and resale goods, and damaged finished goods inventory.

In the three and nine months ended September 30, 2012, there were no reversals of amounts previously charged to income in respect of write-downs of inventory (2011 - $nil).

Finished goods inventory includes $225 (December 30, 2011 – $256) of depreciation charges on production equipment used to convert raw materials to finished goods.

11. ACCOUNTS RECEIVABLE

The Corporation's receivables arise from three main sources: trade receivables from the sale of beer and cider to provincial liquor boards, 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, 2012	December 30, 2011
Provincial liquor boards	$ 1,845	$ 2,446
Supplier rebates	68	113
Other receivables	137	229
Total accounts receivable	$ 2,050	$ 2,788

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

	September 30, 2012	December 30, 2011
Less than 30 days	$ 1,794	$ 2,327
30 – 60 days	251	359
60 – 90 days	—	9
Over 90 days	5	93
Total accounts receivable	$ 2,050	$ 2,788

The Corporation holds no collateral for any receivable amounts outstanding as at September 30, 2012.

12. PREPAID EXPENSES AND OTHER

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

	September 30, 2012	December 30, 2011
Community sponsorship	$ 130	$ 57
Prepaid insurance	136	77
Property taxes	27	—
Equipment rental and maintenance	44	50
Public filing fees	5	—
Other	85	6
Promotional materials	—	27
	$ 427	$ 217

13. SHARE CAPITAL

	# of shares	$ Amount
As at December 31, 2010, June 30, 2011, December 30, 2011 and March 31, 2012	6,057,678	99,954
Shares issued upon exercise of options in the period ended June 30, 2012	9,000	126
As at June 30 and September 30, 2012	6,066,678	100,080

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

14. SHARE-BASED PAYMENTS

14.1 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 vest immediately.

During the three months ended September 30, 2012, 58,500 (2011 - 51,500), stock options were granted by the Corporation to officers, employees and directors at an exercise price of $13.56 with an expiry date of August 3, 2017. The weighted average fair value of the options issued during the three months ended September 30, 2012 was estimated at $1.59 per option at the grant date using the Black-Scholes option pricing model. The weighted average assumptions used for the calculation were:

	August 2012	March 2012	December 2011	August 2011	March 2011	August 2010	October 2007
Weighted average fair value per option	**1.59**	1.97	1.44	1.03	1.95	1.15	1.85
Risk-free interest rate (%)	**1.25**	1.47	1.17	1.48	2.30	1.80	5.00
Expected life of the options (years)	**4**	4	4	4	4	4	2
Dividend rate (%)	**5.96**	5.71	6.43	6.73	4.80	7.10	8.00
Volatility in the price of the Corporation's shares (%)	**28.1**	28.5	28.5	23.4	23.5	22.0	27.0

A share-based compensation charge of $93 for the options granted in the three months ended September 30, 2012 (2011 - $53) was recognized in the statement of comprehensive income. A share-based compensation charge of $208 for the options granted in the nine months ended September 30, 2012 (2011 - $166) was recognized in statement of comprehensive income. Share-based compensation costs have been included in general and administrative expenses.

14.2 Stock appreciation rights plan

On April 1, 2006 the Corporation introduced a stock appreciation rights (“SAR”) plan 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. These SARs vested after a three year period beginning April 1, 2006 and are exercisable for three years thereafter at a price of $17.00 per share (to be settled in cash).

In March 2012, the Corporation introduced a new SAR plan. These SARs vest immediately and are exercisable for five years thereafter. The SARs granted in March 2012 have an exercise price of $12.51 (to be settled in cash). In August 2012, the Corporation granted SARs with an exercise price of $13.56.

At the end of each reporting period, the fair value of the SARs, as determined by the Black-Scholes model, is recorded as a liability on the balance sheet and recorded as compensation expense.

As at September 30, 2012, 111,600 SARs were outstanding (December 30, 2011 – 227,000). During the three months ended September 30, 2012, 54,300 SARs were issued (2011 – nil), no SARs were exercised (2011 – nil) and 7,000 SARs expired (2011 – 9,000). As at September 30, 2012, the fair value of the SARs was calculated and resulted in a liability of $65 being recorded in compensation expense (December 30, 2011 - $nil).

14.3 Outstanding stock options

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

	2012		2011	
	# of options	Weighted average exercise price	# of options	Weighted average exercise price
Balance, January 1	354,000	$ 15.50	262,000	$ 15.84
Forfeited	(117,000)	$ 15.26	—	—
Exercised	—	—	—	—
Issued	58,500	$ 13.45	58,000	$ 16.60
Balance, March 31	295,500	$ 15.19	320,000	$ 16.31
Forfeited	—	—	—	—
Exercised	(9,000)	$ 11.88	—	—
Issued	—	—	—	—
Balance, June 30	286,500	$ 15.29	320,000	$ 16.31
Forfeited	—	—	(21,500)	$ 16.86
Exercised	—	—		
Issued	58,500	$ 13.56	50,500	$ 11.88
Balance, September 30	345,000	$ 15.00	349,000	$ 15.62

The following table summarizes information about stock options outstanding and exercisable at September 30, 2012:

Exercise price	# of Options outstanding and exercisable at September 30, 2012	Weighted average remaining contractual life (years)	Weighted average exercise price
$11.88 to $13.51	114,000	4.21	$ 12.76
$13.52 to $16.80	109,000	4.21	$ 14.97
$16.81 to $17.72	122,000	2.42	$ 17.12
Balance, September 30	345,000	3.58	$ 15.00

15. BANK INDEBTEDNESS AND LONG-TERM DEBT

15.1 Operating facility

On April 30, 2010, Big Rock renewed its $5.0 million demand operating facility with ATB Financial ("ATB") 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, 2012, no balance (December 30, 2011 - 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, 2012 and December 30, 2011, Big Rock was in compliance with all covenants.

15.2 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 ATB'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 ATB'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 expire on April 30, 2013, 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, 2012 and December 30, 2011, Big Rock was in compliance with all covenants.

16. ACCOUNTS PAYABLE 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, 2012	December 30, 2011
Less than 30 days	$ 3,391	$ 3,608
30 – 60 days	41	—
60 – 90 days	36	1
Over 90 days	254	54
Total accounts payable and accrued liabilities	$ 3,722	$ 3,663

17. DIVIDENDS PAYABLE

Big Rock declared dividends during the three and nine months ended September 30, 2012 in the amount of $1,213 ($0.20 per unit) and $3,638 ($0.60 per unit), respectively, compared to $1,212 ($0.20 per unit) and $3,635 ($0.60 per unit), respectively, for the same periods in 2011. Dividends were paid on April 16, July 16, and October 15, 2012 (April 15, July 15, and October 17, 2011).

18. 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, 2012	December 30, 2011
Bank indebtedness (cash)	$ (3,719)	$ (655)
Total debt	2,158	2,683
Shareholders' equity:		
Shareholders' capital	100,080	99,954
Contributed surplus	706	517
Accumulated deficit	(68,120)	(68,022)
Total shareholders' equity	32,666	32,449
Total capitalization (total debt plus shareholders' equity, net of cash balances)	$ 31,105	$ 34,477

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.

19. FINANCIAL INSTRUMENTS

19.1 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.

19.2 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 dividends 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.

19.3 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 nine months ended September 30, 2012 of $2 (2011 – $nil).

(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, 2012 was 4.34% (2011 – 4.30%) and 4.30% (2011 - 4.25%), 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, 2012 would be affected by $6 (2011 – $4) and $12 (2011 - $12) 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 other receivables, is done so on a 'Cash on Delivery' basis with no credit risk.

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.

20. RELATED PARTY TRANSACTIONS

Related party transactions included in selling expenses relate to the engagement of a consultant, related to the Chairman, 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, 2012 total $nil (2011 - $36) and $36 (2011 - $108), respectively. As at September 30, 2012, no amounts were owing to the consultant (December 30, 2011 - $10).

In January 2012, a company controlled by the Chairman of Big Rock commenced providing temporary general labour services to the Corporation in the normal course of business. The value of the transactions for the three and nine months ended September 30, 2012 total $nil and $10, respectively (2011 - $nil). As at September 30, 2012 no amounts were owing to the related party.

All amounts have been recorded at the exchange amount.

21. CHANGE IN NON-CASH WORKING CAPITAL

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Accounts payable and accrued liabilities	$ 25	$ 229	$ 525	$ 1,060
Inventory	196	662	269	48
Accounts receivable	626	1,537	738	(304)
Prepaid expenses	69	111	(210)	(40)
Total change in non-cash working capital	$ 916	$ 2,539	$ 1,322	$ 764

22. 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 and nine months ended September 30, 2012, Big Rock received government assistance relating to operating expenses in the amount of $nil and $32, respectively, (2011 - $nil and $74, respectively).

23. 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.

24. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements of Big Rock Brewery Inc. for the three and nine months ended September 30, 2012 were approved and authorized for issue by the Audit Committee on November 2, 2012.