



## BIG ROCK BREWERY INC. QUARTERLY REPORT

### THIRD QUARTER 2013 HIGHLIGHTS

\$ thousands (unless otherwise stated)	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Sales volumes (hectolitres or hl)	52,110	62,276	145,475	171,458
Net revenue	11,852	13,281	32,491	35,818
Operating profit	1,590	2,395	3,525	4,786
Net income	1,217	1,749	2,678	3,540
Earnings per share (basic and diluted)	\$ 0.20	\$ 0.28	\$ 0.44	\$ 0.58

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Big Rock Brewery Inc. (the "Corporation" or "Big Rock") for the three and nine months ended September 30, 2013, as compared to the same periods in 2012.

This MD&A should be read in conjunction with the unaudited consolidated financial statements of the Corporation and accompanying notes as at and for the three and nine months ended September 30, 2013 (the "Financial Statements") and in conjunction with the December 30, 2012 audited consolidated financial statements and MD&A contained within our 2012 Annual Report. The financial statements have been prepared using International Financial Reporting Standards ("IFRS"). All amounts are reported in thousands of Canadian dollars unless otherwise noted.

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

The MD&A is dated November 8, 2013.

### CORPORATE PROFILE

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

Big Rock stands out as a Canadian producer, marketer, and distributor of premium quality specialty craft beers. The Corporation has sales and distribution facilities in Calgary and Edmonton, sales staff resident in Alberta, British Columbia, Saskatchewan and Manitoba and agency arrangements for product sales in Ontario and the Atlantic Provinces. Big Rock products are sold in nine provinces and three territories in Canada and also exported to Korea.

## INDUSTRY TRENDS AND INDICATORS

The beer industry in Canada has become increasingly polarized, with growth occurring in value-priced products at one end of the spectrum and in premium craft beers at the other end. This growth is largely at the expense of products in the middle of the spectrum, which have been declining steadily over the past several years. The net result for the industry was an overall decline in sales volumes of 2.7% for the first nine months of 2013 compared to the same period in 2012. Big Rock's shift in emphasis from volume growth to a focus on maximization of sustainable cashflow and operating profit has meant a deliberate reduction in volumes as promotional pricing activities were scaled back. Therefore, despite the overall trends for its market segments, Big Rock saw a decline in sales volumes of 16.3% for the six months ended September 30, 2013.

## SELECTED QUARTERLY FINANCIAL INFORMATION

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

\$ thousands (unless otherwise stated)	2013			2012				2011
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Sales volumes (hl)	52,110	51,266	42,098	46,188	62,276	61,615	47,567	48,961
Net revenue	11,852	11,635	9,004	10,239	13,281	12,935	9,602	10,023
Operating profit	1,590	1,806	129	832	2,395	2,311	80	1,140
Net income	1,217	1,369	92	595	1,749	1,683	108	856
Earnings per share (basic and diluted)	\$0.20	\$ 0.22	\$ 0.02	\$ 0.10	\$ 0.28	\$ 0.28	\$ 0.02	\$ 0.14
<i>Dividends per share</i>	\$0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20

Big Rock experiences seasonal fluctuations in volumes, net sales revenue and net 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

Sales volumes decreased 16% for the three months ended September 30, 2013 as compared to the same period last year due to reducing promotional pricing activity, discontinuing certain brands and the continuing impact on several major Alberta customers of severe flooding in the prior quarter. Big Rock's net revenue decreased 11% to \$11,852 compared to \$13,281 in 2012. The smaller decrease in net revenue compared to product volumes was a result of higher relative prices across most regions and core products as well as the net impact of less extensive limited time offers than in 2012. Sales volumes for the nine months ended September 30, 2013 were 145,475, which was a decrease of 15% over the same period in 2012. Revenue for the nine months ended September 30, 2013 decreased by 9% to \$32,491 as compared to \$35,818 in the same period in 2012.

Net income for the third quarter of 2013 decreased to \$1,217 compared to \$1,749 for the same period in 2012. For the three months ended September 30, 2013, operating profit totalled \$1,590 compared to \$2,395 for the same period last year, while for the nine months ended September 30, 2013, operating profit was \$3,525 compared to \$4,786 in 2012. The decreased operating profit results largely from the impact on revenue of lower sales volumes (partially offset by higher prices and less extensive limited time offers, combined with lower cost of sales and selling expenses).

## Gross Profit

\$ thousands (unless otherwise stated)	Three months ended September 30			Nine months ended September 30		
	2013	2012	Change	2013	2012	Change
Net sales revenue	11,852	13,281	(1,429)	32,491	35,818	(3,327)
Cost of sales:						
Ingredients and packaging materials	2,832	3,458	(626)	7,674	9,146	(1,472)
Labour	1,092	1,092	—	3,478	3,358	120
Overhead	707	666	41	2,075	1,715	360
Inventory movement	159	(15)	174	(199)	(157)	(42)
Depreciation	747	684	63	2,039	2,047	(8)
Cost of sales	5,537	5,885	(348)	15,067	16,109	(1,042)
Gross profit	6,315	7,396	(1,081)	17,424	19,709	(2,285)
Sales volumes (hl)	52,110	62,276	(10,166)	145,475	171,458	(25,983)

Net sales revenues include product sales for beer and cider.

Net sales revenue decreased \$1,429 and \$3,327 for the three months and nine months ended September 30, 2013, respectively, compared to the same periods in 2012. Lower revenue is due to lower volumes, offset partially by higher prices. Lower volumes in the quarter were experienced in the “core” and value categories, due largely to the less extensive limited time offers on these products in 2013 as compared to the same period in 2012. Volume growth occurred in premium-priced signature brands.

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

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

For the three months and nine months ended September 30, 2013, total cost of sales decreased by \$348 and \$1,042 compared to the same periods last year, as described below:

- Costs relating to ingredients and packaging materials decreased \$626 and \$1,472 respectively, due primarily to lower production volumes.
- Big Rock’s labour costs relating to production are primarily fixed in nature. When compared to the same period in 2012, labour charges for the third quarter of 2013 were consistent and for the year to date increased \$120, due to annual salary increases.
- Overhead costs include utilities, repairs and maintenance and other production related amounts, which are primarily fixed in nature. Overhead costs at September 30, 2013 increased by \$41 compared to the three months ended September 30, 2012 and increased \$360 on a year to date basis due to lower on-going water utilities and a refund on 2011 water utilities received in the first quarter of 2012.
- Inventory movement is a timing difference relating to the absorption of production costs into finished goods inventory on the statement of financial position, and the eventual charge to earnings for those costs as finished goods inventory is sold. For the quarter and year to date ended September 30, 2013, charges relating to inventory movement increased by \$174 and decreased by \$42, respectively, compared with the same period last year.

- Big Rock includes depreciation charges on production equipment used to convert raw materials to finished goods as part of its cost of sales and finished goods inventory. The primary driver of changes in depreciation was inventory movement in the period.

On a per hectolitre basis, cost of sales increased by \$11.76 per hl (12.4%) for the three months ended September 30, 2013 compared to the same period in 2012. For the nine months ended September 30, 2013, cost of sales increased by \$9.62 per hl (10.2%). The fixed portion of these costs combined with lower sales volumes was the primary driver of the increase, as detailed in the following table:

#### Per hectolitre cost of sales

	Three months ended September 30			Nine months ended September 30		
	2013	2012	Change	2013	2012	Change
Net sales revenue	227.44	213.26	14.18	223.34	208.90	14.44
Cost of sales:						
Ingredients and packaging materials	54.34	55.54	(1.20)	52.75	53.35	(0.60)
Labour	20.96	17.53	3.43	23.91	19.58	4.33
Overhead	13.57	10.69	2.88	14.26	10.00	4.26
Inventory movement	3.05	(0.24)	3.29	(1.37)	(0.92)	(0.45)
Depreciation	14.34	10.98	3.36	14.02	11.94	2.08
Cost of sales	106.26	94.50	11.76	103.57	93.95	9.62

#### Selling expenses

\$ thousands (unless otherwise stated)	Three months ended September 30			Nine months ended September 30		
	2013	2012	Change	2013	2012	Change
Selling:						
Delivery and distribution	905	1,064	(159)	2,532	3,054	(522)
Salaries and benefits	871	918	(47)	2,985	2,835	150
Marketing	444	394	50	904	771	133
Regional sales	840	1,067	(227)	2,939	3,525	(586)
Community sponsorship and other	436	315	121	706	597	109
Total selling expenses	3,496	3,758	(262)	10,066	10,782	(716)

Selling expenses have decreased for both the three months and nine months ended September 30, 2013 as a result of concerted cost management efforts. Compared to the same periods in the prior year, selling expenses were lower by \$262 for the three months and by \$716 for the nine months ended September 30, 2013, as detailed below:

- Delivery and distribution costs decreased primarily as a result of lower volumes delivered across Canada in the quarter and the nine months year to date as compared to the same periods last year.
- Salaries and benefit costs decreased by \$47 for the third quarter and increased by \$150 for the year to date due primarily to lower headcount, partially offset by annual salary increases and higher severance.
- Marketing increased \$133 on a year to date basis and increased \$50 in the quarter due to enhanced marketing initiatives and new product development.
- Regional sales expenses decreased by \$227 and \$586 for the quarter and year to date ended September 30, 2013, respectively. These decreases were mainly due to reduced spending on sales programs, partially offset by increased expenditures relating to tastings as a result of an increased focus on consumer trial.

- Community sponsorship and other expenses for the three and nine months ended September 30, 2013 increased \$121 and \$109, respectively, due to increased activity.

On a per hectolitre basis, selling expenses increased by \$6.75 per hl (11.2%) for the three months ended September 30, 2013 compared to the same period in 2012. For the nine months ended September 30, 2013, selling expenses increased by \$6.31 per hl (10.0%). Higher salaries and benefits, marketing, and sponsorships were the primary drivers of the increase as detailed in the following table:

#### Per hectolitre selling expenses

	Three months ended September 30			Nine months ended September 30		
	2013	2012	Change	2013	2012	Change
Selling:						
Delivery and distribution	17.37	17.08	0.29	17.41	17.81	(0.40)
Salaries and benefits	16.71	14.74	1.97	20.52	16.53	3.99
Trade marketing	8.52	6.33	2.19	6.21	4.50	1.71
Regional sales	16.12	17.13	(1.01)	20.20	20.56	(0.36)
Community sponsorship and other	8.37	5.06	3.31	4.85	3.48	1.37
<b>Total selling expenses</b>	<b>67.09</b>	<b>60.34</b>	<b>6.75</b>	<b>69.19</b>	<b>62.88</b>	<b>6.31</b>

#### General and Administrative expenses

\$ thousands (unless otherwise stated)	Three months ended September 30			Nine months ended September 30		
	2013	2012	Change	2013	2012	Change
General and Administrative:						
Salaries and benefits	633	613	20	2,033	2,263	(230)
Professional fees	151	199	(48)	558	558	—
Building maintenance and taxes	133	150	(17)	378	436	(58)
Office, administrative and other	130	101	29	362	338	24
Reporting and filing fees	17	12	5	91	64	27
Insurance	51	52	(1)	153	151	2
Bank charges	10	26	(16)	23	63	(40)
<b>Total general and administrative expenses</b>	<b>1,125</b>	<b>1,153</b>	<b>(28)</b>	<b>3,598</b>	<b>3,873</b>	<b>(275)</b>

For the three months ended September 30, 2013, general and administrative expenses decreased by \$28 and \$275 for the year to date as compared with the same periods in 2012 as detailed below:

- Salaries and benefit costs increased by \$20 for the three months ended September 30, 2013 as compared to the same period in 2012 as a result of salary increases. The decrease of \$230 on a year to date basis is due largely to one-time items incurred in 2012, including severance payments, recruiting costs and a change in timing of the annual employee service awards, which in prior years were held during the third quarter.
- Professional fees, which include legal, audit, tax and accounting advisory services, were \$48 lower for the third quarter compared to the same three months last year and were consistent on a year to date basis compared with the same period in 2012.
- Office, administration and other, which include IT related amounts, memberships, dues and licenses, travel and automotive costs, and corporate hospitality increased \$29 for the three months ended September 30, 2013 and \$24 for the year to date compared to the 2012 comparative periods.
- Reporting and filing fees for the quarter and year to date ended September 30, 2013 were \$5 and \$27 higher, respectively, than in the same periods of 2012.

- Insurance expenses in the current quarter and the year to date were fairly consistent with the same periods in 2012.
- Bank charges were lower by \$16 for the three months and \$40 for the year to date ended September 30, 2013 when compared to the same period last year as a result of higher fees incurred on the credit facility in place in 2012.

### Finance costs

\$ thousands (unless otherwise stated)	Three months ended September 30			Nine months ended September 30		
	2013	2012	Change	2013	2012	Change
Interest on long-term debt	–	24	(24)	34	78	(44)
Interest on operating facility	(7)	(7)	–	(20)	(9)	(11)
Total finance costs (income)	(7)	17	(24)	14	69	(55)
Weighted average effective interest rate	4.77%	4.34%		4.43%	4.30%	

The principal amount of long-term debt was \$nil as at September 30, 2013 compared to \$2,158 as at September 30, 2012. The interest rates applicable to all loans and borrowings are based on the lender's prime rate. The decrease in interest expense for the three and nine months ended September 30, 2013 compared to the same periods last year reflects the repayment of the remaining debt balance during the year.

### Depreciation and amortization

\$ thousands (unless otherwise stated)	Three months ended September 30			Nine months ended September 30		
	2013	2012	Change	2013	2012	Change
Depreciation included in cost of sales	747	685	62	2,039	2,048	(9)
Depreciation - other	97	71	26	215	209	6
Amortization	7	19	(12)	20	59	(39)
Total	851	775	76	2,274	2,316	(42)

For the three months ended September 30, 2013, depreciation expense included in cost of sales increased by \$62 and decreased by \$9 on a year to date basis compared with the same periods last year due to accelerated depreciation relating to bottling line assets to be replaced as part of the planned transition to a proprietary-mould bottle in January 2014 and the timing of a true-up on component calculations in 2012. Amortization expenses decreased by \$12 for the quarter and \$39 for the year to date compared with the corresponding periods last year for the same reason. Amortization relates to intangible assets, which include software, naming rights and website costs. Other depreciation, which relates to non-production assets, increased by \$26 for the third quarter and \$6 for the year to date as compared to 2012 due to asset additions in 2013.

### Other

\$ thousands (unless otherwise stated)	Three months ended September 30			Nine months ended September 30		
	2013	2012	Change	2013	2012	Change
Other income	74	56	18	200	266	(66)
Other expenses	–	54	(54)	46	100	(54)

Other income includes restaurant royalties, miscellaneous income (primarily from the sale of spent grains and rental of yard space), gains or losses on asset disposals and net revenues from tours, hospitality, and the dry goods store.

## Income taxes

\$ thousands (unless otherwise stated)	Three months ended September 30			Nine months ended September 30		
	2013	2012	Change	2013	2012	Change
Current income tax expense	996	139	857	2,010	466	1,544
Deferred income tax expense	(542)	492	(1,034)	(1,023)	877	(1,900)

During the three months ended September 30, 2013, the Corporation recorded a deferred income tax recovery of \$542, bringing the year to date future tax recovery to \$1,023 compared to charges of \$492 and \$877 for the same periods last year.

The deferred income tax provision differs from the statutory rate of 25.18% (2012 - 25.71%) due to permanent differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for income tax purpose, as well as the effect of non-deductible amounts.

Current income tax expenses of \$996 were recorded for the three months ended September 30, 2013 (2012 -\$139) bringing the year to date current tax expense to \$2,010 (2012 - \$466).

## FINANCIAL CONDITION

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

\$ thousands (unless otherwise stated)	Increase/ (Decrease)	Primary factors explaining change
Property, plant and equipment	(446)	Depreciation charge, net of asset additions
Intangible assets	(14)	Amortization charge, net of additions
Inventories	(114)	December 30, 2012 build-up of inventories was drawn down in 2013
Accounts receivable	(684)	Fewer days sales outstanding from AGLC in September 2013 compared to December 2012
Prepaid expenses and other	192	Timing of sponsorships, trade shows and purchases of promotional materials
Long-term debt	(2,042)	Pay down of term loan
Deferred income taxes	(1,023)	Tax effect of changes in temporary differences due to transitional provisions on previous deferral of partnership income
Current taxes	1,468	Tax effect of changes in temporary differences due to transitional provisions on previous deferral of partnership income, net of installments
Accounts payable and accrued liabilities	64	Higher excise taxes payable
Share based payments liability	173	Increase in share appreciation rights issued

## LIQUIDITY AND CAPITAL RESOURCES

### Capitalization

\$ thousands (unless otherwise stated)	September 30, 2013	December 30, 2012
Bank indebtedness (cash)	(3,215)	(4,281)
Total debt	—	2,042
Shareholders' equity:		
Shareholders' capital	100,109	100,109
Contributed surplus	892	701
Accumulated deficit	(69,702)	(68,739)
Total shareholders' equity	31,299	32,071
Total capitalization (total debt plus shareholders' equity, net of cash balances)	28,084	29,832
Total debt to capitalization ratio	0.0%	6.8%

### Capital Strategy

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

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

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

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

All of the borrowing facilities have financial tests and other covenants customary for these types of facilities, which are discussed later in this MD&A, and must be met at each reporting date. At September 30, 2013 and December 30, 2012, Big Rock was in compliance with all of its debt covenants.



## Shareholders' Capital

	# of shares	\$ Amount
As at December 30, 2012 and September 30, 2013	6,068,678	100,109

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

The Corporation's shares trade on the Toronto Stock Exchange under the symbol BR. As at November 8, 2013 there were 6,068,678 issued and outstanding shares and the closing price was \$16.27 per share. Based upon 6,068,678 issued shares, the Corporation has an approximate market capitalization of \$98.7 million.

## Share Based Compensation Plan

On September 13, 2013, the Corporation granted 58,500 options at an exercise price of \$15.01 with an expiry date of September 13, 2018.

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

	September 2013	March 2013	August 2012	March 2012
Weighted average fair value per option	1.66	1.61	1.59	1.97
Risk-free interest rate (%)	1.83	1.22	1.25	1.47
Expected life of the options (years)	4	4	4	4
Dividend rate (%)	5.30	5.41	5.96	5.71
Volatility in the price of the Corporation's shares (%)	23.5	25.3	28.1	28.5

A share-based compensation charge of \$97 for the options granted in the three months ended September 30, 2013 (2012 - \$93) was recognized in the statement of comprehensive income. A share-based compensation charge of \$191 for the options granted in the nine months ended September 30, 2013 (2012 - \$208) was recognized in statement of comprehensive income. Share-based compensation costs have been included in general and administrative expenses.

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

	2013		2012	
	# of options	Weighted average exercise price	# of options	Weighted average exercise price
Balance, Beginning of year	323,000	\$ 14.85	354,000	\$ 15.50
Forfeited	(27,000)	\$ 16.87	(117,000)	\$ 15.26
Exercised	—	—	(9,000)	\$ 11.88
Issued	117,000	\$ 14.98	117,000	\$ 13.51
Balance, September 30	413,000	\$ 14.75	345,000	\$ 15.00

The following table summarizes information about stock options at September 30, 2013:

Exercise price	# of Options outstanding at September 30, 2013	Weighted average remaining contractual life (years)	Weighted average exercise price	# of Options exercisable at September 30, 2013
\$11.88 to \$13.51	112,000	3.21	\$ 12.78	112,000
\$13.52 to \$15.81	175,500	4.42	\$ 14.51	175,500
\$15.82 to \$17.00	125,500	2.09	\$ 16.87	125,500
Balance, September 30	413,000	3.38	\$ 14.75	413,000

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

In September 2013, the Corporation granted SARs with an exercise price of \$15.01 (to be settled in cash). At the end of each reporting period, the fair value of the SARs, as determined by the Black-Scholes model, is recorded as a liability on the balance sheet and recorded as compensation expense.

As at September 30, 2013, 214,800 SARs were outstanding (December 30, 2012 - 106,600). During the nine months ended September 30, 2013, 108,200 SARs were issued (2012 - 54,300), no SARs were exercised (2012 - nil) and no SARs expired (2012 - 7,000). As at September 30, 2013, the fair value of the SARs was calculated and resulted in a liability of \$411 and a charge of \$173 being recorded in compensation expense (December 30, 2012 - \$238).

## Cash Flows

### Cash Provided by Operating Activities

Cash provided by operating activities for the three months ended September 30, 2013 totalled \$3,412, a decrease of \$678 compared to the same period last year, mainly as a result of the change in non-cash working capital and deferred taxes recognized in income. Cash provided by operating activities for the nine months ended September 30, 2013 totalled \$6,456, a decrease of \$1,986 compared to the same period last year, mainly as a result of deferred taxes recognized in income.

### Investing Activities

For the three and nine months ended September 30, 2013, capital spending, net of dispositions, was \$1,077 and \$1,839, respectively, compared to \$348 and \$1,322 for the same periods in 2012. Capital spending for the quarter ended September 30, 2013, net of dispositions, included \$60 (2012 - \$nil) for new kegs, \$81 (2012 - \$127) for glass containers, net disposition of \$3 (2012 - \$23) of vehicles, \$90 (2012 - \$169) for brewing and packaging equipment, \$820 (2012 - \$25) relating to buildings and warehouse, \$27 (2012 - \$5) for the purchase of office furniture and equipment and \$2 (2012 - \$nil) for the purchase of intangible assets.

Capital spending, net of dispositions, for the nine months ended September 30, 2013 included \$236 (2012 - \$477) for new kegs, \$259 (2012 - \$360) for glass containers, \$113 (2012 - \$63) for the purchase of new vehicles, \$301 (2012 - \$197) for brewing and packaging equipment, \$857 (2012 - \$111) relating to buildings and warehouses, \$65 (2012 - \$27) for the purchase of office furniture and equipment \$2 (2012 - \$nil) for leasehold improvements and \$6 (2012 - \$nil) for the purchase of intangible assets.

### Financing Activities

Cash used in financing activities for the three months ended September 30, 2013 decreased by \$175 compared to the same period in 2012 and for the nine months ended September 30, 2013 increased by

\$1,627 compared with the same period in 2012. The difference is due to the repayment in full of Big Rock's debt facility in May 2013.

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

With this facility in place, on May 28, 2013, the remaining balance owing on the previous term financing was paid down in full from cash on hand.

As at September 30, 2013, a balance of \$nil was outstanding on the facility.

The facility imposes a number of positive and negative covenants on Big Rock including the maintenance of certain financial ratios. As at September 30, 2013 and December 30, 2012, Big Rock was in compliance with all covenants.

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

\$ thousands (unless otherwise stated)	September 30, 2013	September 30, 2012
EBITDA	\$ 5,953	\$ 7,268
Deduct: Depreciation & Amortization	2,274	2,316
Earnings before interest and taxes	3,679	4,952
Deduct: Interest	14	69
Deduct: Income tax charge	987	1,343
Net income	\$ 2,678	\$ 3,540

### Cash Dividends

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

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

The following cash dividends have been announced by the Corporation to date in 2013:

	2013			2012		
	Record Date	Payment Date	Per Share	Record Date	Payment Date	Per Unit
March	29-Mar	15-Apr	\$0.20	30-Mar	16-Apr	\$0.20
June	28-Jun	15-Jul	\$0.20	29-Jun	16-Jul	\$0.20
September	30-Sep	15-Oct	\$0.20	28-Sep	15-Oct	\$0.20
Total			\$0.60			\$0.60

Dividends for the three months ended September 30, 2013 totalled \$1,214 (\$0.20 per share), which was equivalent to the dividends incurred during the same period in 2012. Dividends declared to

shareholders may exceed net income generated during the period. Net income may not be an accurate indicator of the Corporation's liquidity, as it may be comprised of significant charges not involving cash including future income tax, changes to non-cash working capital and amortization related expenses.

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

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

## **CRITICAL ACCOUNTING ESTIMATES**

### **Returnable Glass Containers**

Returnable glass containers are initially recorded at cost. In order to account for wear and shrinkage, the cost of bottles is charged to operations over the estimated useful life of five years. The Corporation has purchased \$3,626 (December 30, 2012 - \$3,367) of returnable glass containers since converting to the Industry Standard Bottle in early 2002. The net book value of returnable glass containers as at September 30, 2013 is \$344 (December 30, 2012 - \$670).

### **Stock-based compensation**

The Corporation recognizes compensation expense when options with no cash settlement feature are granted to employees and directors under the option plan and on changes in the fair value of outstanding SARs at each reporting date. Stock based compensation expense recognized during the three months ended September 30, 2013 was \$149 (2012 - \$158) as discussed earlier in this MD&A.

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

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

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

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

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

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

## **Keg Deposits**

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

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

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

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

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

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

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

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

## **Financial Risk**

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

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

## **Credit Risk**

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

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

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

### **Liquidity Risk**

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

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

### **Commodity Price Risk**

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

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

### **Interest Rate Risk**

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

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

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

The weighted average interest rate incurred by the Corporation in the three and nine months ended September 30, 2013 was 4.77% (2012 - 4.34%) and 4.43% (2012 - 4.30%) respectively.

## Foreign Exchange Risk

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

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

For a more detailed discussion of risk factors that could materially affect Big Rock's results of operations and financial condition please refer to the Risk Factors section of the Corporation's Annual Information Form dated March 19, 2013 that is available on [www.sedar.com](http://www.sedar.com).

## FUTURE ACCOUNTING PRONOUNCEMENTS

### IFRS Policies

The Corporation's interim financial statements as at and for the three and nine months ended September 30, 2013 and 2012 and the statements of financial position as at December 30, 2012, respectively, have been prepared using the IFRS standards and interpretations currently issued and expected to be effective at December 30, 2012. Accounting policies currently adopted under IFRS are subject to change as a result of new standards being issued with an effective date of December 31, 2012 or prior. A change in an accounting policy used may result in material changes to Big Rock's reported financial position, results of operations and cash flows.

### Change in accounting policies

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

- IFRS 10 *Consolidated Financial Statements* which replaces portions of IAS 27 *Consolidated and Separate Financial Statements* and Interpretation SIC 12 *Consolidation - Special Purpose Entities*. In addition, IASB has re-issued IAS 27 *Separate Financial Statements* as a result of IFRS 10 noted above. IAS 27 only applies when an entity prepares separate financial statements for its interests in subsidiaries, joint ventures and associates. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Big Rock has concluded that the adoption of IFRS 10 did not result in any change in the consolidation status of its wholly-owned subsidiaries, Big Rock Brewery Operations Corp. and Big Rock Brewery Limited Partnership.
- IFRS 13 *Fair Value Measurement*, required to be applied prospectively, provides a consistent definition of fair value and introduces consistent requirements for disclosures related to fair value measurement. There has been no change to Big Rock's methodology for determining the fair value of its financial assets and liabilities and, accordingly, the adoption of IFRS 13 did not result in any measurement adjustments as at December 31, 2012.

### Future accounting pronouncements

The IASB has issued the following pronouncements:

- Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* have been issued which will be required to be adopted, with retrospective application, effective for annual periods beginning on or after January 1, 2014. These amendments include clarification of the meaning of "currently has a legally enforceable right to set-off" and may change assets and liabilities eligible for net presentation.

- IFRS 9 *Financial Instruments* has been amended, effective for annual periods beginning January 1, 2015. The amended standard requires classification of financial assets on the basis of the reporting entity's business model objectives for managing those financial assets and the characteristics of the contractual cash flows. As a result, both the classification and measurement of certain financial assets may change. Additionally, for liabilities designated at fair value through profit and loss, fair value changes attributable to changes in credit risk will be presented through other comprehensive income instead of net income.

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

## **DISCLOSURE CONTROLS AND PROCEDURES**

The Corporation's management under the supervision of, and with the participation of, the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of Big Rock Brewery Operations Corp. (the administrator of the Corporation), have designed and evaluated the effectiveness and operation of its disclosure controls and procedures, as defined under National Instrument 52 - 109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"). Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed with Canadian securities regulatory authorities is recorded, processed, summarized and reported in a timely fashion. The disclosure controls and procedures are designed to ensure that information required to be disclosed by the Corporation in such reports is then accumulated and communicated to management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure. Due to the inherent limitations in all control systems, an evaluation of the disclosure controls can only provide reasonable assurance over the effectiveness of the controls. The disclosure controls are not expected to prevent and detect all misstatements due to error or fraud. Based on the evaluation of disclosure controls and procedures, the CEO and CFO have concluded that, subject to the inherent limitations noted above, the Corporation's disclosure controls and procedures are effective as of September 30, 2013.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

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

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

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

The CEO and CFO acknowledge responsibility for the design of ICFR and confirm that there were no changes in the Corporation's controls over financial reporting during the third quarter ended September 30, 2013, that have materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting.

Based upon their evaluation of these controls as of September 30, 2013, the CEO and CFO have concluded that the Corporation's ICFR were effective as at that date. In addition, there were no



material changes to Big Rock's internal controls over financial reporting since the most recent interim period.

## OUTLOOK

As part of a strategic plan to prioritize high-margin innovative new beers and to maximize profitability of existing products, Big Rock has continued to reduce the use of volume-inducing limited-time offer which has led to a decrease in volumes for the three and six nine ended September 30, 2013 as compared to the same periods in 2012. Competition continues to intensify at the value-priced end of the beer spectrum, but is also increasing for premium craft beer, particularly in Alberta, which, unlike most other Canadian jurisdictions, has relatively few barriers to entry for out-of-province producers.

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

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

## FORWARD LOOKING INFORMATION

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

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

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

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

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

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

- volumes in the current fiscal year will remain constant or will increase;

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

Big Rock's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth above and as set out under the heading "Risk Factors" in the Corporation's 2012 Annual Information Form (as filed on SEDAR on March 19, 2013). Readers are cautioned that the foregoing lists of factors are not exhaustive.

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

#### **ADDITIONAL INFORMATION**

Additional information on the Corporation, including the Annual Information Form for the year ended December 30, 2012, can be found on SEDAR at [www.sedar.com](http://www.sedar.com). Information about Big Rock can also be found on Big Rock's corporate website at <http://bigrockbeer.com>.

**BIG ROCK BREWERY INC.**

## Condensed Interim Consolidated Statements of Comprehensive Income

Unaudited

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

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Net revenue (Note 3)	\$ 11,852	\$ 13,281	\$ 32,491	\$ 35,818
Cost of sales (Note 4)	5,537	5,885	15,067	16,109
<b>Gross profit</b>	<b>6,315</b>	<b>7,396</b>	<b>17,424</b>	<b>19,709</b>
<b>Expenses</b>				
Selling expenses (Note 5)	3,496	3,758	10,066	10,782
General and administrative (Note 6)	1,125	1,153	3,598	3,873
Depreciation and amortization	104	90	235	268
Operating expenses	4,725	5,001	13,899	14,923
<b>Operating profit</b>	<b>1,590</b>	<b>2,395</b>	<b>3,525</b>	<b>4,786</b>
Finance costs (income) (Note 7)	(7)	17	14	69
Other income	74	56	200	266
Other expenses	—	54	46	100
<b>Income before income taxes</b>	<b>1,671</b>	<b>2,380</b>	<b>3,665</b>	<b>4,883</b>
Current income tax expense	996	139	2,010	466
Deferred income tax expense (recovery)	(542)	492	(1,023)	877
<b>Net income and comprehensive income for the period</b>	<b>\$ 1,217</b>	<b>\$ 1,749</b>	<b>\$ 2,678</b>	<b>\$ 3,540</b>

**Net income per share (Note 8)**

Basic and diluted	\$ 0.20	\$ 0.28	\$ 0.44	\$ 0.58
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*See accompanying notes to the condensed interim consolidated financial statements*

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

	September 30, 2013	December 30, 2012
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	\$ 34,831	\$ 35,277
Intangible assets	114	128
	34,945	35,405
<b>Current</b>		
Inventories (Note 9)	3,778	3,892
Accounts receivable (Note 10)	1,674	2,358
Prepaid expenses and other (Note 11)	556	364
Cash	3,215	4,281
	9,223	10,895
<b>Total assets</b>	<b>\$ 44,168</b>	<b>\$ 46,300</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>EQUITY</b>		
Shareholders' capital (Note 12)	\$ 100,109	\$ 100,109
Contributed surplus (Note 13)	892	701
Accumulated deficit	(69,702)	(68,739)
	31,299	32,071
<b>LIABILITIES</b>		
<b>Non-current</b>		
Long term debt (Notes 14 and 17)	—	1,342
Share based payment liabilities (Note 13)	411	238
Deferred income taxes	5,308	6,331
	5,719	7,911
<b>Current</b>		
Accounts payable and accrued liabilities (Note 15)	4,042	3,978
Dividends payable (Note 16)	1,214	1,214
Current portion of long-term debt (Notes 14 and 17)	—	700
Current taxes payable	1,894	426
	7,150	6,318
<b>Total liabilities and shareholders' equity</b>	<b>\$ 44,168</b>	<b>\$ 46,300</b>

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

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

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
<b>OPERATING ACTIVITIES</b>				
Net income for the period	\$ 1,217	\$ 1,749	\$ 2,678	\$ 3,540
Items not affecting cash:				
Depreciation and amortization	851	775	2,274	2,316
Gain on sale of assets	(3)	—	(7)	(4)
Stock based compensation	149	158	364	391
Deferred income tax expense (recovery)	(542)	492	(1,023)	877
	1,672	3,174	4,286	7,120
Net change in non-cash working capital related to operations (Note 18)	1,740	916	2,170	1,322
<b>Cash provided by operating activities</b>	<b>3,412</b>	<b>4,090</b>	<b>6,456</b>	<b>8,442</b>
<b>FINANCING ACTIVITIES</b>				
Dividend payments	(1,214)	(1,214)	(3,641)	(3,638)
Principal repayments of long-term debt	—	(175)	(2,042)	(525)
Cash received on exercise of options	—	—	—	107
<b>Cash used in financing activities</b>	<b>(1,214)</b>	<b>(1,389)</b>	<b>(5,683)</b>	<b>(4,056)</b>
<b>INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment	(1,078)	(348)	(1,840)	(1,326)
Purchase of intangibles	(2)	—	(6)	—
Proceeds from sale of equipment	3	—	7	4
<b>Cash used in investing activities</b>	<b>(1,077)</b>	<b>(348)</b>	<b>(1,839)</b>	<b>(1,322)</b>
<b>Net increase (decrease) in cash</b>	<b>1,121</b>	<b>2,353</b>	<b>(1,066)</b>	<b>3,064</b>
Cash, beginning of period	2,094	1,366	4,281	655
<b>Cash, end of period</b>	<b>\$ 3,215</b>	<b>\$ 3,719</b>	<b>\$ 3,215</b>	<b>\$ 3,719</b>

<b>Supplemental cash-flow information</b>				
Cash interest paid	\$ —	\$ 24	\$ 52	\$ 89
Cash taxes paid	\$ —	\$ —	\$ 542	\$ —

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

**BIG ROCK BREWERY INC.**

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

Unaudited

*(In thousands of Canadian dollars)*

	Share Capital	Contributed Surplus	Accumulated deficit	Total
Balance as at December 30, 2011	\$ 99,954	\$ 517	\$ (68,022)	\$ 32,449
Stock options exercised during the nine months ended September 30, 2012	126	(19)	—	107
Share-based payments for the nine months ended September 30, 2012	—	208	—	208
Total comprehensive income for the nine months ended September 30, 2012	—	—	3,540	3,540
Dividends declared for the nine months ended September 30, 2012	—	—	(3,638)	(3,638)
Balance as at September 30, 2012	\$ 100,080	\$ 706	\$ (68,120)	\$ 32,666
Stock options exercised for the remainder of the year	29	(5)	—	24
Total comprehensive income for the remainder of the year	—	—	595	595
Dividends declared for the remainder of the year	—	—	(1,214)	(1,214)
Balance as at December 30, 2012	\$ 100,109	\$ 701	\$ (68,739)	\$ 32,071
Share-based payments for the nine months ended September 30, 2013	—	191	—	191
Total comprehensive income for the nine months ended September 30, 2013	—	—	2,678	2,678
Dividends declared for the nine months ended September 30, 2013	—	—	(3,641)	(3,641)
Balance as at September 30, 2013	\$ 100,109	\$ 892	\$ (69,702)	\$ 31,299

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

**BIG ROCK BREWERY INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
(Unaudited)

**1. CORPORATE INFORMATION**

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

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

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

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

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

**2. BASIS OF PREPARATION**

**2.1 Statement of compliance**

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

These Financial Statements should be read in conjunction with Big Rock’s 2012 annual consolidated financial statements.

**2.2 Basis of presentation**

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

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

### **2.3 Change in accounting policies**

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

- IFRS 10 *Consolidated Financial Statements* which replaces portions of IAS 27 *Consolidated and Separate Financial Statements* and Interpretation SIC 12 *Consolidation - Special Purpose Entities*. In addition, IASB has re-issued IAS 27 *Separate Financial Statements* as a result of IFRS 10 noted above. IAS 27 only applies when an entity prepares separate financial statements for its interests in subsidiaries, joint ventures and associates. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Big Rock has concluded that the adoption of IFRS 10 did not result in any change in the consolidation status of its wholly-owned subsidiaries, Big Rock Brewery Operations Corp. and Big Rock Brewery Limited Partnership.
- IFRS 13 *Fair Value Measurement*, required to be applied prospectively, provides a consistent definition of fair value and introduces consistent requirements for disclosures related to fair value measurement. There has been no change to Big Rock's methodology for determining the fair value of its financial assets and liabilities and, accordingly, the adoption of IFRS 13 did not result in any measurement adjustments as at December 31, 2012.

### **2.4 Future accounting pronouncements**

The IASB has issued the following pronouncements:

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

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



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**3. REVENUE RECOGNITION**

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

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Gross Product Revenues	\$ 14,849	\$ 17,035	\$ 41,031	\$ 45,983
Excise Taxes	(1,198)	(1,614)	(3,633)	(4,439)
AGLC Commissions	(1,799)	(2,140)	(4,907)	(5,726)
Net Revenue	\$ 11,852	\$ 13,281	\$ 32,491	\$ 35,818

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

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

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

**4. COST OF SALES**

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

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Operating expenses	\$ 4,790	\$ 5,200	\$ 13,028	\$ 14,061
Depreciation and amortization	747	685	2,039	2,048
Cost of sales	\$ 5,537	\$ 5,885	\$ 15,067	\$ 16,109

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**5. SELLING EXPENSES**

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

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Delivery and distribution costs	\$ 905	\$ 1,064	\$ 2,532	\$ 3,054
Salaries and benefits	871	918	2,985	2,835
Trade marketing	444	394	904	771
Regional sales	840	1,067	2,939	3,525
Community sponsorship and other	436	315	706	597
Selling expenses	\$ 3,496	\$ 3,758	\$ 10,066	\$ 10,782

**6. GENERAL AND ADMINISTRATIVE EXPENSES**

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

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Salaries and benefits <sup>(1)</sup>	\$ 633	\$ 613	\$ 2,033	\$ 2,263
Professional fees	151	199	558	558
Reporting and filing fees	17	12	91	64
Insurance	51	52	153	151
Building maintenance and taxes	133	150	378	436
Bank charges	10	26	23	63
Office, administrative and other	130	101	362	338
General and administrative expenses	\$ 1,125	\$ 1,153	\$ 3,598	\$ 3,873

(1) For the three and nine months ended September 30, salaries and benefits included stock-based compensation (a non-cash charge) relating to stock options of \$97 (2012 - \$93) and \$191 (2012 - \$209), respectively, and relating to share appreciation rights of \$52 (2012 - \$65) and \$173 (2012 - \$182).

**7. FINANCE COSTS**

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

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Interest on long-term debt	\$ —	\$ 24	\$ 34	\$ 78
Interest on operating facility	(7)	(7)	(20)	(9)
Finance costs (income)	\$ (7)	\$ 17	\$ 14	\$ 69

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**8. INCOME PER SHARE**

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

Basic	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Net income	\$ 1,217	\$ 1,749	\$ 2,678	\$ 3,540
Shares outstanding, beginning of the period	6,068,678	6,066,678	6,068,678	6,057,678
Weighted average # of shares issued during the period	—	—	—	4,664
Basic # shares outstanding during the period	6,068,678	6,066,678	6,068,678	6,062,342
Basic earnings per share	\$ 0.20	\$ 0.28	\$ 0.44	\$ 0.58

Diluted	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Net income	\$ 1,217	\$ 1,749	\$ 2,678	\$ 3,540
Basic # shares outstanding during the period	6,068,678	6,066,678	6,068,678	6,062,342
Weighted average # of shares issuable on dilutive options, during the period	25,649	7,814	23,503	5,940
Diluted # shares outstanding during the period	6,094,327	6,074,492	6,092,181	6,068,282
Diluted earnings per share	\$ 0.20	\$ 0.28	\$ 0.44	\$ 0.58

**9. INVENTORIES**

The inventories for the Corporation are categorized as follows:

	September 30, 2013	December 30, 2012
Raw materials and returnable glass containers	\$ 864	\$ 1,262
Brews in progress	746	726
Finished product	2,005	1,819
Consignment product	95	65
Dry goods store (resale goods)	68	20
	\$ 3,778	\$ 3,892

During the three and nine months ended September 30, 2013, charges of \$58 (2012 - \$78) and \$192 (2012 - \$153), respectively, were recorded to net income relating to obsolete, damaged or unsellable packaging inventory and promotional and resale goods, and damaged finished goods inventory.

In the three and nine months ended September 30, 2013, there were no reversals of amounts previously charged to income in respect of write-downs of inventory (2012 - \$nil).

Finished goods inventory includes \$223 (December 30, 2012 - \$191) of depreciation charges on production equipment used to convert raw materials to finished goods.

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**10. ACCOUNTS RECEIVABLE**

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

	September 30, 2013	December 30, 2012
Provincial liquor boards	\$ 1,466	\$ 2,121
Supplier rebates	23	98
Other receivables	185	139
<b>Total accounts receivable</b>	<b>\$ 1,674</b>	<b>\$ 2,358</b>

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

	September 30, 2013	December 30, 2012
Less than 30 days	\$ 1,470	\$ 2,224
30 - 60 days	200	130
60 - 90 days	2	—
Over 90 days	2	4
<b>Total accounts receivable</b>	<b>\$ 1,674</b>	<b>\$ 2,358</b>

The Corporation holds no collateral for any receivable amounts outstanding as at September 30, 2013.

**11. PREPAID EXPENSES AND OTHER**

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

	September 30, 2013	December 30, 2012
Community sponsorship	\$ 62	\$ 83
Prepaid insurance	135	85
Property taxes	24	—
Equipment rental and maintenance	252	58
Public filing fees	6	—
Consulting	14	—
Commissions	18	18
Promotional materials	36	114
Other	9	6
	<b>\$ 556</b>	<b>\$ 364</b>

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**12. SHARE CAPITAL**

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

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

**13. SHARE-BASED PAYMENTS**

**13.1 Stock option plan**

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

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

On September 13, 2013, the Corporation granted 58,500 options at an exercise price of \$15.01 with an expiry date of September 13, 2018.

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

	September 2013	March 2013	August 2012	March 2012
Weighted average fair value per option	1.66	1.61	1.59	1.97
Risk-free interest rate (%)	1.83	1.22	1.25	1.47
Expected life of the options (years)	4	4	4	4
Dividend rate (%)	5.30	5.41	5.96	5.71
Volatility in the price of the Corporation's shares (%)	23.5	25.3	28.1	28.5

A share-based compensation charge of \$97 for the options granted in the three months ended September 30, 2013 (2012 - \$93) was recognized in the statement of comprehensive income. A share-based compensation charge of \$191 for the options granted in the nine months ended September 30, 2013 (2012 - \$208) was recognized in statement of comprehensive income. Share-based compensation costs have been included in general and administrative expenses.

**13.2 Stock appreciation rights plan**

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

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In September 2013, the Corporation granted SARs with an exercise price of \$15.01 (to be settled in cash). At the end of each reporting period, the fair value of the SARs, as determined by the Black-Scholes model, is recorded as a liability on the balance sheet and recorded as compensation expense.

As at September 30, 2013, 214,800 SARs were outstanding (December 30, 2012 - 106,600). During the nine months ended September 30, 2013, 108,200 SARs were issued (2012 - 54,300), no SARs were exercised (2012 - nil) and no SARs expired (2012 - 7,000). As at September 30, 2013, the fair value of the SARs was calculated and resulted in a liability of \$411 and a charge of \$173 being recorded in compensation expense (December 30, 2012 - \$238).

**13.3 Outstanding stock options**

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

	2013		2012	
	# of options	Weighted average exercise price	# of options	Weighted average exercise price
Balance, Beginning of year	323,000	\$ 14.85	354,000	\$ 15.50
Forfeited	(27,000)	\$ 16.87	(117,000)	\$ 15.26
Exercised	—	—	—	—
Issued	58,500	\$ 14.95	58,500	\$ 13.45
Balance, March 31	354,500	\$ 14.71	295,500	\$ 15.19
Forfeited	—	—	—	—
Exercised	—	—	(9,000)	\$ 11.88
Issued	—	—	—	—
Balance, June 30	354,500	\$ 14.71	286,500	\$ 15.29
Forfeited	—	—	—	—
Exercised	—	—	—	—
Issued	58,500	\$ 15.01	58,500	\$ 13.56
Balance, September 30	413,000	\$ 14.75	345,000	\$ 15.00

The following table summarizes information about stock options outstanding and exercisable at September 30, 2013:

Exercise price	# of Options outstanding at September 30, 2013	Weighted average remaining contractual life (years)	Weighted average exercise price	# of Options exercisable at September 30, 2013
\$11.88 to \$13.51	112,000	3.21	\$ 12.78	112,000
\$13.52 to \$15.81	175,500	4.42	\$ 14.51	175,500
\$15.82 to \$17.00	125,500	2.09	\$ 16.87	125,500
Balance, September 30	413,000	3.38	\$ 14.75	413,000

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

**14.1 Operating facility**

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

As at September 30, 2013, a balance of \$nil (December 30, 2012 - nil) was outstanding on the facility.

The facility imposes a number of positive and negative covenants on Big Rock including the maintenance of certain financial ratios. As at September 30, 2013 and December 30, 2012, Big Rock was in compliance with all covenants. There was no balance outstanding at September 30, 2013.

**14.2 Long-term debt and credit facility**

On October 28, 2010, the Corporation renewed its previous term financing for a period of five years. The loan was repayable in monthly instalments of approximately \$58 plus interest at ATB's prime plus 1.25 per cent. On May 28, 2013, the remaining balance owing on the term financing was paid down in full in accordance with the provisions of the \$12 million revolving operating loan facility described above.

The term financing and credit facility imposed a number of positive and negative covenants on Big Rock including the maintenance of certain financial ratios. As at December 30, 2012, Big Rock was in compliance with all such covenants.

**15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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

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

	September 30, 2013	December 30, 2012
Less than 30 days	\$ 3,864	\$ 3,551
30 - 60 days	—	30
60 - 90 days	—	26
Over 90 days	178	371
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 4,042</b>	<b>\$ 3,978</b>

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**16. DIVIDENDS PAYABLE**

Big Rock declared dividends during the three and nine months ended September 30, 2013 in the amount of \$1,214 (\$0.20 per unit) and \$3,641 (\$0.60 per unit), respectively, compared to \$1,213 (\$0.20 per unit) and \$3,638 (\$0.60 per unit), respectively, for the same periods in 2012. Dividends were paid on April 15, July 15, and October 15, 2013 (April 16, July 16, and October 15, 2012).

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

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

**17. CAPITAL RISK MANAGEMENT**

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

	September 30, 2013	December 30, 2012
Bank indebtedness (cash)	\$ (3,215)	\$ (4,281)
Total debt	—	2,042
Shareholders' equity:		
Shareholders' capital	100,109	100,109
Contributed surplus	892	701
Accumulated deficit	(69,702)	(68,739)
Total shareholders' equity	31,299	32,071
Total capitalization (total debt plus shareholders' equity, net of cash balances)	\$ 28,084	\$ 29,832

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

In addition, the Corporation monitors its capital using ratios of (i) debt to total capitalization, (ii) earnings before interest, taxes, depreciation and amortization ("EBITDA") to long-term debt and (iii) EBITDA to interest, debt repayments and dividends. EBITDA to long-term debt is calculated by dividing long-term debt by EBITDA. EBITDA to interest, debt repayments and dividends is calculated by dividing



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EBITDA by interest expense, principal payments of long-term debt and dividends paid. Both EBITDA to long-term debt and EBITDA to interest, debt repayments are dividends are used for compliance with debt covenants.

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

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

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Accounts payable and accrued liabilities	\$ 770	\$ 25	\$ 1,532	\$ 525
Inventory	422	196	146	269
Accounts receivable	463	626	684	738
Prepaid expenses	85	69	(192)	(210)
<b>Total change in non-cash working capital</b>	<b>\$ 1,740</b>	<b>\$ 916</b>	<b>\$ 2,170</b>	<b>\$ 1,322</b>

**19. 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.

**20. APPROVAL OF THE FINANCIAL STATEMENTS**

The consolidated financial statements of Big Rock Brewery Inc. for the three and nine months ended September 30, 2013 were approved and authorized for issue by the Audit Committee on November 8, 2013.