



**BIG ROCK BREWERY INC.**  
**QUARTERLY REPORT**

**FIRST QUARTER 2013 HIGHLIGHTS**

\$ thousands (unless otherwise stated)	Three months ended March 31	
	2013	2012
Sales volumes (hectolitres or hl)	42,098	47,567
Net revenue	9,004	9,602
Operating profit	129	80
Net income	92	108
Income per share (basic and diluted)	\$ 0.02	\$ 0.02

**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 months ended March 31, 2013, as compared to the same period in 2012.

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 months ended March 31, 2013 (the "Financial Statements") and in conjunction with the December 30, 2012 audited consolidated financial statements and MD&A contained within our 2012 Annual Report. The financial statements have been prepared using International Financial Reporting Standards ("IFRS"). All amounts are reported in thousands of Canadian dollars and comparative figures have been restated using IFRS, unless otherwise noted.

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

The MD&A is dated May 2, 2013.

**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 ten ales and lagers, Rock Creek dry apple cider, as well as an ongoing selection of seasonal beers.

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

product sales in the Atlantic Provinces. Big Rock products are sold in nine provinces and three territories in Canada and also exported to Korea.

## INDUSTRY TRENDS AND INDICATORS

The beer industry in Canada has become increasingly polarized, with growth occurring in value-priced products at one end of the spectrum and in premium craft beers at the other end. This growth is largely at the expense of products in the middle of the spectrum, which have been declining steadily over the past several years. The net result for the industry was an overall decline in sales volumes of 2.5% for the first two months of 2013 compared to the same period in 2012. Big Rock's shift in emphasis from volume growth to a focus on maximization of cashflow and operating profit has meant a deliberate reduction in volumes as promotional pricing activities were scaled back. Therefore, despite the overall trends for its market segments, Big Rock saw a decline in sales volumes of 11.5% for the three months ended March 31, 2013.

## SELECTED QUARTERLY FINANCIAL INFORMATION

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

\$ thousands (unless otherwise stated)	2013	2012				2011		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales volumes (hl)	42,098	46,188	62,276	61,615	47,567	48,961	69,540	60,479
Net revenue	9,004	10,239	13,281	12,935	9,602	10,023	14,019	12,339
Operating profit	129	832	2,395	2,311	80	1,140	1,434	776
Net income	92	595	1,749	1,683	108	856	1,084	619
Income per share (basic and diluted)	\$ 0.02	\$ 0.10	\$ 0.28	\$ 0.28	\$ 0.02	\$ 0.14	\$ 0.18	\$ 0.10
Dividends per share	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20

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

## RESULTS OF OPERATIONS

While sales volumes decreased 11.5% for the three months ended March 31, 2013 as compared to the same period last year, Big Rock's net revenue for the three months ended March 31, 2013 decreased 6.2% to \$9,004 compared to \$9,602 in 2012. The smaller decrease in net revenue compared to product volumes was a result of higher net sales revenues per hectolitre attributed to price increases and reduced promotional pricing activity.

Net income for the first quarter of 2013 decreased to \$92 compared to \$108 for the same period in 2012. Management believes operating profit to be a more meaningful comparison to assess the Corporation's performance. For the three months ended March 31, 2013, operating profit totalled \$129 compared to an operating profit of \$80 for the same period last year. The increased operating profit was primarily due to reduced one-time costs within general and administrative expenses. These savings were partially offset by lower gross profit resulting from decreased sales volumes and higher selling expenses associated with one-time restructuring costs.

## Gross Profit

\$ thousands (unless otherwise stated)	Three months ended March 31		
	2013	2012	Change
Net sales revenue	9,004	9,602	(598)
Cost of sales:			
Ingredients and packaging materials	2,065	2,362	(297)
Labour	1,177	1,110	67
Overhead	651	490	161
Inventory movement	(318)	5	(323)
Depreciation	624	714	(90)
Cost of sales	4,199	4,681	(482)
Gross profit	4,805	4,921	(116)
Sales volumes (hl)	42,098	47,567	(5,469)

Net sales revenues include product sales for beer and cider. For the three months ended March 31, 2013, net sales revenue decreased \$598 (6.2%) compared to the same period of 2012. The decrease was primarily attributable to lower sales volumes, which decreased 11.5% to 42,098 hl from 47,567 hl. The volume decrease occurred mainly as a result of increased pricing and lower frequency and intensity of promotional pricing activity. Volumes for the first quarter were also impacted by reduced product listings in Ontario and generally lower sales in British Columbia. Sales revenues have not declined to the same extent as sales volumes when compared to the same quarter last year, due to the higher per-unit sales prices in the current period.

Partially offsetting the decline in products subject to promotional pricing were increases in sales volumes of Big Rock's signature brands, including IPA, Saaz Republic Pils and Scottish Style Heavy.

Management believes that a strategic focus on geographical regions that offer maximal growth and profit potential, together with continued product innovation and concomitant premium pricing to be key elements of Big Rock's future profit growth strategy.

Geographically, Alberta and British Columbia continued to represent the largest shares of the Corporation's sales, consistent with management's focus on the western provinces.

For the three months ended March 31, 2013, total cost of sales decreased by \$482 compared to the same period last year, as described below:

- For the quarter ended March 31, 2013, costs relating to ingredients and packaging materials decreased \$297 due primarily to lower production volumes.
- Big Rock's labour costs relating to production are primarily fixed in nature. When compared to the same period in 2012, labour charges for the first quarter of 2013 increased \$67, due to higher accruals under the Corporation's incentive program, annual salary increases and higher employee benefit costs.
- Overhead costs include utilities, repairs and maintenance and other production related amounts, which are primarily fixed in nature. Overhead costs at March 31, 2013 increased by \$161 compared to the three months ended March 31, 2012, due primarily to a refund on 2011 utilities received in March 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 income for those costs as finished goods inventory is sold. For the three months ended March 31, 2013, charges relating to inventory movement decreased by \$323 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 March 31, 2013 was reduced by \$59 (2012 - \$55), relating to depreciation included in beginning finished goods inventory.

On a per hectolitre basis, cost of sales increased by \$1.33 per hl (1.3%) for the three months ended March 31, 2013 compared to the same period in 2012. Increased overheads and labour costs were the primary drivers of the increase, which were partially offset by inventory movement, as detailed in the following table:

#### Per hectolitre cost of sales

	Three months ended March 31		
	2013	2012	Change
Cost of sales:			
Ingredients and packaging materials	49.05	49.65	(0.60)
Labour	27.96	23.34	4.62
Overhead	15.46	10.30	5.16
Inventory movement	(7.55)	0.11	(7.66)
Depreciation	14.82	15.01	(0.19)
Cost of sales	99.74	98.41	1.33

#### Selling expenses

\$ thousands (unless otherwise stated)	Three months ended March 31		
	2013	2012	Change
Selling:			
Delivery and distribution	750	951	(201)
Salaries and benefits	1,289	990	299
Marketing	189	132	57
Regional sales	1,002	971	31
Community sponsorship and other	113	107	6
Total selling expenses	3,343	3,151	192

For the three months ended March 31, 2013, selling expenses increased by \$192 compared with the same period last year, as detailed below:

- Delivery and distribution costs decreased primarily as a result of lower volumes delivered in the quarter compared to the same period last year. Delivery costs also reflect the impact of a higher proportion of sales volumes in Alberta.
- Salaries and benefit costs increased by \$299 for the first quarter due primarily to severance paid on a restructuring of the Alberta sales organization, higher accruals under the annual incentive plan and annual salary increases, partially offset by lower headcount.
- Marketing costs increased by \$57 primarily as a result of higher consulting costs relating to brand strategy.
- Regional sales expenses increased by \$31 due mainly to increased spending on sales programs in the on-premise channel, partially offset by reduced spending on promotional beer, point of sale promotional materials and reduced retail programs.

On a per hectolitre basis, selling expenses increased by \$13.17 per hl (19.9%) for the three months ended March 31, 2013 compared to the same period in 2012. Lower sales volumes combined with non-recurring severance costs were the primary drivers of the increase, as detailed in the following table:

## Per hectolitre selling expenses

	Three months ended March 31		
	2013	2012	Change
Selling:			
Delivery and distribution	17.82	19.99	(2.17)
Salaries and benefits	30.62	20.81	9.81
Trade marketing	4.49	2.78	1.71
Regional sales	23.80	20.41	3.39
Community sponsorship and other	2.68	2.25	0.43
<b>Total selling expenses</b>	<b>79.41</b>	<b>66.24</b>	<b>13.17</b>

## General and Administrative expenses

\$ thousands (unless otherwise stated)	Three months ended March 31		
	2013	2012	Change
General and Administrative:			
Salaries and benefits	769	1,068	(299)
Professional fees	185	196	(11)
Building maintenance and taxes	116	128	(12)
Office, administrative and other	92	107	(15)
Reporting and filing fees	48	26	22
Insurance	52	52	—
Bank charges	6	25	(19)
<b>Total general and administrative expenses</b>	<b>1,268</b>	<b>1,602</b>	<b>(334)</b>

For the three months ended March 31, 2013, general and administrative expenses decreased by \$334 compared with the same period last year as detailed below:

- Salaries and benefit costs decreased by \$299 for the three months ended March 31, 2013 as compared to the same period in 2012 due to lower severance payments and the effects of the change in timing of the 2012 annual employee service awards, which in prior years were held during the third quarter.
- Professional fees, which include legal, audit, tax and accounting advisory services, were \$11 lower for the first quarter compared to the same three months last year, due to lower recruitment costs, offset by increased legal expenses.
- Office, administration and other decreased \$15 due to lower printing and stationery costs.
- Reporting and filing fees for the three months ended March 31, 2013 were higher than in the first quarter of 2012, due to higher costs relating to the preparation of the annual report and additional costs relating to the 2013 annual and special meeting of shareholders.
- Bank charges were lower by \$19 for the three months ended March 31, 2013 when compared to the same period last year as a result of lower debt and higher cash balances in 2013.

## Finance costs

\$ thousands (unless otherwise stated)	Three months ended March 31		
	2013	2012	Change
Interest on long-term debt	20	28	(8)
Interest on operating facility	(13)	0	(13)
Total finance costs	7	28	(21)
Weighted average effective interest rate	4.22%	4.28%	

The principal amount of long-term debt was \$1,808 as at March 31, 2013 compared to \$2,508 as at March 31, 2012. 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 months ended March 31, 2013 compared to the same period last year reflects the impact of lower average borrowings.

## Depreciation and amortization

\$ thousands (unless otherwise stated)	Three months ended March 31		
	2013	2012	Change
Depreciation included in cost of sales	624	714	(90)
Depreciation - other	59	68	(9)
Amortization	6	20	(14)
Total	689	802	(113)

For the three months ended March 31, 2013, depreciation expense included in cost of sales decreased by \$90 compared with the same period last year due to the timing of absorption of depreciation into inventory. Amortization expenses decreased by \$14 compared with the corresponding period last year due to lower net book values. Amortization relates to intangible assets, which include software, naming rights and website costs.

## Other

\$ thousands (unless otherwise stated)	Three months ended March 31		
	2013	2012	Change
Other income	66	81	(15)
Other expenses	20	28	(8)

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 March 31		
	2013	2012	Change
Current income tax expense	110	22	88
Deferred income tax recovery	(34)	(25)	(9)

A current income tax expense of \$110 was recorded for the three months ended March 31, 2013 (2012 - \$22). These taxes arise from the transitional provisions on the taxation of partnership deferral structures.

During the three months ended March 31, 2013, the Corporation recorded deferred income tax recovery of \$34, compared to \$25 for the same period last year.

The deferred income tax provision differs from the statutory rate of 25.10% (2012 - 25.12%) 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.

## FINANCIAL CONDITION

The following chart highlights significant changes in the Consolidated Balance Sheets from December 30, 2012 to March 31, 2013:

\$ thousands (unless otherwise stated)	Increase/ (Decrease)	Primary factors explaining change
Property, plant and equipment	(496)	Depreciation charge, net of asset additions
Intangible assets	(6)	Amortization charge
Inventories	239	Increase in brews in progress and finished good offset by decreased quantity of raw materials
Accounts receivable	(47)	Decrease in supplier rebates
Prepaid expenses and other	(43)	Timing of sponsorships, trade shows and purchases of promotional materials
Long-term debt	(234)	Regular repayments of term loan
Deferred income taxes	(34)	Tax effect of changes in temporary differences
Accounts payable and accrued liabilities	(459)	Reduced supplier payments relating to lower volumes for the first quarter of 2013 versus the fourth quarter of 2012
Share based payments liability	68	Increase in quantity of outstanding SARs

## LIQUIDITY AND CAPITAL RESOURCES

### Capitalization

\$ thousands (unless otherwise stated)	March 31, 2013	December 30, 2012
Bank indebtedness (cash)	(3,057)	(4,281)
Total debt	1,808	2,042
Shareholders' equity:		
Shareholders' capital <sup>(1)</sup>	100,109	100,109
Contributed surplus	795	701
Accumulated deficit <sup>(1)</sup>	(69,861)	(68,739)
Total shareholders' equity	31,043	32,071
Total capitalization (total debt plus shareholders' equity, net of cash balances)	29,794	29,832
Total debt to capitalization ratio	6.1%	6.8%

<sup>(1)</sup> Prior to its January 1, 2011 conversion to a corporate entity, the units of the Corporation's predecessor income trust entity were considered under IFRS to be a financial liability rather than equity and were revalued to market at each reporting date. At the time of the corporate conversion, the aggregate impact of the revaluation of the trust units was a loss in value of \$80,791. This amount is recorded as a deficit within Accumulated deficit with an offsetting increase of the same amount within Shareholders' capital.

### 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) earnings before interest, taxes, depreciation and amortization ("EBITDA") to long-term debt and (iii) EBITDA to interest, debt repayments and dividends. EBITDA to long-term debt is calculated by dividing long-term debt by EBITDA. EBITDA to interest, debt repayments and dividends is calculated by dividing EBITDA by interest expense, principal payments of long-term debt and dividends paid. Both EBITDA to long-term debt and EBITDA to interest, debt repayments and dividends are used for compliance with debt covenants. See "Financing Activities" for a reconciliation of EBITDA to net income, which is the most similar IFRS measure.

These capital policies 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 March 31, 2013 and December 30, 2012, Big Rock was in compliance with all of its debt covenants.

#### Shareholders' Capital

	# of shares	\$ Amount
As at December 30, 2012	6,068,678	100,109
Issued on exercise of stock options	—	—
As at March 31, 2013	6,068,678	100,109

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 May 2, 2013 there were 6,068,678 issued and outstanding shares and the closing price was \$15.05 per share. Based upon 6,068,678 issued shares, the Corporation has an approximate market capitalization of \$91.3 million.

#### Share Based Compensation Plan

During the three months ended March 31, 2013, the Corporation granted 58,500 (three months ended March 31, 2012 - 58,500) stock options to officers, employees and directors at an exercise price of \$14.95 with an expiry date of March 19, 2018. The weighted average fair value of the options issued during the three months ended March 31, 2013 was estimated at \$1.61 per option at the grant date using the Black-Scholes option pricing model.

The weighted average assumptions used for the calculation were:

	March 2013	August 2012	March 2012
Weighted average fair value per option	1.61	1.59	1.97
Risk-free interest rate (%)	1.22	1.25	1.47
Expected life of the options (years)	4	4	4
Dividend rate (%)	5.41	5.96	5.71
Volatility in the price of the Corporation's shares (%)	25.3	28.1	28.5



A share-based compensation charge of \$94 for the options granted in the three months ended March 31, 2013 (2012 - \$115) 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:

	2013		2012	
	# of options	Weighted average exercise price	# of options	Weighted average exercise price
Balance, beginning of year	323,000	\$ 14.85	354,000	\$ 15.50
Forfeited	(27,000)	\$ 16.87	(117,000)	\$ 15.26
Exercised	—	—	—	—
Issued	58,500	\$ 14.95	58,500	\$ 13.45
Balance, March 31	354,500	\$ 14.71	295,500	\$ 15.19

The following table summarizes information about stock options outstanding and exercisable at March 31, 2013:

Exercise price	# of Options outstanding at March 31, 2013	Weighted average remaining contractual life (years)	Weighted average exercise price	# of Options exercisable at March 31, 2013
\$11.88 to \$13.51	112,000	3.71	\$ 12.78	112,000
\$13.51 to \$15.78	117,000	4.65	\$ 14.26	117,000
\$15.79 to \$17.00	125,500	2.59	\$ 16.87	125,500
Balance, March 31	354,500	3.63	\$ 14.71	354,500

In March 2012, the Corporation introduced a share appreciation rights ("SAR") plan as a component of overall compensation of directors, officers and employees. These SARs vest immediately and are exercisable for five years thereafter.

In March 2013, the Corporation granted SARs with an exercise price of \$14.95 (to be settled in cash).

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 March 31, 2013, 160,900 SARs were outstanding (December 30, 2012 - 106,600). During the three months ended March 31, 2013, 54,300 SARs were issued (2012 - 52,300), no SARs were exercised (2012 - nil) and no SARs expired (2012 - 12,000). As at March 31, 2013, the fair value of the SARs was calculated and resulted in a liability of \$306 being recorded in the Financial Statements (December 30, 2012 - \$238).

## Cash Flows

### Operating Activities

Cash provided by operating activities for the three months ended March 31, 2013 totalled \$399, a decrease of \$1,402 compared to the same period last year, mainly as a result of the change in non-cash working capital.

### Investing Activities

For the three months ended March 31, 2013, capital spending, net of dispositions, was \$175 compared to \$604 for the same period in 2012. Capital spending, net of dispositions included \$nil (2012 - \$328) for new kegs, \$89 (2012 - \$127) for glass containers, \$40 (2012 - \$78) for the purchase of new vehicles,

\$20 (2012 - \$23) for brewing and packaging equipment, \$16 (2012 - \$40) relating to buildings and warehouses, \$2 (2012 - \$nil) for leasehold improvements, and \$8 (2012 - \$8) for the purchase of office furniture and equipment.

## Financing Activities

Cash used in financing activities for the three months ended March 31, 2013 increased by \$61 compared with the same period in 2012. The increase is a result of having an additional month of debt repayment in 2013 compared to 2012 due to payment timing.

On February 14, 2013, Big Rock signed a commitment letter for a \$12 million revolving operating loan facility which is available to payout previous borrowings as well as for general operating purposes and funding capital expenditure requirements. The facility is available by way of prime-based loans, guaranteed notes and letters of credit to a maximum of \$2 million. For prime-based loans, interest will be payable at the financial institution's prime plus 1.0 percent; for guaranteed notes, the acceptance fee is payable at 2.75 percent; and for letters of credit, the fee is payable at 2 percent with a minimum fee of \$100. The operating loan matures after a term of 3 years and any undrawn amounts under the facility will expire on May 31, 2016, if no extension has been granted. Collateral for these borrowings is a general assignment of Big Rock's assets.

As at March 31, 2013, a balance of \$nil (December 30, 2012 - 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 March 31, 2013 and December 30, 2012, Big Rock was in compliance with all covenants.

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)	March 31, 2013	March 31, 2012
EBITDA	\$ 864	\$ 935
Deduct: Depreciation & Amortization	689	802
Earnings before interest and taxes	175	133
Deduct: Interest	7	28
Deduct: Income tax charge (add: recovery)	76	(3)
Net income	\$ 92	\$ 108

## 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 2013:

	2013			2012		
	Record Date	Payment Date	Per Unit	Record Date	Payment Date	Per Unit
March	29-Mar	15-Apr	\$0.20	30-Mar	16-Apr	\$0.20
Total			\$0.20			\$0.20

Dividends for the three months ended March 31, 2013 totalled \$1,214 (\$0.20 per unit), which was equivalent to the dividends incurred during the same period in 2012. 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 \$3,456 (December 30, 2012 - \$3,367) of returnable glass containers since converting to the Industry Standard Bottle in early 2002. The net book value of returnable glass containers as at March 31, 2013 is \$599 (December 30, 2012 - \$670).

### Stock-based compensation

The Corporation recognizes compensation expense when options with no cash settlement feature are granted to employees and directors under the option plan. Stock based compensation expense recognized during the three months ended March 31, 2013 was \$94 (2012 - \$115) 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 revenue.

### **RISKS RELATED TO THE BUSINESS AND INDUSTRY**

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

There is a continuing entry of premium and super premium beers from other craft breweries and the larger national and multi-national brewers with products that compete directly with craft beers. A large number of imports are also being sold in the same markets where Big Rock competes for business.

With the large choice of brands now available, and the advertising initiatives of the major breweries, it is likely that price promotions due to competitive pressures will continue. Big Rock believes it is in an excellent position to increase sales volumes; however, the selling price may vary more frequently due to these increasing competitive pricing pressures.

Big Rock requires various permits, licenses, and approvals from several government agencies in order to operate in its market areas. In Alberta, Big Rock's largest market, the Alberta Gaming and Liquor Commission provides the necessary licensing approvals. Other licenses have been obtained from various other government authorities. Management believes that Big Rock is in compliance with all licenses, permits, and approvals.

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 distributions payable. The

primary risks arising from the Corporation's financial instruments are credit risk, liquidity risk, commodity price risk, interest rate risk and foreign exchange risk, each of which are discussed below.

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

### **Credit Risk and Management**

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

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

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 months ended March 31, 2013 was 4.22% (2012 - 4.28%).

### 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 19, 2013 that is available on [www.sedar.com](http://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 months ended March 31, 2013 total \$nil (2012 - \$36). As at March 31, 2013 no amounts were owing to the consultant (December 30, 2012 - \$nil).

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 transactions for the three months ended March 31, 2013 total \$nil (2012 - \$3). As at March 31, 2013 no amounts were owing to the related party (December 30, 2012 - \$nil).

All amounts have been recorded at the exchange amount.

### FUTURE ACCOUNTING PRONOUNCEMENTS

#### IFRS Policies

The Corporation's interim financial statements as at and for the three months ended March 31, 2012 and 2011 and the statements of financial position as at January 1 and 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.

#### Change in accounting policies

Big Rock has adopted the following new and revised standards, along with all consequential amendments, effective December 31, 2012. These changes are made in accordance with the applicable transitional provisions.

- 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 only applies when an entity prepares separate financial statements for its interests in

subsidiaries, joint ventures and associates. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Big Rock has concluded that the adoption of IFRS 10 did not result in any change in the consolidation status of its wholly-owned subsidiaries, Big Rock Brewery Operations Corp. and Big Rock Brewery Limited Partnership.

- IFRS 13 *Fair Value Measurement*, required to be applied prospectively, provides a consistent definition of fair value and introduces consistent requirements for disclosures related to fair value measurement. There has been no change to Big Rock's methodology for determining the fair value of its financial assets and liabilities and, accordingly, the adoption of IFRS 13 did not result in any measurement adjustments as at December 31, 2012.

### Future accounting pronouncements

The IASB has issued the following pronouncements:

- Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* have been issued which will be required to be adopted, with retrospective application, effective for annual periods beginning on or after January 1, 2014. These amendments include clarification of the meaning of "currently has a legally enforceable right to set-off" and may change assets and liabilities eligible for net presentation.
- IFRS 9 *Financial Instruments* has been amended, effective for annual periods beginning January 1, 2015. The amended standard requires classification of financial assets on the basis of the reporting entity's business model objectives for managing those financial assets and the characteristics of the contractual cash flows. As a result, both the classification and measurement of certain financial assets may change. Additionally, for liabilities designated at fair value through profit and loss, fair value changes attributable to changes in credit risk will be presented through other comprehensive income instead of net income.

Early adoption of the above standards, amendment and interpretations is permitted. Big Rock has not early adopted these; 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 March 31, 2013.

### INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

The CEO and CFO acknowledge responsibility for the design of ICFR and confirm that there were no changes in the Corporation's controls over financial reporting during the first quarter ended March 31, 2013, 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 March 31, 2013, 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**

As part of a strategic plan to prioritize high-margin innovative new beers and to maximize profitability of existing products, Big Rock has continued to reduce the use of volume-inducing limited-time offers which has led to a decrease in volumes for the three months ended March 31, 2013 as compared to the same period in 2012. 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 continue to 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 2012 Annual Information Form (as filed on SEDAR on March 19, 2013). 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, 2012, can be found on SEDAR at [www.sedar.com](http://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 March 31	
	2013	2012
Net revenue (Note 3)	\$ 9,004	\$ 9,602
Cost of sales (Note 4)	4,199	4,681
<b>Gross profit</b>	<b>4,805</b>	<b>4,921</b>
<b>Expenses</b>		
Selling expenses (Notes 5 and 19)	3,343	3,151
General and administrative (Note 6)	1,268	1,602
Depreciation and amortization	65	88
Operating expenses	4,676	4,841
<b>Operating profit</b>	<b>129</b>	<b>80</b>
Finance costs (Note 7)	7	28
Other income	(66)	(81)
Other expenses	20	28
<b>Income before income taxes</b>	<b>168</b>	<b>105</b>
Current income tax expense	110	22
Deferred income tax expense (recovery)	(34)	(25)
<b>Net income and comprehensive income for the period</b>	<b>\$ 92</b>	<b>\$ 108</b>

<b>Net income per share (Note 8)</b>		
Basic and diluted	\$ 0.02	\$ 0.02

*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)

	March 31, 2013	December 30, 2012
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	\$ 34,781	\$ 35,277
Intangible assets	122	128
	34,903	35,405
<b>Current</b>		
Inventories (Note 9)	4,131	3,892
Accounts receivable (Note 10)	2,311	2,358
Prepaid expenses and other (Note 11)	321	364
Cash	3,057	4,281
	9,820	10,895
<b>Total assets</b>	<b>\$ 44,723</b>	<b>\$ 46,300</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>EQUITY</b>		
Shareholders' capital (Note 12)	\$ 100,109	\$ 100,109
Contributed surplus (Notes 12 and 13)	795	701
Accumulated deficit	(69,861)	(68,739)
	31,043	32,071
<b>LIABILITIES</b>		
<b>Non-current</b>		
Long term debt (Notes 14 and 17)	1,108	1,342
Share based payment liabilities (Note 13)	306	238
Deferred income taxes	6,297	6,331
	7,711	7,911
<b>Current</b>		
Accounts payable and accrued liabilities (Note 15)	3,519	3,978
Dividends payable (Note 16)	1,214	1,214
Current portion of long-term debt (Notes 14 and 17)	700	700
Current taxes payable	536	426
	5,969	6,318
<b>Total liabilities and shareholders' equity</b>	<b>\$ 44,723</b>	<b>\$ 46,300</b>

*See accompanying notes to the condensed interim consolidated financial statements*

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

	Three months ended March 31	
	2013	2012
<b>OPERATING ACTIVITIES</b>		
Net income for the period	\$ 92	\$ 108
Items not affecting cash:		
Depreciation and amortization	689	802
Gain on sale of assets	(4)	(4)
Stock-based compensation	162	241
Income tax expense (recovery)	(34)	(25)
	905	1,122
Net change in non-cash working capital related to operations (Note 20)	(506)	679
<b>Cash provided by operating activities</b>	<b>399</b>	<b>1,801</b>
<b>FINANCING ACTIVITIES</b>		
Dividend payments	(1,214)	(1,212)
Principal repayments of long-term debt	(234)	(175)
<b>Cash used in financing activities</b>	<b>(1,448)</b>	<b>(1,387)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(179)	(608)
Proceeds from sale of equipment	4	4
<b>Cash used in investing activities</b>	<b>(175)</b>	<b>(604)</b>
<b>Net decrease in cash</b>	<b>(1,224)</b>	<b>(190)</b>
Cash, beginning of period	4,281	655
<b>Cash, end of period</b>	<b>\$ 3,057</b>	<b>\$ 465</b>
<b>Supplemental cash-flow information</b>		
Cash interest paid	\$ 24	\$ 39
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)*

	Shareholders' capital	Contributed surplus	Accumulated deficit	Total
Balance as at December 30, 2011	\$ 99,954	\$ 517	\$ (68,022)	\$ 32,449
Share-based payments for the three months ended March 31, 2012	—	115	—	115
Total comprehensive income for the three months ended March 31, 2012	—	—	108	108
Dividends declared for the three months ended March 31, 2012 (Note 16)	—	—	(1,212)	(1,212)
Balance as at March 31, 2012	99,954	632	(69,126)	31,460
Stock options exercised in the remainder of the year ended December 30, 2012	155	(24)	—	131
Share-based payments for the remainder of the year ended December 30, 2012	—	93	—	93
Total comprehensive income for the remainder of the year ended December 30, 2012	—	—	4,027	4,027
Dividends declared for the remainder of the year ended December 30, 2012	—	—	(3,640)	(3,640)
Balance as at December 30, 2012	100,109	701	(68,739)	32,071
Share-based payments for the three months ended March 31, 2013	—	94	—	94
Total comprehensive income for the three months ended March 31, 2013	—	—	92	92
Dividends declared for the three months ended March 31, 2013 (Note 16)	—	—	(1,214)	(1,214)
Balance as at March 31, 2013	\$ 100,109	\$ 795	\$ (69,861)	\$ 31,043

*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. The head office, principal address and records office of the Corporation are located at 5555 - 76<sup>th</sup> 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:

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

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

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

These 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 2012 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 Change in accounting policies

Big Rock has adopted the following new and revised standards, along with all consequential amendments, effective December 31, 2012. These changes are made in accordance with the applicable transitional provisions.

- 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 only applies when an entity prepares separate financial statements for its interests in subsidiaries, joint ventures and associates. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Big Rock has concluded that the adoption of IFRS 10 did not result in any change in the consolidation status of its wholly-owned subsidiaries, Big Rock Brewery Operations Corp. and Big Rock Brewery Limited Partnership.
- IFRS 13 *Fair Value Measurement*, required to be applied prospectively, provides a consistent definition of fair value and introduces consistent requirements for disclosures related to fair value measurement. There has been no change to Big Rock's methodology for determining the fair value of its financial assets and liabilities and, accordingly, the adoption of IFRS 13 did not result in any measurement adjustments as at December 31, 2012.

### 2.4 Future accounting pronouncements

The IASB has issued the following pronouncements:

- Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* have been issued which will be required to be adopted, with retrospective application, effective for annual periods beginning on or after January 1, 2014. These amendments include clarification of the meaning of "currently has a legally enforceable right to set-off" and may change assets and liabilities eligible for net presentation.
- IFRS 9 *Financial Instruments* has been amended, effective for annual periods beginning January 1, 2015. The amended standard requires classification of financial assets on the basis of the reporting entity's business model objectives for managing those financial assets and the characteristics of the contractual cash flows. As a result, both the classification and measurement of certain financial assets may change. Additionally, for liabilities designated at fair value through profit and loss, fair value changes attributable to changes in credit risk will be presented through other comprehensive income instead of net income.

Early adoption of the above standards, amendment and interpretations is permitted. Big Rock has not early adopted these; 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 risks, and collection of the sales proceeds is reasonably assured.

	Three months ended March 31	
	2013	2012
Gross Product Revenues	\$ 11,487	\$ 12,348
Excise Taxes	(1,061)	(1,163)
AGLC Commissions	(1,422)	(1,583)
Net Revenue	\$ 9,004	\$ 9,602

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

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

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, especially in western Canada.

### 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 March 31	
	2013	2012
Operating expenses	\$ 3,575	\$ 3,967
Depreciation and amortization	624	714
Cost of sales	\$ 4,199	\$ 4,681

### 5. SELLING EXPENSES

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

	Three months ended March 31	
	2013	2012
Delivery and distribution costs	\$ 750	\$ 951
Salaries and benefits	1,289	990
Marketing	189	132
Regional selling	1,002	971
Community sponsorship and other	113	107
Selling expenses	\$ 3,343	\$ 3,151



## 6. GENERAL AND ADMINISTRATIVE EXPENSES

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

	Three months ended March 31	
	2013	2012
Salaries and benefits <sup>(1)</sup>	\$ 769	\$ 1,068
Professional fees	185	196
Reporting and filing fees	48	26
Insurance	52	52
Building maintenance and taxes	116	128
Bank charges	6	25
Office, administrative and other	92	107
General and administrative expenses	\$ 1,268	\$ 1,602

<sup>(1)</sup> Salaries and benefits include stock-based compensation of \$162 (2012 - \$241).

## 7. FINANCE COSTS

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

	Three months ended March 31	
	2013	2012
Interest on long-term debt	\$ 20	\$ 28
Interest on operating facility	(13)	—
Finance costs	\$ 7	\$ 28

## 8. INCOME PER SHARE

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

Basic	Three months ended March 31	
	2013	2012
Net income	\$ 92	\$ 108
Shares outstanding, beginning of the period	6,068,678	6,057,678
Weighted average # of shares issued during the period	—	—
Basic # shares outstanding during the period	6,068,678	6,057,678
Basic income per share	\$ 0.02	\$ 0.02

Diluted	Three months ended March 31	
	2013	2012
Net income	\$ 92	\$ 108
Basic # shares outstanding during the period	6,068,678	6,057,678
Weighted average # of shares issuable on dilutive options during the period	21,325	4,357
Diluted # shares outstanding during the period	6,090,003	6,062,035
Diluted income per share	\$ 0.02	\$ 0.02

## 9. INVENTORIES

The inventories for the Corporation are categorized as follows:

	March 31, 2013	December 30, 2012
Raw materials and returnable glass containers	\$ 1,041	\$ 1,262
Brews in progress	953	726
Finished product	2,024	1,819
Consignment product	72	65
Dry goods store (resale goods)	41	20
	\$ 4,131	\$ 3,892

During the three months ended March 31, 2013, charges of \$76 (2012 - \$31) 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 months ended March 31, 2013, there were no reversals of amounts previously charged to income in respect of write-downs of inventory (2012 - \$nil).

Finished goods inventory includes \$183 (December 30, 2012 - \$191) of amortization charges on production equipment used to convert raw materials to finished goods.

## 10. 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:

	March 31, 2013	December 30, 2012
Provincial liquor boards	\$ 2,157	\$ 2,121
Supplier rebates and international sales	12	98
Other receivables	142	139
<b>Total accounts receivable</b>	<b>\$ 2,311</b>	<b>\$ 2,358</b>

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

	March 31, 2013	December 30, 2012
Less than 30 days	\$ 2,158	\$ 2,224
30 - 60 days	117	130
60 - 90 days	35	—
Over 90 days	1	4
<b>Total accounts receivable</b>	<b>\$ 2,311</b>	<b>\$ 2,358</b>

The Corporation holds no collateral for any receivable amounts outstanding as at March 31, 2013.

## 11. PREPAID EXPENSES AND DEPOSITS

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

	March 31, 2013	December 30, 2012
Community sponsorship	\$ 133	\$ 83
Prepaid insurance	34	85
Property taxes	49	—
Equipment rental and maintenance	69	58
Commissions	18	18
Promotional materials	14	114
Other	4	6
	<b>\$ 321</b>	<b>\$ 364</b>

## 12. SHARE CAPITAL

	March 31, 2013		December 30, 2012	
	# of shares	\$ Amount	# of shares	\$ Amount
Outstanding at beginning of period	6,068,678	100,109	6,057,678	99,954
Shares issued upon exercise of options	—	—	11,000	155
Outstanding at end of period	6,068,678	100,109	6,068,678	100,109

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

## 13. SHARE-BASED PAYMENTS

### 13.1 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 volume weighted average closing price for the five days preceding the date of grant. The Compensation Committee determines and makes recommendations to the Board of Directors as to the recipients of, and nature and size of, share-based compensation awards in compliance with applicable securities law, stock exchange and other regulatory requirements - including the terms of the option plan. The Corporation is authorized to issue options for a maximum of 10% of the issued and outstanding common shares pursuant to the stock option plan.

The general terms of stock options granted under the amended plan include a maximum exercise period of 5 years and vesting immediately. The options granted in the year ended December 30, 2012 were granted with an exercise period of 5 years and vested immediately.

On March 19, 2013, the Corporation granted 58,500 options at an exercise price of \$14.95 with an expiry date of March 19, 2018.

The weighted average fair value of the options issued at the grant date was estimated using the Black-Scholes option pricing model. The weighted average assumptions used for the calculations were:

	March 2013	August 2012	March 2012
Weighted average fair value per option	1.61	1.59	1.97
Risk-free interest rate (%)	1.22	1.25	1.47
Expected life of the options (years)	4	4	4
Dividend rate (%)	5.41	5.96	5.71
Volatility in the price of the Corporation's shares (%)	25.3	28.1	28.5

A share-based compensation charge of \$94 for the options granted in the three months ended March 31, 2013 (2012 - \$115) was recognized in statement of comprehensive income. Share-based compensation costs have been included in general and administrative expenses.

### 13.2 Stock appreciation rights plans

In March 2012, the Corporation introduced a share appreciation rights ("SAR") plan as a component of overall compensation of directors, officers and employees. These SARs vest immediately and are exercisable for five years thereafter.

In March 2013, the Corporation granted SARs with an exercise price of \$14.95 (to be settled in cash).

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 March 31, 2013, 160,900 SARs were outstanding (December 30, 2012 - 106,600). During the three months ended March 31, 2013, 54,300 SARs were issued (2012 - 52,300), no SARs were exercised (2012 - nil) and no SARs expired (2012 - 12,000). As at March 31, 2013, the fair value of the SARs was calculated and resulted in a liability of \$306 being recorded in the Financial Statements (December 30, 2012 - \$238).

### 13.3 Outstanding stock options

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

	2013		2012	
	# of options	Weighted average exercise price	# of options	Weighted average exercise price
Balance, beginning of year	323,000	\$ 14.85	354,000	\$ 15.50
Expired	(27,000)	\$ 16.87	(117,000)	\$ 15.26
Exercised	—	—	—	—
Issued	58,500	\$ 14.95	58,500	\$ 13.45
Balance, March 31	354,500	\$ 14.71	295,500	\$ 15.19

The following table summarizes information about stock options outstanding and exercisable at March 31, 2013:

Exercise price	# of Options outstanding at March 31, 2013	Weighted average remaining contractual life (years)	Weighted average exercise price	# of Options exercisable at March 31, 2013
\$11.88 to \$13.51	112,000	3.71	\$ 12.78	112,000
\$13.52 to \$15.78	117,000	4.65	\$ 14.26	117,000
\$15.79 to \$17.00	125,500	2.59	\$ 16.87	125,500
Balance, March 31	354,500	3.63	\$ 14.71	354,500

## 14. BANK INDEBTEDNESS AND LONG-TERM DEBT

### 14.1 Operating facility

On February 14, 2013, Big Rock signed a commitment letter for a \$12 million revolving operating loan facility which is available to payout previous borrowings as well as for general operating purposes and funding capital expenditure requirements. The facility is available by way of prime-based loans, guaranteed notes and letters of credit to a maximum of \$2 million. For prime-based loans, interest will be payable at the financial institution's prime plus 1.0 percent; for guaranteed notes, the acceptance fee is payable at 2.75 percent; and for letters of credit, the fee is payable at 2 percent with a minimum fee of \$100. The operating loan matures after a term of 3 years and any undrawn amounts under the facility will expire on May 31, 2016, if no extension has been granted. Collateral for these borrowings is a general assignment of Big Rock's assets.

As at March 31, 2013, a balance of \$nil (December 30, 2012 - 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 March 31, 2013 and December 30, 2012, Big Rock was in compliance with all covenants.

### 14.2 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. This facility will be repaid in accordance with the provisions of the operating facility and may be repaid via the \$12 million revolving operating loan facility as described above.

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 March 31, 2013 and December 30, 2012, Big Rock was in compliance with all covenants.

#### 15. 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:

	March 31, 2013	December 30, 2012
Less than 30 days	\$ 3,291	\$ 3,551
30 - 60 days	3	30
60 - 90 days	—	26
Over 90 days	225	371
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 3,519</b>	<b>\$ 3,978</b>

#### 16. DIVIDENDS PAYABLE

Big Rock declared dividends of \$1,214, or \$0.20 per share, for the three months ended March 31, 2013 (2012 - \$1,212, or \$0.20 per share). Dividends were paid on April 15, 2013 (April 16, 2012).

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

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

#### 17. 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.

	March 31, 2013	December 30, 2012
Bank indebtedness (cash)	\$ (3,057)	\$ (4,281)
Total debt	1,808	2,042
Shareholders' equity:		
Shareholders' capital	100,109	100,109
Contributed surplus	795	701
Accumulated deficit	(69,861)	(68,739)
Total shareholders' equity	31,043	32,071
Total capitalization (total debt plus shareholders' equity, net of cash balances)	\$ 29,794	\$ 29,832

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) earnings before interest, taxes, depreciation and amortization ("EBITDA") to long-term debt and (iii) EBITDA to interest, debt repayments and dividends. EBITDA to long-term debt is calculated by dividing long-term debt by EBITDA. EBITDA to interest, debt repayments and dividends is calculated by dividing EBITDA by interest expense, principal payments of long-term debt and dividends paid. Both EBITDA to long-term debt and EBITDA to interest, debt repayments and dividends are used for compliance with debt covenants.

These capital policies provide Big Rock with access to capital at a reasonable cost.

## 18. FINANCIAL INSTRUMENTS

### 18.1 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.

### 18.2 Fair value

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

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

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

#### *Non-derivative financial assets and liabilities*

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

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

### **18.3 Financial risk management objectives and policies**

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

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

#### **(i) Currency risk**

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

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

#### *Foreign currency sensitivity analysis*

An increase or decrease in US currency foreign exchange of 3 percent would result in a change to net income for the three months ended March 31, 2013 of \$2 (2012 - \$5).



## **(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 months ended March 31, 2013 was 4.22% (2012 - 4.28%).

### ***Interest rate sensitivity analysis***

In the event interest rates changed by 75 basis points, the Corporation's net income for the three months ended March 31, 2013 would be affected by \$10 (2012 - \$4).

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

## **(iii) Credit risk**

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

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

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.

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.

#### **19. 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 months ended March 31, 2013 total \$nil (2012 - \$36). As at March 31, 2013 no amounts were owing to the consultant (December 30, 2012 - \$nil).

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 transactions for the three months ended March 31, 2013 total \$nil (2012 - \$3). As at March 31, 2013 no amounts were owing to the related party (December 30, 2012 - \$nil).

All amounts have been recorded at the exchange amount.

#### **20. CHANGE IN NON-CASH WORKING CAPITAL**

	Three months ended March 31	
	2013	2012
Accounts payable and accrued liabilities	\$ (349)	\$ (298)
Inventory	(247)	245
Accounts receivable	47	931
Prepaid expenses	43	(199)
<b>Total change in non-cash working capital</b>	<b>\$ (506)</b>	<b>\$ 679</b>

#### **21. 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.

## 22. APPROVAL OF THE FINANCIAL STATEMENTS

The Financial Statements of Big Rock Brewery Inc. for the three months ended March 31, 2013 were approved and authorized for issue by the Audit Committee on May 2, 2013.