BIG ROCK BREWERY INC.
QUARTERLY REPORT

FIRST QUARTER 2011 HIGHLIGHTS

$ thousands (unless otherwise stated)	Three months ended March 31 2011	2010
Sales volumes (hl)	41,993	49,174
Net revenue	8,802	10,545
Operating profit (loss)	(7)	1,224
Net loss	(26)	(13,093)
Earnings (loss) per share (basic and diluted)	$ 0.00	$ (2.16)

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, 2011, as compared to the same period in 2010.

This MD&A should be read in conjunction with the unaudited consolidated financial statements of the Corporation and accompanying notes as at and for the three months ended March 31, 2011 (the "Financial Statements"), which have been prepared using IFRS, and should be read in conjunction with the audited consolidated financial statements, which were prepared using Canadian GAAP, and the MD&A, contained within our 2010 Annual Report. All amounts are reported in thousands of Canadian dollars and comparative figures have been restated using IFRS, unless otherwise noted.

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

The MD&A is dated May 11, 2011.

BASIS OF PRESENTATION AND TRANSITION TO IFRS

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

CORPORATE PROFILE

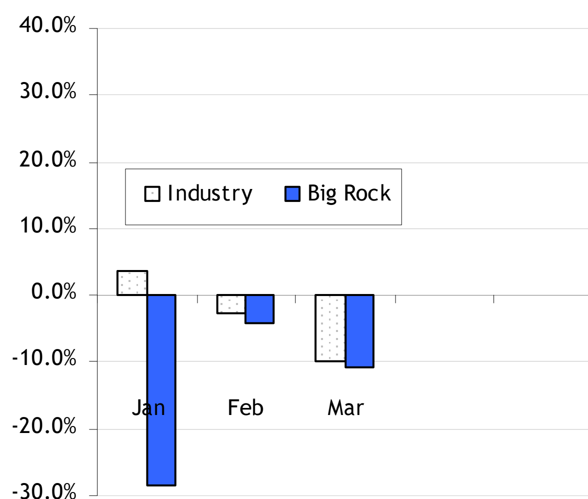
Big Rock Brewery - headquartered in Calgary, Alberta - produces premium, all-natural craft beers. As Canada's leading craft brewer Big Rock boasts a family of eleven ales and lagers, Rock Creek dry apple cider, as well as an ongoing selection of seasonal beers.

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

INDUSTRY TRENDS AND INDICATORS

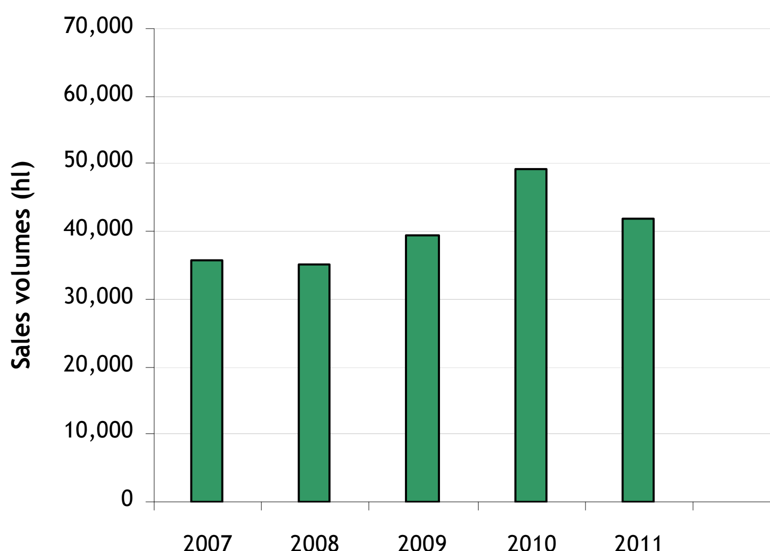
The graph below illustrates the change in monthly sales volumes for January through March 2011 compared to 2010 for both Big Rock and the Canadian beer industry.

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



Source: Brewers Association of Canada, Domestic Sa Bulletin – March 2011

Histrorical First Quarter Sales Volumes



For the three months ended March 31, 2011, Canadian beer sales across the industry and Big Rock's declined by 3.5% and 14.6%, respectively, with the same period of last year.

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

- the impact on volumes as a result of last year's winter Olympics, especially in January;
- continued difficult general economic conditions, causing a reduction in consumers' disposable income; and
- a shift towards the "value" category by the consumer in response to multi-national breweries deep discounting price strategies along with "above the line" media support.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

	2011	2010				2009 (1)		
$ thousands (unless otherwise stated)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales volumes (hl)	41,993	47,315	58,151	57,832	49,174	52,110	70,850	57,378
Net sales revenue	8,802	9,880	12,234	12,471	10,545	10,529	15,413	12,087
Operating profit (loss)	(7)	(345)	1,829	1,405	1,244	60	3,546	2,276
Net income (loss)	(26)	270	1,855	2,667	(12,990)	569	3,076	2,400
Earnings per unit (basic and diluted)	$ 0.00	$0.04	$ 0.31	$ 0.44	$ (2.16)	$ 0.09	$ 0.51	$ 0.40
Distributions per unit	$ 0.20	$0.30	$ 0.30	$ 0.30	$ 0.30	$ 0.30	$ 0.28	$ 0.27

(1) 2009 represent pre-changeover Canadian GAAP figures

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

RESULTS OF OPERATIONS

Big Rock's consolidated net loss for the quarter ended March 31, 2011, decreased to $26 compared to $12,990 in 2010. The 2010 net loss includes a $12,505 change in fair value relating to the trust units while Big Rock was an income trust, with no similar charge in 2011. Management believes operating profit to be a more meaningful comparison to assess the Corporation's performance. For the three months ended March 31, 2011, Big Rock incurred an operating loss of $7 compared to an operating profit of $1,244 for the same period in 2010. Management believes the decline in operating profit was primarily the result of last year's winter Olympics impacting comparative decreased sales volumes.

Gross Profit

	Three months Ended March 31		
$ thousands (unless otherwise stated)	2011	2010	Change
Net sales revenue	8,802	10,545	(1,743)
Cost of sales:			
Ingredients and packaging materials	2,169	2,559	(390)
Labour	961	1,111	(150)
Overhead	742	734	8
Inventory movement	(229)	(384)	155
Depreciation	840	533	307
Cost of sales	4,483	4,553	70
Gross profit	4,319	5,992	(1,673)
Sales volumes (hectoliters or hl)	41,993	49,174	(7,181)

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

For the three months ended March 31, 2011, net sales revenue decreased $1,743 (16.5%) compared to the same period of 2010. The decrease was primarily attributable to lower sales volumes, which for the quarter ended March 31, 2011 were 14.9% lower than the same period of 2010.

The decline in sales volumes was primarily in Big Rock's "packaged" value-priced brands and its Lime Light Lager; while keg sales volumes for the first quarter of 2011 remained relatively unchanged compared to last year.

Management believes the decline in value-priced brands was the result of the multi-national breweries' continued focus and aggressive pricing strategies in the value-priced category, primarily with "bonus" pack offerings aimed at the same "at home" consumer dollars. Partially offsetting these decreases was the impact of sales associated with Big Rock's new packaging, which was launched in February 2011.

For the three months ended March 31, 2011, total cost of sales remained relatively unchanged compared to the same period last year.

- For the quarter ended March 31, 2011, costs relating to ingredients and packaging materials decreased $390 compared to the same period in 2010, primarily due to lower production volumes. This decrease was partially offset by a lower volume rebate from a major Big Rock packaging supplier compared to same period in 2010. The change in rebate was partially offset by lower pricing from the supplier.

- Big Rock's labour costs relating to production are primarily fixed in nature. For the three months ended March 31, 2011, labour charges decreased compared to the same period in 2010, as a result of lower amounts accrued under the Corporation's incentive program.

- Overhead costs include utilities, repairs and maintenance and other production related amounts – and are primarily fixed in nature – remained relatively constant compared with the same period in 2010.

- Inventory movement is a timing difference relating to the absorption of production costs into finished goods inventory on the statement of financial position, and the eventual charge to earnings for those costs as finished goods inventory is sold. For the three months ended March 31, 2011, charges relating to inventory movement increased by $155 compared with the same period last year.

- On March 31, 2010, Big Rock commenced including depreciation charges on production equipment used to convert raw materials to finished goods as part of its cost of sales. Prior to which, no depreciation was included in finished goods inventory. As a result, cost of sales for the quarter ended March 31, 2011 included a charge of $215 relating to depreciation included in beginning finished goods inventory, for which no similar amount was included in the first three months of 2010.

On a per hectolitre basis, cost of sales for the three months ended March 31, 2011, increased by $14.17 (15.3%) compared with the same period of 2010, as detailed in the following table:

Per hectolitre cost of sales

	Three months Ended March 31		
	2011	2010	Change
Cost of sales:			
Ingredients and packaging materials	51.66	52.04	(0.38)
Labour	22.88	22.59	0.29
Overhead	17.67	14.93	2.74
Inventory movement	(5.45)	(7.81)	2.36
Depreciation	20.00	10.84	9.16
Cost of sales	106.76	92.59	14.17

Selling, General and Administrative expenses

$ thousands (unless otherwise stated)	Three months Ended March 31 2011	2010	Change
Selling:			
Salaries and benefits	960	1,037	(77)
Delivery and distribution	838	866	(28)
Promotional materials	642	764	(122)
Community sponsorship and other	625	691	(66)
Total selling expenses	3,065	3,358	(293)
General and Administrative:			
Salaries and benefits	583	585	(2)
Professional fees	228	450	(222)
Building maintenance and taxes	126	115	11
Office, administrative and other	109	79	30
Reporting and filing fees	62	35	27
Insurance	46	44	2
Bank charges	15	12	3
Total general and administrative expenses	1,169	1,320	(151)

For the three months ended March 31, 2011, selling expenses decreased by $293 compared with the same period last year as detailed below:

- Salaries and benefit costs decreased by $77 due primarily to lower accruals under the annual incentive plan, partially offset by higher staffing levels and corresponding salaries in 2011.
- Delivery and distribution costs decreased primarily as a result of lower volumes delivered.
- Promotional materials decreased as a result of higher 2010 comparative amounts which included charges relating to a Light Lime Lager promotion, for which no similar amount was recorded in 2011.
- Community sponsorship and other decreased as a result of the receipt of government grants relating to the haybale and new packaging programs, for which no similar amounts were received in the first quarter of 2010.

For the quarter ended March 31, 2011, general and administration expenses decreased by $151 compared with the same period last year as detailed below:

- Salaries and benefits decreased primarily due to lower accruals under the annual incentive plan, partially offset by higher salaries in 2011, including amounts for unit based compensation relating to options issued during the period.
- Professional fees, which include legal, audit, tax- and accounting-advisory services, decreased as a result of higher 2010 comparative amounts which included charges relating to work performed on Big Rock’s corporate conversion and consulting fees associated with the transition to IFRS.
- Building maintenance and taxes, increased primarily as a result of higher 2011 property taxes.
- Office, administration and other, which include IT related amounts, memberships, dues and licenses, travel and automotive costs, and corporate hospitality, increased primarily as a result of timing of the expenditures under these categories.

- Reporting and filing fees increased as a result of higher listing fees charged by the TSX following Big Rock's conversion to a corporation on January 1, 2011.

- Insurance and bank charges were consistent with amounts charged in 2010.

Finance costs

	Three months Ended March 31		
$ thousands (unless otherwise stated)	2011	2010	Change
Interest on long-term debt	35	34	1
Interest on operating facility	2	—	2
Distributions to shareholders	—	1,809	(1,809)
Total finance costs	37	1,843	(1,806)
Weighted average effective interest rate	4.23%	3.82%	

The principal amount of long-term debt and bank indebtedness was $3,208 as at March 31, 2011 compared to $3,557 as at March 31, 2010. 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 December 31, 2011 compared to the same period last year, primarily reflects the increase in the prime rate. Principal repayments on the long-term debt began in November 2010; therefore, the impact of lower average borrowings did not have a material impact on interest costs for the quarter ended March 31, 2011.

Under pre-changeover Canadian GAAP, Big Rock's trust units were recorded as equity with distributions to shareholders recorded as a reduction in equity. However, IFRS 2 *Share-based Payments* and IAS 32 *Financial Instruments: Presentation* classified Big Rock trust units as a financial liability until May 2010 (see discussion later in this MD&A). Accordingly, IFRS considers distributions paid to shareholders to be a finance cost.

Depreciation and amortization

	Three months Ended March 31		
$ thousands (unless otherwise stated)	2011	2010	Change
Depreciation included in cost of sales	840	533	307
Depreciation - other	66	52	14
Amortization	26	18	8
Total	932	603	329

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

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

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

For the three months ended March 31, 2011, depreciation expense included in cost of sales increased by $306 compared with the same period last year, primarily as a result of the timing of purchases for operations-related plant and equipment.

For the quarter ended March 31, 2011, other depreciation charges and amortization expense increased by $14 and $8, respectively, compared with the corresponding period last year, for the same reason.

Other

	Three months Ended March 31		
$ thousands (unless otherwise stated)	2011	2010	Change
Other income	87	95	(8)
Other expenses	28	15	13
Change in fair value of trust units	–	(12,505)	(12,505)
Change in fair value of share based payments liabilities	–	(69)	(69)

Other income includes restaurant royalties, miscellaneous income (primarily from the sale of spent grains and rental of yard space), gains or losses on asset disposals and net revenues from tours, hospitality, and the dry goods store. The decrease for the three-months ended March 31, 2011, is related primarily to lower sales volumes in the dry goods store, reflecting lower foot traffic in the brewery and the restaurant, and decreased sales following customer tours of the brewery.

Under pre-changeover Canadian GAAP, Big Rock's trust units were recorded as equity. However, IFRS 2 *Share-based Payments* and IAS 32 *Financial Instruments: Presentation* classify the units as a financial liability on the statement of financial position. Financial liabilities are recorded at fair value at each reporting date, with changes in fair value flowing through the statement of comprehensive income. The $12,505 charge represents the change in fair value of the units from January 1, 2010 to March 31, 2010.

Following a shareholder approved change to the trust indenture in May 2010, an exception under IAS 32 allowed the trust units to be re-characterized as equity, and removed the fair value requirement.

Similarly, under pre-changeover Canadian GAAP, stock options were considered equity and reported as contributed surplus at the historical fair values at the date of each grant, less any amounts reclassified to share capital upon exercise. Under IFRS, the outstanding and exercisable stock options, for the 2010 comparative periods during which Big Rock was an income trust, are considered a liability. Accordingly, under IFRS the options were recorded at their fair value at each reporting date, with changes in fair value flowing through the statement of comprehensive income. The $69 charge represents the change in fair value of the options from January 1, 2010 to March 31, 2010.

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

Income taxes

	Three months Ended March 31		
$ thousands (unless otherwise stated)	2011	2010	Change
Deferred income tax expense (recovery)	41	(103)	144

During the three months ended March 31, 2011, the Corporation recorded a deferred income tax charge of $41 compared to a recovery of $103 for the same periods last year. The increase is due primarily to the change in corporate structure, which resulted on January 1, 2011 when Big Rock converted from an income trust to a dividend paying corporation. In 2010, distributions paid to shareholders were deductible for income tax purposes, whereas 2011 dividends are not.

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

FINANCIAL CONDITION

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

$ thousands (unless otherwise stated)	Increase/ (Decrease)	Primary factors explaining change
Property, plant and equipment	(349)	Asset additions, net of depreciation charge
Intangible assets	(26)	Amortization charge
Inventories	302	Higher inventory balances on-hand
Accounts receivable	526	Timing of receipts from provincial liquor boards
Prepaid expenses and other	(27)	Lower sales and co-packaging revenues
Long-term debt	(175)	Principal repayments
Deferred income taxes	41	Tax effect of change in PP&E
Accounts payable and accrued liabilities	(556)	Primarily due to lower accruals under the annual incentive plan and timing of supplier payments

LIQUIDITY AND CAPITAL RESOURCES

Capitalization

$ thousands (unless otherwise stated)	March 31, 2011	December 31, 2010
Bank indebtedness (cash)	855	(769)
Total debt	3,208	3,383
Shareholders' equity:		
Shareholders' capital	99,954	99,954
Contributed surplus	444	—
Accumulated income	(66,946)	(65,709)
Total shareholders' equity	33,452	34,245
Total capitalization (total debt plus shareholders' equity, net of cash balances)	37,515	36,859
Total debt to capitalization ratio	8.6%	9.2%

Capital Strategy

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

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

In addition, the Corporation monitors its capital using ratios of (i) debt to total capitalization, (ii) working capital, and (iii) earnings before interest, taxes, depreciation and amortization (EBITDA) to

long-term debt. Debt to total capitalization is calculated as long-term debt, including current portion, plus bank indebtedness divided by total capital. Working capital is calculated by current assets by current liabilities and EBITDA to long-term debt is calculated by dividing long-term debt by EBITDA. Both working capital and EBITDA to long-term debt are used for compliance with debt covenants.

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

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

Shareholder's Capital

	# of shares	$ Amount
As at December 31, 2010	6,057,678	19,163
Quarter ended March 31, 2011		
Shares issued upon exercise of options	—	—
As at March 31, 2011	6,057,678	19,163

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 11, 2011 there were 6,057,678 issued and outstanding shares and the closing price was $15.82 per share. Based upon 6,057,678 issued shares, the Corporation has an approximate market capitalization of $95.8 million.

Share Based Compensation Plan

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

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

A share-based compensation charge of $113 for the options granted in the three months ended March 31, 2011 (2010 - $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 stock option plan:

	2011		2010	
	# of options	Weighted average exercise price	# of options	Weighted average exercise price
Balance, January 1	262,000	$ 15.84	385,600	$ 17.10
Forfeited	—	—	(48,500)	$ 16.94
Exercised	—	—	(22,200)	$ 15.26
Issued	58,000	$ 16.60	—	—
Balance, March 31	320,000	$ 16.31	314,900	$ 17.26

The following table summarizes information about stock options outstanding and exercisable at March 31, 2011:

Exercise price	# of Options outstanding at March 31, 2011	Weighted average remaining contractual life (years)	Weighted average exercise price	# of Options exercisable at March 31, 2011
$15.26 to $17.71	300,000	2.88	$ 16.22	300,000
$17.72	20,000	1.75	17.72	20,000
Balance, March 31	320,000	2.77	$ 16.31	320,000

As at May 11, 2011, there were a total of 320,000 unit options outstanding.

As at March 31, 2011, 248,000 Stock Appreciation Rights ("SARs") were outstanding (December 31, 2010 – 447,250). During the three months ended March 31, 2011, no SARs were issued (2010 – nil), no SARs were exercised (2010 – nil) and 199,250 SARs were cancelled (2010 – 126,000). Forfeited SARs related to individuals no longer employed with Big Rock. As at March 31, 2011, the trading price of the Corporation shares was less than the exercise price of the majority of the SARs, resulting in a liability of $10 being recorded in the financial statements (December 31, 2010 - $nil).

Cash Flows

Cash Provided by Operating Activities

Cash provided by operating activities for the three months ended March 31, 2011, which totaled $1,058, increased by $682 compared with the same period last year. This increase was the result of 2010 comparative amounts classification of distributions to shareholders as a finance cost, and consequently as a reduction of earnings. Offsetting this presentation change, cash flows from operating activities have decreased reflecting lower sales, lower accounts payable due to timing of supplier payments, higher inventory balances on-hand, and higher accounts receivable as a result of timing of payments from government liquor boards.

Investing Activities

For the quarter ended March 31, 2011, additions to PP&E spending, net of disposals, was $517 compared to $272 for the same period in 2010. Additions to PP&E, net of dispositions, for the three months ended March 31, 2010 included $68 (2010 – $67) for new kegs, $121 (2010 – $63) for brewing and packaging equipment, $203 (2010 – $20) of new glass containers. In addition, capital additions during the year included $124 (2010 – $86) for the purchase of new vehicles, $nil (2010 – $11) for the purchase of office furniture and equipment, and $1 (2010 – $23) relating to the building improvement and the construction of office space in the Calgary warehouse. There were no additions to computer software, which under IFRS is considered an intangible asset, in 2011 (2010 - $2).

Financing Activities

Cash used in financing activities throughout the year ended March 31, 2011 increased by $1,120 compared with the same period in 2010. The increase in cash used was a result of the reclassification of 2010 comparative distribution to shareholder payments discussed above. Adjusting for this presentation change, cash used in financing activities decreased by $514 representing the principal repayments on the long term debt, which commenced in November 2010, net of proceeds received on the exercise of employee options, for which no similar amounts were received in 2011.

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

The balance drawn against the facility fluctuates depending on working capital requirements. At March 31, 2011, there was $855 owing on this facility (December 31, 20109 - nil).

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

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

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

$ thousands (unless otherwise stated)	March 31, 2011	March 31, 2010
EBITDA	$ 954	$ (11,853)
Deduct: Amortization	932	603
Earnings (loss) before interest and taxes	22	(11,250)
Deduct: Interest	37	1,843
Add: Future income tax recovery	41	103
Net loss	$ 26	$ 12,990

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

Cash Dividends

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

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

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

	2011			2010		
	Record Date	Payment Date	Per Unit	Record Date	Payment Date	Per Unit
January				29-Jan	16-Feb	$0.10
February				26-Feb	15-Mar	$0.10
March	31-Mar	15-Apr	$0.20	31-Mar	15-Apr	$0.10
Total			$0.20			$0.30

Dividends for the three months ended March 31, 2011 totaled $1,211 ($0.20 per unit), compared to $1,809 ($0.30 per unit) in 2010. Dividends declared to shareholders may exceed net income generated during the period. Net income may not be an accurate indicator of the Corporation's liquidity, as it may be comprised of significant charges not involving cash including future income tax, changes to non-cash working capital and amortization related expenses.

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

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

CRITICAL ACCOUNTING ESTIMATES

Returnable Glass Containers

Returnable glass containers are initially recorded at cost. In order to charge operations for wear and shrinkage, the cost of bottles is charged to operations over the estimated useful life of five years. The Corporation has purchased $2,471 (December 31, 2010 - $2,403) of returnable glass containers since converting to the Industry Standard Bottle in early 2002. The net book value of returnable glass containers as at March 31, 2011 is $670 (December 31, 2010 - $556).

Stock-based compensation

The Corporation recognizes compensation expense when options with no cash settlement feature are granted to employees and directors under the option plan. Stock based compensation expense recognized during the three months ended March 31, 2010 was $113 (2010 – $nil) as discussed earlier.

Property, Plant and Equipment (PP&E)

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

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

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

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

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

Keg Deposits

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

RISKS RELATED TO THE BUSINESS AND INDUSTRY

Big Rock operates in an environment that is both highly competitive and highly government regulated. Due to the ongoing shifting effects of competition, the ability to predict future sales and profitability with any degree of certainty is limited.

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

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

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

Financial Risk

The Corporation's principal financial instruments are its outstanding amounts drawn from its credit facilities, which, after cash flow from operations, are its main source of financing. Other financial assets and liabilities arising directly from its operations and Corporation 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 as below.

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

Credit Risk and Management

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

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

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

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

Liquidity Risk and Management

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

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

Commodity Price Risk and Management

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

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

Interest Rate Risk and Management

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

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

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

The weighted average interest rate incurred by the Corporation in the three months ended March 31, 2011 was 4.23% (2010 - 3.82%).

Foreign Exchange Risk & Management

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

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

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

RELATED PARTY TRANSACTIONS

Related party transactions are included in selling expenses and relate to the engagement of a consultant, related to the Chief Executive Officer, to coordinate work on special projects undertaken by the Corporation in the normal course of business. The value of transactions for the three months ended March 31, 2010 total $36 (2009 - $36). As at March 31, 2011 and December 31, 2010, no amounts were owing to the consultant.

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

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENCIES

As at March 31, 2011 the Corporation was a party to the following contracts:

- In the first quarter of 2011, Big Rock entered into an agreement for the purchase of promotional materials for a total cost of approximately $246, of which $118 was payable at March 31. These materials, which will be used in the normal course of business, are anticipated to be delivered in the second quarter of 2011.

- In January 2011, the Corporation entered into an agreement for the purchase of kegs for a total cost of approximately $138, of which $83 was outstanding at March 31. These kegs, which will be used to expand production of finished goods, were delivered in the second quarter of 2011.

- In January 2011, Big Rock entered into an agreement the purchase of production equipment for a total cost of approximately $11, of which $5 remains to be paid. This equipment, which will be used to add foil wrapping to certain bottles, is scheduled to be delivered in the second quarter of 2011.

- Big Rock has a contract with Rahr Malting Canada Ltd. to supply malt barley for the 2011 fiscal year, at a fixed price of $500 per metric tonne. The barley will be used in the brewery's normal course of business, and delivered, as needed over a reasonable period of time, in quantities to ensure production targets are met.

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

- In May 2009, the Corporation locked in its agreement with Direct Energy to provide natural gas at a fixed price of $6.45 per gigajoule for a period of two years, ending on June 30, 2011.

The Corporation has received various government grants, which have certain terms and conditions, as disclosed in note 1. A violation of these terms and conditions may result in Big Rock having to repay an amount, up to and including the total funds received under the grant. For the three months ended of March 31, 2011 and 2010, no such violations have occurred; consequently no provision for repayment has been included in the financial statements.

ACCOUNTING STANDARDS ADOPTION

Transition to IFRS

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

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

FUTURE ACCOUNTING PRONOUNCEMENTS

IFRS Policies

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

Financial Instruments

In November 2009, the IASB issued IFRS 9 *Financial Instruments* which replaced the classification and measurement requirements in IAS 39 *Financial Instruments: Recognition and Measurement* for financial assets. Financial assets must be classified and measured at either amortized cost or fair value through profit or loss or through other comprehensive income depending on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset.

In October 2010, the IASB issued additions to IFRS 9 *Financial Instruments* regarding financial liabilities. The new requirements address the problem of volatility in net earnings arising from an issuer choosing to measure a liability at fair value and require the portion of the change in fair value due to changes in

the entity's own credit risk be presented in other comprehensive income, rather than within net earnings.

IFRS 9 shall be applied to annual periods beginning on or after January 1, 2013 with early adoption permitted.

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

DISCLOSURE CONTROLS AND PROCEDURES

The Corporation's management under the supervision of, and with the participation of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of Big Rock Brewery Operations Corp. (the administrator of the Corporation), have designed and evaluated the effectiveness and operation of its disclosure controls and procedures, as defined under National Instrument 52 – 109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"). Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed with Canadian securities regulatory authorities is recorded, processed, summarized and reported in a timely fashion. The disclosure controls and procedures are designed to ensure that information required to be disclosed by the Corporation in such reports is then accumulated and communicated to management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure. Due to the inherent limitations in all control systems, an evaluation of the disclosure controls can only provide reasonable assurance over the effectiveness of the controls. The disclosure controls are not expected to prevent and detect all misstatements due to error or fraud. Based on the evaluation of disclosure controls and procedures, the CEO and CFO have concluded that, subject to the inherent limitations noted above, the Corporation's disclosure controls and procedures are effective as of March 31, 2011.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

The CEO and CFO acknowledge responsibility for the design of ICFR and confirm that there were no changes in the Corporation's controls over financial reporting during the first quarter ended March 31, 2011, that have materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting.

Based upon their evaluation of these controls as of March 31, 2011, the CEO and CFO have concluded that the Corporation's ICFR were effective as at that date. In addition, there were no material changes to Big Rock's internal controls over financial reporting since the most recent interim period.

OUTLOOK

Despite the economic environment and general trends across the beer industry, Big Rock remains excited about 2011. Management expects consumer demand for premium craft brewery products to remain positive throughout the year. In response to this consumer-driven demand, Big Rock will continue to invest in focused marketing opportunities to create brand awareness and sustained volume growth throughout 2011.

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

FORWARD LOOKING INFORMATION

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

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

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

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

- expected volumes;
- projections of market prices and costs;
- treatment under governmental regulatory and taxation regimes; and
- supply and demand of Big Rock's products.

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

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

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

The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. Big Rock does not undertake any obligation to update or revise any forward-looking

statements, whether as a result of new information, future events or otherwise, unless required by law.

ADDITIONAL INFORMATION

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

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

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

	Three months ended March 31	
	2011	2010
Net revenue (Note 4)	$ 8,802	$ 10,545
Cost of sales (Note 5)	4,483	4,553
Gross profit	4,319	5,992
Expenses		
Selling expenses (Notes 6 and 23)	3,065	3,358
General and administrative (Notes 7 and 24)	1,169	1,320
Depreciation and amortization	92	70
Operating profit (loss)	(7)	1,244
Finance costs (Note 8)	37	1,843
Change in fair value of trust units (Notes 16 and 23)	–	(12,505)
Change in fair value of share based payments liabilities (Notes 16 and 22)	–	(69)
Other income	87	95
Other expenses	28	15
Income (loss) before income taxes	15	(13,093)
Deferred income tax expense (recovery) (Note 9)	41	(103)
Net income (loss) and comprehensive income (loss) for the period	$ (26)	$ (12,990)

Net income (loss) per share (Note 10)		
Basic and diluted	$ –	$ (2.16)

See accompanying notes to the interim consolidated financial statements

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

	March 31, 2011	December 31, 2010	January 1, 2010
ASSETS			
Non-current assets			
Property, plant and equipment (Note 11)	$ 38,246	$ 38,595	$ 40,889
Intangible assets (Note 12)	260	286	344
	38,506	38,881	41,233
Current			
Inventories (Note 13)	4,253	3,951	3,333
Accounts receivable (Notes 14 and 22)	2,315	1,789	3,617
Prepaid expenses and other (Note 15)	370	397	305
Cash	—	769	728
	6,938	6,906	7,983
Total assets	$ 45,444	$ 45,787	$ 49,216
LIABILITIES AND SHAREHOLDERS' EQUITY			
EQUITY			
Shareholders' capital (Note 16)	$ 99,954	$ 99,954	$ —
Contributed surplus (Notes 16 and 17)	444	—	—
Retained earnings	(66,946)	(65,709)	(52,666)
	33,452	34,245	(52,666)
LIABILITIES			
Non-current			
Long term debt (Notes 18 and 22)	2,508	2,683	3,557
Trust units (Notes 15 and 22)	—	—	88,536
Share based payment liabilities (Notes 16 and 22)	10	331	199
Deferred income taxes (Note 9)	4,247	4,206	4,865
	6,765	7,220	97,157
Current			
Accounts payable and accrued liabilities (Notes 19 and 22)	2,460	3,016	4,725
Dividends payable (Notes 20 and 22)	1,212	606	—
Current portion of long-term debt (Notes 18 and 22)	700	700	—
Bank indebtedness (Notes 18 and 22)	855	—	—
	5,227	4,322	4,725
Commitments (Note 26)			
Total liabilities and unitholders' equity	$ 45,444	$ 45,787	$ 49,216

See accompanying notes to the interim consolidated financial statements

	"signed"	"signed"
On behalf of the Board:	Ed. E. McNally Director	Michael G. Kohut Director

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

	Three months ended March 31	
	2011	2010
OPERATING ACTIVITIES		
Net loss for the period	$ (26)	$ (12,990)
Items not affecting cash:		
Depreciation and amortization	932	603
Gain on sale of assets	(2)	–
Stock based compensation	113	85
Change in fair value of financial liabilities	–	12,505
Change in fair value of other liabilities	–	30
Deferred income tax expense (recovery)	41	(103)
	1,058	130
Net change in non-cash working capital related to operations (note 25)	(1,384)	(1,138)
Cash used in operating activities	(326)	(1,008)
FINANCING ACTIVITIES		
Distribution payments	(606)	–
Principal repayments of long-term debt	(175)	–
Cash received on exercise of options	–	339
Cash provided by (used in) financing activities	(781)	339
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(567)	(270)
Purchase of intangibles	–	(2)
Net change in non-cash working capital related to investing	48	–
Proceeds from sale of equipment	2	–
Cash used in investing activities	(517)	(272)
Net decrease in cash	(1,624)	(941)
Cash, beginning of period	769	728
Cash (bank indebtedness), end of period	$ (855)	$ (213)

Supplemental cash-flow information		
Cash interest paid	$ 37	$ 34
Cash taxes paid	$ –	$ –

See accompanying notes to the interim consolidated financial statements

BIG ROCK BREWERY INC.

Consolidated Statements of Changes in Shareholders' Equity

Unaudited

(In thousands of Canadian dollars)

	Share Capital	Contributed Surplus	Retained earnings	Total
Balance as at January 1, 2010 (Note 3)	$ —	$ —	$ (52,666)	$ (52,666)
Total comprehensive loss for the three months ended March 31, 2010	—	—	(12,990)	(12,990)
Balance as at March 31, 2010	—	—	(65,656)	(65,656)
Reclassification of trust units	99,879	—	—	99,879
Shares issued on exercise of options	75	—	—	75
Total comprehensive income for the remainder of the year ended December 31, 2010	—	—	4,792	4,792
Dividends declared for the remainder of the year ended December 31, 2010	—	—	(4,845)	(4,845)
Balance as at December 31, 2010	99,954	—	(65,709)	34,245
Stock options issued on Corporate conversion	—	331	—	331
Share-based payments	—	113	—	113
Total comprehensive loss for the three months ended March 31, 2011	—	—	(26)	(26)
Dividends declared for the three months ended March 31, 2011	—	—	(1,211)	(1,211)
Balance as at March 31, 2011	$ 99,954	$ 444	$ (66,946)	$ 33,452

See accompanying notes to the 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. On January 1, 2011, Big Rock announced it had completed its conversion from an income trust to a corporation. The common shares of Big Rock Brewery Inc. began trading on the Toronto Stock Exchange on January 7, 2011. The common shares will trade under the symbol "BR". The Trust units, which traded under the symbol "BR.UN", were delisted the same day.

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

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

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

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

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

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

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

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

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

2.2 Basis of presentation

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

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

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

2.3 Future accounting pronouncements

The IASB has issued IFRS 9 *Financial Instruments* which replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 shall be applied to annual periods beginning on or after January 1, 2013 with early adoption permitted.

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

3. FIRST-TIME ADOPTION OF IFRS

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

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

i. Elected exemptions from full retrospective application:

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

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

ii. Mandatory exceptions to retrospective application:

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

Estimates:

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

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

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

Reconciliation under pre-changeover Canadian GAAP to IFRS:

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

3.1 Shareholders' equity

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

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

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

		Share Capital	Contributed Surplus	Retained Earnings	Total
As reported under pre-changeover Canadian GAAP – March 31, 2010		$ 18,809	$ 702	$ 6,380	$ 25,891
Differences increasing (decreasing) reported amounts:					
Property, Plant and Equipment	i	–	–	12,649	12,649
Intangible assets	i	–	–	326	326
Inventories	ii	–	–	(470)	(470)
Trust units	iii	(18,809)	–	(82,610)	(101,419)
Share based payment liabilities	iii	–	(702)	473	(229)
Deferred income taxes	iv	–	–	(2,404)	(2,404)
As reported under IFRS - March 31, 2010		$ –	$ –	$ (65,656)	$ (65,656)

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

		Share Capital	Contributed Surplus	Retained Earnings	Total
As reported under pre-changeover Canadian GAAP – December 31, 2010		$ 19,163	$ 803	$ 5,387	$ 25,353
Differences increasing (decreasing) reported amounts:					
Property, Plant and Equipment	i	—	—	11,681	11,681
Intangible assets	i	—	—	267	267
Inventories	ii	—	—	(622)	(622)
Reclassification of trust units	iii	$ 80,791	—	(80,791)	—
Share based payment liabilities	iii	—	(803)	472	(331)
Deferred income taxes	iv	—	—	(2,103)	(2,103)
As reported under IFRS - December 31, 2010		$ 99,954	$ —	$ (65,709)	$ 34,245

Notes to the IFRS reconciliations above:

i. Property, plant and equipment ("PP&E") and intangible assets

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

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

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

ii. Inventories

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

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

iii. Trust units and share based payment liabilities

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

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

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

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

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

iv. Deferred income taxes

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

3.2 Net income

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

		Three months ended March 31, 2010	Year ended December 31, 2010
As reported under pre-changeover Canadian GAAP		$ 1,660	$ 6,117
Differences increasing (decreasing) reported amount:			
Property, Plant and Equipment	i	(255)	(1,223)
Intangible assets	i	(18)	(77)
Inventories	ii	(73)	(225)
Trust units	iii	(14,314)	(13,100)
Share based payment liabilities	iii	(69)	(70)
Deferred income taxes	iv	79	380
As reported under IFRS		$ (12,990)	$ (8,198)

Notes to the IFRS reconciliations above:

i. PP&E and intangible assets

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

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

ii. Inventories

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

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

iii. Trust units and share based payment liabilities

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

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

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

iv. Deferred income taxes

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

3.3 Cash flows

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Significant accounting judgments and estimates

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

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

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

4.2 Revenue recognition

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

	Three months ended March 31	
	2011	2010
Gross Product Revenues	$ 10,886	$ 13,014
Co-Packing Revenue	—	99
Excise Taxes	(703)	(914)
AGLC Commissions	(1,388)	(1,667)
British Columbia Cost of Service	7	13
Net Revenue	$ 8,802	$ 10,545

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

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

4.3 Government assistance

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

During the three months ended March 31, 2011, Big Rock received $74 in government assistance relating to operating expenses (2010 - $nil) and $nil in respect of PP&E (2010 - $nil).

4.4 Accounts receivable

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

4.5 Inventories

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

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

4.6 Property, plant and equipment ("PP&E")

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

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

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

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

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

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

4.7 Intangible assets

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

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

Computer software	3 years
Intellectual property	10 years
Website	6 years

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

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

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

4.8 Share-based payments

Share-based payment transactions

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

Equity settled transactions

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

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

4.9 Taxation

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

Current income tax

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

Deferred income tax

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

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

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

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

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

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

4.10 Keg deposits

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

4.11 Earnings per share

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

4.12 Financial assets

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

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost. Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. At March 31, 2011, the Corporation has not classified any financial assets as FVTPL, available-for-sale or held-to-maturity.

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

4.13 Financial liabilities

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

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

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

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

4.14 Impairment of non-financial assets

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

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

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

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

4.15 Provisions

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

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

4.16 Related party transactions

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

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

5. COST OF SALES

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

	Three months ended March 31	
	2011	2010
Operating expenses	$ 3,643	$ 4,020
Depreciation and amortization	840	533
Cost of sales	$ 4,483	$ 4,553

6. SELLING EXPENSES

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

	Three months ended March 31	
	2011	2010
Delivery and distribution costs	$ 838	$ 866
Salaries and benefits	960	1,037
Promotional material	642	764
Community sponsorship and other	625	691
Selling expenses	$ 3,065	$ 3,358

7. GENERAL AND ADMINISTRATION EXPENSES

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

	Three months ended March 31	
	2011	2010
Salaries and benefits [(1)]	$ 583	$ 585
Professional fees	228	450
Reporting and filing fees	62	35
Insurance	46	44
Building maintenance and taxes	126	115
Bank charges	15	12
Office, administrative and other	109	79
General and administrative expenses	$ 1,169	$ 1,320

[(1)] Salaries and benefits included stock-based compensation (a non-cash charge) of $113 (2010 – $ nil).

8. FINANCE COSTS

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

	Three months ended March 31	
	2011	2010
Interest on long-term debt	$ 35	$ 34
Interest on operating facility	2	—
Distributions to shareholders	—	1,809
Finance costs	$ 37	$ 1,843

Under IFRS, the trust units outstanding as at March 31, 2010 were considered a financial liability. Consequently, distributions declared on those units were considered a finance costs and recorded as a charge to earnings, up to the Annual General Meeting on May 20, 2010 at which time the trust indenture was changed by the shareholders.

9. INCOME TAXES

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

	Three months ended March 31	
	2011	2010
Income (loss) before income taxes	$ 15	$ (13,093)
Income tax expense (recovery) at statutory rate of 26.66% (2010 – 28.26%)	4	(3,700)
Effect on taxes of:		
Stock-based compensation expenses	30	–
Impact of rate change on temporary differences	2	39
Non-deductible expenses	5	5
Change in fair value of trust units and options	–	3,553
Deferred income tax expense (recovery)	$ 41	$ (103)

Deferred income taxes were comprised of the following:

	March 31, 2011	December 31, 2010
Property, plant and equipment	$ 4,265	$ 4,330
Share issue costs	(18)	(18)
Other	–	(106)
Deferred income tax liability	$ 4,247	$ 4,206

10. LOSS PER SHARE

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

	Three months ended March 31	
	2011	2010
Net loss	$ (26)	$ (12,990)
Shares outstanding, beginning of the period	6,057,678	6,014,678
Weighted average # of shares issued during the period ended March 31	–	10,372
Basic and fully-diluted shares outstanding, end of period	6,057,678	6,025,050
Loss per share – basic and diluted	$ –	$ 2.16

11. PROPERTY, PLANT AND EQUIPMENT

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

	Land	Buildings	Machinery and equipment	Mobile equipment	Office furniture and equipment	Leasehold improvements	Returnable containers	Total
Cost								
As at January 1, 2010	$ 8,365	$ 10,856	$ 19,760	$ 401	$ 300	$ 212	$ 995	$ 40,889
Quarter ended March 31, 2010								
Additions	—	23	75	86	12	—	74	270
As at March 31, 2010	8,365	10,879	19,835	487	312	212	1,069	41,159
Balance of year								
Additions	—	24	204	137	36	—	229	630
Disposals	—	—	—	(65)	—	—	—	(65)
As at December 31, 2010	8,365	10,903	20,039	559	348	212	1,298	41,724
Quarter ended March 31, 2011								
Additions	—	1	137	126	—	—	303	567
Disposals	—	—	—	(12)	—	—	—	(12)
As at March 31, 2011	$ 8,365	$ 10,904	$ 20,176	$ 673	$ 348	$ 212	$ 1,601	$ 42,279

	Land	Buildings	Machinery and equipment	Mobile equipment	Office furniture and equipment	Leasehold improvements	Returnable containers	Total
Accumulated amortization								
As at January 1, 2010	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Quarter ended March 31, 2010								
Charge for the period	—	68	599	27	10	4	85	793
As at March 31, 2010	—	68	599	27	10	4	85	793
Balance of year								
Charge for the period	—	207	1,809	73	31	11	268	2,399
Eliminated on disposals	—	—	—	(63)	—	—	—	(63)
As at December 31, 2010	—	275	2,408	37	41	15	353	3,129
Quarter ended March 31, 2010								
Charge for the period	—	71	645	37	14	4	145	916
Eliminated on disposals	—	—	—	(12)	—	—	—	(12)
As at March 31, 2011	$ —	$ 346	$ 3,053	$ 62	$ 55	$ 19	$ 498	$ 4,033

	Land	Buildings	Machinery and equipment	Mobile equipment	Office furniture and equipment	Leasehold improvements	Returnable containers	Total
Net book value								
As at December 31, 2010	$ 8,365	$ 10,628	$ 17,631	$ 522	$ 307	$ 197	$ 945	$ 38,595
As at March 31, 2011	$ 8,365	$ 10,558	$ 17,123	$ 611	$ 293	$ 193	$ 1,103	$ 38,246

For the three months ended March 31, 2011 and 2010, there were no indicators of impairment in the carrying value of the Corporation's PP&E. Accordingly no provisions have been recorded in these Financial Statements.

12. INTANGIBLE ASSETS

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

	Computer software	Intellectual property	Website costs	Total
Cost				
As at January 1, 2010	$ 152	$ 170	$ 22	$ 344
Quarter ended March 31, 2010				
Additions	2	—	—	2
As at March 31, 2010	154	170	22	346
Balance of year				
Additions	17	—	—	17
As at December 31, 2010	171	170	22	363
Quarter ended March 31, 2011				
Additions	—	—	—	—
As at March 31, 2011	$ 171	$ 170	$ 22	$ 363

	Computer software	Intellectual property	Website costs	Total
Accumulated amortization				
As at January 1, 2010	$ —	$ —	$ —	$ —
Quarter ended March 31, 2010				
Charge for the period	12	5	1	18
As at March 31, 2010	12	5	1	18
Balance of year				
Charge for the period	43	14	2	59
As at December 31, 2010	55	19	3	77
Quarter ended March 31, 2011				
Charge for the period	20	5	1	26
As at March 31, 2011	$ 75	$ 24	$ 4	$ 103

	Computer software	Intellectual property	Website costs	Total
Net book value				
As at December 31, 2010	$ 116	$ 151	$ 19	$ 286
As at March 31, 2011	$ 96	$ 146	$ 18	$ 260

For the three months ended March 31, 2011 and 2010, there were no indicators of impairment in the carrying value of the Corporation's intangible assets. Accordingly no provisions have been recorded in these Financial Statements.

13. INVENTORIES

The inventories for the Corporation are categorized as follows:

	March 31, 2011	December 31, 2010	January 1, 2010
Raw materials and returnable glass containers	$ 1,290	$ 1,154	$ 1,054
Brews in progress	913	834	657
Finished product	1,920	1,829	1,518
Consignment product	104	97	50
Dry goods store (resale goods)	26	37	54
	$ 4,253	$ 3,951	$ 3,333

During the three months ended March 31, 2011, charges of $166 (2010 - $199) were recorded to net income relating to obsolete, damaged or unsellable packaging inventory and promotional and resale goods, and damaged finished goods inventory.

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

Finished goods inventory includes $226 (December 31, 2010 – $215; January 1, 2010 - $nil) of amortization charges on production equipment used to convert raw materials to finished goods.

14. TRADE AND OTHER RECEIVABLES

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

	March 31, 2011	December 31, 2010	January 1, 2010
Provincial liquor boards	$ 2,088	$ 1,488	$ 1,884
Co-packing customers and supplier rebates	12	137	1,538
Other receivables	215	164	195
Total accounts receivable	$ 2,315	$ 1,789	$ 3,617

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

	March 31, 2011	December 31, 2010	January 1, 2010
Less than 30 days	$ 2,150	$ 1,436	$ 2,452
30 – 60 days	122	183	339
60 – 90 days	6	40	284
Over 90 days	37	130	542
Total accounts receivable	$ 2,315	$ 1,789	$ 3,617

The Corporation holds no collateral for any receivable amounts outstanding as at March 31, 2011.

15. PREPAID EXPENSES AND DEPOSITS

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

	March 31, 2011	December 31, 2010	January 1, 2010
Promotional materials	$ 118	$ 155	$ 103
Other	32	23	20
Public filing fees	52	2	1
Property taxes	81	19	8
Prepaid insurance	15	62	56
Community sponsorship	26	36	56
Equipment rental and maintenance	41	60	61
Employee benefits	5	40	—
	$ 370	$ 397	$ 305

16. SHARE CAPITAL

16.1 Common shares

	# of shares	$ Amount
As at January 1, 2010	6,014,678	—
Quarter ended March 31, 2010		
Shares issued upon exercise of options	22,200	—
As at March 31, 2010	6,036,878	—
Shares issued upon exercise of options	16,400	—
Reclassification of trust liability	6,053,278	99,879
Balance of year		
Shares issued upon exercise of options	4,400	75
As at December 31, 2010	6,057,678	99,954
Quarter ended March 31, 2011		
Shares issued upon exercise of options	—	—
As at March 31, 2011	6,057,678	99,954

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

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

17. SHARE-BASED PAYMENTS

17.1 Stock option plan

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

regulatory requirements – including the terms of the option plan. The Corporation is authorized to issue options for a maximum of 10% of the issued and outstanding common shares pursuant to the stock option plan.

The general terms of stock options granted under the amended plan include a maximum exercise period of 5 years and vesting immediately. The options granted in the three months ended March 31, 2011 were granted with an exercise period of 5 years and vested immediately.

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

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

A share-based compensation charge of $113 for the options granted in the three months ended March 31, 2011 (2010 - $nil) was recognized in statement of comprehensive income. Share-based compensation costs have been included in general and administrative expenses.

17.2 Stock appreciation rights plan

On April 1, 2006 the Corporation introduced a stock appreciation rights plan (“SAR”) to be used as a basis for incentive compensation to employees. Under the plan, employees who held incentive stock options previously issued in June 2005 with an exercise price of $19.07 (the “old” options) could exchange each old option for a new SAR. The SARs vest after a three year period beginning April 1, 2006 and are exercisable for two years thereafter at a price of $17.00 per trust unit (to be settled in cash).

At the end of each reporting period, the fair value of the SARs, as determined by the difference between the trading price of the Corporations shares at that date and the exercise price, is recorded as a liability on the balance sheet, on a pro rata basis, over the vesting period. For SARs issued in exchange for old options, to the extent this amount is less than the compensation expense originally recorded in 2005 for the old options, an offsetting amount is charged to contributed surplus. Any liability in excess of the amount previously recorded as compensation expense will be recorded as additional compensation expense in the current year.

As at March 31, 2011, 248,000 SARs were outstanding (December 31, 2010 – 447,250). During the three months ended March 31, 2011, no SARs were issued (2010 – nil), no SARs were exercised (2010 – nil) and 199,250 SARs were forfeited (2010 – 126,000). Forfeited SARs related to individuals no longer employed with Big Rock. As at March 31, 2011, the trading price of the Corporation shares was less than the exercise price of the majority of the SARs, resulting in a liability of $10 being recorded in the financial statements (December 31, 2010 - $nil).

17.3 Outstanding stock options

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

	2011		2010	
	# of options	Weighted average exercise price	# of options	Weighted average exercise price
Balance, January 1	262,000	$ 15.84	385,600	$ 17.10
Forfeited	—	—	(48,500)	$ 16.94
Exercised	—	—	(22,200)	$ 15.26
Issued	58,000	$ 16.60	—	—
Balance, March 31	320,000	$ 16.31	314,900	$ 17.26

The following table summarizes information about stock options outstanding and exercisable at March 31, 2011:

Exercise price	# of Options outstanding at March 31, 2011	Weighted average remaining contractual life (years)	Weighted average exercise price	# of Options exercisable at March 31, 2011
$15.26 to $17.71	300,000	2.88	$ 16.22	300,000
$17.72	20,000	1.75	17.72	20,000
Balance, March 31	320,000	2.77	$ 16.31	320,000

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

18. BANK INDEBTEDNESS AND LONG-TERM DEBT

18.1 Operating facility

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

As at March 31, 2011, a balance of $855 (December 31, 2010 - nil) was outstanding on the facility

The facility imposes a number of positive and negative covenants on Big Rock including the maintenance of certain financial ratios, which are detailed further in note 19 to these consolidated financial statements. As at March 31, 2011 and December 31, 2010, Big Rock was in compliance with all covenants.

18.2 Long-term debt and credit facility

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

Big Rock also signed a $6.5 million credit facility which is available in two tranches of $2.0 million each and one tranche of $2.5 million to finance capital asset expansions. Once advances under a tranche

total $2.0 million or $2.5 million as outlined above, the respective tranche will convert to a reducing term loan. Until such time as the facility is converted, interest will be payable at ATB's prime plus 1.25 per cent. Following conversion, the term loans will be amortized over periods up to 10 years, with terms ranging from 1 to 5 years. Undrawn amounts under the facility expire on September 30, 2011, if not extended.

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

19. ACCOUNTS PAYABLES AND ACCRUED LIABILITIES

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

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

	March 31, 2011	December 31, 2010	January 1, 2010
Less than 30 days	$ 2,122	$ 2,341	$ 4,711
30 – 60 days	262	—	—
60 – 90 days	—	163	—
Over 90 days	76	512	14
Total accounts payable and accrued liabilities	$ 2,460	$ 3,016	$ 4,725

20. DIVIDENDS PAYABLES

Big Rock declared dividends of $1,212, or $0.20 per share, for the three months ended March 31, 2011 (2010 - $1,809, or $0.30 per share). Dividends were paid on April 15, 2011 (April 15, 2010; $604 in respect of income for March 2010).

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

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

21. CAPITAL RISK MANAGEMENT

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

	March 31, 2011	December 31, 2010
Bank indebtedness (cash)	$ 855	$ (769)
Total debt	3,208	3,383
Shareholders' equity:		
Shareholders' capital	99,954	99,954
Contributed surplus	444	—
Retained earnings	(66,946)	(65,709)
Total shareholders' equity	33,452	34,245
Total capitalization (total debt plus shareholders' equity, net of cash balances)	$ 37,515	$ 36,859

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

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

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

22. FINANCIAL INSTRUMENTS

22.1 Categories of financial instruments

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

Big Rock's financial instruments and their designations are:

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

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

22.2 Fair value

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

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

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. Big Rock does not use Level 1 inputs for any of its fair value measurements.

Level 2 – Inputs, other than quoted prices in active markets, that are observable for the asset or liability either directly or indirectly. Big Rock's Level 2 inputs include quoted market prices for interest rates and credit risk premiums. Big Rock obtains information from sources including the Bank of Canada and market exchanges. Big Rock uses Level 2 inputs for all of its financial instruments fair value measurements.

Level 3 – Inputs that are not based on observable market data. Big Rock does not use Level 3 inputs for any of its fair value measurements.

Non-derivative financial assets and liabilities

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

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

22.3 Financial risk management objectives and policies

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

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

(i) *Currency risk*

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

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

Foreign currency sensitivity analysis

An increase or decrease in US currency foreign exchange of 3 percent would result in a change to net income for the three months ended March 31, 2011 of $1 (2010 – $2).

(ii) ***Interest rate risk***

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

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

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

The weighted average interest rate incurred by the Corporation in the three months ended March 31, 2011 was 4.23% (2010 - 3.82%).

Interest rate sensitivity analysis

In the event interest rates changed by 75 basis points, the Corporation's net income for the three months ended March 31, 2011 would be affected by $73 (2010 – $84).

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

(iii) ***Credit risk***

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

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

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

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

(iv) ***Liquidity risk***

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

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

(v) ***Commodity price risk***

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

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

23. RELATED PARTY TRANSACTIONS

Related party transactions are included in selling expenses and relate to the engagement of a consultant, related to the Chief Executive Officer, to coordinate work on special projects undertaken by the Corporation in the normal course of business. The value of transactions for the three months ended March 31, 2010 total $36 (2009 - $36). As at March 31, 2011 and December 31, 2010, no amounts were owing to the consultant.

All amounts have been recorded at the exchange amount.

24. KEY MANAGEMENT PERSONNEL COMPENSATION

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

	Three months ended March 31	
	2011	2010
Salaries and other short-term benefits	$ 104	$ 109
Bonuses	130	234
Stock-based compensation	87	—
Total compensation	$ 321	$ 343

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

25. CHANGE IN NON-CASH WORKING CAPITAL

	Three months ended March 31	
	2011	2010
Accounts payable and accrued liabilities	$ (592)	$ (1,043)
Inventory	(291)	(643)
Accounts receivable	(526)	663
Prepaid expenses	27	(115)
Total change in non-cash working capital	$ (1,382)	$ 1,138

26. COMMITMENTS FOR EXPENDITURE

As at March 31, 2011, the Corporation was a party to the following contracts:

- In the first quarter of 2011, Big Rock entered into an agreement for the purchase of promotional materials for a total cost of approximately $246, of which $118 was payable at March 31. These materials, which will be used in the normal course of business, are anticipated to be delivered in the second quarter of 2011.

- In January 2011, the Corporation entered into an agreement for the purchase of kegs for a total cost of approximately $138, $83 was outstanding at March 31. These kegs, which will be used to expand production of finished goods, were delivered in the second quarter of 2011.

- In January 2011, Big Rock entered into an agreement the purchase of production equipment for a total cost of approximately $11, of which $5 remains to be paid. This equipment, which will be used to add foil wrapping to certain bottles, is scheduled to be delivered in the second quarter of 2011.

- Big Rock has a contract with Rahr Malting Canada Ltd. to supply malt barley for the 2011 fiscal year, at a fixed price of $500 per metric tonne. The barley will be used in the brewery's normal course of business, and delivered, as needed over a reasonable period of time, in quantities to ensure production targets are met.

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

- In May 2009, the Corporation locked in its agreement with Direct Energy to provide natural gas at a fixed price of $6.45 per gigajoule for a period of two years, ending on June 30, 2011.

The Corporation has received various government grants, which have certain terms and conditions, as disclosed in note 1. A violation of these terms and conditions may result in Big Rock having to repay an amount, up to and including the total funds received under the grant. For the three months ended of March 31, 2011 and 2010, no such violations have occurred; consequently no provision for repayment has been included in the financial statements.

27. SEGMENTED INFORMATION

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

28. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements of Big Rock Brewery Inc. for the three months ended March 31, 2011 were approved and authorized for issue by the Audit Committee on May 11, 2011.