

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 year ended December 30, 2015, as compared to the year ended December 30, 2014.

This MD&A should be read in conjunction with the consolidated financial statements of the Corporation and accompanying notes as at, and for, the years ended December 30, 2015 and 2014 (the "Financial Statements"), which have been prepared using International Financial Reporting Standards for publicly accountable enterprises as adopted by the Canadian Accounting Standards Board ("IFRS"). All amounts are reported in thousands of Canadian dollars, unless otherwise noted.

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

The MD&A is dated March 10, 2016.

## **CORPORATE PROFILE**

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

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

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

## **INDUSTRY TRENDS AND INDICATORS**

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

For the three months ended December 30, 2015, Big Rock grew volumes and gross profit nationally, including in Alberta, the region where the fierce competition in the craft beer industry has been most keenly felt. Several new products were successfully launched in the three and twelve months ended December 30, 2015 including a number of new private label beers which more closely align with the tastes of contemporary drinkers together with the rebranding and relaunch of AGD, Big Rock's most approachable lager.

The enthusiastic response to the rebranding and relaunching of these lower-priced products has compressed average margins. Additionally, margins in Alberta remain under sustained pressure as a result of changes to markup rates. A 27.5% increase in Alberta Gaming and Liquor Commission ("AGLC") markup rates in March 2015 increased beer and cider costs to consumers and hampered Big Rock's ability to implement a planned price increase to cover rising input costs. On October 27, 2015, the Alberta government announced a change to mark-up rates applicable to Big Rock. While the immediate impact of this change was to slightly mitigate the effects of the previous increase, the longer-term implications are currently being assessed. During the year ended December 30, 2015, the total incremental Alberta markups arising from these changes was \$1,296. Due to the combination of these tax changes and the effects of unabated competition, the Corporation has not introduced a general price increase in Alberta since November 2012.

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

In Ontario, the combination of a shift in product mix towards lower priced products, at the same time as a shift in package type to bottles and tall cans from higher margin kegs, has negatively impacted profitability. This has been compounded by increased handling and listing costs from The Beer Store. Additionally, Big Rock has incurred higher promotional and selling costs in Ontario to build brand awareness in anticipation of the forthcoming brewery and restaurant scheduled for opening in early 2016. These costs have included well-received “pop-up shop” events at the restaurant’s future location in Liberty Village.

#### SELECTED ANNUAL FINANCIAL INFORMATION

The following is a summary of selected financial information of the Corporation for the last three completed years:

\$ thousands (unless otherwise stated)	Dec. 30 2015	Dec. 30 2014	Dec. 30 2013
<b>Statements of Comprehensive Income Data</b>			
Net revenue	39,594	36,755	41,587
Operating profit (loss)	(1,146)	715	3,282
Net income (loss)	(1,075)	624	2,551
Income per share (basic and diluted)	\$(0.16)	\$0.09	\$0.42
Dividends per share	\$0.00	\$0.80	\$0.80
<b>Statements of Financial Position Data</b>			
Total assets	51,315	48,167	42,657
Total debt	5,136	—	—

#### 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)	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales volumes (hectolitres)	42,787	55,132	50,051	33,980	39,194	48,376	46,597	34,100
Net revenue	9,642	11,834	11,054	7,064	8,638	10,556	10,414	7,147
Operating profit (loss)	(55)	104	(324)	(871)	(224)	1,017	342	(420)
Net income (loss)	(54)	76	(473)	(624)	(106)	764	276	(310)
Per hl net revenue	225.35	214.65	220.85	207.89	220.39	218.21	223.49	209.59
Per hl cost of sales	124.57	120.11	126.07	108.98	121.88	109.70	113.31	104.60
Per hl selling expenses	73.36	65.37	74.38	80.08	73.17	64.87	77.79	79.30
Per hl general and administrative	28.12	25.94	23.58	41.17	29.01	21.08	23.61	36.13
Per hl operating profit (loss)	(1.29)	1.89	(6.47)	(25.63)	(5.72)	21.02	7.34	(12.32)
Per hl net income (loss)	(1.26)	1.38	(9.45)	(18.36)	(2.70)	15.79	5.92	(9.09)
Income (loss) per share (basic and diluted)	\$ (0.01)	\$ 0.01	\$ (0.07)	\$ (0.09)	\$ (0.02)	\$ 0.11	\$ 0.04	\$ (0.05)
Dividends per share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20

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

## RESULTS OF OPERATIONS

Sales volumes increased 9.2% for the three months ended December 30, 2015 as compared to the same period last year. Big Rock's net revenue also increased 11.6% for the three months ended December 30, 2015 compared to the same period in 2014.

Sales volumes increased 8.1% for the twelve months ended December 30, 2015 as compared to the same period last year. Big Rock's net revenue increased 7.7% for the twelve months ended December 30, 2015 compared to the same period in 2014.

For both the three and twelve months ended December 30, 2015, volumes increased due primarily to the successful launches of new private label products, targeted limited-time offer ("LTO") activity and the rebranding of the entry-level all-natural lager, AGD. Sales volumes in other brands such as the brewmaster's edition series and signature series remained flat for the year.

Net loss for the year ended December 30, 2015 included \$884 of pre-operating costs relating to both the Big Rock Urban location in BC, which commenced operations in April 2015, and the establishment of the forthcoming Ontario brewpub which will be located in Toronto's vibrant Liberty Village.

### Gross Profit

\$ thousands (unless otherwise stated)	Three months ended			Twelve months ended		
	Dec. 30 2015	Dec. 30 2014	Change	Dec. 30 2015	Dec. 30 2014	Change
Net sales revenue	9,642	8,638	1,004	39,594	36,755	2,839
Cost of sales:						
Ingredients and packaging materials	2,582	2,419	163	11,480	10,065	1,415
Labour	1,501	934	567	5,789	4,423	1,366
Overhead	651	617	34	2,993	2,781	212
Inventory movement	31	327	(296)	(309)	(125)	(184)
Depreciation	565	480	85	2,012	1,786	226
Cost of sales	5,330	4,777	553	21,965	18,930	3,035
Gross profit	4,312	3,861	451	17,629	17,825	(196)
Sales volumes (hl)	42,787	39,194	3,593	181,951	168,268	13,683

Net sales revenues include product sales for beer and cider, together with restaurant and store sales from Big Rock Urban.

Net sales revenue increased \$1,004 (11.6%) and \$2,839 (7.7%) for the three months and twelve months ended December 30, 2015, respectively, compared to the same periods in 2014. The increases were primarily attributable to Big Rock Urban commencing commercial operations in April 2015 which generated revenue of \$1,506 for the year, as well as increased beer and cider revenue on increased sales volumes. For the three and twelve months ended December 30, 2015, beer and cider revenue increased by \$685 and \$1,722, respectively, which was less than the increase in sales volumes due to the shift in the product mix towards lower priced and private label brands as a result of the successful launches of several new private label products, LTO activity and the rebranding and re-launch of AGD. Geographically, Alberta and BC continued to represent the largest shares of the Corporation's sales.

For the three months and year ended December 30, 2015, total cost of sales increased by \$553 and increased \$3,035, respectively, compared to the same periods last year, as described below:

- For the quarter ended December 30, 2015, costs relating to ingredients and packaging materials increased \$163, and for the year ended December 30, 2015, costs increased \$1,415 compared to the same periods in 2014. These increases are mainly due to the cost of ingredients for the Big Rock Urban restaurant, for which there were no equivalent costs in the comparative period.

- When compared to the same periods in 2015, labour charges increased \$567 and \$1,366 for the fourth quarter and year end, respectively, due to increased headcount resulting from the commencement of Big Rock Urban brewery operations in 2015.
- Overhead costs include utilities, repairs and maintenance and other production related amounts, which are primarily fixed in nature. Overhead costs increased by \$34 and \$212 for the quarter and year ended December 30, 2015, respectively. The increases are mainly due to Big Rock Urban lease expenses, for which there were no equivalent costs in the comparative period. There were also incremental increases in utilities charges and other production consumables.
- 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 December 30, 2015, charges relating to inventory movement decreased by \$296 and \$184, respectively, compared with the same periods last year.
- Big Rock includes depreciation charges on production equipment used to convert raw materials to finished goods as part of its cost of sales and finished goods inventory. Cost of sales for the three and twelve months ended December 30, 2015 included an increase in costs of \$85 and \$226, respectively, which was driven by inventory movement.

On a per hectolitre (“hl”) basis, cost of sales increased by \$2.69 per hl (2.2%) for the three months ended December 30, 2015, compared to the same period in 2014. For the twelve months ended December 30, 2015, cost of sales increased by \$8.22 per hl (7.3%). Increased ingredients and packaging materials and labour were the primary drivers of the increase, as detailed in the following table:

#### Per Hectolitre Cost of Sales

	Three months ended			Twelve months ended		
	Dec. 30 2015	Dec. 30 2014	Change	Dec. 30 2015	Dec. 30 2014	Change
Net sales revenue	225.35	220.39	4.96	217.61	218.43	(0.82)
Cost of sales:						
Ingredients and packaging materials	60.35	61.72	(1.37)	63.09	59.81	3.28
Labour	35.08	23.83	11.25	31.82	26.29	5.53
Overhead	15.21	15.74	(0.53)	16.45	16.53	(0.08)
Inventory movement	0.72	8.34	(7.62)	(1.70)	(0.74)	(0.96)
Depreciation	13.20	12.25	0.95	11.06	10.61	0.45
Cost of sales	124.57	121.88	2.69	120.72	112.50	8.22

#### Selling Expenses

\$ thousands	Three months ended			Twelve months ended		
	Dec. 30 2015	Dec. 30 2014	Change	Dec. 30 2015	Dec. 30 2014	Change
Selling:						
Delivery and distribution	883	796	87	3,441	3,120	321
Salaries and benefits	821	755	66	3,252	3,270	(18)
Marketing	218	152	66	991	972	19
Regional sales	944	873	71	4,217	3,857	360
Community sponsorship and other	273	292	(19)	1,286	1,116	170
Total selling expenses	3,139	2,868	271	13,187	12,335	852

For the three months ended December 30, 2015, selling expenses increased by \$271 compared with the same period last year. For the year ended December 30, 2015, selling expenses increased by \$852 compared to the same period last year. These changes are detailed as follows:

- Delivery and distribution costs increased \$87 and \$321 in the quarter and the twelve months ended December 30, 2015, respectively, primarily as a result of higher volumes delivered.
- Salaries and benefit costs increased by \$66 for the quarter due to increases in headcount while for the year ended December 30, 2015, salaries and benefit costs decreased \$18 as a result of a reduction in severance costs.
- Marketing costs increased by \$66 and \$19 for the quarter and year to date, respectively, due to increased advertising activity and costs related to packaging artwork and design.
- Regional sales expenses increased by \$71 and \$360, respectively, for the quarter and year ending December 30, 2015 as compared to the same periods in 2014. These increases were a result of more commissions paid to Ontario sales agents, increased hospitality expenses and a higher amount charged against expired product allowance.
- Community sponsorship expenses decreased by \$19 in the quarter due to the timing of sponsorship related payments while for the year ended December 30, 2015, expenses increased by \$170 due to an increase in overall community involvement.

On a per hectolitre basis, selling expenses increased by \$0.19 per hl (0.3%) for the three months ended December 30, 2015 compared to the same period in 2014. For the year ended December 30, 2015, selling expenses decreased by \$0.83 per hl (1.1%). Increases in trade marketing expenses was the primary driver for the increase in the quarter, while a decrease in salaries and benefits was the driver for the year to date decrease, as detailed in the following table:

#### Per Hectolitre Selling Expenses

	Three months ended			Twelve months ended		
	Dec. 30 2015	Dec. 30 2014	Change	Dec. 30 2015	Dec. 30 2014	Change
Selling:						
Delivery and distribution	20.64	20.31	0.33	18.91	18.54	0.37
Salaries and benefits	19.19	19.26	(0.07)	17.87	19.43	(1.56)
Marketing	5.10	3.88	1.22	5.45	5.78	(0.33)
Regional sales	22.05	22.27	(0.22)	23.18	22.93	0.25
Community sponsorship and other	6.38	7.45	(1.07)	7.07	6.63	0.44
Selling expenses	73.36	73.17	0.19	72.48	73.31	(0.83)

#### General and Administrative Expenses

\$ thousands	Three months ended			Twelve months ended		
	Dec. 30 2015	Dec. 30 2014	Change	Dec. 30 2015	Dec. 30 2014	Change
General and Administrative:						
Salaries and benefits	372	339	33	1,995	2,134	(139)
Professional fees	231	177	54	763	644	119
Reporting and filing fees	14	25	(11)	113	108	5
Insurance	59	51	8	237	207	30
Building maintenance and taxes	139	124	15	566	503	63
Bank charges	38	64	(26)	154	94	60
Office, administrative and other	350	357	(7)	1,384	799	585
Total general and administrative expenses	1,203	1,137	66	5,212	4,489	723

For the three months ended December 30, 2015, general and administrative expenses increased by \$66 and for the year ended December 30, 2015, general and administrative expenses increased by \$723, compared with the same periods as last year, as detailed below:

- Salaries and benefit costs increased by \$33 in the quarter due to adjustments to the valuation of awards under the Corporation's stock appreciation rights ("SAR") program. Costs decreased \$139 for the year ended December 30, 2015 when compared to the same period in 2014 as a result of reduced headcount and lower bonus accruals.
- Professional fees, which include legal, audit, tax, accounting and other advisory and consulting services, were \$54 higher for the quarter mainly as a result of increased legal costs associated with trademark actions. Expenses were \$119 higher for the year to date, compared to the same periods last year, primarily due to increased legal expenses, recruitment costs and consulting fees.
- Reporting and filing fees for the quarter decreased \$11 and for the year ended December 30, 2015 were \$5 higher than in the same period of 2014, due to timing of TSX filing fees.
- Insurance for the quarter and year to date ended December 30, 2015 increased \$8 and \$30, respectively, mainly due to increased coverage that extends to the BC and Ontario sites.
- Building maintenance and taxes increased in both the quarter and year to date primarily as a result of the commencement of Big Rock Urban's operations.
- Bank charges decreased by \$26 for the quarter due to timing of fees associated with Big Rock's credit facility. Expenses for the year ended December 30, 2015 increased \$60 due to fees associated with the term loan and operating loan facilities.
- Office, administration and other decreased \$7 for the three months and increased \$585 for the year ended December 30, 2015 compared to the 2014 comparative periods due to the inclusion, in the prior year's quarter, of pre-operating costs such as lease costs, license fees and travel expenses for Big Rock Urban. The increase for the year to date was due to the inclusion of start-up costs incurred for the establishment of the Toronto sites as well as for Big Rock Urban during the pre-operating phase in Q1 2015.

Excluding costs related to the Big Rock Urban and the new Toronto facility, general and administrative expenses for the three and twelve months ended December 30, 2015 would have decreased by \$91 (8.0%) and \$6 (0.13%), respectively, when compared with the same periods in 2014.

### Depreciation and Amortization

\$ thousands	Three months ended			Twelve months ended		
	Dec. 30 2015	Dec. 30 2014	Change	Dec. 30 2015	Dec. 30 2014	Change
Depreciation included in cost of sales	565	480	85	2,012	1,786	226
Depreciation - other	17	74	(57)	342	260	82
Amortization	8	6	2	34	26	8
<b>Total</b>	<b>590</b>	<b>560</b>	<b>30</b>	<b>2,388</b>	<b>2,072</b>	<b>316</b>

For the quarter ended December 30, 2015 depreciation expense included in cost of sales increased by \$85 and \$226 compared with the same periods last year due to the inclusion of BC production assets and inventory movement.

Other depreciation, which relates to non-production assets, increased for the year ended December 30, 2015 due to additions since December 2014.

Amortization expense, which relates to intangible assets, which include software, naming rights and website costs, increased slightly due to software additions since December 2014.

## Finance expenses (income)

\$ thousands (unless otherwise stated)	Three months ended			Twelve months ended		
	Dec. 30 2015	Dec. 30 2014	Change	Dec. 30 2015	Dec. 30 2014	Change
Interest on long-term debt	59	—	59	112	11	101
Interest on operating facility	(5)	(10)	5	68	(47)	115
Total finance expenses (income)	54	(10)	64	180	(36)	216
Weighted average effective interest rate	5.92%	0.00%		5.23%	4.30%	

The principal amount of long-term debt and bank indebtedness was \$5,136 as at December 30, 2015 compared to \$nil as at December 30, 2014. The outstanding balance on the operating loan facility was \$nil as at December 30, 2015 compared to \$nil as at December 30, 2014. The interest rates applicable to all loans and borrowings are based on the lender's prime rate. The decrease in interest expense for the three months and year ended December 30, 2015 compared to the same periods last year reflects the impact of lower average borrowings.

## Other

\$ thousands	Three months ended			Twelve months ended		
	Dec. 30 2015	Dec. 30 2014	Change	Dec. 30 2015	Dec. 30 2014	Change
Other income	113	131	(18)	504	351	153
Other expenses	23	56	(33)	129	153	(24)

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 revenue from tours, hospitality, and the dry goods store.

## Income Taxes

\$ thousands	Three months ended			Twelve months ended		
	Dec. 30 2015	Dec. 30 2014	Change	Dec. 30 2015	Dec. 30 2014	Change
Current income tax expense (recovery)	80	(663)	743	275	279	(4)
Deferred income tax expense (recovery)	(45)	630	(675)	(151)	46	(197)

Current income tax expense of \$80 was recorded for the three months ended December 30, 2015 (2014 - recovery of \$663) bringing the year to date current tax expense to \$275 (2014 - \$279). These taxes arise from the transitional provisions on the taxation of partnership deferral structures.

During the three months ended December 30, 2015, the Corporation recorded a deferred income tax recovery of \$45, bringing the year to date deferred tax recovery to \$151 compared to an expense of \$46 for the same twelve month period last year.

The deferred income tax provision differs from the statutory rate of 26.04% (2014 - 25.17%) due to permanent differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for income tax purpose, as well as the effect of non-deductible amounts.

## FINANCIAL CONDITION

The following chart highlights significant changes in the Consolidated Balance Sheets from December 30, 2014 to December 30, 2015:

\$ thousands	Increase/ (Decrease)	Primary factors explaining change
Property, plant and equipment	3,268	BC and ON brewery and machinery additions, net of amortization
Intangible assets	291	Computer software projects and additions, net of amortization
Inventories	1,122	Increases in raw materials, finished goods, brews in progress, consignment product and dry goods store due to Big Rock Urban increasing production as well as retail sales
Accounts receivable	748	Higher day sales outstanding from BC
Prepaid expenses and other	904	Deposits on new equipment for Ontario brewery
Long term debt	3,889	Draws on term loans
Deferred income taxes	(151)	Tax effect of changes in temporary differences
Current income taxes	2,296	Reduction in tax instalment payments
Accounts payable and accrued liabilities	468	Timing of supplier payments
Share-based payments liability	(82)	Decrease in SAR valuation
Dividends payable	(1,375)	No dividends payable in 2015
Bank indebtedness	1,247	Combined balance of certain bank accounts in overdraft position

## LIQUIDITY AND CAPITAL RESOURCES

### Capitalization

\$ thousands (unless otherwise stated)	Dec. 30 2015	Dec. 30 2014
Bank indebtedness (cash)	(540)	(1,484)
Total debt	5,136	—
Shareholders' equity:		
Shareholders' capital	113,121	113,121
Contributed surplus	1,255	1,083
Accumulated deficit	(76,836)	(75,761)
Total shareholders' equity	37,540	38,443
Total capitalization (total debt plus shareholders' equity, net of cash balances)	42,136	36,959
Total debt to capitalization ratio	12.2%	0.0%

### Capital Strategy

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

The Corporation manages the capital structure through prudent levels of borrowing, cash-flow forecasting and working capital management, and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash

and cash equivalents. In order to facilitate the management of its capital requirements, the Corporation prepares annual expenditure budgets, which are approved by the Board of Directors. These budgets are updated as necessary depending on various factors, including capital deployment, results from operations, and general industry conditions.

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

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

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

### Shareholders' Capital

	# of shares	\$ Amount (thousands)
As at December 30, 2014 and December 30, 2015	6,875,928	113,121

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

The Corporation's shares trade on the Toronto Stock Exchange under the symbol BR. As at March 10, 2016 there were 6,875,928 issued and outstanding shares and the closing price was \$4.98 per share. Based upon 6,875,928 issued shares, the Corporation has an approximate market capitalization of \$34.2 million.

### Share-Based Compensation Plan

On May 14, 2015, the Corporation granted 58,500 options at an exercise price of \$7.46 per share with an expiry date of May 14, 2020. On September 10, 2015, the Corporation granted 58,500 options at an exercise price of \$5.91 per share with an expiry date of September 10, 2020.

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 2015	May 2015	September 2014	March 2014
Weighted average fair value per option	1.33	1.60	1.54	1.95
Risk-free interest rate (%)	0.65	0.89	1.42	1.42
Expected life of the options (years)	4	4	4	4
Dividend rate (%)	0.00	0.00	5.06	4.44
Volatility in the price of the Corporation's shares (%)	29.4	28.7	22.4	22.4

For the three months ended December 30, 2015, \$nil (2014 - \$nil) of share-based compensation was recognized in the statement of comprehensive income. For the year ended December 30, 2015, share-based compensation charges of \$172 (2014 - \$204) were recognized in the 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:

	2015		2014	
	# of options	Weighted average exercise price	# of options	Weighted average exercise price
Balance, beginning of year	508,000	\$ 15.22	413,000	\$ 14.75
Expired	(108,000)	\$ 16.08	(14,000)	\$ 16.15
Exercised	—	—	(8,000)	\$ 15.62
Issued	117,000	\$ 6.64	117,000	\$ 17.01
Balance, end of year	517,000	\$ 13.10	508,000	\$ 15.22

The following table summarizes information about stock options outstanding and exercisable at December 30, 2015:

Exercise price	# of Options outstanding at December 30, 2015	Weighted average remaining contractual life (years)	Weighted average exercise price	# of Options exercisable at December 30, 2015
\$5.82 to \$12.97	148,500	3.73	\$ 7.81	148,500
\$12.98 to \$14.98	175,500	1.68	\$ 13.99	175,500
\$14.99 to \$18.06	193,000	2.94	\$ 16.37	193,000
Balance, December 30	517,000	2.74	\$ 13.10	517,000

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 May 2015, the Corporation granted 57,000 SARs with an exercise price of \$7.46 (to be settled in cash). In September 2015, the Corporation granted 73,000 SARs with an exercise price of \$5.82 (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 December 30, 2015, 391,900 SARs were outstanding (December 30, 2014 - 303,800). During the year ended December 30, 2015, 130,000 SARs were issued (2014 - 107,900), no SARs were exercised (2014 - 18,900) and 41,900 SARs expired (2014 - nil). As at December 30, 2015, the fair value of the SARs was calculated and resulted in a liability of \$134 (2014 - \$216) and a recovery of \$82 being recorded in general and administrative expenses (2014 - recovery of \$394).

At December 30, 2015, the weighted average fair value of the SARs issued at the grant date was estimated using the Black-Scholes option pricing model. The weighted average assumptions used for the calculations were:

	September 2015	May 2015	September 2014	March 2014
Weighted average fair value per SAR	1.16	0.72	0.07	0.03
Risk-free interest rate (%)	0.70	0.66	0.58	0.53
Expected life of the SAR (years)	4.70	4.37	3.70	3.21
Dividend rate (%)	0.00	0.00	0.00	0.00
Volatility in the price of the Corporation's shares (%)	32.3	32.3	32.3	32.3

## Cash Flows

\$ thousands	Three months ended December 30			Twelve months ended December 30		
	2015	2014	Change	2015	2014	Change
<b>OPERATING ACTIVITIES</b>						
Net income for the period, adjusted for items not affecting cash	439	791	(352)	1,141	2,615	(1,474)
Net change in non-cash working capital related to operations	(507)	(375)	(132)	20	(5,617)	5,637
Cash provided by (used in) operating activities	(68)	416	(484)	1,161	(3,002)	4,163
<b>FINANCING ACTIVITIES</b>						
Increase (decrease) in bank indebtedness	644	—	644	1,247	—	1,247
Proceeds from share issuance	—	—	—	—	12,633	(12,633)
Exercise of options	—	—	—	—	125	(125)
Dividend payments	—	(1,376)	1,376	(1,375)	(5,181)	3,806
Exercise of stock appreciation rights	—	(3)	3	—	(77)	77
Proceeds from long-term debt	854	—	854	3,889	—	3,889
Cash provided by (used in) financing activities	1,498	(1,379)	2,877	3,761	7,500	(3,739)
<b>INVESTING ACTIVITIES</b>						
Purchase of property, plant and equipment	(1,458)	(2,676)	1,218	(5,701)	(5,503)	(198)
Purchase of intangibles	(24)	(58)	34	(325)	(83)	(242)
Proceeds from sale of equipment	13	115	(102)	160	255	(95)
Cash used in investing activities	(1,469)	(2,619)	1,150	(5,866)	(5,331)	(535)
Net change in cash	(39)	(3,582)	3,543	(944)	(833)	(111)

### Operating Activities

Cash used in operating activities for the three months ended December 30, 2015 totalled \$68 (2014 - \$416 provided by operating activities), a decrease of \$484 compared to the same period last year. The decrease in operating cash flows was the result of lower net income. For the year ended December 30, 2015 cash provided by operating activities totalled \$1,161 (2014 - cash used in operating activities totalled \$3,002), an increase of \$4,163 compared to the same period in 2014. The increase is due to reduced impact of working capital.

### Investing Activities

For the three months and year ended December 30, 2015, capital spending, net of dispositions, was \$1,469 and \$5,866, respectively, compared to net additions of \$2,619 and \$5,331, respectively, for the three months and year ended December 30, 2014.

Capital spending, net of dispositions, for the year ended December 30, 2015 included net cash received of \$28 in respect of kegs (2014 - purchases of \$383), \$12 relating to land (2014 - \$nil), \$2,318 (2014 - \$1,139) for brewing and packaging equipment, \$179 (2014 - \$293) for the purchase of new mobile equipment, \$552 (2014 - \$187) for the purchase of office furniture and equipment, \$2,508 (2014 - \$3,246) relating to building improvement, and \$325 (2014 - \$83) for the purchase of intangible assets.

### Financing Activities

Cash provided by financing activities for the three months ended December 30, 2015 increased by \$2,877 compared to the same period in 2014. This is due to drawing on the term loans combined with the fact that there was no dividend payment in Q4 of 2015.

Cash provided by financing activities for the twelve months ended December 30, 2015 decreased by \$3,739 compared with the same period in 2014. The decrease is the result of the prior year's large proceeds

received from the share issuance. The current year had no such instance; however proceeds received from drawing on the term loans slightly offset the decrease.

On March 13, 2015, Big Rock signed a commitment letter to replace the existing \$12 million revolving facility with a \$5 million revolving operating loan facility together with a \$6 million 5-year term loan facility which is available for general operating purposes and funding capital expenditure requirements. For prime-based loans, interest will be payable at the financial institution's prime plus 2.0-2.75 percent; for guaranteed notes, the acceptance fee is payable at 3.75-4.50 percent; and for letters of credit, the fee is payable at 3.00-3.75 percent with a minimum fee of \$100. Both facilities mature after a term of 5 years and any undrawn amounts under the facility will expire on March 13, 2020, if no extension has been granted. Collateral for these borrowings is a general assignment of Big Rock's assets.

As at December 30, 2015, \$1,850 (December 30, 2014 - nil) was drawn on the term loan facility and \$nil (December 30, 2014 - nil) was outstanding on the operating loan facility.

The facility imposes a number of positive and negative covenants on Big Rock, including the maintenance of certain financial ratios. As at December 30, 2015, Big Rock was outside the required range of one of its financial covenants and had received a waiver from the Corporation's bank. Big Rock was in compliance with all other covenants at December 30, 2015.

On July 9, 2015 Big Rock signed a commitment letter for a \$2.5 million lease financing facility which is available to finance the purchase of equipment relating to Big Rock's Ontario expansion. Interest will be charged at the financial institution's prime plus 3.67 per cent. As at December 30, 2015, \$2,039 was drawn on the facility. The lease term will commence upon the earlier of the final equipment progress payment and June 30, 2016 and continue for 5 years.

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	Dec. 30 2015	Dec. 30 2014
EBITDA	\$ 1,617	\$ 2,985
Deduct: Depreciation & Amortization	2,388	2,072
Earnings before interest and taxes	(771)	913
Deduct: Interest	180	(36)
Deduct: Income tax charge	124	325
Net income	\$ (1,075)	\$ 624

### Cash Dividends

In March 2015, Big Rock announced the suspension of the Corporation's quarterly dividend until further notice. In December 2014, Big Rock declared dividends of \$1,375 or \$0.20 per share, which were paid on January 15, 2015.

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

### CRITICAL ACCOUNTING ESTIMATES

#### Share-based compensation

The Corporation recognizes compensation expense on options with no cash settlement feature at time of grant as well as on changes in the fair value of any outstanding SARs at each reporting date. Share-based compensation expenses with respect to options recognized during the three months and year ended December 30, 2015 was \$nil (2014 - \$nil) and \$172 (2014 - \$204), respectively, while, with respect to SARs,

recoveries of \$55 (2014 - recoveries of \$315) and \$82 (2014 - recovery of \$394) were recognized during the three months and year ended December 30, 2015, respectively.

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

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

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

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

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

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

### **Keg Deposits**

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

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

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

In 2012, the Alberta government commenced a review of its mark-up rates and on March 26, 2015, announced an increase in the mark-up rate applicable to Big Rock with an immediate corresponding increase in the prices of the Corporation’s products. As Alberta is Big Rock’s predominant market, changes to this mark-up rate structure could have significant impacts on the Corporation’s financial results.

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

## **Financial Risk**

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

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

### **Credit Risk**

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

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

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

### **Liquidity Risk**

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

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

### **Commodity Price Risk**

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

Big Rock’s profitability depends on the selling price of its products to provincial liquor boards, which set minimum price thresholds. Although prices are otherwise controlled by the Corporation, they are subject to

such factors as regional supply and demand, and to a lesser extent inflation and general economic conditions. As beer and cider sales are the only source of revenue for the Corporation, a 5% increase or decrease in these prices will result in a corresponding increase or decrease in revenue.

### Interest Rate Risk

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

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

The 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 and year ended December 30, 2015 was 5.92% (2014 - 0.00%) and 5.23% (2014 - 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 10, 2016 that is available on [www.sedar.com](http://www.sedar.com).

### CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENCIES

As at December 30, 2015, the Corporation was a party to the following contracts:

- Effective April 1, 2014, the Corporation locked in an agreement with a natural gas retailer to provide natural gas at a fixed price of \$4.35 per gigajoule for a period of 39 months, ending on July 1, 2017.
- During 2015, Big Rock entered into agreements for the purchase of promotional materials and market research for a total cost of approximately \$306, of which \$153 was payable at December 30. These items, which will be used in the normal course of business, are expected to be received during the first and second quarters of 2016.
- During 2015, Big Rock entered into several agreements for the purchase of machinery and equipment to be used at the Calgary and Ontario breweries for a total cost of approximately \$4,872, of which \$3,746 was payable at December 30. This machinery and equipment, which will be used in the normal course of business, is expected to be received during the first half of 2016.
- Big Rock has agreed upon several contracts for the supply of raw materials ranging from \$646 to \$1,640 per metric tonne with commitments extending out to December 2016. These raw materials 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 February 2014, Big Rock entered into an agreement with an electricity retailer to provide electricity for a period of 40 months beginning September 1, 2015 and ending on January 1, 2019 at a fixed rate of \$65.08 per megawatt hour.

## LEASES

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

Future minimum lease payments due as at December 30, 2015 are:

Within one year	\$ 982
After one year but not more than five years	4,841
More than five years	3,010
	\$ 8,833

As at December 30, 2015, lease payments of \$860 (2014 - \$163) were recognized as expense in the statement of comprehensive income.

## 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 revenue was earned from domestic sources.

## FUTURE ACCOUNTING PRONOUNCEMENTS

### IFRS Policies

The Corporation's consolidated financial statements as at and for the years ended December 30, 2015 and 2014 have been prepared using the IFRS standards and interpretations currently issued. Accounting policies currently adopted under IFRS are subject to change as a result of new standards being issued with an effective date of December 30, 2015 or prior. A change in an accounting policy used may result in material changes to Big Rock's reported financial position, results of operations and cash flows.

### Change in accounting policies

The IASB has issued the following pronouncements:

- IFRIC 21 *Levies* has been issued which will be required to be adopted, with retrospective application, effective for annual periods beginning on or after January 1, 2014. This standard provides guidance on when to recognize a liability for a levy imposed by a government whereby a liability is recognized progressively if an obligating event occurs over a period of time and immediately in full where obligation is triggered on reaching a minimum threshold. The Corporation did not experience any impact to the financial statements on adoption of this standard.
- 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. The Corporation did not experience any impact to the financial statements on adoption of this standard.
- Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* 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 delete the requirement to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit was significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. In addition, the IASB added two disclosure requirements: to provide additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal and to provide information about the discount rates that have been used when the

recoverable amount is based on fair value less costs of disposal using a present value technique. The Corporation did not experience any impact to the financial statements on adoption of this standard.

### Future accounting pronouncements

The IASB has issued the following pronouncements:

- Amendments to IAS 7 *Statement of cash flows* are effective for annual periods beginning on or after January 1, 2017. The amendments clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.
- Amendments to IAS 12 *Income taxes* are effective for annual periods beginning on or after January 1, 2017. The amendments clarify several aspects of the standard including: deductible temporary differences relating to unrealized losses on debt instruments, estimations of future taxable profits, and how an entity assesses deferred tax assets.
- IFRS 9 *Financial Instruments* has been amended, effective for annual periods beginning January 1, 2018. The amended standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard requires classification of financial assets on the basis of the reporting entity's business model objectives for managing those financial assets and the characteristics of the contractual cash flows. As a result, both the classification and measurement of certain financial assets may change. Additionally, for liabilities designated at fair value through profit and loss, fair value changes attributable to changes in credit risk will be presented through other comprehensive income instead of net income.
- IFRS 15 *Revenue from Contracts with Customers* has been issued which will be required to be adopted, with retrospective application, effective for annual periods beginning on or after January 1, 2018. This standard establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard also provides a model for the recognition and measurement of sales of some non-financial assets (e.g., disposals of property, plant and equipment).
- IFRS 16 *Leases* has been issued which will be required to be adopted effective for annual periods beginning on or after January 1, 2019. This standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

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

### DISCLOSURE CONTROLS AND PROCEDURES

The Corporation's management under the supervision of, and with the participation of, the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the Corporation, have designed and evaluated the effectiveness and operation of its disclosure controls and procedures, as defined under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"). Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed with Canadian securities regulatory authorities is recorded, processed, summarized and reported in a timely fashion. The disclosure controls and procedures are designed to ensure that information required to be disclosed by the Corporation in such reports is then accumulated and communicated to management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure. Due to the inherent limitations in all control systems, an evaluation of the disclosure controls can only provide reasonable assurance over the effectiveness of the controls. The disclosure controls are not expected to prevent and detect all misstatements due to error or fraud. Based on the evaluation of disclosure controls and procedures, the CEO and CFO have concluded that the Corporation's disclosure controls and procedures are effective as of December 30, 2015.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

The CEO and CFO acknowledge responsibility for the design of ICFR and confirm that there were no changes in the Corporation's controls over financial reporting for the year ended December 30, 2015, 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 December 30, 2015, the CEO and CFO have concluded that the Corporation's ICFR were effective as at that date. No material weaknesses existed within the Corporation's ICFR as of December 30, 2015. In addition, there were no material changes to Big Rock's internal controls over financial reporting since the most recent interim period.

## OUTLOOK

Competition continues unabated at the value-priced end of the beer spectrum and for premium craft beer, particularly in Alberta, which, unlike most other Canadian jurisdictions, has relatively few barriers to entry for out-of-province producers. This competition particularly affects Big Rock's most mature brands, Grasshopper and Traditional, and is expected to continue.

To diversify revenue base, management has identified opportunities to establish a local presence in two other Canadian provinces, BC and Ontario. These markets have been targeted as they are especially responsive to locally brewed, craft beer. The BC brewery, brewpub and retail space commenced operations in April 2015, while management expects that the Ontario brewery and nearby brewpub will open in June 2016 and August 2016, respectively. Management plans to evaluate other Canadian markets for investment potential.

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

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

## FORWARD LOOKING INFORMATION

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

All statements, other than statements of historical fact included in the MD&A, may be forward-looking information. Forward-looking information are not facts, but only predictions and generally can be identified by the use of statements that include words or phrases such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "potential", "targeting", "intend", "could",

"might", "should", "believe" and similar expressions. These statements are not guarantees of our future performance and are subject to known and unknown risks, uncertainties and other factors that may cause Big Rock's actual results or events to differ materially from those anticipated in such forward-looking statements.

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

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

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

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

- volumes in the current fiscal year will remain constant or will increase;
- input costs for brewing and packaging materials will remain constant or will not significantly increase or decrease;
- there will be no material change to the regulatory environment in which Big Rock operates;
- there will be no supply issues with Big Rock's vendors; and
- construction costs associated with the planned Ontario facilities will fall within the range budgeted by the Corporation.

Big Rock's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth above and as set out under the heading "Risk Factors" in the Corporation's 2015 Annual Information Form (as filed on SEDAR on March 10, 2016). Readers are cautioned that the foregoing lists of factors are not exhaustive.

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

#### **ADDITIONAL INFORMATION**

Additional information on the Corporation, including the Annual Information Form for the year ended December 30, 2015, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

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

March 10, 2016

## Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Big Rock Brewery Inc. and all information in Management's Discussion and Analysis are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and has ensured consistency with the financial information presented elsewhere in Management's Discussion and Analysis.

To assist management in the discharge of these responsibilities, the Corporation has established an organizational structure that provides appropriate delegation of authority, division of responsibilities, and selection and training of properly qualified personnel. Management is also responsible for the development of internal controls over the financial reporting process.

The Board of Directors is assisted in exercising its responsibilities through the Audit Committee of the Board, which is composed entirely of independent directors. The Committee meets regularly with management and the independent auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited independently by Ernst & Young LLP on behalf of the shareholders in accordance with generally accepted auditing standards. Their report outlines the nature of their audits and expresses their opinion on the consolidated financial statements.

(signed)  
Robert Sartor  
President and Chief Executive Officer

(signed)  
Barbara E. Feit  
Chief Financial Officer

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated financial statements of Big Rock Brewery Inc., which comprise the consolidated statements of financial position as at December 30, 2015 and 2014, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IASB"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Big Rock Brewery Inc. as at December 30, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Calgary, Canada

March 10, 2016

*Ernst + Young LLP*

Chartered Professional Accountants

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

	Year ended	
	December 30, 2015	December 30, 2014
Net revenue (Notes 3.2 and 4)	\$ 39,594	\$ 36,755
Cost of sales (Notes 5 and 23)	21,965	18,930
<b>Gross profit</b>	<b>17,629</b>	<b>17,825</b>
<b>Expenses</b>		
Selling expenses (Note 6)	13,187	12,335
General and administrative (Notes 7 and 23)	5,212	4,489
Depreciation and amortization	376	286
Operating expenses	18,775	17,110
<b>Operating profit (loss)</b>	<b>(1,146)</b>	<b>715</b>
Finance expenses (income) (Note 8)	180	(36)
Other income	504	351
Other expenses	129	153
<b>Income (loss) before income taxes</b>	<b>(951)</b>	<b>949</b>
Current income tax expense (Note 9)	275	279
Deferred income tax expense (recovery) (Note 9)	(151)	46
<b>Net income (loss) and comprehensive income (loss) for the period</b>	<b>\$ (1,075)</b>	<b>\$ 624</b>

Net income (loss) per share (Note 10)

Basic and diluted	\$ (0.16)	\$ 0.09
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*See accompanying notes to the consolidated financial statements*

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

	December 30, 2015	December 30, 2014
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment (Note 11)	\$ 41,590	\$ 38,322
Intangible assets (Note 12)	456	165
	42,046	38,487
<b>Current</b>		
Inventories (Note 13)	4,935	3,813
Accounts receivable (Notes 14 and 22)	2,221	1,473
Prepaid expenses and other (Note 15)	1,573	669
Current taxes receivable (Note 9)	—	2,241
Cash	540	1,484
	9,269	9,680
<b>Total assets</b>	<b>\$ 51,315</b>	<b>\$ 48,167</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>EQUITY</b>		
Shareholders' capital (Note 16)	\$ 113,121	\$ 113,121
Contributed surplus (Note 17)	1,255	1,083
Accumulated deficit	(76,836)	(75,761)
	37,540	38,443
<b>LIABILITIES</b>		
<b>Non-current</b>		
Long term debt (Note 18)	3,485	—
Share-based payments (Note 17)	134	216
Deferred income taxes (Note 9)	4,399	4,550
	8,018	4,766
<b>Current</b>		
Accounts payable and accrued liabilities (Notes 19 and 22)	4,051	3,583
Current taxes payable (Note 9)	55	—
Dividends payable (Notes 20 and 22)	—	1,375
Current portion of long term debt (Note 18)	404	—
Bank indebtedness (Note 18)	1,247	—
	5,757	4,958
Commitments (Note 25)		
<b>Total liabilities and shareholders' equity</b>	<b>\$ 51,315</b>	<b>\$ 48,167</b>

*See accompanying notes to the consolidated financial statements*

On behalf of the Board:	<u>“signed”</u> John Hartley Director	<u>“signed”</u> Michael Kohut Director
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**BIG ROCK BREWERY INC.**  
**Consolidated Statements of Cash Flows**  
*(In thousands of Canadian dollars)*

	Year ended	
	December 30, 2015	December 30, 2014
<b>OPERATING ACTIVITIES</b>		
Net income (loss) for the period	\$ (1,075)	\$ 624
Items not affecting cash:		
Depreciation and amortization	2,388	2,072
Loss (gain) on sale of assets	(111)	63
Share-based compensation	90	(190)
Deferred income tax expense (recovery)	(151)	46
Net change in non-cash working capital related to operations (note 24)	20	(5,617)
<b>Cash provided (used) by operating activities</b>	<b>1,161</b>	<b>(3,002)</b>
<b>FINANCING ACTIVITIES</b>		
Dividend payments	(1,375)	(5,181)
Proceeds from long-term debt	3,889	—
Increase in bank indebtedness	1,247	—
Exercise of stock appreciation rights	—	(77)
Proceeds from share issuance	—	12,633
Exercise of options	—	125
<b>Cash provided by financing activities</b>	<b>3,761</b>	<b>7,500</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(5,701)	(5,503)
Purchase of intangibles	(325)	(83)
Proceeds from sale of equipment	160	255
<b>Cash used in investing activities</b>	<b>(5,866)</b>	<b>(5,331)</b>
<b>Net decrease in cash</b>	<b>(944)</b>	<b>(833)</b>
Cash, beginning of year	1,484	2,317
<b>Cash, end of year</b>	<b>\$ 540</b>	<b>\$ 1,484</b>

**Supplemental cash-flow information**

Cash interest paid	\$ 181	\$ 18
Cash taxes paid	241	4,473

*See accompanying notes to the condensed consolidated financial statements*

**BIG ROCK BREWERY INC.**  
**Consolidated Statements of Changes in Shareholders' Equity**  
*(In thousands of Canadian dollars)*

	Shareholders' capital	Contributed surplus	Accumulated deficit	Total
Balance as at December 30, 2013	\$ 100,109	\$ 892	\$ (71,043)	\$ 29,958
Stock options exercised	138	(13)	—	125
Share-based payments	—	204	—	204
Issuance of shares for cash	12,874	—	—	12,874
Total comprehensive income for the year ended December 30, 2014	—	—	624	624
Dividends declared for year ended December 30, 2014 (Note 20)	—	—	(5,342)	(5,342)
Balance as at December 30, 2014	113,121	1,083	(75,761)	38,443
Share-based payments	—	172	—	172
Total comprehensive income (loss) for the year ended December 30, 2015	—	—	(1,075)	(1,075)
Balance as at December 30, 2015	\$ 113,121	\$ 1,255	\$ (76,836)	\$ 37,540

*See accompanying notes to the consolidated financial statements*

**BIG ROCK BREWERY INC.**  
**Notes to the Consolidated Financial Statements**  
*(In thousands of Canadian dollars, unless otherwise stated)*

**1. CORPORATE INFORMATION**

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

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

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

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

Inter-company balances and transactions, and any unrealized gains arising from inter-company transactions, are eliminated in preparing the Financial Statements.

**2. BASIS OF PREPARATION**

**2.1 Statement of compliance**

These Financial Statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

**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**

The IASB has issued the following pronouncements:

- IFRIC 21 *Levies* has been issued which will be required to be adopted, with retrospective application, effective for annual periods beginning on or after January 1, 2014. This standard provides guidance on when to recognize a liability for a levy imposed by a government whereby a liability is recognized progressively if an obligating event occurs over a period of time and immediately in full where obligation is triggered on reaching a minimum threshold. The Corporation did not experience any impact to the financial statements on adoption of this standard.
- 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

**BIG ROCK BREWERY INC.**  
**Notes to the Consolidated Financial Statements**  
*(In thousands of Canadian dollars, unless otherwise stated)*

for net presentation. The Corporation did not experience any impact to the financial statements on adoption of this standard.

- Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* 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 delete the requirement to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit was significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. In addition, the IASB added two disclosure requirements: to provide additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal and to provide information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique. The Corporation did not experience any impact to the financial statements on adoption of this standard.

## 2.4 Future accounting pronouncements

The IASB has issued the following pronouncements:

- Amendments to IAS 7 *Statement of cash flows* are effective for annual periods beginning on or after January 1, 2017. The amendments clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.
- Amendments to IAS 12 *Income taxes* are effective for annual periods beginning on or after January 1, 2017. The amendments clarify several aspects of the standard including: deductible temporary differences relating to unrealized losses on debt instruments, estimations of future taxable profits, and how an entity assesses deferred tax assets.
- IFRS 9 *Financial Instruments* has been amended, effective for annual periods beginning January 1, 2018. The amended standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard requires classification of financial assets on the basis of the reporting entity's business model objectives for managing those financial assets and the characteristics of the contractual cash flows. As a result, both the classification and measurement of certain financial assets may change. Additionally, for liabilities designated at fair value through profit and loss, fair value changes attributable to changes in credit risk will be presented through other comprehensive income instead of net income.
- IFRS 15 *Revenue from Contracts with Customers* has been issued which will be required to be adopted, with retrospective application, effective for annual periods beginning on or after January 1, 2018. This standard establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard also provides a model for the recognition and measurement of sales of some non-financial assets (e.g., disposals of property, plant and equipment).
- IFRS 16 *Leases* has been issued which will be required to be adopted effective for annual periods beginning on or after January 1, 2019. This standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 Significant accounting judgments and estimates

The preparation of these financial statements requires management to make judgments in applying accounting policies. Judgments that have the most significant effect on the amounts recognized in the Financial Statements are described below. Management also makes assumptions and critical estimates. Critical estimates are those which are most subject to uncertainty and have the most significant risk of resulting in a material change to the carrying amounts of assets and liabilities within the next year. Judgments, assumptions and estimates are based on historical experience, business trends and all available information that management considers relevant at the time of the preparation of the Financial Statements. However, future events and their effects cannot be anticipated with certainty and so as confirming events occur, actual results could ultimately differ from assumptions and estimates. Such differences could be material.

The following discusses the most significant accounting judgments and estimates that Big Rock has made in the preparation of these Financial Statements. The sensitivity analyses below should be used with caution as the changes are hypothetical and the impact of changes in each key assumption may not be linear.

#### Significant judgments

##### *Income taxes payable*

Tax legislation, regulation and interpretation require judgment and may have a bearing on the amounts recorded in the tax provision and income taxes payable. Big Rock's tax filings are continually subject to review by Canada Revenue Agency ("CRA") who makes the final determination of the actual amounts of taxes payable or receivable. This could have an impact on the current and future tax expenses.

##### *Deferred income taxes*

Deferred tax liabilities require management judgment in order to determine the amounts to be recognized. This includes assessing the timing of the reversal of temporary differences to which deferred income tax rates are applied.

##### *Impairment assessment*

Impairment indicators include a significant decline in an asset's market value, significant changes in the technological, market, economic or legal environment in which the assets are operated, evidence of obsolescence or physical damage of an asset, significant changes in the planned use of an asset, or ongoing under-performance of an asset. Application of these factors to the facts and circumstances of a particular asset requires a significant amount of judgment.

#### Assumptions and critical estimates

##### *Keg deposit liability*

In determining the liability for return of keg deposits, Big Rock estimates that a portion of circulating kegs will never be returned for refund. Big Rock estimates that approximately 97.5% of kegs are returned for refund in each turn of inventory. Management recognizes a liability for one turn plus an additional amount, estimated as 10% of one turn, for very old kegs.

As at December 30, 2015, a balance of \$231 (2014 - \$255) was included in Accounts payable and Accrued liabilities in respect of the keg deposit liability.

##### *Sensitivity analysis*

An increase in the quantity of old kegs returned of 10% of one turn would result in an additional liability and charge to net income of \$18.

##### *Property, plant and equipment*

Calculation of the net book value of property, plant and equipment requires Big Rock to make estimates of the useful economic life of the assets, residual value at the end of the asset's useful economic life, method of depreciation and whether impairment in value has occurred. Residual values of the assets, estimated useful lives and depreciation methodology are reviewed annually with prospective application of any changes, if deemed appropriate. Changes to estimates could be caused by a variety of factors, including

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changes to the physical life of the assets. A change in any of the estimates would result in a change in the amount of depreciation and, as a result, a charge to net income recorded in the period in which the change occurs, with a similar change in the carrying value of the asset on the consolidated balance sheets.

*Sensitivity analysis*

A 10% decrease in useful lives of Big Rock's property, plant and equipment would result in an additional charge to net income of \$58.

**3.2 Revenue recognition**

Big Rock recognizes net sales revenue 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.

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

**3.3 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.

**3.4 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.

**3.5 Property, plant and equipment**

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

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Buildings	35-40 years
Machinery and equipment	5-40 years
Mobile equipment	6-10 years
Office furniture and equipment	5-15 years
Leasehold improvements	10-40 years
Returnable containers	10 years

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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.

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

### 3.6 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 plus 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.

### 3.7 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") or for equity-linked cash payments ("cash-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.

#### *Cash-settled transactions*

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

The costs of cash-settled transactions are recognized, together with a corresponding increase in liability, 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 difference between the grant price of the instrument and the price of the Corporation's shares at the date the instrument is ultimately exercised. At

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the end of each reporting period, the fair value of the instruments are recorded as a liability on the statement of financial position and recorded as compensation expense within general and administrative expenses.

### **3.8 Taxation**

#### *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.

### **3.9 Keg deposits**

Big Rock requires that customers pay deposits for kegs purchased which are reflected as a liability on the Corporation's 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 revenue.

### **3.10 Income per share**

The basic income per share is computed by dividing the net income by the weighted average number of common shares outstanding during the period. The diluted income per share reflects the potential dilution

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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.

### **3.11 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 income.

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 except for losses in value that are considered other than temporary. At December 30, 2015, the Corporation has not classified any financial assets as FVTPL, available-for-sale or held-to-maturity.

Transaction 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.

### **3.12 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.

### **3.13 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 asset belongs.

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

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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.

**3.14 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 a finance cost.

**3.15 Leases**

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Corporation is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Corporation will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in the statement of comprehensive income on a straight-line basis over the lease term.

**4. REVENUE**

	Year ended	
	Dec. 30 2015	Dec. 30 2014
Gross Revenue	\$ 51,805	\$ 46,887
Excise Taxes	(4,496)	(4,180)
Alberta Gaming and Liquor Commission ("AGLC") Commissions	(7,715)	(5,952)
Net Revenue	\$ 39,594	\$ 36,755

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. Beer and cider revenue for other provincial jurisdictions represents net sales to the liquor control boards, after excise taxes and commissions. Excise taxes are assessed on beer production at tiered rates up to \$31.22 per hectolitre, and provincial liquor control board commissions cover distributions and other service charges.

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**5. COST OF SALES**

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

	Year ended	
	Dec. 30 2015	Dec. 30 2014
Operating expenses	\$ 19,953	\$ 17,144
Depreciation and amortization	2,012	1,786
Cost of sales	\$ 21,965	\$ 18,930

**6. SELLING EXPENSES**

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

	Year ended	
	Dec. 30 2015	Dec. 30 2014
Delivery and distribution costs	\$ 3,441	\$ 3,120
Salaries and benefits	3,252	3,270
Marketing	991	972
Regional sales	4,217	3,857
Community sponsorship and other	1,286	1,116
Selling expenses	\$ 13,187	\$ 12,335

**7. GENERAL AND ADMINISTRATIVE EXPENSES**

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

	Year ended	
	Dec. 30 2015	Dec. 30 2014
Salaries and benefits <sup>(1)</sup>	\$ 1,995	\$ 2,134
Professional fees	763	644
Reporting and filing fees	113	108
Insurance	237	207
Building maintenance and taxes	566	503
Bank charges	154	94
Office, administrative and other	1,384	799
General and administrative expenses	\$ 5,212	\$ 4,489

(1) For the twelve months ended December 30, 2015 salaries and benefits included stock option expense of \$172 (2014 - \$204). Also included, for the twelve months ended December 30, 2015, is a stock appreciation rights recovery of \$82 (2014 - \$394).

**8. FINANCE EXPENSES (INCOME)**

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

	Year ended	
	Dec. 30 2015	Dec. 30 2014
Interest on long-term debt	\$ 112	\$ 11
Interest on operating facility	68	(47)
Finance expenses (income)	\$ 180	\$ (36)

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**9. INCOME TAXES**

Income tax expense is comprised of the following:

	Year ended	
	Dec. 30 2015	Dec. 30 2014
Current tax expense	\$ 275	\$ 279
Deferred tax expense (recovery)	(151)	46
Income tax expense	\$ 124	\$ 325

The following table reconciles the theoretical income tax expense using a weighted average Canadian federal and provincial rate of 26.04% (2014 - 25.17%) to the reported tax expense. The reconciling items represent, aside from the impact of tax rate differentials and changes, non-taxable benefits or non-deductible expenses arising from permanent differences between the local tax base and the reported financial statements, in accordance with IFRS.

	Year ended	
	Dec. 30 2015	Dec. 30 2014
Income (loss) before income taxes	\$ (951)	\$ 949
Income tax expense (recovery) at statutory rate of 26.04% (2014 - 25.17%)	(248)	239
Effect on taxes of:		
Share-based compensation expenses	45	51
Non-deductible expenses	48	26
True-up of opening timing differences	(23)	10
Impact of rate change on temporary differences	302	(3)
Other	—	2
Income tax expense	\$ 124	\$ 325

The movement in deferred income tax during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction is as follows:

	Property, plant and equipment	Share issue costs	Deferral of partnership income	Other	Total
As at December 30, 2014	\$ 4,520	\$ (209)	\$ 293	\$ (54)	\$ 4,550
Charged/(credited) to the Statement of comprehensive income	245	28	(379)	(45)	(151)
As at December 30, 2015	\$ 4,765	\$ (181)	\$ (86)	\$ (99)	\$ 4,399

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**10. INCOME (LOSS) PER SHARE**

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

Basic	Year ended	
	Dec. 30 2015	Dec. 30 2014
Net income (loss)	\$ (1,075)	\$ 624
Shares outstanding, beginning of the year	6,875,928	6,068,678
Weighted average # of shares issued during the year	—	586,568
Basic # shares outstanding during the year	6,875,928	6,655,246
Basic income (loss) per share	\$ (0.16)	\$ 0.09

Diluted	Year ended	
	Dec. 30 2015	Dec. 30 2014
Net income (loss)	\$ (1,075)	\$ 624
Basic # shares outstanding during the year	6,875,928	6,655,246
Weighted average # of shares issuable on dilutive options, during the year	—	41,150
Diluted # shares outstanding during the year	6,875,928	6,696,395
Diluted income (loss) per share	\$ (0.16)	\$ 0.09

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**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
<b>Cost</b>								
As at December 30, 2013	\$ 8,365	\$ 11,953	\$ 22,079	\$ 663	\$ 552	\$ 214	\$ 1,328	\$ 45,154
Additions	—	3,246	1,389	293	192	—	383	5,503
Disposals	—	—	(916)	(67)	(7)	—	—	(990)
As at December 30, 2014	8,365	15,199	22,552	889	737	214	1,711	49,667
Additions	12	2,508	2,318	186	552	—	125	5,701
Disposals	—	(15)	(10)	(21)	(3)	—	(320)	(369)
As at December 30, 2015	\$ 8,377	\$ 17,692	\$ 24,860	\$ 1,054	\$ 1,286	\$ 214	\$ 1,516	\$ 54,999
<b>Accumulated depreciation</b>								
As at December 30, 2013	—	\$ 1,108	\$ 7,943	\$ 237	\$ 192	\$ 61	\$ 471	\$ 10,012
Charge for the year	—	302	1,382	110	83	16	112	2,005
Eliminated on disposals	—	—	(635)	(35)	(2)	—	—	(672)
As at December 30, 2014	—	1,410	8,690	312	273	77	583	11,345
Charge for the year	—	409	1,436	139	243	15	142	2,384
Eliminated on disposals	—	(2)	(4)	(17)	—	—	(297)	(320)
As at December 30, 2015	—	\$ 1,817	\$ 10,122	\$ 434	\$ 516	\$ 92	\$ 428	\$ 13,409
<b>Net book value</b>								
As at December 30, 2014	\$ 8,365	\$ 13,789	\$ 13,862	\$ 577	\$ 464	\$ 137	\$ 1,128	\$ 38,322
As at December 30, 2015	\$ 8,377	\$ 15,875	\$ 14,738	\$ 620	\$ 770	\$ 122	\$ 1,088	\$ 41,590

For the years ended December 30, 2015 and 2014, 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.

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**12. INTANGIBLE ASSETS**

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

	Computer software	Intellectual property	Website costs	Total
<b>Cost</b>				
As at December 30, 2013	\$ 177	\$ 170	\$ 22	\$ 369
Additions	83	—	—	83
As at December 30, 2014	260	170	22	452
Additions	325	—	—	325
As at December 30, 2015	\$ 585	\$ 170	\$ 22	\$ 777

	Computer software	Intellectual property	Website costs	Total
<b>Accumulated amortization</b>				
As at December 30, 2013	\$ 173	\$ 76	\$ 12	\$ 261
Charge for the year	4	19	3	26
As at December 30, 2014	177	95	15	287
Charge for the year	12	16	6	34
As at December 30, 2015	\$ 189	\$ 111	\$ 21	\$ 321

	Computer software	Intellectual property	Website costs	Total
<b>Net book value</b>				
As at December 30, 2014	\$ 83	\$ 75	\$ 7	\$ 165
As at December 30, 2015	\$ 396	\$ 59	\$ 1	\$ 456

For the years ended December 30, 2015 and 2014, 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:

	Dec. 30 2015	Dec. 30 2014
Raw materials and glass containers	\$ 1,447	\$ 1,229
Brews in progress	1,091	734
Finished product	1,901	1,714
Consignment product	315	68
Dry goods store (resale goods)	181	68
<b>Total Inventories</b>	<b>\$ 4,935</b>	<b>\$ 3,813</b>

During the year ended December 30, 2015, charges were recorded to income relating to obsolete, damaged or unsellable finished goods inventory of \$332 (2014 - \$156) and relating to promotional and resale goods and damaged packaging materials inventory of \$91 (2014 - \$64).

There were no reversals of amounts previously charged to income in respect of write-downs of inventory for the years ended December 30, 2015 and 2014.

Finished goods inventory includes \$155 (2014 - \$125) of depreciation charges on production equipment used to convert raw materials to finished goods.

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**14. 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:

	Dec. 30 2015	Dec. 30 2014
Provincial liquor boards	\$ 2,033	\$ 1,227
Other receivables	188	246
<b>Total accounts receivable</b>	<b>\$ 2,221</b>	<b>\$ 1,473</b>

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

	Dec. 30 2015	Dec. 30 2014
Less than 30 days	\$ 938	\$ 1,372
30 - 60 days	1,276	21
60 - 90 days	—	27
Over 90 days	7	53
<b>Total accounts receivable</b>	<b>\$ 2,221</b>	<b>\$ 1,473</b>

The Corporation holds no collateral for any receivable amounts outstanding as at December 30, 2015.

**15. PREPAID EXPENSES AND OTHER**

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

	Dec. 30 2015	Dec. 30 2014
Community sponsorship	\$ 59	\$ 30
Prepaid insurance	92	84
Equipment deposits, rental and maintenance	1,142	403
Consulting	114	4
Promotional materials	96	106
Employee benefits	3	28
Other	67	14
	<b>\$ 1,573</b>	<b>\$ 669</b>

**16. SHARE CAPITAL**

	December 30, 2015		December 30, 2014	
	# of shares	\$ Amount	# of shares	\$ Amount
Outstanding at beginning of period	6,875,928	113,121	6,068,678	100,109
Shares issued upon public offering	—	—	799,250	12,874
Shares issued upon exercise of options	—	—	8,000	138
<b>Outstanding at end of period</b>	<b>6,875,928</b>	<b>113,121</b>	<b>6,875,928</b>	<b>113,121</b>

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

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

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

On May 14, 2015, the Corporation granted 58,500 options at an exercise price of \$7.46 per share with an expiry date of May 14, 2020. On September 10, 2015, the Corporation granted 58,500 options at an exercise price of \$5.91 per share with an expiry date of September 10, 2020.

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 2015	May 2015	September 2014	March 2014
Weighted average fair value per option	1.33	1.60	1.54	1.95
Risk-free interest rate (%)	0.65	0.89	1.42	1.42
Expected life of the options (years)	4	4	4	4
Dividend rate (%)	0.00	0.00	5.06	4.44
Volatility in the price of the Corporation's shares (%)	29.4	28.7	22.4	22.4

A share-based compensation charge of \$172 for the options granted during the year ended December 30, 2015 (2014 - \$204) 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

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 (to be settled in cash) for five years thereafter.

In May 2015, the Corporation granted 57,000 SARs with an exercise price of \$7.46. In September 2015, the Corporation granted 73,000 SARs with an exercise price of \$5.82.

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 December 30, 2015, 391,900 SARs were outstanding (December 30, 2014 - 303,800). During the year ended December 30, 2015, 130,000 SARs were issued (2014 - 107,900), no SARs were exercised (2014 - 18,900) and 41,900 SARs expired (2014 - nil). As at December 30, 2015, the fair value of the SARs was calculated and resulted in a liability of \$134 (2014 - \$216) and a recovery of \$82 being recorded in general and administrative expenses (2014 - recovery of \$394).

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At December 30, 2015, the weighted average fair value of the SARs outstanding at the reporting date was estimated using the Black-Scholes option pricing model. The weighted average assumptions used for the calculations were:

	September 2015	May 2015	September 2014	March 2014
Weighted average fair value per SAR	1.16	0.72	0.07	0.03
Risk-free interest rate (%)	0.70	0.66	0.58	0.53
Expected life of the SAR (years)	4.70	4.37	3.70	3.21
Dividend rate (%)	0.00	0.00	0.00	0.00
Volatility in the price of the Corporation's shares (%)	32.3	32.3	32.3	32.3

### 17.3 Outstanding stock options

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

	2015		2014	
	# of options	Weighted average exercise price	# of options	Weighted average exercise price
Balance, beginning of year	508,000	\$ 15.22	413,000	\$ 14.75
Expired	(108,000)	\$ 16.08	(14,000)	\$ 16.15
Exercised	—	—	(8,000)	\$ 15.62
Issued	117,000	\$ 6.64	117,000	\$ 17.01
Balance, end of year	517,000	\$ 13.10	508,000	\$ 15.22

The following table summarizes information about stock options outstanding and exercisable at December 30, 2015:

Exercise price	# of Options outstanding at December 30, 2015	Weighted average remaining contractual life (years)	Weighted average exercise price	# of Options exercisable at December 30, 2015
\$5.82 to \$12.97	148,500	3.73	\$ 7.81	148,500
\$12.98 to \$14.98	175,500	1.68	\$ 13.99	175,500
\$14.99 to \$18.06	193,000	2.94	\$ 16.37	193,000
Balance, December 30	517,000	2.74	\$ 13.10	517,000

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

On March 13, 2015, Big Rock signed a commitment letter to replace the existing \$12 million revolving facility with a \$5 million revolving operating loan facility together with a \$6 million 5-year term loan facility which is available for general operating purposes and funding capital expenditure requirements. For prime-based loans, interest will be payable at the financial institution's prime plus 2.0-2.75 percent; for guaranteed notes, the acceptance fee is payable at 3.75-4.50 percent; and for letters of credit, the fee is payable at 3.00-3.75 percent with a minimum fee of \$100. Both facilities mature after a term of 5 years and any undrawn amounts under the facility will expire on March 13, 2020, if no extension has been granted. Collateral for these borrowings is a general assignment of Big Rock's assets.

The facility imposes a number of positive and negative covenants on Big Rock, including the maintenance of certain financial ratios. As at December 30, 2015, Big Rock was outside the required range of one of its financial covenants and had received a waiver from the Corporation's bank. Big Rock was in compliance with all other covenants at December 30, 2015.

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As at December 30, 2015, \$1,850 (December 30, 2014 - nil) was drawn on the term loan facility and \$1,247 (December 30, 2014 - nil) was outstanding on the operating loan facility.

On July 9, 2015 Big Rock signed a commitment letter for a \$2.5 million lease financing facility which is available to finance the purchase of equipment relating to Big Rock's Ontario expansion. Interest will be charged at the financial institution's prime plus 3.67 per cent. The facility matures after a term of 5 years. As at December 30, 2015, \$2,039 (December 30, 2014 - nil) was drawn on the facility.

**19. 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:

	Dec. 30 2015	Dec. 30 2014
Less than 30 days	\$ 4,045	\$ 3,554
30 - 60 days	—	25
60 - 90 days	—	—
Over 90 days	6	4
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 4,051</b>	<b>\$ 3,583</b>

**20. DIVIDENDS PAYABLE**

In March 2015, Big Rock announced the suspension of the Corporation's quarterly dividend until further notice. In December 2014, Big Rock declared dividends of \$1,375 or \$0.20 per share, which were paid on January 15, 2015.

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

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**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.

	Dec. 30 2015	Dec. 30 2014
Bank indebtedness (cash)	\$ (540)	\$ (1,484)
Total debt	5,136	—
Shareholders' equity:		
Shareholders' capital	113,121	113,121
Contributed surplus	1,255	1,083
Accumulated deficit	(76,836)	(75,761)
Total shareholders' equity	37,540	38,443
Total capitalization (total debt plus shareholders' equity, net of cash balances)	\$ 42,136	\$ 36,959

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

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

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

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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.

## 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 year ended December 30, 2015 of \$14 (2014 - \$1).

### *(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 believes the risk is immaterial. Big Rock evaluates the policies surrounding interest rates on an as needed basis and is confident that this policy is sufficient based on current economic conditions, combined with the minimal amount of debt required by the Corporation.

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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 year ended December 30, 2015 was 5.23% (2014 - 4.30%).

***Interest rate sensitivity analysis***

In the event interest rates changed by 75 basis points, the Corporation's net income for the year ended December 30, 2015 would be affected by \$22 (2014 - \$nil).

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

**(iii) *Credit risk***

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

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

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

**(iv) *Liquidity risk***

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

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

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

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

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

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

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In 2012, the Alberta government commenced a review of its mark-up rates and on March 26, 2015, announced an increase in the mark-up rate applicable to Big Rock with an immediate corresponding increase in the prices of the Corporation's products. As Alberta is Big Rock's predominant market, changes to this mark-up rate structure could have significant impacts on the Corporation's financial results.

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

**23. KEY MANAGEMENT PERSONNEL COMPENSATION**

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

	Year ended	
	Dec. 30 2015	Dec. 30 2014
Salaries and other short-term benefits	\$ 849	\$ 742
Bonuses	—	57
Share-based compensation	317	348
<b>Total compensation</b>	<b>\$ 1,166</b>	<b>\$ 1,147</b>

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

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

	Year ended	
	Dec. 30 2015	Dec. 30 2014
Accounts payable and accrued liabilities	\$ 2,764	\$ (4,711)
Inventory	(1,092)	(871)
Accounts receivable	(748)	(120)
Prepaid expenses	(904)	85
<b>Total change in non-cash working capital</b>	<b>\$ 20</b>	<b>\$ (5,617)</b>

**25. COMMITMENTS FOR EXPENDITURE**

As at December 30, 2015, the Corporation was a party to the following contracts:

- Effective April 1, 2014, the Corporation locked in an agreement with a natural gas retailer to provide natural gas at a fixed price of \$4.35 per gigajoule for a period of 39 months, ending on July 1, 2017.
- During 2015, Big Rock entered into agreements for the purchase of promotional materials and market research for a total cost of approximately \$306, of which \$153 was payable at December 30. These items, which will be used in the normal course of business, are expected to be received during the first and second quarters of 2016.
- During 2015, Big Rock entered into several agreements for the purchase of machinery and equipment to be used at the Calgary and Ontario breweries for a total cost of approximately \$4,872, of which \$3,746 was payable at December 30. This machinery and equipment, which will be used in the normal course of business, is expected to be received during the first half of 2016.
- Big Rock has agreed upon several contracts for the supply of raw materials ranging from \$646 to \$1,640 per metric tonne with commitments extending out to December 2016. These raw

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*(In thousands of Canadian dollars, unless otherwise stated)*

materials 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 February 2014, Big Rock entered into an agreement with an electricity retailer to provide electricity for a period of 40 months beginning September 1, 2015 and ending on January 1, 2019 at a fixed rate of \$65.08 per megawatt hour.

**26. LEASES**

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

Future minimum lease payments due as at December 30, 2015 are:

Within one year	\$ 982
After one year but not more than five years	4,841
More than five years	3,010
	<b>\$ 8,833</b>

As at December 30 2015, lease payments of \$860 (2014 - \$163) were recognized as expense in the statement of comprehensive income.

**27. SUBSEQUENT EVENT**

On March 10, 2016 Big Rock granted 58,500 stock options and 79,000 share appreciation rights to officers, employees and directors at an exercise price of \$5.12 with an expiry date of March 10, 2021. These grants vested immediately.

**28. 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 revenue was earned from domestic sources.

**29. APPROVAL OF THE FINANCIAL STATEMENTS**

The consolidated financial statements of Big Rock Brewery Inc. for the year ended December 30, 2015 were approved and authorized for issue by the Board of Directors on March 10, 2016.