



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

**FIRST QUARTER 2016 HIGHLIGHTS**

\$ thousands (unless otherwise stated)	Three months ended March 31	
	2016	2015
Sales volumes (hectolitres or hl)	42,143	33,980
Net revenue	9,044	7,137
Operating loss	(1,118)	(831)
Net loss	(782)	(624)
Loss per share (basic and diluted)	\$ (0.11)	\$ (0.09)

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following is Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Big Rock Brewery Inc. (the "Corporation" or "Big Rock") for the three months ended March 31, 2016, as compared to the same period in 2015.

This MD&A should be read in conjunction with the unaudited consolidated financial statements of the Corporation and accompanying notes as at and for the three months ended March 31, 2016 (the "Financial Statements") and in conjunction with the December 30, 2015 audited consolidated financial statements and MD&A contained within our 2015 Annual Report. The financial statements have been prepared using International Financial Reporting Standards ("IFRS"). All amounts are reported in thousands of Canadian dollars and comparative figures have been restated using IFRS, unless otherwise noted.

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

The MD&A is dated May 5, 2016.

**CORPORATE PROFILE**

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

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

sales in Ontario. Big Rock products are sold in nine provinces and two territories in Canada and also exported to Korea.

In April 2015, Big Rock expanded its physical presence to British Columbia ("BC") when it officially opened Big Rock Urban Brewery and Eatery ("Big Rock Urban") in Vancouver's thriving craft beer district. This combined brewery and brewpub serves on-premise consumers in downtown Vancouver and provides distribution for Big Rock's beers throughout BC.

## INDUSTRY TRENDS AND INDICATORS

The beer industry in Canada has become increasingly polarized, with growth occurring in value-priced products at one end of the spectrum and in premium craft beers at the other end. This growth is largely at the expense of products in the middle of the spectrum, which have been declining steadily over the past several years. Additionally, there is significantly more competitive activity in Alberta than in other Canadian markets, as represented by faster growth in the number of products listed in Alberta than the growth in sales volumes. In other major craft beer markets, such as BC and Ontario, volume growth in craft beer has outpaced growth in product listings.

For the three months ended March 31, 2016, Big Rock grew volumes and gross profit nationally, including in Alberta, the region where the fierce competition in the craft beer industry has been most keenly felt. This is mainly due to the success of new private label beers which were launched late last year. These products more closely align with the tastes of contemporary drinkers together with the rebranding of AGD, Big Rock's most approachable lager.

The enthusiastic response to the rebranding and relaunching of these lower-priced products has compressed average margins. Additionally, margins in Alberta remain under sustained pressure as a result of two changes to markup rates in 2015, which combined represented a 20.5% increase in Alberta Gaming and Liquor Commission ("AGLC") markup rates as compared to the previous year. This increased beer and cider costs to consumers, which hampered Big Rock's ability to implement a planned price increase to cover rising input costs. The Corporation has not introduced a general price increase in Alberta since November 2012.

In British Columbia, margins relating to products distributed from Calgary were eroded by a shift in product mix towards lower priced beer. Selling and marketing costs increased due to the opening of Big Rock Urban in April 2015. The launch of Big Rock Urban has been well-received, with the brewery and its beers receiving multiple awards: two at the 2015 BC Beer Awards (including first place in the North American Amber/Brown Ale category) and being named "Best New Brewery" by Georgia Strait magazine. However, the brewery is still developing its beer portfolio and so is not yet selling at full capacity.

In Ontario, Big Rock has been building brand awareness in anticipation of the forthcoming brewery and restaurant, including sales and marketing initiatives and collaboration events. In addition to raising Big Rock's profile, these activities translated to a 139% increase in sales volumes compared to the same period in 2015. Despite a shift in package type to bottles and tall cans from higher margin kegs, gross profit for the first quarter of 2015 was double the amount for 2014. The Etobicoke brewery is expected to commence operations in June with the Liberty Village brewpub following in September.

## SELECTED QUARTERLY FINANCIAL INFORMATION

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

\$ thousands (unless otherwise stated)	2016	2015			2014			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales volumes (hl)	42,143	42,787	55,132	50,051	33,980	39,194	48,376	46,597
Net revenue	9,044	9,642	11,834	11,054	7,137	8,638	10,556	10,414
Operating profit (loss)	(1,118)	(55)	104	(324)	(831)	(224)	1,017	342
Net income (loss)	(782)	(54)	76	(473)	(624)	(106)	764	276
Per hl net revenue	214.60	225.35	214.65	220.85	210.04	220.39	218.21	223.49
Per hl cost of sales	129.53	124.57	120.11	126.07	109.95	121.88	109.70	113.31
Per hl selling expenses	71.73	73.36	65.37	74.38	80.08	73.17	64.87	77.79
Per hl general and administrative	35.83	28.12	25.94	23.58	41.17	29.01	21.08	23.61
Per hl operating profit (loss)	(26.53)	(1.29)	1.89	(6.47)	(24.46)	(5.72)	21.02	7.34
Per hl net income (loss)	(18.56)	(1.26)	1.38	(9.45)	(18.36)	(2.70)	15.79	5.92
Income (loss) per share (basic and diluted)	\$ (0.11)	\$ (0.01)	\$ 0.01	\$ (0.07)	\$ (0.09)	\$ (0.02)	\$ 0.11	\$ 0.04
Dividends per share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.20	\$ 0.20	\$ 0.20

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

### RESULTS OF OPERATIONS

For the three months ended March 31, 2016, Big Rock's net revenue from beer and cider sales increased 21.0% and sales volumes increased 24.0% as compared to the same period last year.

For the three months ended March 31, 2016, volumes increased due the increase in sales of the entry-level all-natural lager, AGD, market success of new private label products and targeted limited-time offer ("LTO") activity. Sales volumes in other brands such as the brewmaster's edition series and signature series experienced incremental increases.

Net revenue from retail sales increased 579.5% when compared to the same period in 2015 due to the commencement of operations of Big Rock Urban.

Net loss for the period ended March 31, 2016 included \$206 of pre-operating costs relating to establishment of the forthcoming Ontario brewpub and brewery. The net loss for the first quarter also included full operational costs related to the Big Rock Urban location in BC, which commenced operations in April 2015.

## Gross Profit

\$ thousands (unless otherwise stated)	Three months ended March 31		
	2016	2015	Change
Wholesale revenue	8,548	7,064	1,484
Retail revenue	496	73	423
Net sales revenue	9,044	7,137	1,907
Wholesale cost of sales:			
Ingredients and packaging materials	2,491	1,940	551
Labour	1,474	1,208	266
Overhead	813	709	104
Inventory valuation	(251)	(534)	283
Depreciation	432	398	34
Retail cost of sales:	500	15	485
Cost of sales	5,459	3,736	1,723
Gross profit	3,585	3,401	184
Sales volumes (hl)	42,143	33,980	8,163

Net sales revenues include wholesale product sales for beer and cider, together with retail restaurant and store sales from Big Rock Urban and Big Rock's Calgary brewery location.

For the three months ended March 31, 2016, net sales revenue increased \$1,907 (26.7%) compared to the same period in 2015. The increases were primarily attributable to Big Rock Urban commencing commercial operations in April 2015 which generated revenue of \$401 for the quarter, as well as increased beer and cider revenue on increased sales volumes.

For the three months ended March 31, 2016, beer and cider revenue increased by \$1,484 (21.0%), which was less than the increase in sales volumes due to the shift in the product mix towards lower priced and private label brands as a result of the success of several new private label products, LTO activity and the rebranding of AGD. Retail revenue increased by \$423 (579.4%) when compared to the same period in 2015 due to Big Rock Urban being fully operational since April 2015.

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

For the three months ended March 31, 2016, total cost of sales increased by \$1,723 compared to the same period last year, as described below:

- For the quarter ended March 31, 2016, costs relating to wholesale ingredients and packaging materials increased \$551 due to higher brewing volumes and higher priced ingredients, as well as the costs of beer destroyed as part of quality control.
- When compared to the same period in 2015, labour charges for the first quarter of 2016 increased by \$266 due to mainly to severance costs on restructuring in Calgary.
- Overhead costs include utilities, repairs and maintenance and other production-related amounts, which are primarily fixed in nature. Overhead costs at March 31, 2016 increased by \$104 compared to the three months ended March 31, 2015, due primarily to increases in utilities charges and other production consumables.
- Inventory valuation comprises timing differences relating to the absorption of production costs into finished goods inventory on the statement of financial position, and the eventual charge to income for those costs as finished goods inventory is sold. Additionally it includes the absorption of changes in standard cost to inventory. For the three months ended March 31,

2016, charges relating to inventory movement increased by \$283 compared with the same period last year.

- Big Rock includes depreciation charges on production equipment used to convert raw materials to finished goods as part of its cost of sales and finished goods inventory. Depreciation increased \$34 for the first quarter which was driven by inventory movement as well as machinery additions.
- Retail cost of sales increased by \$485 compared with the same period last year due to the commencement of operations in April 2015 of Big Rock Urban.

On a per hectolitre basis, wholesale cost of sales increased by \$8.16 per hl (7.5%) for the three months ended March 31, 2016 compared to the same period in 2015. The increases were primarily in inventory valuation, as detailed in the following table:

#### Per hectolitre wholesale cost of sales

	Three months ended March 31		
	2016	2015	Change
Net wholesale sales revenue	202.83	207.89	(5.06)
Wholesale cost of sales:			
Ingredients and packaging materials	59.11	57.09	2.02
Labour	34.98	35.55	(0.57)
Overhead	19.29	20.87	(1.58)
Inventory valuation	(5.96)	(15.71)	9.75
Depreciation	10.25	11.71	(1.46)
Wholesale cost of sales	117.67	109.51	8.16

#### Selling expenses

\$ thousands	Three months ended March 31		
	2016	2015	Change
Selling:			
Delivery and distribution costs	727	653	74
Salaries and benefits	852	807	45
Marketing	264	216	48
Regional sales	1,002	839	163
Community sponsorship and other	178	206	(28)
Total selling expenses	3,023	2,721	302

For the three months ended March 31, 2016, selling expenses increased by \$302 compared with the same period last year, as detailed below:

- Delivery and distribution costs increased \$74 in the quarter primarily as a result of higher volumes delivered.
- Salaries and benefit costs increased by \$45 for the quarter due to increases in marketing headcount.
- Marketing costs increased by \$48 primarily as a result of increased advertising activity and market research.
- Regional sales expenses increased by \$163 due mainly to increased sales program activity, hospitality expenses and higher amounts charged against expired product allowance.

- Community sponsorships and other decreased by \$28 due to the timing of sponsorship related payments.

On a per hectolitre basis, selling expenses decreased by \$8.35 per hl (10.4%) for the three months ended March 31, 2016, when compared to the same period in 2015, mainly as a result of decreases in the per hl amounts for salaries and benefits, delivery and community sponsorships, as detailed in the following table:

#### Per hectolitre selling expenses

	Three months ended March 31		
	2016	2015	Change
Selling:			
Delivery and distribution	17.25	19.22	(1.97)
Salaries and benefits	20.22	23.75	(3.53)
Marketing	6.26	6.36	(0.10)
Regional sales	23.78	24.69	(0.91)
Community sponsorship and other	4.22	6.06	(1.84)
<b>Total selling expenses</b>	<b>71.73</b>	<b>80.08</b>	<b>(8.35)</b>

#### General and Administrative expenses

\$ thousands	Three months ended March 31		
	2016	2015	Change
General and Administrative:			
Salaries and benefits	746	639	107
Professional fees	161	176	(15)
Building maintenance and taxes	94	220	(126)
Office, administrative and other	367	187	180
Reporting and filing fees	42	57	(15)
Insurance	55	57	(2)
Bank charges	45	63	(18)
<b>Total general and administrative expenses</b>	<b>1,510</b>	<b>1,399</b>	<b>111</b>

For the three months ended March 31, 2016, general and administrative expenses increased by \$111 compared with the same period last year as detailed below:

- Salaries and benefit costs increased by \$107 for the three months ended March 31, 2016 as compared to the same period in 2015 due to increased expenses related to the valuation of awards under the Corporation's share appreciation rights ("SAR") and share option programs of \$330, net of lower salaries due to lower headcount.
- Professional fees, which include legal, audit, tax and accounting advisory services, decreased by \$15 due to reduced legal expenses, which was offset by higher consulting and recruitment costs.
- Building maintenance and taxes expenses decreased by \$126 for the three months ended March 31, 2016 as compared to the same period in 2015. In March 2015, this balance included pre-opening costs for Big Rock Urban, for which there were no comparative costs in the current period.
- Office, administration and other increased \$180 due to the inclusion of start-up costs incurred for the establishment of the Ontario brewery sites, as well as increases in executive travel and IT consulting costs.

- Reporting and filing fees for the three months ended March 31, 2016 were lower than in the first quarter of 2015, due to timing of TSX filing fees.
- Insurance expense was consistent with the comparative period in 2015.
- Bank charges decreased by \$18 as a result of reduced charges associated with the operating loan facility.

Excluding expenses related to share based compensation and also excluding costs for the new Toronto facility in the current quarter and pre-opening costs related to Big Rock Urban for the comparable quarter in 2015, general and administrative expenses for the three months ended March 31, 2016 would have decreased by \$131 (9.4%) when compared with the same period in 2015.

### Finance expenses

\$ thousands (unless otherwise stated)	Three months ended March 31		
	2016	2015	Change
Interest on long-term debt	45	—	45
Interest on operating facility	12	17	(5)
Total finance expenses	57	17	40
Weighted average effective interest rate	4.79%	4.43%	

The principal amount of long-term debt and bank indebtedness was \$6,204 as at March 31, 2016 compared to \$4,928 as at March 31, 2015. The interest rates applicable to all loans and borrowings are based on the lender's prime rate. The increase in interest expense for the three months ended March 31, 2016 compared to the same period last year reflects the impact of higher average borrowings.

### Depreciation and amortization

\$ thousands	Three months ended March 31		
	2016	2015	Change
Depreciation included in wholesale cost of sales	432	398	34
Depreciation included in retail cost of sales	37	—	37
Depreciation—other	130	104	26
Amortization	40	8	32
Total	639	510	129

For the three months ended March 31, 2016, depreciation expense included in cost of sales increased by \$71 compared with the same period last year due to asset additions, the inclusion of BC production assets and inventory movement.

Other depreciation, which relates to non-production assets, increased due to additions since March 2015.

Amortization expense, which relates to intangible assets, which include software, naming rights and website costs, increased due to software additions since March 2016.

### Other

\$ thousands	Three months ended March 31		
	2016	2015	Change
Other income	79	1	78
Other expenses	—	—	—

Other income includes rental income arising from use of yard space and gains or losses on asset disposals.

#### Income taxes

\$ thousands	Three months ended March 31		
	2016	2015	Change
Current income tax recovery	(72)	(55)	(17)
Deferred income tax recovery	(242)	(168)	(74)

A current income tax recovery of \$72 was recorded for the three months ended March 31, 2016 (2015 - recovery of \$55). These taxes arise from the transitional provisions on the taxation of partnership deferral structures.

During the three months ended March 31, 2016, the Corporation recorded deferred income tax recovery of \$242, compared to a recovery of \$168 for the same period last year.

The deferred income tax provision differs from the statutory rate of 26.91% (2015 - 25.17%) due to permanent differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for income tax purpose, as well as the effect of non-deductible amounts.

#### FINANCIAL CONDITION

The following chart highlights significant changes in the Consolidated Balance Sheets from December 30, 2015 to March 31, 2016:

\$ thousands (unless otherwise stated)	Increase/ (Decrease)	Primary factors explaining change
Property, plant and equipment	1,162	AB and ON brewery and machinery additions, net of amortization
Intangible assets	(32)	Amortization in excess of additions
Inventories	228	Increase in raw materials and brews in progress due to Big Rock Urban increasing production
Accounts receivable	371	Increase in GST receivable
Prepaid expenses and other	(307)	Reduction in deposits on machinery and promotional materials
Deferred income taxes	(242)	Tax effect of changes in temporary differences
Share based payments liability	146	Higher SAR valuation
Current income taxes	129	Tax payments in 2015
Accounts payable and accrued liabilities	1,298	Timing of supplier payments
Bank indebtedness	(882)	Combined balance of certain bank accounts in overdraft position moved towards a debit position
Long term debt	1,950	Draw on term loan



## LIQUIDITY AND CAPITAL RESOURCES

### Capitalization

\$ thousands (unless otherwise stated)	March 31, 2016	December 30, 2015
Bank indebtedness (cash)	(556)	(540)
Total debt	6,204	5,136
Shareholders' equity:		
Shareholders' capital	113,121	113,121
Contributed surplus	1,334	1,255
Accumulated deficit	(77,618)	(76,836)
Total shareholders' equity	36,837	37,540
Total capitalization (total debt plus shareholders' equity, net of cash balances)	42,485	42,136
Total debt to capitalization ratio	14.6%	12.2%

### Capital Strategy

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

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

In addition, the Corporation monitors its capital using ratios of (i) earnings before interest, taxes, depreciation and amortization ("EBITDA") to net debt and (ii) EBITDA to interest, debt repayments and dividends. EBITDA to interest, debt repayments and dividends is calculated by dividing the combined interest, debt repayments and dividend amounts by EBITDA and EBITDA to net debt is calculated by dividing debt minus cash by EBITDA. EBITDA is a non-GAAP measure. For a reconciliation of EBITDA to net income, the nearest GAAP measure, see Cash Flows—Financing Activities later in this MD&A.

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

As discussed later in this MD&A, all of the borrowing facilities have financial tests and other covenants customary for these types of facilities and must be met at each reporting date.

### Shareholders' Capital

	# of shares	\$ Amount (thousands)
As at December 30, 2015 and March 31, 2016	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 May 5, 2016 there were 6,875,928 issued and outstanding shares and the closing price was \$5.00 per share. Based

upon 6,875,928 issued shares, the Corporation has an approximate market capitalization of \$34.4 million.

### Share Based Compensation Plan

On March 31, 2016, the Corporation granted 58,500 options at an exercise price of \$5.12 per share with an expiry date of March 31, 2021.

The weighted average fair value of the options issued during the three months ended March 31, 2016 was estimated using the Black-Scholes option pricing model.

The weighted average assumptions used for the calculation were:

	March 2016	September 2015	May 2015	September 2014
Weighted average fair value per option	1.35	1.33	1.60	1.54
Risk-free interest rate (%)	0.65	0.65	0.89	1.42
Expected life of the options (years)	4	4	4	4
Dividend rate (%)	0.00	0.00	0.00	5.06
Volatility in the price of the Corporation's shares (%)	34.7	29.4	28.7	22.4

A share-based compensation charge of \$79 for the options granted during the three months ended March 31, 2016 (2015 - \$nil) was recognized in statement of comprehensive income. Share-based compensation costs have been included in general and administrative expenses.

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

	2016		2015	
	# of options	Weighted average exercise price	# of options	Weighted average exercise price
Balance, beginning of year	517,000	\$ 13.10	508,000	\$ 15.22
Expired	(17,500)	16.60	—	—
Issued	58,500	5.12	—	—
Balance, March 31	558,000	\$ 12.15	508,000	\$ 15.22

The following table summarizes information about share options outstanding and exercisable at March 31, 2016:

Exercise price	# of Options outstanding at March 31, 2016	Weighted average remaining contractual life (years)	Weighted average exercise price	# of Options exercisable at March 31, 2016
\$5.12 to \$12.19	193,000	4.13	\$ 6.65	193,000
\$12.20 to \$14.98	189,500	1.37	\$ 13.88	189,500
\$14.99 to \$18.06	175,500	2.95	\$ 16.34	175,500
Balance, March 31	558,000	2.82	\$ 12.15	558,000

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

On March 10, 2016 the Corporation granted 79,000 SARs with an exercise price of \$5.12.

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

As at March 31, 2016, 470,900 SARs were outstanding (December 30, 2015 - 391,900). During the three months ended March 31, 2016, 79,000 SARs were issued (2015 - nil), no SARs were exercised (2015 - nil) and no SARs expired (2015 - 5,400). As at March 31, 2016, the fair value of the SARs was calculated and resulted in a liability of \$280 (December 30, 2015 - \$134) and an expense of \$146 being recorded in general and administrative expenses (December 30, 2015 - recovery of \$82).

At March 31, 2016, the weighted average fair value of the SARs issued at the grant date was estimated using the Black-Scholes option pricing model. The weighted average assumptions used for the calculations were:

	March 2016	September 2015	May 2015	September 2014
Weighted average fair value per SAR	1.61	1.30	0.83	0.10
Risk-free interest rate (%)	0.67	0.64	0.61	0.56
Expected life of the SAR (years)	4.94	4.44	4.12	3.45
Dividend rate (%)	0.00	0.00	0.00	0.00
Volatility in the price of the Corporation's shares (%)	34.6	34.6	34.6	34.6

## Cash Flows

\$ thousands	Three months ended March 31		
	2016	2015	Change
<b>OPERATING ACTIVITIES</b>			
Net loss for the period, adjusted for items not affecting cash	(225)	(374)	149
Net change in non-cash working capital	854	(1,370)	2,224
Cash provided by (used) in operating activities	629	(1,744)	2,373
<b>FINANCING ACTIVITIES</b>			
Increase (decrease) in bank indebtedness	(882)	4,928	(5,810)
Proceeds from long-term debt	1,950	—	1,950
Dividend payments	—	(1,375)	1,375
Cash provided by financing activities	1,068	3,553	(2,485)
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	(1,775)	(2,933)	1,158
Purchase of intangible assets	(8)	(229)	221
Proceeds from sale of equipment	102	—	102
Cash used in investing activities	(1,681)	(3,162)	1,481
<b>Net change in cash</b>	<b>16</b>	<b>(1,353)</b>	<b>1,369</b>

## Operating Activities

Cash provided by operating activities for the three months ended March 31, 2016 totalled \$629, an increase of \$2,373 compared to the same period last year, mainly as a result of the increase in non-cash working capital.

## Investing Activities

For the three months ended March 31, 2016, capital spending, net of dispositions, was \$1,681 compared to \$3,162 for the same period in 2015. Capital spending, net of dispositions, included \$37 for the purchase of kegs (2015 - net cash received of \$21), \$3 for purchases related to land, \$53 (2015 - \$32) for the purchase of new vehicles, \$713 (2015 - \$599) for brewing and packaging equipment, \$828 (2015 - \$1,577) relating to buildings and warehouses, \$39 (2015 - \$746) for the purchase of office furniture and equipment and \$8 (2015 - \$229) for the purchase of intangible assets.

## Financing Activities

Cash provided by financing activities for the three months ended March 31, 2016 decreased by \$2,485 compared with the same period in 2015. The decrease is mainly a result of reducing bank indebtedness.

On March 29, 2016, Big Rock signed a commitment letter to revise and extend the existing \$5 million revolving operating loan facility and \$6 million 5-year term loan facility which is available for general operating purposes and funding capital expenditure requirements. For prime-based loans, interest will be payable at the financial institution's prime plus 2.0-4.0 percent; for guaranteed notes, the acceptance fee is payable at 3.75 percent; and for letters of credit, the fee is payable at 3.75 percent with a minimum fee of \$100. Both facilities mature after a term of 5 years and any undrawn amounts under the facility will expire on March 29, 2021, if no extension has been granted. Collateral for these borrowings is a general assignment of Big Rock's assets.

As at March 31, 2016, \$3,800 (December 30, 2015 - \$1,850) was drawn on the term loan facility and \$nil (December 30, 2015 - \$1,247) was outstanding on the operating loan facility.

The facility imposes a number of positive and negative covenants on Big Rock, including the maintenance of certain financial ratios. At December 30, 2015 Big Rock was outside the required range of one of its financial covenants and had received a waiver for that period and for the three months ended March 31, 2016. Big Rock was in compliance with all other covenants at March 31, 2016.

On July 9, 2015 Big Rock signed a commitment letter for a \$2.5 million lease financing facility which is available to finance the purchase of equipment relating to Big Rock's Ontario expansion. Interest will be charged at the financial institution's prime plus 3.67 per cent. The facility matures after a term of 5 years. As at March 31, 2016, \$2,039 (December 30, 2015 - \$2,039) was drawn on the facility.

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

\$ thousands	March 31, 2016	March 31, 2015
EBITDA	\$ (400)	\$ (320)
Deduct: Depreciation & Amortization	639	510
Loss before interest and taxes	(1,039)	(830)
Deduct: Interest	57	17
Deduct: Income tax charge (add: recovery)	(314)	(223)
Net loss	\$ (782)	\$ (624)

## Cash Dividends

In March 2015, Big Rock announced the suspension of the Corporation's quarterly dividend until further notice.

In determining dividend levels, if any, in the future, the Board will consider the financial performance, capital plans, growth opportunities, expectations of future economic conditions and other factors. Since the level of dividends is highly dependent upon cash flow generated from operations, which fluctuates significantly in relation to changes in financial and operational performance, commodity

prices, interest and exchange rates and many other factors, future dividends cannot be assured. Dividends are subject to the risk factors described herein and in the Corporation's public disclosure documents including its current Annual Information Form.

## **CRITICAL ACCOUNTING ESTIMATES**

### **Share-based compensation**

The Corporation recognizes compensation expense on options with no cash settlement feature at time of grant as well as on changes in the fair value of any outstanding SARs at each reporting date. Share based compensation expense with respect to options recognized during the three months ended March 31, 2016 was \$79 (2015 - \$nil), while the expense recognized with respect to SARs was \$146 (2015 - recovery of \$104) as discussed earlier in this MD&A.

### **Property, Plant and Equipment**

Accounting for PP&E involves making estimates of the life of the assets, selecting an appropriate method of depreciation and determining whether an impairment of the assets exists. These assessments are critical due to their potential impact on income.

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

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

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

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

### **Keg Deposits**

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

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

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

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

With the large choice of 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, the selling price may vary more frequently.

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

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

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. As Alberta is Big Rock's predominant market, changes to this mark-up rate structure could have significant impacts on the Corporation's financial results.

On October 27, 2015, the Alberta government announced a change to mark-up rates applicable to Big Rock. While the immediate impact is favourable to Big Rock, the longer-term implications are currently being assessed.

## **Financial Risk**

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

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

## **Credit Risk**

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

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

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

## Liquidity Risk

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 aluminum, where fluctuations in the market price or availability of these items could impact Big Rock's cash flow and production. To minimize the impact of this risk, the Corporation enters into contracts which secure supply and set pricing to manage the exposure to availability and pricing.

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

## Interest Rate Risk

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

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

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

The weighted average interest rate incurred by the Corporation in the three months ended March 31, 2016 was 4.79% (2015 - 4.43%).

## Foreign Exchange Risk

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

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

For a more detailed discussion of risk factors that could materially affect Big Rock's results of operations and financial condition please refer to the Risk Factors section of the Corporation's Annual Information Form dated March 10, 2016 that is available on [www.sedar.com](http://www.sedar.com).

## FUTURE ACCOUNTING PRONOUNCEMENTS

## IFRS Policies

The Corporation's interim financial statements as at and for the three months ended March 31, 2016 and 2015 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, 2015 or prior. A change in an accounting policy used may result in material changes to Big Rock's reported financial position, results of operations and cash flows.

## Future accounting pronouncements

The IASB has issued the following pronouncements:

- 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.
- IFRS 9 *Financial Instruments* has been amended, effective for annual periods beginning January 1, 2018. 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 on the basis of the reporting entity's business model objectives for managing those financial assets and the characteristics of the contractual cash flows. As a result, both the classification and measurement of certain financial assets may change. Additionally, for liabilities designated at fair value through profit and loss, fair value changes attributable to changes in credit risk will be presented through other comprehensive income instead of net income.
- 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 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 some 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. This standard 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 financial statements of the Corporation.

## DISCLOSURE CONTROLS AND PROCEDURES

The Corporation's management under the supervision of, and with the participation of, the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the Corporation, have designed and evaluated the effectiveness and operation of its disclosure controls and procedures, as defined under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-



109"). Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed with Canadian securities regulatory authorities is recorded, processed, summarized and reported in a timely fashion. The disclosure controls and procedures are designed to ensure that information required to be disclosed by the Corporation in such reports is then accumulated and communicated to management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure. Due to the inherent limitations in all control systems, an evaluation of the disclosure controls can only provide reasonable assurance over the effectiveness of the controls. The disclosure controls are not expected to prevent and detect all misstatements due to error or fraud. Based on the evaluation of disclosure controls and procedures, the CEO and CFO have concluded that the Corporation's disclosure controls and procedures are effective as of March 31, 2016.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Corporation's management under the supervision of, and with the participation of, the CEO and CFO, has designed and implemented internal controls over financial reporting ("ICFR"), as defined under NI 52-109. The Corporation's management used as its framework the Internal Control—Integrated Framework published by The Committee of Sponsoring Organizations of the Treadway Commission.

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

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

The CEO and CFO acknowledge responsibility for the design of ICFR and confirm that there were no changes in the Corporation's controls over financial reporting for the three months ended March 31, 2016, that have materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting.

Based upon their evaluation of these controls as of March 31, 2016, the CEO and CFO have concluded that the Corporation's ICFR were effective as at that date. No material weaknesses existed within the Corporation's ICFR as of March 31, 2016. In addition, there were no material changes to Big Rock's internal controls over financial reporting since the most recent interim period.

## OUTLOOK

Competition continues unabated at the value-priced end of the beer spectrum 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.

To diversify revenue base, management has identified opportunities to establish a local presence in two other Canadian provinces, 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 in April 2015, while management expects that the Ontario brewery and nearby brewpub will open in June 2016 and September 2016, respectively.

In response to consumer-driven demand, management will continue to invest in targeted marketing opportunities to create brand awareness and to emphasize its innovation, which will provide additional great beers to the Big Rock portfolio.

In addition, management will continue to monitor and adjust the selling prices of its products, and will continue to actively manage operating costs, assess regional profitability and focus on operating efficiencies. Management also plans to continue to introduce new permanent brands in 2016 and beyond.

## FORWARD LOOKING INFORMATION

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

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

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

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

- the potential future resumption of quarterly dividends;
- expected volumes;
- projections of market prices and costs;
- treatment under governmental regulatory and taxation regimes;
- supply and demand of Big Rock's products; and
- the Corporation's plans to establish a brewery and a brewpub in Ontario and the anticipated opening dates there; and
- the impact of recent changes in Alberta markup rates.

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; and
- construction costs associated with the planned Ontario facilities will fall within the range budgeted by the Corporation.

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 2015 Annual Information Form (as filed on SEDAR on March 10, 2016). Readers are cautioned that the foregoing lists of factors are not exhaustive.

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

## ADDITIONAL INFORMATION

Additional information on the Corporation, including the Annual Information Form for the year ended December 30, 2015, can be found on SEDAR at [www.sedar.com](http://www.sedar.com). Information about Big Rock can also be found on Big Rock's corporate website at <http://bigrockbeer.com>.

**BIG ROCK BREWERY INC.**

## Condensed Interim Consolidated Statements of Comprehensive Income (Loss)

Unaudited

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

	Three months ended March 31	
	2016	2015
Net revenue (Note 3)	\$ 9,044	\$ 7,137
Cost of sales (Note 4)	5,459	3,736
<b>Gross profit</b>	<b>3,585</b>	<b>3,401</b>
<b>Expenses</b>		
Selling expenses (Notes 5)	3,023	2,721
General and administrative (Note 6)	1,510	1,399
Depreciation and amortization	170	112
Operating expenses	4,703	4,232
<b>Operating loss</b>	<b>(1,118)</b>	<b>(831)</b>
Finance expenses (Note 7)	57	17
Other income	79	1
Other expenses	—	—
<b>Loss before income taxes</b>	<b>(1,096)</b>	<b>(847)</b>
Current income tax expense (recovery)	(72)	(55)
Deferred income tax expense (recovery)	(242)	(168)
<b>Net loss and comprehensive loss for the period</b>	<b>\$ (782)</b>	<b>\$ (624)</b>

Net loss per share (Note 8)

Basic and diluted

\$ (0.11)

\$ (0.09)

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

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

	March 31, 2016	December 30, 2015
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	\$ 42,752	\$ 41,590
Intangible assets	424	456
	43,176	42,046
<b>Current</b>		
Inventories (Note 9)	5,163	4,935
Accounts receivable (Note 10)	2,592	2,221
Prepaid expenses and other (Note 11)	1,266	1,573
Current taxes receivable	74	—
Cash	556	540
	9,651	9,269
<b>Total assets</b>	<b>\$ 52,827</b>	<b>\$ 51,315</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>EQUITY</b>		
Shareholders' capital (Note 12)	\$ 113,121	\$ 113,121
Contributed surplus (Notes 12 and 13)	1,334	1,255
Accumulated deficit	(77,618)	(76,836)
	36,837	37,540
<b>LIABILITIES</b>		
<b>Non-current</b>		
Long term debt (Note 14)	5,333	3,485
Share-based payments (Note 13)	280	134
Deferred income taxes	4,157	4,399
	9,770	8,018
<b>Current</b>		
Accounts payable and accrued liabilities (Note 15)	5,349	4,051
Current taxes payable	—	55
Current portion of long term debt (Note 14)	506	404
Bank indebtedness (Note 14)	365	1,247
	6,220	5,757
<b>Total liabilities and shareholders' equity</b>	<b>\$ 52,827</b>	<b>\$ 51,315</b>

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

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

	Three months ended March 31	
	2016	2015
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (782)	\$ (624)
Items not affecting cash:		
Depreciation and amortization	639	510
Loss (gain) on sale of assets	(65)	12
Share based compensation	225	(104)
Deferred income tax recovery	(242)	(168)
Net change in non-cash working capital related to operations (Note 18)	854	(1,370)
<b>Cash provided by (used in) operating activities</b>	<b>629</b>	<b>(1,744)</b>
<b>FINANCING ACTIVITIES</b>		
Increase (decrease) in bank indebtedness	(882)	4,928
Proceeds from long-term debt	1,950	—
Dividend payments	—	(1,375)
<b>Cash provided by financing activities</b>	<b>1,068</b>	<b>3,553</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(1,775)	(2,933)
Purchase of intangible assets	(8)	(229)
Proceeds from sale of equipment	102	—
<b>Cash used in investing activities</b>	<b>(1,681)</b>	<b>(3,162)</b>
<b>Net increase (decrease) in cash</b>	<b>16</b>	<b>(1,353)</b>
Cash, beginning of period	540	1,484
<b>Cash, end of period</b>	<b>\$ 556</b>	<b>\$ 131</b>

**Supplemental cash-flow information**

Cash interest paid	\$ 57	\$ 18
Cash taxes paid	\$ 57	\$ 241

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

**BIG ROCK BREWERY INC.**

## Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

Unaudited

*(In thousands of Canadian dollars)*

	Shareholders' capital	Contributed surplus	Accumulated deficit	Total
Balance as at December 30, 2014	\$ 113,121	\$ 1,083	\$ (75,761)	\$ 38,443
Total comprehensive income (loss)	—	—	(624)	(624)
Balance as at March 31, 2015	113,121	1,083	(76,385)	37,819
Share-based payments	—	172	—	172
Total comprehensive income (loss)	—	—	(451)	(451)
Balance as at December 30, 2015	113,121	1,255	(76,836)	37,540
Share-based payments	—	79	—	79
Total comprehensive income (loss)	—	—	(782)	(782)
Balance as at March 31, 2016	\$ 113,121	\$ 1,334	\$ (77,618)	\$ 36,837

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

## 1. CORPORATE INFORMATION

Big Rock Brewery Inc. ("Big Rock" or the "Corporation") is a publicly listed Corporation incorporated in Canada with limited liability under the legislation of the Province of Alberta and its shares are listed on the Toronto Stock Exchange and trade under the symbol "BR".

Big Rock is a regional producer of premium, all-natural craft beers and cider which are sold in 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 - 76<sup>th</sup> Avenue SE, Calgary, Alberta, T2C 4L8.

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

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

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

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

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

These Financial Statements should be read in conjunction with Big Rock's 2015 annual consolidated financial statements.

### 2.2 Basis of presentation

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

The Financial Statements have been prepared on the historical cost basis, presented in Canadian dollars and all values are rounded to the nearest thousand dollars except where otherwise indicated.

### 2.3 Future accounting pronouncements

The IASB has issued the following pronouncements:

- 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.
- IFRS 9 *Financial Instruments* has been amended, effective for annual periods beginning January 1, 2018. 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 on the basis of the reporting entity's business model objectives for managing those financial assets and the characteristics of the contractual cash flows. As a result, both the classification and measurement of certain financial assets may change. Additionally, for liabilities designated at fair value through profit and loss, fair value changes attributable to changes in credit risk will be presented through other comprehensive income instead of net income.
- 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 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 some 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. This standard 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 financial statements of the Corporation.

### 3. REVENUE RECOGNITION

	Three months ended March 31	
	2016	2015
Gross Product Revenues	\$ 11,963	\$ 9,347
Excise Taxes	(1,061)	(931)
Alberta Gaming and Liquor Commission ("AGLC") Commissions	(1,858)	(1,279)
Net Revenue	\$ 9,044	\$ 7,137

Gross Product Revenues include wholesale beer and cider revenues as well as retail store and restaurant sales. Revenue for Alberta beer and cider represents gross sales to the provincial liquor control board less excise taxes and commissions arriving at the net proceeds to Big Rock. Beer and cider revenue for other provincial jurisdictions represents net sales to the liquor control boards, after excise taxes and commissions. Excise taxes are assessed on beer production at tiered rates up to \$31.22 per hectolitre, and provincial liquor control board commissions cover distributions and other service charges.

#### 4. COST OF SALES

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

	Three months ended March 31	
	2016	2015
Operating expenses	\$ 4,990	\$ 3,338
Depreciation and amortization	469	398
Cost of sales	\$ 5,459	\$ 3,736

#### 5. SELLING EXPENSES

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

	Three months ended March 31	
	2016	2015
Delivery and distribution costs	\$ 727	\$ 653
Salaries and benefits	852	807
Marketing	264	216
Regional sales	1,002	839
Community sponsorship and other	178	206
Selling expenses	\$ 3,023	\$ 2,721

#### 6. GENERAL AND ADMINISTRATIVE EXPENSES

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

	Three months ended March 31	
	2016	2015
Salaries and benefits <sup>(1)</sup>	\$ 746	\$ 639
Professional fees	161	176
Reporting and filing fees	42	57
Insurance	55	57
Building maintenance and taxes	94	220
Bank charges	45	63
Office, administrative and other	367	187
General and administrative expenses	\$ 1,510	\$ 1,399

<sup>(1)</sup> Salaries and benefits include share option expense of \$79 (2015 - \$nil) and share appreciation rights expense of \$146 (2015 - recovery of \$104).

#### 7. FINANCE EXPENSES

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

	Three months ended March 31	
	2016	2015
Interest on long-term debt	\$ 45	\$ —
Interest on operating facility	12	17
Finance expenses	\$ 57	\$ 17

## 8. LOSS PER SHARE

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

Basic	Three months ended March 31	
	2016	2015
Net loss	\$ (782)	\$ (624)
Shares outstanding, beginning of the period	6,875,928	6,875,928
Weighted average # of shares issued during the period	—	—
Basic # shares outstanding during the period	6,875,928	6,875,928
Basic income (loss) per share	\$ (0.11)	\$ (0.09)

Diluted	Three months ended March 31	
	2016	2015
Net loss	\$ (782)	\$ (624)
Basic # shares outstanding during the period	6,875,928	6,875,928
Weighted average # of shares issuable on dilutive options during the period	—	—
Diluted # shares outstanding during the period	6,875,928	6,875,928
Diluted income (loss) per share	\$ (0.11)	\$ (0.09)

## 9. INVENTORIES

The inventories for the Corporation are categorized as follows:

	March 31, 2016	December 30, 2015
Raw materials and glass containers	\$ 1,625	\$ 1,447
Brews in progress	1,226	1,091
Finished product	1,887	1,901
Consignment product	265	315
Dry goods store (resale goods)	160	181
	\$ 5,163	\$ 4,935

During the three months ended March 31, 2016, charges were recorded to net income relating to obsolete, damaged or unsellable packaging inventory of \$31 (2015 - \$27) and relating to promotional and resale goods and damaged finished goods inventory of \$179 (2015 - \$60).

In the three months ended March 31, 2016, there were no reversals of amounts previously charged to income in respect of write-downs of inventory (2015 - \$nil).

Finished goods inventory includes \$132 (December 30, 2015 - \$155) of amortization charges on production equipment used to convert raw materials to finished goods.

## 10. ACCOUNTS RECEIVABLE

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

	March 31, 2016	December 30, 2015
Provincial liquor boards	\$ 2,128	\$ 2,033
Other receivables	464	188
<b>Total accounts receivable</b>	<b>\$ 2,592</b>	<b>\$ 2,221</b>

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

	March 31, 2016	December 30, 2015
Less than 30 days	\$ 2,032	\$ 938
30 - 60 days	500	1,276
60 - 90 days	17	—
Over 90 days	43	7
<b>Total accounts receivable</b>	<b>\$ 2,592</b>	<b>\$ 2,221</b>

The Corporation holds no collateral for any receivable amounts outstanding as at March 31, 2016.

## 11. PREPAID EXPENSES AND DEPOSITS

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

	March 31, 2016	December 30, 2015
Community sponsorship	\$ 133	\$ 59
Prepaid insurance	53	92
Equipment deposits, rental and maintenance	962	1,142
Consulting	54	114
Promotional materials	—	96
Employee benefits	3	3
Other	61	67
	<b>\$ 1,266</b>	<b>\$ 1,573</b>

## 12. SHARE CAPITAL

	March 31, 2016		December 30, 2015	
	# of shares	\$ Amount	# of shares	\$ Amount
Outstanding at beginning of period	6,875,928	113,121	6,875,928	113,121
Shares issued upon public offering	—	—	—	—
Shares issued upon exercise of options	—	—	—	—
<b>Outstanding at end of period</b>	<b>6,875,928</b>	<b>113,121</b>	<b>6,875,928</b>	<b>113,121</b>

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

## 13. SHARE-BASED PAYMENTS

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

The general terms of share options granted under the amended plan include a maximum exercise period of 5 years and vesting immediately.

On March 31, 2016, the Corporation granted 58,500 options at an exercise price of \$5.12 per share with an expiry date of March 31, 2021.

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

	March 2016	September 2015	May 2015	September 2014
Weighted average fair value per option	1.35	1.33	1.60	1.54
Risk-free interest rate (%)	0.65	0.65	0.89	1.42
Expected life of the options (years)	4	4	4	4
Dividend rate (%)	0.00	0.00	0.00	5.06
Volatility in the price of the Corporation's shares (%)	34.7	29.4	28.7	22.4

A share-based compensation charge of \$79 for the options granted during the three months ended March 31, 2016 (2015 - \$nil) was recognized in statement of comprehensive income. Share-based compensation costs have been included in general and administrative expenses.

### 13.2 Share appreciation rights plans

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

On March 10, 2016 the Corporation granted 79,000 SARs with an exercise price of \$5.12.

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

As at March 31, 2016, 470,900 SARs were outstanding (December 30, 2015 - 391,900). During the three months ended March 31, 2016, 79,000 SARs were issued (2015 - nil), no SARs were exercised (2015 - nil) and no SARs expired (2015 - 5,400). As at March 31, 2016, the fair value of the SARs was calculated and resulted in a liability of \$280 (December 30, 2015 - \$134) and an expense of \$146 being recorded in general and administrative expenses (December 30, 2015 - recovery of \$82).

At March 31, 2016, the weighted average fair value of the SARs issued at the grant date was estimated using the Black-Scholes option pricing model. The weighted average assumptions used for the calculations were:

	March 2016	September 2015	May 2015
Weighted average fair value per SAR	1.61	1.30	0.83
Risk-free interest rate (%)	0.67	0.64	0.61
Expected life of the SAR (years)	4.94	4.44	4.12
Dividend rate (%)	0.00	0.00	0.00
Volatility in the price of the Corporation's shares (%)	34.6	34.6	34.6

### 13.3 Outstanding share options

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

	2016		2015	
	# of options	Weighted average exercise price	# of options	Weighted average exercise price
Balance, beginning of year	517,000	\$ 13.10	508,000	\$ 15.22
Expired	(17,500)	16.60	—	—
Issued	58,500	5.12	—	—
Balance, March 31	558,000	\$ 12.15	508,000	\$ 15.22

The following table summarizes information about share options outstanding and exercisable at March 31, 2016:

Exercise price	# of Options outstanding at March 31, 2016	Weighted average remaining contractual life (years)	Weighted average exercise price	# of Options exercisable at March 31, 2016
\$5.12 to \$12.19	193,000	4.13	\$ 6.65	193,000
\$12.20 to \$14.98	189,500	1.37	\$ 13.88	189,500
\$14.99 to \$18.06	175,500	2.95	\$ 16.34	175,500
Balance, March 31	558,000	2.82	\$ 12.15	558,000

### 14. BANK INDEBTEDNESS AND LONG-TERM DEBT

On March 29, 2016, Big Rock signed a commitment letter to revise and extend the existing \$5 million revolving operating loan facility and \$6 million 5-year term loan facility which is available for general operating purposes and funding capital expenditure requirements. For prime-based loans, interest will be payable at the financial institution's prime plus 2.0-4.0 percent; for guaranteed notes, the acceptance fee is payable at 3.75 percent; and for letters of credit, the fee is payable at 3.75 percent with a minimum fee of \$100. Both facilities mature after a term of 5 years and any undrawn amounts under the facility will expire on March 29, 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 ratios. At December 30, 2015 Big Rock was outside the required range of one of its financial covenants and had received a waiver for that period and for the three months ended March 31, 2016. Big Rock was in compliance with all other covenants at March 31, 2016.

As at March 31, 2016, \$3,800 (December 30, 2015 - \$1,850) was drawn on the term loan facility and \$nil (December 30, 2015 - \$1,247) was outstanding on the operating loan facility.

On July 9, 2015 Big Rock signed a commitment letter for a \$2.5 million lease financing facility which is available to finance the purchase of equipment relating to Big Rock's Ontario expansion. Interest will be charged at the financial institution's prime plus 3.67 per cent. The facility matures after a term of 5 years. As at March 31, 2016, \$2,039 (December 30, 2015 - \$2,039) was drawn on the facility.

## 15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

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

	March 31, 2016	December 30, 2015
Less than 30 days	\$ 5,344	\$ 4,045
30 - 60 days	5	—
60 - 90 days	—	—
Over 90 days	—	6
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 5,349</b>	<b>\$ 4,051</b>

## 16. DIVIDENDS PAYABLE

In March 2015, Big Rock announced the suspension of the Corporation's quarterly dividend until further notice.

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

## 17. CAPITAL RISK MANAGEMENT

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

	March 31, 2016	December 30, 2015
Bank indebtedness (cash)	\$ (556)	\$ (540)
Total debt	6,204	5,136
Shareholders' equity:		
Shareholders' capital	113,121	113,121
Contributed surplus	1,334	1,255
Accumulated deficit	(77,618)	(76,836)
Total shareholders' equity	36,837	37,540
Total capitalization (total debt plus shareholders' equity, net of cash balances)	\$ 42,485	\$ 42,136

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

In addition, the Corporation monitors its capital using ratios of (i) earnings before interest, taxes, depreciation and amortization ("EBITDA") to net debt and (ii) EBITDA to interest, debt repayments and dividends. EBITDA to interest, debt repayments and dividends is calculated by dividing the combined interest, debt repayments and dividend amounts by EBITDA and EBITDA to net debt is calculated by dividing debt minus cash by EBITDA.

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

#### 18. CHANGE IN NON-CASH WORKING CAPITAL

	Three months ended March 31	
	2016	2015
Accounts payable and accrued liabilities	\$ 1,169	\$ 233
Inventory	(251)	(974)
Accounts receivable	(371)	(319)
Prepaid expenses	307	(310)
Total change in non-cash working capital	\$ 854	\$ (1,370)

#### 19. SEGMENTED INFORMATION

For management purposes, the Corporation is organised into operating segments based on its products, services, location and distribution methods. Ten operating segments have been identified. These segments have been aggregated into two aggregated reportable segments, as follows:

- The wholesale segment, which manufactures and distributes beer and cider to, and through, provincial liquor boards, which is subsequently sold on to end consumers;
- 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 been aggregated based on the fact that these segments have similar production processes and types of customers, as well as products being shipped to customers instead of being sold on-site.

The retail segment has been aggregated based on the fact that these segments all sell products directly to the end consumer and serve these consumers on a premise owned or operated by Big Rock.

Executive management monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated on a number of measures, the most significant being profit or loss. This is measured consistently with profit or loss in the consolidated financial statements. The Corporation's general and administrative expenses, financing (including finance costs and finance income) and income taxes are managed on a Corporate basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

#### **Adjustments and eliminations**

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 the above segments as they are also managed on a Corporate basis.

Inter-segment revenues are eliminated on consolidation and reflected in the "adjustments and eliminations" column. All other adjustments and eliminations are part of detailed reconciliations presented further below.

## Profit by Segment

Three Months Ended March 31	Wholesale		Retail		Total segments		Adjustments and eliminations		Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>Revenue</b>										
External customers	\$ 8,548	\$ 7,064	\$ 496	\$ 73	\$ 9,044	\$ 7,137	\$ —	\$ —	\$ 9,044	\$ 7,137
Inter-segment	33	18	—	—	33	18	(33)	(18)	—	—
<b>Total revenue</b>	<b>8,581</b>	<b>7,082</b>	<b>496</b>	<b>73</b>	<b>9,077</b>	<b>7,155</b>	<b>(33)</b>	<b>(18)</b>	<b>9,044</b>	<b>7,137</b>
External cost of goods sold	4,959	3,703	500	33	5,459	3,736	—	—	5,459	3,736
Inter-segment	—	—	33	18	33	18	(33)	(18)	—	—
<b>Total cost of goods sold</b>	<b>4,959</b>	<b>3,703</b>	<b>533</b>	<b>51</b>	<b>5,492</b>	<b>3,754</b>	<b>(33)</b>	<b>(18)</b>	<b>5,459</b>	<b>3,736</b>
<b>Gross profit</b>	<b>3,622</b>	<b>3,379</b>	<b>(37)</b>	<b>22</b>	<b>3,585</b>	<b>3,401</b>	<b>—</b>	<b>—</b>	<b>3,585</b>	<b>3,401</b>
Selling expenses	3,014	2,721	9	—	3,023	2,721	—	—	3,023	2,721
<b>Segment profit</b>	<b>\$ 608</b>	<b>\$ 658</b>	<b>\$ (46)</b>	<b>\$ 22</b>	<b>\$ 562</b>	<b>\$ 680</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 562</b>	<b>\$ 680</b>

## Reconciliation of profit

	March 31, 2016	March 31, 2015
Segment profit	\$ 562	\$ 680
General and administrative expenses	1,510	1,399
Depreciation and amortization	170	112
Operating profit (loss)	(1,118)	(831)
Finance expense (income)	57	17
Other income	79	1
Other expense	—	—
<b>Profit (loss) before tax per consolidated statement of comprehensive income</b>	<b>\$ (1,096)</b>	<b>\$ (847)</b>

## 20. LEASES

Big Rock has entered into operating lease agreements for storage facilities, warehouses, breweries, and retail locations. The remaining terms of these leases range between 4 and 10 years. Certain leases contain extension and renewal options.

Future minimum lease payments due as at March 31, 2016 are:

Within one year	\$ 1,107
After one year but not more than five years	4,785
More than five years	2,768
	\$ 8,660

As at March 31, 2016, lease payments of \$214 (2015 - \$105) were recognized as expense in the statement of comprehensive income.

## 21. COMPARATIVE AMOUNTS

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

## 22. APPROVAL OF THE FINANCIAL STATEMENTS

The Financial Statements of Big Rock Brewery Inc. for the three months ended March 31, 2016 were approved and authorized for issue by the Audit Committee on May 5, 2016.