QUARTERLY REPORT

SECOND QUARTER 2017 HIGHLIGHTS

$000, except hl and per share amounts	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Sales volumes (hectolitres or “hl”)	61,703	56,524	105,180	98,224
Net revenue	$ 13,496	$ 12,117	$ 23,085	$ 21,018
Operating income (loss)	246	656	(911)	(462)
Net income (loss)	207	383	(700)	(400)
Income (loss) per share (basic and diluted)	$ 0.03	$ 0.06	$ (0.10)	$ (0.06)

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 six months ended June 30, 2017, as compared to the same period in 2016.

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 six months ended June 30, 2017 (the “Financial Statements”) and the December 30, 2016 audited consolidated financial statements and MD&A contained within our 2016 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. Additional information about the Corporation, including the Annual Information Form for the year ended December 30, 2016, can be found on SEDAR at www.sedar.com and on Big Rock’s corporate website at www.bigrockbeer.com. Readers should also read the “Forward-Looking Information” contained at the end of this document. This MD&A is dated August 3, 2017.

CORPORATE PROFILE

Big Rock Brewery — headquartered in Calgary, Alberta — produces premium, all-natural craft beers and ciders. As Canada's largest independently owned craft brewer, Big Rock has a broad family of permanent ales and lagers, the Rock Creek series of craft ciders, and a continually changing selection of seasonal and limited-edition beers.

Founded in 1985, Big Rock was the first craft brewery in Alberta and stands out as a pioneer in the Canadian craft beer market. Big Rock produces, markets and distributes its premium high-quality specialty craft beers and ciders primarily in Canada. The Corporation owns and operates production facilities in Alberta, British Columbia (“BC”) and Ontario. Big Rock’s primary brewing, packaging and warehousing facility is located in Calgary, Alberta and has it been in operation since 1985.

In April 2015, Big Rock opened a brewery and eatery in Vancouver, BC's thriving craft beer district. This combined brewery and brewpub serves on-premise consumers in downtown Vancouver and provides distribution for Big Rock's products throughout BC. During the fall of 2016, Big Rock opened a third brewery and tasting room in Etobicoke, Ontario, and on February 1, 2017 a fourth location was opened in Toronto, Ontario in the Liberty Village area, and is operated as the Liberty Commons at Big Rock Brewery tasting room and restaurant.

Big Rock products are sold in five provinces and two territories Canada, and exported to Asia. Big Rock has distribution facilities in Calgary and Edmonton, sales staff resident in Alberta, British Columbia, Saskatchewan and Manitoba, and an agency arrangement for product sales in Ontario.

INDUSTRY TRENDS AND INDICATORS

The Canadian beer industry has become increasingly polarized, with sales growth occurring in value-priced products, such as Big Rock's Alberta Genuine Draft ("AGD") and private label beers, at one end of the spectrum and in premium craft beers, such as the Corporation's Signature Series, 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. Economic pressures on consumers in the Alberta market have continued to drive increased sales of value-priced products, while continued competitive activity in Alberta from both local and out-of-province breweries has caused market share for craft beer products to be spread thin.

Big Rock's operating results continued to be hampered in the second quarter of 2017 by increased costs imposed by the Alberta government's revision in August 2016 to the markup and grant structure. Under this new structure, the maximum grant rate available to producers is based on an optimal annual sales level of 150,000 hl in Alberta. Big Rock's Alberta sales volumes exceed this threshold, which has resulted in higher net costs per hectolitre ("hl") as compared to the costs per hl imposed by the markup program that was in place during the first half of 2016. The Corporation has initiated discussions with the Alberta government and taken actions to mitigate the impact of the higher net cost by reducing the number of limited-time offer price promotions. In order to improve Big Rock's grant rate in the future, the Corporation has taken steps to optimize its Alberta sales volumes by discontinuing two lower margin products, which is expected to bring Big Rock's Alberta sales volumes closer to the new 150,000 hl threshold. Big Rock anticipates these actions will reduce the net markup rate (markup less grant) in September 2017 and future periods. Big Rock will continue discussions with the Alberta government with the objective of improving the environment for growth.

Big Rock grew production volumes and gross profit for the three months ended June 30, 2017. Growth was largely driven by Alberta results, where sales of AGD, Big Rock's most approachable lager, continued to increase. As well, Ontario contributed to the increase as the addition of the Etobicoke brewery in the fall of 2016 and the Liberty Commons at Big Rock Brewery restaurant in early 2017 continued to gain a foothold in Canada's most populous province.

Sales of Big Rock bottled and canned products increased in the quarter, particularly in Alberta. These increases were led by AGD, private label brands and the limited-edition Canada 150 Variety Pack and also included increases in Big Rock's flagship Grasshopper and Traditional brands and newer brands such as Pilsner and Rhinestone Cowboy. The packaged product increases were partially offset by decreases in keg sales due to the general declines in keg sales in the industry and the proliferation of new craft breweries in Alberta, which tend to sell exclusively in keg format in their early stages. Similar trends were seen in the Corporation's private label business, where new packaged products contributed to increased sales but on-premise keg sales declined.

Big Rock's beer sales in British Columbia declined in the quarter, partly due to a conscious effort to improve margins by de-emphasizing value-priced products, as well as reduced keg sales in the competitive on-premise market. Issues experienced in the first quarter with cider distribution in the province have been resolved. Sales of cider increased in BC in the quarter which, together with growing revenue from the Vancouver Big Rock Urban Restaurant, helped to offset lower beer sales.

Big Rock continues to focus on brewing all-natural craft beers, with utmost attention to quality and flavor. In May 2017, Big Rock's Pilsner won a gold medal and Grasshopper won a silver medal in their respective beer style categories at the Canadian Brewing Awards. Big Rock beer products are now available in all three key retail channels in Ontario – the Liquor Control Board of Ontario retail stores, Beer Store outlets and licensed grocery chains.

The three months ended June 30, 2017 is the first full quarter of results from both the Etobicoke brewery and the Liberty Village restaurant and this has facilitated an increase in beer sales in both packaged and keg formats.

SELECTED QUARTERLY FINANCIAL INFORMATION

	2017		2016				2015	
($000, except hl and per share amounts)	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales volumes (hl)	61,703	43,477	46,993	54,237	56,524	41,700	43,450	54,762
Net revenue	$13,496	$ 9,589	$10,439	$11,669	$12,117	$ 8,901	$ 9,661	$11,799
Operating profit (loss)	246	(1,157)	(223)	419	656	(1,118)	1	121
Net income (loss)	207	(907)	(290)	237	383	(783)	(54)	76
Earnings per share (basic and diluted)	$ 0.03	$ (0.13)	$ (0.03)	$ 0.03	$ 0.06	$ (0.11)	$(0.01)	$ 0.01
$ Per /hl[(1)] Amounts								
Net revenue	218.73	220.55	222.14	215.15	214.37	213.45	222.35	215.46
Cost of sales	124.42	137.20	136.11	114.26	116.09	126.71	121.82	119.96
Selling expenses	63.27	75.78	60.68	63.33	59.16	72.37	72.24	65.81
General and administrative	25.14	31.44	25.54	28.69	25.72	36.21	27.69	26.11
Operating profit (loss)	3.98	(26.60)	(4.75)	7.73	11.61	(26.81)	0.02	2.21
Net income (loss)	3.35	(20.85)	(6.17)	4.37	6.78	(18.78)	(1.24)	1.39

(1) "hl" refers to hectolitre

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

RESULTS OF OPERATIONS

Net revenue includes wholesale product sales for beer and cider, net of excise taxes and provincial government liquor taxes, and retail restaurant and store sales from Big Rock's Alberta, BC and Ontario locations. Geographically, Alberta continued to represent the largest share of the Corporation's sales, with BC in second place and Ontario third.

Net revenue for the quarter ended June 30, 2017 increased by $1,379 (11%) to $13,496, compared to $12,117 for the second quarter of 2016. Net revenue for the first half of 2017 increased by $2,067 (10%) to $23,085, compared to the first half of 2016. Volume increases were attributed to both an increase in cider and beer sales. Beer volume growth came primarily from the value brand and private label categories, and was influenced by the limited-edition Canada 150 Variety pack introduced in early June.

Gross revenue for the three and six months ended June 30, 2017 increased 19% and 16% respectively, but was offset by a 54% and 46% increase in the provincial liquor tax expenses. These increases are primarily attributed to the changes in the Alberta provincial liquor mark-up and grant program introduced in the second half of 2016. Big Rock mitigated a portion of the increase in liquor tax costs by reducing the number of limited-time offer ("LTO") price discounts presented to customers during the second quarter of 2017.

Operating profits of $246 were realized during the second quarter of 2017 compared to $656 in the second quarter of 2016, and were lower primarily due to the increased provincial liquor taxes and an increase in share-based compensation expense, which is measured at each period end, based on the fair value of Big Rock's stock price.

Big Rock reported an operating loss of $911 for the six months ended June 30, 2017 compared to an operating loss of $462 for the same period in the prior year. The current year to date operating results reflect increased liquor taxes and an increase in share-based compensation expense.

SEGMENTED INFORMATION

Big Rock has two reportable business segments which are monitored by executive management for purposes of making decisions about resource allocation and performance assessment. The wholesale segment manufactures and distributes beer and cider to provincial liquor boards which is subsequently sold to end consumers. The retail segment sells beverages, food and merchandise to end consumers through premises owned and/or operated by the Corporation.

Segment performance is evaluated on a number of measures, the most significant being profit or loss. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. The Corporation's operating assets and liabilities are managed on a corporate basis. General and administrative expenses, current taxes, deferred taxes and capital expenditures are not allocated to segments as they are also managed on a corporate basis.

For the three months ended June 30

	Wholesale		Retail		Eliminations		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016
Net Revenue	$ 13,083	$ 11,746	$ 646	$ 545	$ (233)	$ (174)	$ 13,496	$ 12,117
Cost of sales	6,998	6,271	912	465	(233)	(174)	7,677	6,562
Gross profit	6,085	5,475	(266)	80	-	-	5,819	5,555
Selling expenses	3,878	3,340	26	4	-	-	3,904	3,344
Segment profit	$ 2,207	$ 2,135	$ (292)	$ 76	$ -	$ -	$ 1,915	$ 2,211
General & administrative costs							1,551	1,454
Depreciation and amortization							118	101
Operating income							246	656
Finance expense							94	92
Other income							137	4
Income before income taxes							$ 289	$ 568

For the six months ended June 30

	Wholesale		Retail		Eliminations		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016
Net Revenue	$ 22,139	$ 20,293	$ 1,314	$ 1,041	$ (368)	$ (316)	$ 23,085	$ 21,018
Cost of sales	12,245	11,235	1,765	965	(368)	(316)	13,642	11,884
Gross profit	9,894	9,058	(451)	76	-	-	9,443	9,134
Selling expenses	7,140	6,348	59	13	-	-	7,199	6,361
Segment profit	$ 2,754	$ 2,710	$ (510)	$ 63	$ -	$ -	$ 2,244	$ 2,773
General and administrative costs							2,918	2,964
Depreciation and amortization							237	271
Operating Loss							(911)	(462)
Finance expense							187	149
Other income							150	82
Loss before income taxes							$ (948)	$ (529)

Gross Profit

($000, except volumes)	Three months ended June 30			Six months ended June 30		
	2017	2016	Change	2017	2016	Change
Sales volumes (hl)	61,703	56,524	5,179	105,180	98,224	6,956
Net revenue	$ 13,496	$ 12,117	$ 1,379	$ 23,085	$ 21,018	$ 2,067
Cost of sales	7,677	6,562	1,115	13,642	11,884	1,758
Gross Profit	$ 5,819	$ 5,555	$ 264	$ 9,443	$ 9,134	$ 309
Wholesale:						
Net revenue	$ 12,850	$ 11,572	$ 1,278	$ 21,771	$ 19,977	$ 1,794
Cost of sales:						
Materials	3,520	3,133	387	5,883	5,487	396
Labour	1,386	1,313	73	2,680	2,787	(107)
Overhead	1,068	1,213	(145)	2,010	2,026	(16)
Inventory valuation	266	(14)	280	260	(265)	525
Depreciation	525	481	44	1,044	913	131
Total cost of sales	6,765	6,126	639	11,877	10,948	929
Wholesale segment profit	$ 6,085	$ 5,446	$ 639	$ 9,894	$ 9,029	$ 865
Retail:						
Net revenue	$ 646	$ 545	$ 101	$ 1,314	$ 1,041	$ 273
Cost of sales	912	436	476	1,765	936	829
Retail segment loss	(266)	109	(375)	(451)	105	(556)
Gross profit	$ 5,819	$ 5,555	$ 264	$ 9,443	$ 9,134	$ 309

Wholesale Net Revenue

Wholesale net revenue increased by $1,278 (11%) and $1,794 (9%), respectively for the three and six months ended June 30, 2017, compared to the same periods in 2016. Volumes increased by 5,179 hl (9%), and 6,956 hl (7%) for the three and six months ended June 30, 2017, compared to the same periods in 2016.

Volumes in the value brand and private label categories continue to grow, primarily in Alberta. Second quarter cider and beer volumes increased compared to 2016 with beer volumes receiving a boost from Canada 150 celebrations. Sales for the second quarter of 2017 also include revenue and volumes from the Ontario facilities, which commenced commercial operations in the fourth quarter of 2016, and are primarily comprised of full margin permanent brand beer sales. Revenue increases for the year to date exceed volume increases partly due to increased prices that were announced in mid-2016.

Retail Revenue

Retail revenue increased by $101 (19%) and $273 (26%) respectively for the three and six months ended June 30, 2017 compared to the same period in 2016 mainly due to the two Ontario-based retail stores which opened late in the fourth quarter of 2016, and early 2017. Revenue from our Vancouver restaurant and retail location increased by 9% for the six months ended June 2017 due to increased consumer traffic driven by changes to our events and menu offerings.

Cost of Sales

Cost of sales increased for the three and six months ended June 30, 2017 by $1,115 and $1,758, respectively compared to the same period last year, as described below:

- Materials, which include ingredients and packaging, increased by $387 and $396 for the three and six months ended June 30, 2017, respectively, as a result of increased sales volumes. During the second quarter of 2017, expenses for cider and seasonal beer adjuncts increased, as Big Rock introduced an additional cider flavor to our portfolio along with several beers containing fruit.

- Labour charges for the second quarter of 2017 increased by $73 over the prior year quarter due to addition of production staff. Labour charges for the six months ended June 30, 2017 decreased by $107 due to severance pay-out in the first half of the prior year.

- Overhead costs include utilities, repairs and maintenance and other production-related amounts, which are primarily fixed in nature. Overhead costs decreased by $145 and $16 for the three and six months ended June 30, 2017 compared to the same periods of 2016 as the prior year to date expenses included additional costs associated with quality control and food safety requirements relating to dumping of unsellable innovation brews. These savings were slightly offset by increases in utilities charges, including the new carbon levy in Alberta and two full quarters of operating costs associated with the Ontario facilities in the first half of 2017.

- Inventory valuation comprises timing differences relating to the absorption of production costs into finished goods inventory and the eventual charge to income for those costs when finished goods inventory is sold. Additionally, it includes the absorption of changes in standard cost to inventory. For the three and six months ended June 30, 2017, charges relating to inventory movement increased due to costs associated with continued fine-tuning of the Etobicoke brewery packaging equipment. Part of the increase is also due to the write-off of obsolete packaging materials related to seasonal products.

- Cost of sales includes depreciation charges on production equipment used to convert raw materials to finished goods. Depreciation increased $44 and $131 for the three and six months ended June 30, 2017 compared with the same period last year, reflecting an increase in the depreciation base, which includes the capital cost of the Ontario facilities and a new bottling line in Calgary.

- Retail cost of sales increased by $476 and $829 for the three and six months ended June 30, 2017 compared with the same period last year due to the commencement of two retail locations in Ontario during the fourth quarter of 2016. Most of these costs are fixed in nature and relate to building lease costs and utilities.

Per Hectolitre Cost of Sales

$/hl	Three months ended June 30			Six months ended June 30		
	2017	2016	Change	2017	2016	Change
Wholesale net revenue	$ 208.26	$ 204.73	$ 3.53	$ 206.99	$ 203.38	$ 3.61
Wholesale cost of sales:						
Materials	57.05	55.43	1.62	55.93	55.86	0.07
Labour	22.46	23.23	(0.77)	25.48	28.37	(2.89)
Overhead	17.31	21.46	(4.15)	19.11	20.63	(1.52)
Inventory valuation	4.31	(0.25)	4.56	2.47	(2.70)	5.17
Depreciation	8.51	8.51	-	9.93	9.30	0.63
Wholesale cost of sales	$ 109.64	$ 108.38	$ 1.26	$ 112.92	$ 111.46	$ 1.46

Wholesale cost of sales increased by $1.26 per hl (1%) and $1.46 per hl (1%) for the three months and six months ended June 30, 2017, respectively, compared to the same period in 2016. The increases were driven by inventory valuation, partly offset by a decrease in overhead and labour.

Selling Expenses

($000)	Three months ended June 30			Six months ended June 30		
	2017	2016	Change	2017	2016	Change
Selling:						
Delivery & distribution costs	$ 1,082	$ 967	$ 115	$ 1,955	$ 1,694	$ 261
Salaries & benefits	966	860	106	1,897	1,708	189
Marketing	578	294	284	897	569	328
Regional sales	1,046	963	83	2,033	1,952	81
Community sponsorship & other	232	260	(28)	417	438	(21)
Total selling expenses	$ 3,904	$ 3,344	$ 560	$ 7,199	$ 6,361	$ 838

Selling expenses increased for the three and six months ended June 30, 2017 by $560 and $838 respectively, compared with the same period last year, as detailed below:

- Delivery and distribution costs increased $115 and $261 for the three and six months ended June 30, 2017 as a result of increased sales volumes. A portion of the increase was also related to shipping additional product to Ontario to support the Etobicoke brewery to meet increased sales demand.

- Salaries and benefit costs increased by $106 and $189 for the three and six months ended June 30, 2017 due to increases in sales and marketing department headcount.

- Marketing costs increased by $284 for the three months ended June 30, 2017 due to increased advertising and promotional activity to drive summer demand. Costs increased by $328 for the six months ended June 30, 2017 due to increased advertising and artwork and design costs associated with Big Rock's rebranding activity which was rolled out in the first quarter of 2016.

- Regional sales expenses increased by $83 and $81 for the three and six months ended June 30, 2017 mainly as a result of increased sales program activity and higher promotional materials spending to support the busy summer sales season.

- Community sponsorships and other decreased by $28 and $21 for the three and six months ended June 30, 2017 compared to the same periods in the prior year due to timing of sponsorship activity.

Per Hectolitre Selling Expenses

$/hl	Three months ended June 30			Six months ended June 30		
	2017	2016	Change	2017	2016	Change
Selling:						
Delivery & distribution	$ 17.54	$ 17.11	$ 0.43	$ 18.58	$ 17.25	$ 1.33
Salaries & benefits	15.66	15.21	0.45	18.04	17.39	0.65
Marketing	9.37	5.20	4.17	8.53	5.79	2.74
Regional sales	16.95	17.04	(0.09)	19.33	19.87	(0.54)
Community sponsorship & other	3.75	4.60	(0.85)	3.97	4.46	(0.49)
Total selling expenses	$ 63.27	$ 59.16	$ 4.11	$ 68.45	$ 64.76	$ 3.69

Selling expenses increased by $4.11 per hl (7%) and $3.69 per hl (6%) for the three and six months ended June 30, 2017 respectively compared to the same period in 2016, mainly because of increases in delivery and distribution costs, salaries and benefits, and marketing expenses.

General and Administrative Expenses

($000)	Three months ended June 30			Six months ended June 30		
	2017	2016	Change	2017	2016	Change
General and Administrative:						
Salaries and benefits	$ 867	$ 767	$ 100	$ 1,588	$ 1,513	$ 75
Professional fees	281	155	126	509	316	193
Reporting & filing fees	25	32	(7)	64	74	(10)
Insurance	55	57	(2)	113	112	1
Building maintenance & taxes	143	91	52	242	185	57
Bank charges	17	36	(19)	51	81	(30)
Office, administrative & other	163	316	(153)	351	683	(332)
Total general & administrative expenses	$ 1,551	$ 1,454	$ 97	$ 2,918	$ 2,964	$ (46)

General and administrative expense increased by $97 for the three months ended June 30, 2017 and decreased by $46 for the six months ended June 30, 2017, compared with the same period last year as detailed below:

- Salaries and benefit costs increased by $100 and $75 for the three and six months ended June 30 due primarily to an increase in share-based payment expense related to a significant increase in share price in Q2 2017.

- Professional fees, which include legal, audit, tax and accounting advisory services, increased by $126 and $193 for the three and six months ended June 30, 2017 respectively due to higher recruitment costs and IT consulting fees.

- Building maintenance and taxes increased $52 and $57 mainly due to increases associated with carbon tax levies imposed on utilities by the Alberta Government beginning in 2017.

- Bank charges decreased by $19 and $30 due to the amended operating loan facility agreement in December 2016, which reduced quarterly bank fees.

- Office, administration and other expenses are lower than 2016 by $153 and $332 on a quarterly and year to date basis, respectively. During 2016, pre-operating costs associated with the start-up of the Ontario facilities were reclassified from cost of sales into general and administration.

Finance Expenses

($000, unless otherwise stated)	Three months ended June 30			Six months ended June 30		
	2017	2016	Change	2017	2016	Change
Interest on operating facility	$ 23	$ 1	$ 22	$ 45	$ 13	$ 32
Interest on long-term debt	71	91	(20)	142	136	6
Total finance expenses	$ 94	$ 92	$ 2	$ 187	$ 149	$ 38
Weighted average effective interest rate	4.5%	6.5%		4.4%	5.6%	

The carrying amount of bank indebtedness, long-term debt and finance lease obligations was $8,578 as at June 30, 2017 compared to $7,251 as at June 30, 2016. The interest rates applicable to all loans and borrowings are based on the lender's prime rate. The increase in interest expense for the six months ended June 30, 2017 compared to the same period last year reflects the impact of higher average borrowings outstanding (See Cash Flows, Financing Activities section). The reduction in rate reflects improved terms negotiated in the December 2016 amendments to the loan facilities.

Depreciation and Amortization

($000)	Three months ended June 30			Six months ended June 30		
	2017	2016	Change	2017	2016	Change
Depreciation, Cost of sales						
Wholesale	$ 525	$ 481	$ 44	$ 1,044	$ 913	$ 131
Retail	92	37	55	185	74	111
Depreciation, Other	77	61	16	158	191	(33)
Amortization	41	40	1	79	80	(1)
Total	$ 735	$ 619	$ 116	$ 1,466	$ 1,258	$ 208

Depreciation expense included in wholesale cost of sales increased by $44 and $131 for the three and six months ended June 30, 2017 compared with the same period last year due to the commissioning of the Ontario facilities and a new bottling line in Calgary. Depreciation expense included in retail cost of sales increased by $55 and $111 primarily due to asset additions relating to the opening of the Ontario retail locations, and a reclassification in 2016 of retail-related assets into cost of sales from other depreciation.

Other depreciation, which relates to non-production assets, increased by $16 for the three months ended June 30, 2017 due primarily to new assets capitalized. The six month period decreased by $33 due mainly due to a reclassification of retail depreciation to cost of sales for assets that are related to the retail segment.

Amortization expense relates to intangible assets and includes software, naming rights and website costs.

Other Income and Expenses

($000)	Three months ended June 30			Six months ended June 30		
	2017	2016	Change	2017	2016	Change
Other income	$ 137	$ 4	$ 133	$ 150	$ 82	$ 68

Other income includes a gain on the sale of the first parcel of undeveloped land that closed during the second quarter of 2017.

Income Taxes

($000)	Three months ended June 30			Six months ended June 30		
	2017	2016	Change	2017	2016	Change
Current income tax (recovery) expense	$ (51)	$ (75)	$ 24	$ (116)	$ (147)	$ 31
Deferred income tax (recovery) expense	133	260	(127)	(132)	18	(150)
Total	$ 82	$ 185	$ (103)	$ (248)	$ (129)	$ (119)

A current income tax recovery of $51 and $116 was recorded for the three and six months ended June 30, 2017 and reflect expected taxes recoverable arising from the transitional provisions on the taxation of partnership deferral structures.

During the quarter ended June 30, 2017, Big Rock recorded deferred income tax expense of $133, compared to an expense of $260 for the same period last year. The deferred income tax provision differs from the statutory rate of 28.2% (2016 – 26.9%) due to permanent differences between the carrying amounts of assets and liabilities for accounting purposes and the tax basis, 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, 2016 to June 30, 2017:

($000, unless otherwise stated)	Increase/ (Decrease)	Primary factors explaining change
Accounts receivable	1,359	Increase in outstanding balances related to sales in AB, BC and ON and a receivable, relating to the sale of the first parcel of land
Inventories	832	Increases in raw materials and finished product due to increased demand, reflected in increased sales, and the opening of the Etobicoke brewery
Prepaid expenses & deposits	701	Timing of insurance payments and increases in property tax, rent and promotional material prepayments
Property, plant and equipment (including land held for sale)	(1,808)	Depreciation charges in excess of additions, offset by the sale of the first parcel of land
Intangible assets	98	Software and website additions in excess of amortization
Bank indebtedness	97	Increase in the combined balances of outstanding cheques offset by a decrease in the operating loan balance
Accounts payable & accrued liabilities	1,121	Timing of supplier payments and an increase in keg and container deposits payable
Current income taxes	116	Increase in expected recoverable income taxes
Long term debt & finance lease	(363)	Net repayment of term loans and finance lease
Share appreciation rights	539	Higher share appreciation rights valuation due to increase in share price and new grants
Deferred income taxes	(132)	Tax effect of changes in temporary differences

LIQUIDITY AND CAPITAL RESOURCES

Capitalization

($000, unless otherwise stated)	June 30, 2017	December 30, 2016
Cash	$ (80)	$ (207)
Total debt	8,578	8,844
Net Debt[(1)]	8,498	8,637
Shareholders' equity:		
Shareholders' capital	113,845	113,121
Contributed surplus	1,297	1,438
Accumulated deficit	(77,989)	(77,289)
Total shareholders' equity	37,153	37,270
Total capitalization (total debt plus shareholders' equity, net of cash[1)]	$ 45,651	$ 45,907
Net debt to capitalization ratio [(1)]	18.6%	18.8%

(1) Non-GAAP measure. See Non-GAAP Measures

Capital Strategy

The Corporation defines its capital to include 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 to support 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, create long-term value and enhance returns for its shareholders.

Big Rock manages the capital structure through prudent levels of borrowing, cash-flow forecasting and working capital management, and has the ability to adjust its capital structure in response to changes in economic conditions and the risk characteristics of its underlying assets.

The Corporation may issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents to maintain or adjust its capital structure. Big Rock management prepares annual expenditure budgets, which are approved by the Board of Directors, to facilitate management of its capital requirements. These budgets are updated as necessary depending on numerous factors, including capital deployment, results from operations, and general industry conditions.

In addition, the Corporation monitors its capital using ratios of (i) EBITDA to net debt and (ii) EBITDA to debt repayments, interest, income taxes and dividends paid ("Fixed Charges"). EBITDA to net debt is calculated by dividing debt minus cash by EBITDA and EBITDA to Fixed Charges is calculated by dividing the combined Fixed Charges by EBITDA. The calculation of EBITDA is a non-GAAP measure, whose nearest GAAP measure is net income, or net loss as applicable, with the reconciliation between the two as follows:

($000)	Three months ended June 30			Six months ended June 30		
	2017	2016	Change	2017	2016	Change
Net income (loss)	$ 207	$ 383	$ (176)	$ (700)	$ (400)	$ (300)
Addback:						
Interest	94	92	2	187	149	38
Taxes	82	185	(103)	(248)	(129)	(119)
Depreciation & amortization	735	619	116	1,466	1,258	208
EBITDA [(1)]	$ 1,118	$ 1,279	$ (161)	$ 705	$ 878	$ (173)

(1) Non-GAAP Measure. See Non-GAAP Measures

These policies provide Big Rock with access to capital at a reasonable cost. Big Rock's borrowing facilities have financial tests and other covenants customary for these types of facilities and must be met at each reporting date (see Financing Activities in the next section).

Cash Flows

($000)	Three months ended June 30			Six months ended June 30		
	2017	2016	Change	2017	2016	Change
OPERATING ACTIVITIES						
Net income (loss) for the period, adjusted for items not affecting cash	$ 1,352	$ 1,432	$ (80)	$ 1,069	$ 1,226	$ (157)
Net change in non-cash working capital	(719)	(1,296)	577	(1,664)	(656)	(1,008)
Cash provided by (used) in operating activities	633	136	497	(595)	570	(1,165)
FINANCING ACTIVITIES						
Increase (decrease) in bank indebtedness	(1,252)	680	(1,932)	97	(202)	299
Proceeds from long-term debt	-	467	(467)	-	2,467	(2,467)
Repayment of long-term debt	(84)	(100)	16	(201)	(150)	(51)
Repayment of finance lease	(77)	-	(77)	(165)	-	(165)
Proceeds from exercised options	(55)	-	(55)	583	-	583
Cash provided by (used in) financing activities	(1,468)	1,047	(2,515)	314	2,115	(1,801)
INVESTING ACTIVITIES						
Purchase of property, plant & equipment	(153)	(1,443)	1,290	(506)	(3,023)	2,517
Purchase of intangible assets	(75)	(15)	(60)	(177)	(23)	(154)
Proceeds from sale of property, plant and equipment	837	30	807	837	132	705
Cash provided by (used in) investing activities	609	(1,428)	2,037	154	(2,914)	3,068
Net change in cash	$ (226)	$ (245)	$ 19	$ (127)	$ (229)	$ 102

Operating Activities

Cash provided by operating activities for the three months ended June 30, 2017 totalled $633, an increase of $497 compared to the same period last year, due primarily to a decrease in the change in non-cash working capital which was mainly driven by an increase in accounts payable. Cash used in operating activities for the six months ended June 30, 2017 totalled $595, a decrease of $1,165 compared to the same period last year, due primarily to an increase in the change in non-cash working capital, arising from increased inventory balances mainly at the newly opened facilities in Ontario.

Financing Activities

Cash used in financing activities for the three months ended June 30, 2017 increased by $2,515 compared with the same period in 2016 primarily due to repayments on the operating line. Cash provided by financing activities for the six months ended June 30, 2017 decreased $1,801 compared with the same period in 2016. During 2016, $2.5 million in proceeds were received from long-term debt which was used to help fund capital expenditures whereas in 2017 only repayments were made on long-term debt. Big Rock received $583 in proceeds from an option exercise that occurred during the first quarter of 2017.

On December 30, 2016, Big Rock signed a commitment letter to revise the Corporation's bank debt. The Corporation has a $5 million revolving operating loan facility and a $6 million 5-year term revolving loan facility. The revolving operating loan facility is available for general operating purposes and funding capital expenditures as required. The $6 million 5-year term revolving loan facility is available to fund capital expenditures. Advances under the credit facilities may be made by way of Canadian prime rate loans and letters of credit.

Interest is payable for prime-based loans under the revolving operating facility at the financial institution's prime rate plus 0.75 percent and on the term facility at the financial institution's prime rate plus 1.5 percent. Fees for letters of credit are at 2.5 percent with a minimum fee payable. Both facilities mature after a term of 5 years and any undrawn amounts under the facilities will expire on March 23, 2021, if no extension has been granted. Collateral for these borrowings is a general assignment of Big Rock's assets.

The facility imposes a number of positive and negative covenants on Big Rock, including the maintenance of certain financial covenants which are tested at each reporting date. They include the maintenance of a rolling 12-month fixed charge ratio which is required to be a minimum of 1.1 to 1, calculated as the rolling 12-month earnings before interest, taxes and depreciation ("EBITDA"), less an amount for maintenance capital compared to the rolling 12-months fixed charges. Fixed charges are the sum of principal repayments, interest, dividends and income taxes paid. In addition, Big Rock's borrowings cannot exceed a borrowing base which is determined by the fair value of the Corporation's assets. Big Rock was in compliance with its covenants at June 30, 2017.

As at June 30, 2017, bank indebtedness was $2,940 (December 30, 2016 - $2,843), of which $2,260 was outstanding on the operating loan facility (December 30, 2016 - $2,435).

As at	June 30, 2017	December 30, 2016
Term debt	$ 3,332	$ 3,533
Finance lease	—	2,500
Debt issue costs	(29)	(32)
	3,303	6,001
Current portion	(334)	(662)
Long term debt	$ 2,969	$ 5,339

On July 9, 2015, Big Rock signed a commitment letter for a $2.5 million finance lease facility which was available to purchase certain equipment relating to the Corporation's Ontario expansion. On January 25th, 2017, the finance facility was converted to a sale and leaseback arrangement for $2.5 million.

The lease agreement matures after a term of five years and the interest rate of 5.42% is fixed at the contract date. Lease repayments are fixed and no arrangements have been entered into for contingent rental payments.

As of June 30, 2017, the net carrying amount of the leased assets is $2,403. The depreciation of the assets recorded under finance lease is included in the cost of sales on the Consolidated Statements of Comprehensive Loss. The obligation under finance lease is secured by the lessor's rights over the leased assets.

As at	June 30, 2017			December 30, 2016		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	$ 439	$ 119	$ 320	$ —	$ —	$ —
Between one and five years	2,287	272	2,015	—	—	—
	2,726	391	2,335	—	—	—
Reported as:						
Current portion			$ 320			$ —
Long term portion			2,015			—
Present value of finance lease			**$ 2,335**			$ —

Investing Activities

During the three months ended June 30, 2017, total capital spending was $228 compared to $1,458 for the same period in 2016. Proceeds of $837 were received during the second quarter of 2017 mainly relating to the sale of the first parcel of undeveloped land. The sale of a second parcel of land is expected to close early in the fourth quarter of 2017, for gross proceeds of $1,269.

Capital spending for the six months ended June 30, 2017, was $683 compared to $3,046 for the same period in 2016. The majority of capital spending in the first half of 2017 related to packaging and quality control equipment and expenditures to finalize commissioning the brewery and brewpub facilities and related equipment in Ontario. Capital expenditures in 2016 were primarily for the brewery and brewpub facilities and related equipment in Ontario.

($000)	Three months ended June 30			Six months ended June 30		
	2017	2016	Change	2017	2016	Change
Land	$ 20	$ -	$ 20	$ 47	$ 3	$ 44
Buildings & leasehold improvements	(26)	171	(197)	47	998	(951)
Brewery machinery & equipment	88	1,241	(1,153)	334	1,899	(1,565)
Vehicles	-	19	(19)	-	72	(72)
Office furniture & fixtures	71	12	59	78	51	27
Capital spending, tangible assets	153	1,443	(1,290)	506	3,023	(2,517)
Capital spending, intangible assets	75	15	60	177	23	154
Total capital spending	228	1,458	(1,230)	683	3,046	(2,363)
Proceeds on dispositions	(837)	(30)	(807)	(837)	(132)	(705)
Net capital spending	$ (609)	$ 1,428	$ (2,037)	$ (154)	$ 2,914	$ (3,068)

Shareholders' Capital

As At	June 30, 2017		December 30, 2016	
($000, except # of shares)	# of shares	Amount	# of shares	Amount
Outstanding at beginning of period	6,875,928	$ 113,121	6,875,928	$ 113,121
Shares issued upon exercise of options	105,700	724	—	—
Outstanding at end of period	6,981,628	$ 113,845	6,875,928	$ 113,121

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 June 30, 2017, based on a closing price of $7.99 per share, Big Rock's market capitalization was approximately $55.9 million. As at August 3, 2017 there were 6,981,628 issued and outstanding shares.

Share Based Payments

Big Rock has a Share Option Plan and a Share Appreciation Rights ("SAR") Plan both of which are a component of overall compensation of directors, officers, and employees of the Corporation. The Compensation and Human Resources Committee of the Board of Directors of Big Rock 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.

Share option plan

On January 23, 2017, 105,700 stock options were exercised for gross proceeds of $583 and on January 29, 2017, the remaining 479,300 stock options were cancelled. There were no stock options outstanding as at June 30, 2017. See note 14.1 to the unaudited financial statements for the three and six months ended June 30, 2017 for more details.

Share Appreciation Rights

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

As at	June 30, 2017		December 30, 2016	
	# of SARs	Weighted average exercise price	# of SARs	Weighted average exercise price
Balance, beginning of year	426,900	$ 10.99	391,900	$ 12.24
Forfeited	—	—	(32,000)	13.85
Exercised	—	—	(12,000)	5.47
Expired	(33,500)	12.51	—	—
Granted	156,000	6.16	79,000	5.12
Balance, end of period	549,400	$ 9.52	426,900	$ 10.99

The fair value of the outstanding SARs at June 30, 2017 was calculated using the Black Scholes option pricing model which resulted in a share based compensation expense of $395 and $539 (2016 - $139 and $285) charged to general and administrative expenses for the three and six months ended June 30, 2017, respectively. See note 14.2 to the unaudited consolidated financial statement for the three and six months ended June 30, 2017 for more detail.

OFF BALANCE SHEET ARRANGEMENTS

Big Rock does not have any special purpose entities nor is it party to any arrangements that would be excluded from the balance-sheet, other than the operating leases summarized in Commitments and Contingent Obligations.

COMMITMENTS AND CONTINGENT LIABILITIES

Big Rock has entered into various commitments for expenditures covering utilities, raw materials, marketing initiatives and leasing of facilities. The commitments, which cover a twelve-month period from June 30, 2017 for the next 5 years are as follows:

	2017	2018	2019	2020	2021	thereafter
Utilities contracts	$ 76	$ 38	$ —	$ —	$ —	$ —
Raw material purchase commitments	1,528	—	—	—	—	—
Marketing sponsorships	336	181	80	81	—	—
Operating leases	700	707	702	763	764	1,853
Long term debt repayments	334	328	1,399	1,271	—	—
Finance lease repayments	320	338	357	377	943	—
Total	$ 3,294	$ 1,592	$ 2,538	$ 2,492	$ 1,707	$ 1,853

Big Rock has entered into operating lease agreements for storage facilities, warehouses, breweries, and retail locations. The remaining lease terms range between four and 10 years. Certain leases contain extension and renewal options. Operating lease payments of $382 (2016 - $441) and were recognized as expense in the Statement of Comprehensive Income (Loss) for the six months ended June 30, 2017.

OTHER INFORMATION

RISKS RELATED TO THE BUSINESS AND INDUSTRY

Big Rock operates in an environment that is both highly competitive and subject to significant government regulation. 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 or financial results.

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

With the vast 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. As a result, selling prices may vary more frequently.

Big Rock requires various permits, licenses, and approvals from several government agencies 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.

In 2012, the Alberta government commenced a review of its mark-up rates and on March 26, 2015, announced an increase in the mark-up rate applicable to Big Rock with an immediate corresponding increase in the prices of the Corporation's products. On October 27, 2015, the Alberta government announced a change to mark-up rates applicable to Big Rock, which slightly reduced the impact of the previous increase. In July 2016, the Alberta government announced that, effective August 5, 2016, the graduated mark-up rate structure would be replaced with a flat-rate mark-up of $1.25 per litre plus a new grant program for Alberta breweries, which would be administered by Alberta Agriculture and Forestry. As Alberta is Big Rock's predominant market, future changes to this mark-up rate structure could have significant impacts on the Corporation's financial results. The Corporation will continue to assess the longer-term implications of these recent changes.

Financial Risk

The Corporation's principal financial instruments are: 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, current taxes payable or receivable and long-term debt. The primary risks arising from the Corporation's financial instruments are foreign exchange risk, interest rate risk, credit risk, liquidity risk and commodity price 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.

Foreign exchange risk

The Corporation currently transacts with only a few foreign suppliers 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 the Corporation's foreign exchange exposure. The Corporation does not have any significant foreign currency denominated monetary liabilities.

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. Cash flow required to service the interest on these facilities will fluctuate because of changes to market rates.

The Corporation has not entered into any derivative instruments to manage interest rate fluctuations; however, management monitors the Corporation's interest rate exposure and given the relatively low expected rate of change in prime interest rates believes 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 weighted average interest rate for the three and six months ended June 30, 2017 was 4.54% and 4.41%, respectively (2016 – 6.45% and 5.58%).

Credit risk
Credit risk is the risk that the counterparty to a financial asset will default, resulting in the Corporation incurring an economic loss. Big Rock has a concentration of credit risk as majority of its accounts receivable are from provincial liquor boards, which are governed 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 much 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
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
The Corporation is exposed to commodity price risk in the areas of utilities (primarily electricity and natural gas), malted barley, water, glass and aluminium, where fluctuations in the market price or availability of these items could impact Big Rock's cash flow, profitability and production. To minimize the impact of this risk, the Corporation enters contracts which secure supply and set pricing to manage the exposure to pricing fluctuations.

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 majority source of revenue for the Corporation, a 5% increase or decrease in these prices will result in a corresponding increase or decrease in revenue.

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 2, 2017 that is available on www.sedar.com.

CRITICAL ACCOUNTING ESTIMATES & JUDGEMENTS
There have been no changes in Big Rock's critical accounting estimates in the three and six months ended June 30, 2017. Further information on the Corporation's critical accounting policies and estimates can be found in the notes to the annual audited financial statements and MD&A for the year ended December 30, 2016.

FUTURE ACCOUNTING PRONOUNCEMENTS

The Corporation's interim financial statements as at and for the three and six months ended June 30, 2017 and 2016 have been prepared using the IFRS standards and interpretations currently issued. 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, 2016 or later. 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. See Note 2.3 Future Accounting Pronouncements to the unaudited consolidated financial statements for the three and six months ended June 30, 2017 for further details.

INTERNAL CONTROLS OVER FINANCIAL REPORTING UPDATE

Big Rock is required to comply with National Instrument 52-109 "Certification of Disclosure on Issuers' Annual and Interim Filings". The certificate requires that Big Rock disclose in the interim MD&A any change in the Corporation's internal control over financial reporting ("ICFR") that occurred during the period that has been materially affected or are reasonably likely to materially affect Big Rock's ICFR. As of the date of this MD&A Big Rock confirms that there have been no such changes in Big Rock's ICFR during the three and six months ended June 30, 2017.

OUTLOOK

Big Rock's operating results continued to be hampered in the second quarter of 2017 by increased costs imposed by the Alberta government's revision in August 2016 to the markup and grant structure. Under this new structure, the maximum grant rate available to producers is based on an optimal annual sales level of 150,000 hl in Alberta. Big Rock's Alberta sales volumes exceed this threshold, which has resulted in higher net costs per hl as compared to the costs per hl imposed by the markup program that was in place during the first half of 2016. The Corporation has initiated discussions with the Alberta government and taken actions to mitigate the impact of higher net cost by reducing the number of limited-time offer price promotions. In order to improve Big Rock's grant rate in the future, the Corporation has taken steps to optimize its Alberta sales volumes by discontinuing two lower margin products, which is expected to bring Big Rock's Alberta sales volumes closer to the new 150,000 hl threshold. Big Rock anticipates these actions will reduce the net markup rate (markup less grant) in September 2017 and future periods. Big Rock will continue discussions with the Alberta government with the objective of improving the environment for growth.

Competition continues unabated at the value-priced end of the beer market and for premium craft beer, particularly in Alberta, which, unlike most other Canadian jurisdictions, has relatively few barriers to entry for out-of-province producers. This competition particularly affects Big Rock's most mature brands, Grasshopper and Traditional, and is expected to continue. An influx of new microbreweries in Alberta and general competition for taps in all markets contribute to sustained pressure on the Corporation's keg product sales.

To diversify revenue base, management previously identified opportunities to establish a local presence in BC and Ontario. These markets have been targeted as they are especially responsive to locally brewed, craft beer. The BC brewery, brewpub and retail space commenced operations during the second quarter of 2015, the Ontario brewery and tasting room commenced operations late in the third quarter of 2016 and the brewpub and retail operations located in Liberty Village, near the Etobicoke brewery, opened on February 1, 2017.

In response to consumer-driven demand, management will continue to invest in targeted marketing opportunities to create brand and product awareness and to emphasize its innovation, which will offer additional great beers to the Big Rock portfolio. Growth in sales of the Big Rock branded products is expected to lift average margins which have been pressured by the recent increase in demand for Big Rock's value priced and private label products.

Management will continue to monitor and adjust the selling prices of its products, actively manage operating costs, assess regional profitability and focus on operating efficiencies. Management also plans to continue to introduce new permanent and seasonal brands from all three of its production hubs in 2017 and beyond.

NON-GAAP MEASURES

The Corporation uses certain financial measures referred to in this MD&A to quantify its results that are not prescribed by Generally Accepted Accounting Principles. The following terms “total capitalization”, “net debt to total capitalization ratio”, “earnings before interest, taxes, depreciation and amortization (“EBITDA”) to net debt”, EBITDA to debt repayments, interest, income taxes and dividends paid (“Fixed Charges”)” are not recognized measures under GAAP and may not be comparable to that reported by other companies. Total capitalization is calculated by adding shareholders’ equity, total debt and cash balances. EBITDA is calculated by adding back to net income, interest, income taxes and depreciation and amortization. EBITDA to net debt is calculated by dividing EBITDA by net debt (debt minus cash) and EBITDA to Fixed Charges is calculated by dividing the combined debt repayments, interest, income taxes and dividends paid amounts by EBITDA. Management uses these ratios to evaluate the Corporation’s operating results.

In addition, the Corporation’s lender uses EBITDA to Fixed Charges ratio to evaluate the Corporation’s ongoing cash generating capability and to determine the amounts and rates at which the lender is willing to finance Big Rock. Management believes that, in addition to net income and cash flow from operating activities, these measures are useful supplemental measures as they provide an indication of Big Rock’s operating performance and leverage. ***Readers are cautioned that these measures should not be construed as an alternative to net income or cash flow from operating activities as calculated under GAAP.***

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, "anticipate", "believe”, "continue", "could", "estimate", "expect", "intend", “likely” “may", "project", "predict", “propose”, "potential", "might", "plan", "seek", "should", "targeting", "will", 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.

This MD&A contains forward-looking statements pertaining to the following:

- expected sales volumes;
- the potential introduction of new permanent and seasonal brands in 2017 and beyond;
- projections of market prices and costs;
- treatment under governmental regulatory and taxation regimes, including expected price increases resulting from the indexing of excise taxes to inflation;
- supply and demand of Big Rock’s products;
- the impact of recent changes in Alberta mark-up rates;

- the expected reduction in the net mark-up rate (mark-up less grant) in effect in Alberta for September 2017 and future periods;
- the anticipated closing of the Corporation's sale of undeveloped land and the gross proceeds; therefrom; and
- the expected continued investment in targeted marketing opportunities.

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;
- there will be no supply issues with Big Rock's vendors;
- the Corporation's sale of undeveloped land will close as anticipated and;
- the success of the Corporation's ongoing discussions with the Alberta Government with respect to the mark-up and grant program.

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 2016 Annual Information Form dated March 2, 2017 that is available on SEDAR at www.sedar.com. 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.

BIG ROCK BREWERY INC.
Condensed Interim Consolidated Statements of Comprehensive Income (Loss)
Unaudited
(In thousands of Canadian dollars, except per share amounts)

		Three months ended June 30		Six months ended June 30	
	Note	2017	2016	2017	2016
Net revenue	3	$ 13,496	$ 12,117	$ 23,085	$ 21,018
Cost of sales	4	7,677	6,562	13,642	11,884
Gross profit		**5,819**	**5,555**	**9,443**	**9,134**
Expenses					
Selling expenses	5	3,904	3,344	7,199	6,361
General and administrative	6	1,551	1,454	2,918	2,964
Depreciation and amortization		118	101	237	271
Operating expenses		5,573	4,899	10,354	9,596
Operating profit (loss)		**246**	**656**	**(911)**	**(462)**
Finance expenses	7	94	92	187	149
Other income		137	4	150	82
Income (loss) before income taxes		**289**	**568**	**(948)**	**(529)**
Income tax expense (recovery)					
Current tax recovery		(51)	(75)	(116)	(147)
Deferred tax expense (recovery)		133	260	(132)	18
		82	185	(248)	(129)
Net income (loss) and comprehensive income (loss) for the period		**$ 207**	**$ 383**	**$ (700)**	**$ (400)**
Net income (loss) per share					
Basic and diluted	8	$ 0.03	$ 0.06	$ (0.10)	$ (0.06)

See accompanying notes to the condensed interim consolidated financial statements

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

	Note	June 30, 2017	December 30, 2016
ASSETS			
Current			
Cash		$ 80	$ 207
Accounts receivable	9	2,653	1,294
Inventories	10	5,976	5,144
Prepaid expenses and deposits		1,111	410
Current taxes receivable		112	—
Land held for sale		943	1,819
		10,875	8,874
Property, plant and equipment		45,067	45,999
Intangible assets		434	336
		45,501	46,335
Total assets		$ 56,376	$ 55,209
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	11	$ 2,940	$ 2,843
Accounts payable and accrued liabilities	13	5,058	3,937
Current taxes payable		—	4
Current portion of long term debt	11	334	662
Current portion of obligation under finance lease	12	320	—
		8,652	7,446
Long term debt	11	2,969	5,339
Obligation under finance lease	12	2,015	—
Share appreciation rights	14	875	336
Lease incentive	15	212	186
Deferred income taxes		4,500	4,632
		10,571	10,493
EQUITY			
Shareholder's equity			
Share capital	16	113,845	113,121
Contributed surplus		1,297	1,438
Accumulated deficit		(77,989)	(77,289)
		37,153	37,270
Total liabilities and shareholders' equity		$ 56,376	$ 55,209
Commitments and Contractual Obligations	19		

See accompanying notes to the condensed interim consolidated financial statements

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

	Note	Three months ended June 30 2017	Three months ended June 30 2016	Six months ended June 30 2017	Six months ended June 30 2016
OPERATING ACTIVITIES					
Net income (loss) for the period		$ 207	$ 383	$ (700)	$ (400)
Items not affecting cash:					
Depreciation and amortization		735	619	1,466	1,258
(Gain) loss on sale of assets		(133)	11	(133)	(54)
Share appreciation rights		395	139	539	364
Lease incentive		13	20	26	40
Amortized debt issue costs		2	—	3	—
Deferred income tax expense (recovery)		133	260	(132)	18
		1,352	1,432	1,069	1,226
Net change in non-cash working capital related to operations	17	(719)	(1,296)	(1,664)	(656)
Cash provided by (used in) operating activities		633	136	(595)	570
FINANCING ACTIVITIES					
Increase (decrease) in bank indebtedness		(1,252)	680	97	(202)
Proceeds from long term debt		—	467	—	2,467
Repayment of long term debt		(84)	(100)	(201)	(150)
Repayment of finance lease		(77)	—	(165)	—
Proceeds from exercised options		(55)	—	583	—
Cash provided (used in) by financing activities		(1,468)	1,047	314	2,115
INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(153)	(1,443)	(506)	(3,023)
Purchase of intangibles		(75)	(15)	(177)	(23)
Proceeds from sale of property, plant and equipment		837	30	837	132
Cash provided by (used in) investing activities		609	(1,428)	154	(2,914)
Net increase (decrease) in cash		(226)	(245)	(127)	(229)
Cash, beginning of period		306	556	207	540
Cash, end of period		$ 80	$ 311	$ 80	$ 311

Supplemental cash-flow information				
Cash interest paid	$ 92	$ 92	$ 184	$ 149
Cash taxes paid	$ —	$ —	$ —	$ 57

See accompanying notes to the condensed 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, 2015	$ 113,121	$ 1,255	$ (76,836)	$ 37,540
Share-based payments	—	79	—	79
Total comprehensive loss	—	—	(400)	(400)
Balance as at June 30, 2016	113,121	1,334	(77,236)	37,219
Share-based payments	—	104	—	104
Total comprehensive loss	—	—	(53)	(53)
Balance as at December 30, 2016	113,121	1,438	(77,289)	37,270
Stock options exercised	724	(141)	—	583
Total comprehensive loss	—	—	(700)	(700)
Balance as at June 30, 2017	$ 113,845	$ 1,297	$ (77,989)	$ 37,153

See accompanying notes to the condensed interim consolidated financial statements

(In thousands of Canadian dollars, unless otherwise stated)

1. CORPORATE INFORMATION

Big Rock Brewery Inc. ("Big Rock" or the "Corporation") is 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 six provinces and two territories in Canada, as well as exported to Korea. 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 companies 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 or losses arising from inter-company transactions, are eliminated in preparing the Financial Statements.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These Financial Statements are unaudited and have been prepared in accordance with statement IAS 34 *Interim Financial Reporting* using accounting policies consistent with the International Financial Reporting Standards issued by the International Accounting Standards Board. The financial statements were prepared using the same accounting policies, critical judgements and key estimates which the Corporation applied in its annual financial statements for the year ended December 30, 2016 and do not include certain disclosures that are normally required to be included in annual financial statements which have been condensed or omitted. Accordingly, these Financial Statements should be read in conjunction with Big Rock's 2016 annual audited consolidated financial statements.

These Financial Statements were approved and authorized for issue by the Board of Directors on August 3, 2017.

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 and have been prepared on the historical cost basis, presented in Canadian dollars. 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 which are not yet effective:

- Amendments to IAS 7 *Statement of cash flows* are effective for annual periods beginning on or after January 1, 2017. The amendments clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

- Amendments to IAS 12 *Income taxes* are effective for annual periods beginning on or after January 1, 2017. The amendments clarify several aspects of the standard including: deductible temporary differences relating to unrealized losses on debt instruments, estimations of future taxable profits, and how an entity assesses deferred tax assets.

- Amendments to IFRS 2 *Share-based payments* are effective for annual periods beginning on or after January 1, 2018. The amendments provide guidance on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

- IFRS 9 *Financial Instruments* has been amended, effective for annual periods beginning January 1, 2018 and early adoption is permitted. The amended standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard requires classification of financial assets based on 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. These amendments introduce a single, forward – looking "expected loss" impairment model for financial assets which will require more timely recognition of expected credit losses, and a fair value through other comprehensive income category for financial assets that are debt instruments.

- IFRS 10 *Consolidated Financial Statements* has been amended to require certain transactions that must be recognized by the parent in the event that a parent loses control of a subsidiary.

- IFRS 15 *Revenue from Contracts with Customers* has been issued which will be required to be adopted, with retrospective application, effective for annual periods beginning on or after January 1, 2018. This standard will be effective for Big Rock fiscal year beginning on December 31, 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard also provides a model for the recognition and measurement of sales of certain non-financial assets (e.g., disposals of property, plant, and equipment).

- IFRS 16 *Leases* has been issued which will be required to be adopted effective for annual periods beginning on or after January 1, 2019, for Big Rock this standard will be effective for the fiscal year beginning December 31, 2019. IFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

- 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 consolidated financial statements of the Corporation.

(In thousands of Canadian dollars, unless otherwise stated)

3. NET REVENUE

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Gross product revenues	$ 19,246	$ 16,238	$ 32,529	$ 28,058
Federal excise taxes	(1,732)	(1,511)	(2,918)	(2,572)
Provincial liquor tax programs	(4,018)	(2,610)	(6,526)	(4,468)
Net revenue	$ 13,496	$ 12,117	$ 23,085	$ 21,018

Gross product revenues include wholesale beer and cider revenues as well as retail store and restaurant sales. Net revenue for beer and cider includes gross sales to the provincial liquor control board less excise taxes and provincial liquor tax charges. Federal excise taxes are assessed on world-wide production of beer at tiered rates up to $31.84 per hectolitre and on flavoured cider production at $30.10 per hectolitre. Provincial liquor control board commissions cover distributions and other service charges.

During the three and six months ended June 30, 2017, Big Rock received grant proceeds of $3,113 (2016 - $nil) and $5,621 (2016 - $nil), respectively, through the Alberta Small Brewers Development Grant Program. Provincial liquor tax programs expense for the three and six months ended June 30, 2017 includes grant proceeds of $3,436 (June 30, 2016 - $nil) and $6,135 (June 30, 2016 - $nil), respectively. As at June 30, 2017, $95 (December 30, 2016 - $609) is reflected as deferred revenue and included in Accounts payable and accrued liabilities.

4. COST OF SALES

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Operating expenses	$ 7,060	$ 6,044	$ 12,413	$ 10,897
Depreciation and amortization	617	518	1,229	987
Cost of sales	$ 7,677	$ 6,562	$ 13,642	$ 11,884

5. SELLING EXPENSES

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Delivery and distribution costs	$ 1,082	$ 967	$ 1,955	$ 1,694
Salaries and benefits	966	860	1,897	1,708
Marketing	578	294	897	569
Regional sales	1,046	963	2,033	1,952
Community sponsorship	232	260	417	438
Selling expenses	$ 3,904	$ 3,344	$ 7,199	$ 6,361

(In thousands of Canadian dollars, unless otherwise stated)

6. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Salaries and benefits [(1)]	$ 867	$ 767	$ 1,588	$ 1,513
Professional fees	281	155	509	316
Reporting and filing fees	25	32	64	74
Insurance	55	57	113	112
Building maintenance and taxes	143	91	242	185
Bank charges	17	36	51	81
Office and administrative	163	316	351	683
General and administrative	$ 1,551	$ 1,454	$ 2,918	$ 2,964

[(1)] Salaries and benefits, for the three and six months ended June 30, 2017, included share option expense of $nil (2016 – $nil and $79) and share appreciation rights ("SAR") expense of $395 and $539 (2016 – $139 and $285), respectively.

7. FINANCE EXPENSES

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Interest on operating facility	$ 23	$ 1	$ 45	$ 13
Interest on long-term debt	71	91	142	136
Finance expenses	$ 94	$ 92	$ 187	$ 149

8. NET INCOME (LOSS) PER SHARE

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Net income (loss) for the period	$ 207	$ 383	$ (700)	$ (400)
Shares outstanding, beginning of the period	6,981,628	6,875,928	6,875,928	6,875,928
Weighted average # of shares issued during the period	-	-	90,517	-
Basic # shares outstanding, end of period	6,981,628	6,875,928	6,966,445	6,875,928
Effect of stock options outstanding	-	-	-	-
Diluted # shares outstanding, end of period	6,981,628	6,875,928	6,966,445	6,875,928
Net income (loss) per share:				
Basic	$ 0.03	$ 0.06	$ (0.10)	$ (0.06)
Diluted	$ 0.03	$ 0.06	$ (0.10)	$ (0.06)

(In thousands of Canadian dollars, unless otherwise stated)

9. 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 holdback related to the sale of land, amounts due from sales to international customers and GST balances. The Corporation does not hold collateral for receivable amounts outstanding as at June 30, 2017 or December 30, 2016.

The accounts receivable balances are comprised of:

As at	June 30, 2017	December 30, 2016
Provincial liquor boards	$ 1,747	$ 1,116
Other receivables	906	178
Total accounts receivable	$ 2,653	$ 1,294

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

As at	June 30, 2017	December 30, 2016
Less than 30 days	$ 2,486	$ 1,018
30 – 60 days	80	205
60 – 90 days	76	56
Over 90 days	11	15
Total accounts receivable	$ 2,653	$ 1,294

10. INVENTORIES

As at	June 30, 2017	December 30, 2016
Raw materials and containers	$ 1,631	$ 1,583
Brews in progress	1,126	1,162
Finished product	2,601	1,792
Consignment product	462	444
Retail inventory	156	163
Total inventories	$ 5,976	$ 5,144

During the three and six months ended June 30, 2017, charges of $235 (2016 - $201) and $438 (2016 - $411), respectively, were recorded to cost of sales relating to obsolete, promotional and resale goods and damaged unusable packaging and finished goods inventory. During the three and six months ended June 30, 2017, there were no reversals of amounts previously charged to income with respect to write-downs of inventory (2016 - $nil).

(In thousands of Canadian dollars, unless otherwise stated)

11. BANK INDEBTEDNESS AND LONG-TERM DEBT

On December 30, 2016, Big Rock signed a commitment letter to revise the Corporation's bank debt. The Corporation has a $5 million revolving operating loan facility and a $6 million 5-year term revolving loan facility. The revolving operating loan facility is available for general operating purposes and funding capital expenditures as required. The $6 million 5-year term revolving loan facility is available to fund capital expenditures. Advances under the credit facilities may be made by way of Canadian prime rate loans and letters of credit. Interest is payable for prime-based loans under the revolving operating facility at the financial institution's prime rate plus 0.75 percent and on the term facility at the financial institution's prime rate plus 1.5 percent. Fees for letters of credit are at 2.5 percent with a minimum fee payable. Both facilities mature after a term of 5 years and any undrawn amounts under the facilities will expire on March 23, 2021, if no extension has been granted. Collateral for these borrowings is a general assignment of Big Rock's assets.

The facility imposes a number of positive and negative covenants on Big Rock, including the maintenance of certain financial covenants which are tested at each reporting date. They include the maintenance of a rolling 12-month fixed charge ratio which is required to be a minimum of 1.1 to 1, calculated as the rolling 12-month earnings before interest, taxes and depreciation ("EBITDA"), less an amount for maintenance capital compared to the rolling 12-months fixed charges. Fixed charges are the sum of principal repayments, interest, dividends and income taxes paid. In addition, Big Rock's borrowings cannot exceed a borrowing base which is determined by the fair value of the Corporation's assets. Big Rock was in compliance with its covenants at June 30, 2017.

As at June 30, 2017, bank indebtedness was $2,940 (December 30, 2016 - $2,843), of which $2,260 was outstanding on the operating loan facility (December 30, 2016 - $2,435).

As at	June 30, 2017	December 30, 2016
Term debt	$ 3,332	$ 3,533
Finance lease (Note 12)	—	2,500
Debt issue costs	(29)	(32)
	3,303	6,001
Current portion	(334)	(662)
Long term debt	$ 2,969	$ 5,339

(In thousands of Canadian dollars, unless otherwise stated)

12. OBLIGATION UNDER FINANCE LEASE

As at	June 30, 2017			December 30, 2016		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	$ 439	$ 119	$ 320	$ —	$ —	$ —
Between one and five years	2,287	272	2,015	—	—	—
	2,726	391	2,335	—	—	—
Reported as:						
Current portion			$ 320			$ —
Long term portion			2,015			—
Present value of finance lease			**$ 2,335**			$ —

On July 9, 2015, Big Rock signed a commitment letter for a $2.5 million finance lease facility which was available to purchase certain equipment relating to the Corporation's Ontario expansion. On January 25th, 2017, the finance facility was converted to a sale and leaseback arrangement for $2.5 million.

The lease agreement matures after a term of five years and the interest rate of 5.42% is fixed at the contract date. Lease repayments are fixed and no arrangements have been entered into for contingent rental payments.

As of June 30, 2017, the net carrying amount of the leased assets is $2,403. The depreciation of the assets recorded under finance lease is included in the cost of sales on the Consolidated Statements of Comprehensive Income (Loss). The obligation under finance lease is secured by the lessor's rights over the leased assets.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities of the Corporation are principally comprised of amounts outstanding for trade purchases relating to production, 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:

As at	June 30, 2017	December 30, 2016
Less than 30 days	$ 4,794	$ 3,900
30 – 60 days	180	37
60 – 90 days	77	—
Over 90 days	7	—
Total accounts payable and accrued liabilities	$ 5,058	$ 3,937

(In thousands of Canadian dollars, unless otherwise stated)

14. SHARE-BASED PAYMENTS

Big Rock has a Share Option Plan and a Share Appreciation Rights ("SAR") Plan both of which are a component of overall compensation of directors, officers, and employees of the Corporation. The Compensation and Human Resources Committee of the Board of Directors of Big Rock 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.

14.1 Share option plan

The Corporation has a share 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. Share options granted under the plan include a maximum exercise period of five years and vest immediately upon issue. The Corporation is authorized to issue options for a maximum of 10% of the issued and outstanding common shares pursuant to the share option plan.

The following is a summary of option transactions under the Corporation's Share Option Plan:

As at	June 30, 2017		December 30, 2016	
	# of options	Weighted average exercise price ($)	# of options	Weighted average exercise price ($)
Balance, beginning of year	585,000	$ 11.56	517,000	$ 13.10
Exercised	(105,700)	5.51	—	—
Expired	—	—	(49,000)	13.74
Cancelled	(479,300)	12.89	—	—
Granted	—	—	117,000	5.64
Balance, end of period	—	$ —	585,000	$ 11.56

14.2 Share appreciation rights plans

The Board of Directors may issue an unlimited number share appreciation rights ("SAR") under the SAR Plan. SARs that were issued in 2017 vest over two years, with one third vesting immediately, one third vesting on year one and the balance vesting on year two. Prior to 2017, issued SARs vest immediately. All SARs are exercisable for five years after grant date. The exercise of SARs is 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 Statement of Financial Position and as a compensation expense in the Consolidated Statements of Comprehensive Income (Loss).

As at June 30, 2017, the fair value of the SARs resulted in a liability of $875 (December 30, 2016 - $336). An expense of $395 (2016 - $139) and $539 (2016 - $285) was recorded for the three and six months ended June 30, 2017 in general and administrative expenses.

(In thousands of Canadian dollars, unless otherwise stated)

14.2 Share appreciation rights plans (continued)

The weighted average fair value of the SARs outstanding at the balance sheet date was estimated using the Black-Scholes option pricing model and the weighted average assumptions used for the calculations were:

	March 2, 2017	March 10, 2016
SARs granted (#)	156,000	79,000
Exercise price ($)	6.16	5.12
Expiry date	March 2, 2022	March 10, 2021
Weighted average fair value ($)	3.33	3.67
Risk-free interest rate (%)	1.34	1.24
Expected life (years)	4.67	3.69
Dividend rate (%)	0.00	0.00
Volatility (%)	35.6	35.6

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

As at	June 30, 2017		December 30, 2016	
	# of SARs	Weighted average exercise price	# of SARs	Weighted average exercise price
Balance, beginning of year	426,900	$ 10.99	391,900	$ 12.24
Forfeited	—	—	(32,000)	13.85
Exercised	—	—	(12,000)	5.47
Expired	(33,500)	12.51	—	—
Granted	156,000	6.16	79,000	5.12
Balance, end of period	549,400	$ 9.52	426,900	$ 10.99

15. LEASE INCENTIVE LIABILITY

At June 30, 2017, Big Rock had a lease incentive liability of $212 (December 30, 2016 - $186) associated with the Corporation's building leases. Amortization is recorded on a straight line basis over the term of the leases and included in expenses.

16. SHARE CAPITAL

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

As At	June 30, 2017		December 30, 2016	
	# of shares	$ Amount	# of shares	$ Amount
Outstanding at beginning of period	6,875,928	$ 113,121	6,875,928	$ 113,121
Shares issued upon exercise of options	105,700	724	—	—
Outstanding at end of period	6,981,628	$ 113,845	6,875,928	$ 113,121

(In thousands of Canadian dollars, unless otherwise stated)

17. CHANGE IN NON-CASH WORKING CAPITAL

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Accounts receivable	$ (974)	$ (688)	$ (946)	$ (1,059)
Inventories	(163)	(155)	(832)	(406)
Prepaid expenses	(508)	(280)	(701)	(167)
Accounts payable and accrued liabilities	977	(180)	931	1,098
Current taxes receivable/payable	(51)	7	(116)	(122)
Total change in non-cash working capital	$ (719)	$ (1,296)	$ (1,664)	$ (656)

18. SEGMENTED INFORMATION

For management purposes, the Corporation is organized into operating segments based on its products, services, location and distribution methods. Ten operating segments have been identified and have been aggregated into two reportable segments: the wholesale segment, which manufactures and distributes beer and cider to and through, provincial liquor boards which is subsequently sold on to end consumers and the retail segment, which sells beverages, food and merchandise to end consumers on premises owned and/or operated by the Corporation.

The wholesale segment has similar production processes, types of customers and products that are shipped to customers rather than sold on-site. The retail segment has been aggregated to reflect the products and services sold directly to the end consumer through premises owned and operated by Big Rock. Executive management monitors the results of its operating segments separately for making decisions about resource allocation and performance assessment. Segment performance is evaluated on a number of measures, the most significant being profit or loss, which is measured consistently with the definition of profit or loss in the consolidated financial statements. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Operating assets and liabilities are managed on a corporate basis. General and administrative expenses, current taxes, deferred taxes and capital expenditures are not allocated to segments as they are also managed on a corporate basis. Inter-segment revenues are eliminated on consolidation and are reflected in the "eliminations" column. All other adjustments and eliminations are part of detailed reconciliations presented below.

For the three months ended June 30

	Wholesale		Retail		Eliminations		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016
Net Revenue	$ 13,083	$ 11,746	$ 646	$ 545	$ (233)	$ (174)	$ 13,496	$ 12,117
Cost of sales	6,998	6,271	912	465	(233)	(174)	7,677	6,562
Gross profit	6,085	5,475	(266)	80	-	-	5,819	5,555
Selling expenses	3,878	3,340	26	4	-	-	3,904	3,344
Segment profit	$ 2,207	$ 2,135	$ (292)	$ 76	$ -	$ -	$ 1,915	$ 2,211
General & administrative costs							1,551	1,454
Depreciation and amortization							118	101
Operating income							246	656
Finance expense							94	92
Other income							137	4
Income before income taxes							$ 289	$ 568

(In thousands of Canadian dollars, unless otherwise stated)

18. SEGMENTED INFORMATION (continued)

For the six months ended June 30

	Wholesale		Retail		Eliminations		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016
Net Revenue	$ 22,139	$ 20,293	$ 1,314	$ 1,041	$ (368)	$ (316)	$ 23,085	$ 21,018
Cost of sales	12,245	11,235	1,765	965	(368)	(316)	13,642	11,884
Gross profit	9,894	9,058	(451)	76	-	-	9,443	9,134
Selling expenses	7,140	6,348	59	13	-	-	7,199	6,361
Segment profit	$ 2,754	$ 2,710	$ (510)	$ 63	$ -	$ -	$ 2,244	$ 2,773
General and administrative costs							2,918	2,964
Depreciation and amortization							237	271
Operating Loss							(911)	(462)
Finance expense							187	149
Other income							150	82
Loss before income taxes							$ (948)	$ (529)

19. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

Big Rock has entered into various commitments for expenditures covering utilities, raw materials, marketing initiatives and leasing of facilities. The commitments, which cover a twelve-month period from June 30, 2017 for the next 5 years are as follows:

	2017	2018	2019	2020	2021	thereafter
Utilities contracts	$ 76	$ 38	$ —	$ —	$ —	$ —
Raw material purchase commitments	1,528	—	—	—	—	—
Marketing sponsorships	336	181	80	81	—	—
Operating leases	700	707	702	763	764	1,853
Long term debt repayments	334	328	1399	1271	—	—
Finance lease repayments	320	338	357	377	943	—
Total	$ 3,294	$ 1,592	$ 2,538	$ 2,492	$ 1,707	$ 1,853

Big Rock has entered into operating lease agreements for storage facilities, warehouses, breweries, and retail locations. The remaining lease terms range between four and 10 years. Certain leases contain extension and renewal options. Operating lease payments of $382 (2016 - $441) were recognized as expense in the Statement of Comprehensive Income (Loss) for the six months ended June 30, 2017.

20. COMPARATIVE AMOUNTS

Certain prior year amounts have been reclassified to conform to the current year presentation.