BiG ROCK
BREWERY

QUARTERLY REPORT

SECOND QUARTER 2018 HIGHLIGHTS

$000, except hl & per share amounts	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Sales volumes (hectolitres or "hl")	60,350	61,703	101,494	105,180
Net revenue	$ 13,527	$ 13,496	$ 22,993	$ 23,085
Operating income (loss)	473	246	(32)	(911)
Net income (loss)	240	207	(147)	(700)
Income (loss) per share (basic and diluted)	$ 0.03	$ 0.03	$ (0.02)	$ (0.10)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Big Rock Brewery Inc. ("the Corporation" or "Big Rock") for the three and six months ended June 30, 2018 and 2017.

This MD&A should be read in conjunction with the unaudited consolidated financial statements of the Corporation and accompanying notes as at and for the three and six months ended June 30, 2018 (the "Financial Statements") and the December 30, 2017 audited consolidated financial statements and MD&A. The financial statements have been prepared using International Financial Reporting Standards ("IFRS") and all amounts are reported in thousands of Canadian dollars unless otherwise noted. Additional information about the Corporation, including the Annual Information Form for the year ended December 30, 2017, can be found on SEDAR at www.sedar.com and on Big Rock's corporate website at www.bigrockbeer.com. Readers should also read the section "Forward-Looking Information" contained at the end of this document. This MD&A is dated August 2, 2018.

CORPORATE PROFILE

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

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

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

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

INDUSTRY TRENDS AND INDICATORS

The Canadian beer industry continues to be highly competitive, with numerous new craft breweries entering the marketplace. Ongoing competitive activity and economic pressures on consumers influence buying choices, which influence sales growth in value-priced products. This growth is largely at the expense of mid-priced products, which have been declining steadily over the past several years.

Due to the regulatory nature of the beer industry, net revenues are highly sensitive to pricing adjustments, as well as regulatory changes to markup rates and excise tax rates. Big Rock's 2017 results were negatively impacted in Alberta, by changes to the Alberta government's mark-up structure in late 2016. The mark-up was increased to a flat rate of $1.25 per litre and a grant program was introduced for Alberta-based breweries, available under the Alberta Small Brewers Development Grant ("ASBD") program. Under this program, an annual sales level of 150,000 hectolitres ("hl") in Alberta results in the maximum grant available for Alberta-based producers. Big Rock's annual Alberta sales volumes exceed this threshold, which resulted in higher net costs per hl during 2017. The Corporation took steps to improve the grant rate in 2017, which included optimizing its Alberta sales volumes and profit margins by focusing on sales of higher margin core brands, discontinuing two lower margin products, reducing the number of limited-time offer price discounts, and implementing price increases on value-priced and private label products in Alberta in the fourth quarter of 2017.

In June 2018, an Alberta Trade Review panel ordered that the ASBD grant program be repealed or revised within six months, as it was found to place beer producers from other provinces at a competitive disadvantage in the Alberta market. Big Rock continues to work with the Alberta Government with the objective of drafting policy changes that will effectively stimulate the craft beer industry in the province. The impact of this impending regulatory change cannot currently be estimated, and the future policy changes may negatively impact Big Rock's mark-up rate in Alberta in the coming months.

Despite competitive pressures, Big Rock's reported results for the three and six months ended June 30, 2018 improved over the comparative periods in 2017. The Corporation reported net income of $240 and a net loss of $147 for the three and six months ended June 30, 2018 compared to net income of $207 and a net loss of $700 for the same periods in 2017. Volumes decreased in the quarter and six months ended June 30, 2018 to 60,350 hl and 101,494 hl, compared to 61,703 hl and 105,180 hl reported in the prior comparative periods in 2017, a 2% and 4% decrease. Despite volume decreases, Big Rock reported net revenue per hl increases of $5.42 per hl (2.5%) to $224.14 per hl for the second quarter of 2018 and an increase of $7.06 per hl (3%) to $226.55 per hl for the six months ended June 30, 2018. In addition, gross profit margin improved in the second quarter and the six months ended June 30, 2018 to 44% and 43% compared to 43% and 41% reported in the second quarter and six months ended June 30, 2017. These improvements reflect the impact of pricing adjustments that were introduced in Alberta in late 2017 and in other regions during the first quarter of 2018 as well as improved Alberta net mark-up rates on beer and cider and increased operational cost efficiencies.

The Corporation continues to search for initiatives that will improve its asset utilization at its BC and Ontario breweries. In April 2018, Big Rock announced it had entered into an agreement to form a contractual joint venture with an independent craft brewer (the "Seller"), to operate and manage the Vancouver brewery. However, certain closing conditions of the arrangement could not be satisfied.

As a result, Big Rock announced on July 23, 2018 that the Corporation entered into a binding offer to acquire certain brewing assets and inventory of the Seller for a gross purchase price of approximately $940, less amounts owing to Big Rock. As a condition to closing, the parties anticipate entering into a license agreement which grants Big Rock exclusive rights to use the Seller's trademarks and other intellectual property. This agreement also grants Big Rock a right to purchase the Seller's intellectual property.

In addition, the parties have agreed to enter into contract manufacturing agreements which, for a fee, permit the Corporation to exclusively manufacture all of the Seller's branded products in BC and Alberta for subsequent sale by Big Rock in Canada. This revised arrangement, which is expected to close in August 2018, will result in an increase of the Vancouver brewery's production capacity and utilization and is expected to contribute to the Corporation's profitability in the second half of 2018.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

	2018		2017				2016	
($000, except hl and per share amounts)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales volumes (hl)	60,350	41,144	47,165	57,075	61,703	43,477	46,993	54,237
Net revenue	$13,527	$ 9,466	$11,089	$12,399	$13,496	$ 9,589	$10,439	$11,669
Operating profit (loss)	473	(505)	33	(159)	246	(1,157)	(220)	416
Net income (loss)	240	(387)	(141)	(179)	207	(907)	(287)	234
Earnings per share (basic & diluted)	$0.03	$ (0.06)	$ (0.02)	$ (0.03)	$ 0.03	$ (0.13)	$ (0.04)	$ 0.03
$ Per hl Amounts								
Net revenue	224.14	230.07	235.11	217.24	218.73	220.55	222.14	215.15
Cost of sales	125.43	135.43	146.95	124.45	124.42	137.20	137.59	112.97
Selling expenses	61.01	75.71	60.95	73.87	63.27	75.79	60.68	63.31
General & administrative	27.92	28.32	24.02	19.68	25.14	31.44	25.54	28.69
Operating profit (loss)	7.84	(12.27)	0.70	(2.79)	3.99	(26.61)	(4.68)	7.67
Net income (loss)	3.98	(9.41)	(2.99)	(3.14)	3.35	(20.86)	(6.11)	4.31

RESULTS OF OPERATIONS

Big Rock reported a net income of $240 and a net loss of $147 for the three and six months ended June 30, 2018 compared to a net income of $207 and a net loss of $700 in the same periods in 2017. Big Rock's operating profit of $473 and operating loss of $32 for the three and six months ended June 30, 2018 improved by $227 (92%) and $879 (96%), compared to operating income of $246 and operating loss of $911 for the same periods in the prior year. These improvements were the result of improved gross margin, and a reduction in operating expenses.

SEGMENTED INFORMATION

Big Rock has two reportable business segments, wholesale and retail, which are monitored by executive management for purposes of making decisions about resource allocation and performance assessment. The wholesale segment manufactures and distributes beer and cider to provincial liquor boards, grocery chains, and on-premise customers, which is subsequently sold to end consumers. The retail segment sells beverages, food and merchandise to end consumers through premises owned and/or operated by the Corporation. Segment performance is evaluated on a number of measures, the most significant being gross profit net of selling expenses. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The Corporation's operating assets and liabilities, general and administrative expenses, income taxes and capital expenditures are managed on a corporate basis.

Three months ended June 30	Wholesale		Retail		Eliminations		Consolidated	
	2018	2017	2018	2017	2018	2017	**2018**	2017
Net Revenue	$ 13,093	$ 13,083	$ 615	$ 646	$ (181)	$ (233)	$ 13,527	$ 13,496
Cost of sales	6,922	6,998	829	912	(181)	(233)	7,570	7,677
Gross profit	6,171	6,085	(214)	(266)	–	–	5,957	5,819
Selling expenses	3,677	3,878	5	26	–	–	3,682	3,904
Segment profit	$ 2,494	$ 2,207	$ (219)	$ (292)	$ –	$ –	2,275	$ 1,915
General & administrative							1,685	1,551
Depreciation & amortization							117	118
Operating Loss							473	246
Finance expense							70	94
Other income (expense)							6	137
Loss before income taxes							$ 409	$ 289

Six months ended June 30	Wholesale		Retail		Eliminations		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017
Net Revenue	$ 22,158	$ 22,139	$ 1,173	$ 1,314	$ (338)	$ (368)	$ 22,993	$ 23,085
Cost of sales	11,793	12,245	1,687	1,765	(338)	(368)	13,142	13,642
Gross profit	10,365	9,894	(514)	(451)	–	–	9,851	9,443
Selling expenses	6,782	7,140	15	59	–	–	6,797	7,199
Segment profit	$ 3,583	$ 2,754	**$ (529)**	$ (510)	**$** –	**$** –	3,054	$ 2,244
General & administrative							2,850	2,918
Depreciation & amortization							236	237
Operating Loss							(32)	(911)
Finance expense							168	187
Other income (expense)							(14)	150
Loss before income taxes							$ (214)	$ (948)

I. Net Revenue

Net revenue includes wholesale beer and cider sales, net of excise taxes and provincial government liquor taxes, and retail restaurant and store sales from Big Rock's Alberta, BC and Ontario locations. Geographically, Alberta continued to represent the largest share of the Corporation's sales, followed sequentially by BC and Ontario.

($000, except volumes)	Three months ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
Sales volumes (hl)	60,350	61,703	(1,353)	101,494	105,180	(3,686)
Gross revenue	$ 18,489	$ 19,246	$ (757)	$ 31,432	$ 32,529	$ (1,097)
Federal excise taxes	(1,564)	(1,732)	168	(2,698)	(2,918)	220
Provincial liquor tax programs	(3,398)	(4,018)	620	(5,741)	(6,526)	785
Net revenue	$ 13,527	$ 13,496	$ 31	$ 22,993	$ 23,085	$ (92)
Net revenue by segment						
Wholesale	$ 12,912	$ 12,850	$ 62	$ 21,820	$ 21,771	$ 49
Retail	615	646	(31)	1,173	1,314	(141)
Net revenue	$ 13,527	$ 13,496	$ 31	$ 22,993	$ 23,085	$ (92)
$ per hl						
Wholesale net revenue	$ 213.99	$ 208.26	$ 5.73	$ 215.01	$ 206.99	$ 8.02

Sales volumes were 60,350 hl and 101,494 hl for the three and six months ended June 30, 2018, a decrease of 1,353 (2%) and 3,686 (4%), compared to the prior year reflecting the discontinuation of two low-margin products in 2017, offset by increased volumes related to contract manufacturing and value-priced brands.

Big Rock packaged product sales decreased in the quarter and year to date in 2018, particularly in Alberta, largely due to the discontinued brands. Big Rock keg sales increased during the second quarter and the six months ended June 30, 2018 compared to the same periods in 2017 mainly due to increases in southern Alberta markets, where AGD kegs have taken a lead in brand sales.

Big Rock's fastest pace of volume growth in the second quarter and for the six months ended June 30, 2018 was seen in the private label and contract brewing volumes. Sales volumes were down slightly in Big Rock's major regions during the second quarter and six months ended June 30, 2018 compared to the second quarter of 2017, mainly reflecting the increased price and the competitive market conditions in the craft beer market.

Gross revenue was $18,489 and $31,432 for the three and six months ended June 30, 2018, a decrease of $757 (4%) and $1,097 (3%) compared to the prior year and reflects the change in sales mix which in the current year was weighted to Big Rock's value-priced and private label brands. Provincial liquor taxes decreased in the quarter and six months ended June 30, 2018, compared to the prior year as a result of decreased sales volumes. Net revenue was $13,527 and $22,993 for the three and six months ended June 30, 2018 which was comparable to the prior year.

Wholesale Revenue

Wholesale net revenue increased marginally to $12,912 and $21,820 for the three and six months ended June 30, 2018, compared to the prior year. Wholesale net revenue per hl was $213.99 and $215.01 for the three and six months ended June 30, 2018, an improvement of $5.73 (3%) per hl, compared to the second quarter of 2017 and $8.02 (4%) year to date over the prior year.

Although total beer and cider volumes were down slightly in the second quarter and six months ended June 30, 2018 compared to the same periods in 2017, the gross profit has improved significantly in cider, core brands and value brands due to the focus on competitively pricing Big Rock products. Discontinuation of Bow Valley Strong resulted in a decrease in private label volumes, which was offset by continued growth in other private label brands and contract brewing. Seasonal volumes decreased during the second quarter of 2018, compared to the same period in 2017, due to the focus on sales of higher margin products such as permanent and value brands.

Retail Revenue

Retail net revenue was $615 and $1,173 for the three and six months ended June 30, 2018, a decrease of $31 (5%) and $141 (11%) compared to the same period in 2017, due mainly to decreases in Ontario and BC restaurant sales.

II. Cost of Sales

($000, except volumes)	Three months ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
Operating expenses	$ 5,210	$ 5,404	$ (194)	$ 8,380	$ 9,204	$ (824)
Salaries and benefits	1,711	1,656	55	3,440	3,209	231
Depreciation	649	617	32	1,322	1,229	93
Cost of sales	$ 7,570	$ 7,677	$ (107)	$ 13,142	$ 13,642	$ (500)
Cost of sales by segment						
Wholesale:						
Materials	$ 3,643	$ 3,786	$ (143)	$ 5,340	$ 6,143	$ (803)
Labour	1,446	1,386	60	2,872	2,680	192
Overhead	1,087	1,068	19	2,115	2,010	105
Depreciation	565	525	40	1,128	1,044	84
Wholesale cost of sales	6,741	6,765	(24)	11,455	11,877	(422)
Retail:						
Operating costs	745	819	(74)	1,493	1,580	(87)
Depreciation	84	93	(9)	194	185	9
Retail cost of sales	829	912	(83)	1,687	1,765	(78)
Total cost of sales	$ 7,570	$ 7,677	$ (107)	$ 13,142	$ 13,642	$ (500)

$ per hl	Three months ended June 30			Three months ended June 30		
	2018	2017	Change	2018	2017	Change
Wholesale cost of sales:						
Materials	$ 60.36	$ 61.36	$ (1.00)	$ 52.61	$ 58.40	$ (5.79)
Labour	23.96	22.46	1.50	28.30	25.48	2.82
Overhead	18.01	17.31	0.70	20.84	19.11	1.73
Depreciation	9.36	8.51	0.85	11.11	9.93	1.19
Wholesale cost of sales	$111.69	$ 109.64	$ 2.05	$ 112.86	$ 112.92	$ (0.06)

Cost of sales decreased for the three and six months ended June 30, 2018 by $107 (1%) and $500 (4%) respectively from the prior year periods as described below:

- Materials, which include ingredients and packaging, decreased by $143 and $803 for the three and six months ended June 30, 2018 due to decreased volumes, increased operational efficiencies and certain vendor credits received for faulty packaging materials.

- Labour charges for the second quarter of 2018 increased by $60 and $192 for the three and six months ended June 30, 2018 due to an increase in production staff and temporary labour, partially offset by savings from improved management of plant labour overtime and scheduling.

- Overhead costs include utilities, repairs and maintenance and other production-related amounts, which are primarily fixed in nature. Overhead costs increased by $19 and $105 for the three and six months ended June 30, 2018 due to higher property taxes and waste removal charges.

- Depreciation charges on production equipment increased $40 and $84 for the three and six months ended June 30, 2018 reflecting an increase in the depreciation base, largely driven by new brewery equipment which was added in the beginning of 2018.

- Retail cost of sales decreased by $83 and $78 for the three and six months ended June 30, 2018, reflecting a decrease in operating costs, mainly in direct cost of sales due to lower sales activity than in the prior year periods.

III. Selling Expenses

($000)	Three months ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
Selling:						
Delivery & distribution expenses	$ 1,027	$ 1,082	$ (55)	$ 1,913	$ 1,955	$ (42)
Salaries & benefits	940	966	(26)	2,072	1,897	175
Marketing & sales expenses	1,715	1,856	(141)	2,812	3,347	(535)
Total selling expenses	$ 3,682	$ 3,904	$ (222)	$ 6,797	$ 7,199	$ (402)

$ per hl	Three months ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
Selling:						
Delivery & distribution	$ 17.02	$ 17.54	$ (0.52)	$ 18.85	$ 18.58	$ 0.27
Salaries & benefits	15.56	15.66	(0.10)	20.41	18.04	2.37
Marketing & sales expenses	28.42	30.07	(1.65)	27.71	31.83	(4.12)
Total selling expenses	$ 61.00	$ 63.27	$ (2.27)	$ 66.97	$ 68.45	$ (1.48)

Selling expenses decreased for the three and six months ended June 30, 2018 by $222 (6%) to $3,682 and $402 (6%) to $6,797 compared with the same period last year as detailed below:

- Delivery and distribution costs decreased marginally by $55 and $42 for the three and six months ended June 30, 2018 due to lower sales.

- Salaries and benefit costs decreased by $26 for the three months ended and increased by $175 for six months ended June 30, 2018. Costs were lower in the second quarter due to lower number of employees, and the 2018 year to date costs increased due to severance payments associated with realigning the sales and marketing team during the first quarter of 2018.

- Marketing and sales costs decreased by $141 and $535 for the three and six months ended June 30, 2018 mainly due to timing of promotional sales spending.

IV. General and Administrative Expenses

($000)	Three months ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
General & Administrative:						
Salaries & benefits	$ 777	$ 867	$ (90)	$ 1,321	$ 1,588	$ (267)
Professional fees	512	306	206	722	573	149
Other administrative expenses	396	378	18	807	757	50
Total general & administrative expenses	$ 1,685	$ 1,551	$ 134	$ 2,850	$ 2,918	$ (68)

General and administrative expense increased by $134 (9%) to $1,685 for the three months ended and decreased by $68 (2%) to $2,850 for the six months ended June 30, 2018 compared with the same periods in the prior year as detailed below:

- Salaries and benefit costs decreased by $90 and $267 for the three and six months ended June 30, 2018 primarily due to lower share-based payment expense, which was a charge of $65 compared to a $395 in the second quarter of 2017, and a credit of $211 compared to a charge of $539 for the six months ended June 30, 2018, offset partially by increased benefit costs and training and development expenditures.

- Professional fees, which include legal, audit, tax and accounting advisory services, increased by $206 and $149 for the three and six months ended June 30, 2018 mainly due to increased costs associated with the proposed joint venture and purchase transaction which was announced in April 2018.

- Other administrative expenses are nominally higher than 2017 by $18 and $50 for the three and six months ended June 30, 2018 due to increased general office expenses.

V. Finance Expenses

($000, except interest rates)	Three months ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
Interest on operating facility	$ (9)	$ 23	$ (32)	$ (9)	$ 45	$ (54)
Interest on long-term debt	79	71	8	177	142	35
Total finance expenses	$ 70	$ 94	$ (24)	$ 168	$ 187	$ (19)
Weighted average effective interest rate	5.0%	4.5%		5.6%	4.4%	

The carrying amount of bank indebtedness, long-term debt and finance lease obligations was $6,194 as at June 30, 2018 compared to $6,416 as at December 30, 2017. The interest rates applicable to all loans and borrowings are based on the lender's prime rate, plus the lender's margin. The increase in interest expense for the quarter ended June 30, 2018 compared to the same period last year reflects the impact of lower average borrowings outstanding for the period, offset by an increase in the bank's prime interest rate (See "Liquidity and Capital Resources - Cash Flows - Financing Activities").

VI. Depreciation and Amortization

($000)	Three months ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
Depreciation, Cost of Sales	$ 649	$ 617	$ 32	$ 1,322	$ 1,229	$93
Depreciation, Other	66	77	(11)	141	158	(17)
Amortization	51	41	10	95	79	16
Total	$ 766	$ 735	$ 31	$ 1,558	$ 1,466	$ 92

Depreciation expense included in cost of sales increased by $32 (5%) and $93 (8%) to 1,322 for the three and six months ended June 30, 2018 compared with the same period last year due to an increase in the depreciation base caused by the acquisition of production assets in 2017 and the first half of 2018. Other depreciation and amortization expense, which relate to non-operating assets, remained relatively consistent with the same period in 2017.

VII. Other Income

($000)	Three months ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
Other income (expense)	$ 6	$ 137	$ (131)	$ (14)	$ 150	$ (164)

Other income (expense) includes a loss on the sale of equipment and furniture during 2018, whereas a gain was reported in the first six months of 2017 which related to the sale of undeveloped land.

VIII. Income Taxes

($000)	Three months ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
Current income tax recovery	$ -	$ (51)	$ 51	$ (20)	$ (116)	$ 96
Deferred income tax (recovery) expense	169	133	36	(47)	(132)	85
Total	$ 169	$ 82	$ 87	$ (67)	$ (248)	$ 181

Current income tax recoveries of $nil and $20 were recorded for the three and six months ended June 30, 2018. They reflect expected taxes recoverable arising from a loss carry back and the transitional provisions on the taxation of partnership deferral structures. Deferred tax expense of $169 and a recovery of $47 were recorded for the three months and six months ended June 30, 2018.

The deferred income tax provision differs from the statutory rate of 26.9% (2017 – 26.9%) due to permanent differences between the carrying amounts of assets and liabilities for accounting purposes and the tax basis, as well as the effect of non-deductible amounts.

FINANCIAL CONDITION

The following chart highlights significant changes in the Consolidated Statements of Financial Position from December 30, 2017 to June 30, 2018:

($000, unless otherwise stated)	**Increase/ (Decrease)**	**Primary factors explaining change**
Accounts receivable	1,887	Increase in outstanding balances from customers
Inventories	910	Increase in brews in progress and finished goods due to timing of the production schedule
Prepaid expenses & deposits	205	Increase in community sponsorship due to timing of planned events
Property, plant & equipment	(1,205)	Additions offset by asset disposals and depreciation charges
Intangible assets	(18)	Software and website additions offset by amortization
Bank indebtedness	173	Increase in the combined balances of outstanding cheques and the operating loan balance
Accounts payable & accrued liabilities	2,303	Timing of supplier payments
Share-based payments	(322)	Lower share appreciation rights valuation due to a decrease in share price
Long term debt & finance lease	(395)	Net repayment of term loans and finance lease
Lease incentive	16	Amortization of incentive
Deferred income taxes	(47)	Tax effect of changes in temporary differences

LIQUIDITY AND CAPITAL RESOURCES

Capitalization

($000, unless otherwise stated)	June 30, 2018	December 30, 2017
Cash	$ (68)	$ (168)
Total debt	6,194	6,416
Net debt[(1)]	6,126	6,248
Shareholders' equity:		
Shareholders' capital	113,845	113,845
Contributed surplus	1,445	1,347
Accumulated deficit	(78,456)	(78,309)
Total shareholders' equity	36,834	36,883
Total capitalization (total debt plus shareholders' equity, net of cash) [(1)]	$ 42,960	$ 43,131
Net debt to total capitalization ratio [(1)]	14.3%	14.5%

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

Capital Strategy

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

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

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

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

($000)	Three months ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
Net income (loss)	$ 240	$ 207	$ 33	$ (147)	$ (700)	$ 553
Add back:						
Interest	70	94	(24)	168	187	(19)
Taxes	169	82	87	(67)	(248)	181
Depreciation & amortization	766	735	31	1,558	1,466	92
EBITDA [(1)]	$ 1,245	$ 1,118	$ 127	$ 1,512	$ 705	$ 807

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

These practises provide Big Rock with access to capital at a reasonable cost. Big Rock's borrowing facilities have financial tests and other covenants customary for these types of facilities that must be met at each reporting date (see "Cash Flows - Financing Activities").

Cash Flows

($000)	Three months ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
OPERATING ACTIVITIES						
Net income (loss) for the period, adjusted for items not affecting cash	$ 1,235	$ 1,352	$ (117)	$ 1,191	$ 1,069	$ 122
Net change in non-cash working capital	457	(719)	1,176	(712)	(1,664)	952
Cash provided (used) by operating activities	1,692	633	1,059	479	(595)	1,074
FINANCING ACTIVITIES						
Increase (decrease) in bank indebtedness	(1,157)	(1,252)	95	173	97	76
Repayment of long-term debt	(101)	(84)	(17)	(236)	(201)	(35)
Repayment of finance lease	(83)	(77)	(6)	(163)	(165)	2
Proceeds from exercised options	-	(55)	55	-	583	(583)
Cash provided (used) by financing activities	(1,341)	(1,468)	127	(226)	314	(540)
INVESTING ACTIVITIES						
Purchase of property, plant & equipment	(341)	(153)	(188)	(370)	(506)	136
Purchase of intangible assets	(52)	(75)	23	(77)	(177)	100
Proceeds from sale of property, plant & equipment	14	837	(823)	94	837	(743)
Cash provided by (used in) investing activities	(379)	609	(988)	(353)	154	(507)
Net change in cash	$ (28)	$ (226)	$ 198	$ (100)	$ (127)	$ 27

Operating Activities

Cash provided by operating activities for the three and six months ended June 30, 2018 totalled $1,692 and $479, an improvement of $1,059 and $1,074 compared to the same periods last year, primarily due to increased operating income.

Financing Activities

Cash used by financing activities for the three and six months ended June 30, 2018 decreased by $127 and increased by $540 respectively compared with the same periods in 2017 largely because there were no options exercised in the 2018 periods.

The Corporation has a $5 million revolving operating loan facility and a $6 million 5-year term revolving loan facility. The revolving operating loan facility is available for general operating purposes and funding capital expenditures, as required. The $6 million 5-year term revolving loan facility is available to fund capital expenditures. Advances under the credit facilities may be made by way of Canadian prime rate loans and letters of credit. During the six months ended June 30, 2018, all capital expenditures were funded by operating cash flow, whereas $1.0 million was drawn on the long-term debt during the year ended December 30, 2017 to fund capital expenditures.

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

The facility imposes a number of positive and negative covenants on Big Rock, including the maintenance of certain financial covenants which are tested at each reporting date. They include the maintenance of a rolling 12-month fixed charge ratio which is required to be a minimum of 1.1 to 1, calculated as the rolling 12-month EBITDA, less an amount for maintenance capital compared to the rolling 12-months fixed charges. Fixed charges are the sum of principal repayments, interest, dividends and income taxes paid. In addition, Big Rock's borrowings cannot exceed a borrowing base which is determined by the fair value of the Corporation's assets. As at June 30, 2018, Big Rock was in compliance with its covenants.

As at June 30, 2018, bank indebtedness was $257 (December 30, 2017 - $84), of which $nil was outstanding on the operating loan facility (December 30, 2017 - $nil).

	June 30, 2018	December 30, 2017
Term debt	$ 3,945	$ 4,181
Debt issue costs	(22)	(26)
	3,923	4,155
Current portion	(419)	(417)
Long term debt	$ 3,504	$ 3,738

On January 25, 2017, Big Rock converted a $2.5 million finance facility to a sale and leaseback arrangement for $2.5 million. The lease agreement matures after a term of five years with a fixed interest rate of 5.42%. Lease repayments are fixed, and no arrangements have been entered into for contingent rental payments.

	June 30, 2018	December 30, 2017
Current portion	$ 338	$ 329
Long term portion	1,676	1,848
Total finance lease	$ 2,014	$ 2,177

As of June 30, 2018, the net carrying amount of the leased assets is $2,272 (December 30, 2017 – $2,338). The depreciation of the assets recorded under finance lease is included in the cost of sales on the Consolidated Statements of Comprehensive Loss. The obligation under finance lease is secured by the lessor's rights over the leased assets.

Investing Activities

($000)	Three months ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
Land	$ -	$ 20	$ (20)	$ -	$ 47	$ (47)
Buildings & leasehold improvements	166	(26)	192	181	47	134
Machinery & equipment	169	88	81	179	334	(155)
Office furniture & fixtures	6	71	(65)	10	78	(68)
Capital spending, tangible assets	341	153	188	370	506	(136)
Capital spending, intangible assets	52	75	(23)	77	177	(100)
Total capital spending	393	228	165	447	683	(236)
Proceeds on dispositions	(14)	(837)	823	(94)	(837)	743
Net capital spending	$ 379	$ (609)	$ 988	$ 353	$ (154)	$ 507

During the three and six months ended June 30, 2018, a total of $393 and $447 was spent on capital expenditures, an increase of $165 and a decreased of $236 compared to the same periods in 2017. The increase in the second quarter capital spending is primarily due to machinery and equipment purchases in the period. The decrease in capital expenditures for the six months ended June 30, 2018 is due mainly to timing of planned expenditures. During 2017, Big Rock received proceeds related to the sale of a parcel of undeveloped land. Proceeds of $94 were received during 2018 from the sale of unused bottling line assets and kegs.

Shareholders' Capital

As At	June 30, 2018		December 30, 2017	
($000, except # of shares)	# of shares	Amount	# of shares	Amount
Outstanding at beginning of period	6,981,628	$ 113,845	6,875,928	$ 113,121
Shares issued upon exercise of options	—	—	105,700	724
Outstanding at end of period	6,981,628	$ 113,845	6,981,628	$ 113,845

Big Rock is authorized to issue an unlimited number of common shares with no par value. The Corporation's shares trade on the Toronto Stock Exchange under the symbol BR. As at June 30, 2018, based on a closing price of $4.91 per share, Big Rock's market capitalization was approximately $34.3 million. As at June 30, 2018 there were 6,981,628 issued and outstanding common shares.

Share-based Payments

Big Rock has a Share Option Plan and a Share Appreciation Rights ("SAR") Plan both of which are a component of overall compensation of directors, officers, and employees of the Corporation. The Compensation and Human Resources Committee of the Board of Directors of Big Rock determines and makes recommendations to the Board of Directors as to the recipients, nature and size of share-based compensation awards in compliance with applicable securities law, and stock exchange and other regulatory requirements. The fair values of issued options and SARs are determined using the Black Scholes Option pricing model. The following share-based compensation expense is included in general and administrative expenses on the Statements of Comprehensive Loss for the three and six months ended June 30, 2018 and 2017:

($000)	Three months ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
Equity-settled plans (Stock Options)	$ 38	$ -	$ 38	$ 98	$ -	$ 98
Cash-settled plans (SARs)	27	395	(368)	(309)	539	(848)
Total share-based compensation expense	$ 65	$ 395	$ (330)	$ (211)	$ 539	$ (750)

Share option plan - Equity Settled

Big Rock has granted stock options to certain officers and directors of the Corporation pursuant to the Stock Option Plan. Options granted under the plan are exercisable for a period of up to five years from date of grant, at an exercise price that is equal to the weighted average price at which Big Rock's shares have traded during the five trading days immediately preceding the date of grant.

Big Rock's options are granted with different vesting conditions: time-based vesting and market-performance based vesting. Time based share options granted in 2017 and 2018 vest over five years, with one-fifth vesting upon grant date, followed by an additional one-fifth vesting on each subsequent anniversary date. Prior to 2017, options vested immediately.

Market-performance based vesting options, vest in tranches of one-third upon the closing price of the Corporation's shares equaling or exceeding $8.50, $10.50 and $11.50 respectively. None of the options are exercisable at June 30, 2018. The following options are outstanding as at June 30, 2018, and December 30, 2017:

	June 30, 2018				December 30, 2017			
	# Options	Weighted average exercise price ($)		Remaining Life (years)	# Options	Weighted average exercise price ($)		Remaining Life (years)
Time-based Options								
Outstanding	175,000	$	6.44	4.48	75,000	$	7.75	4.67
Exercisable	35,000	$	6.44	4.48	15,000	$	7.75	4.67
Market-performance Options								
Outstanding	69,000	$	6.50	4.00	69,000	$	6.50	4.00
Exercisable	—		—	—	—		—	—

See Note 15 to the Financial Statements for more information.

Share Appreciation Rights - Cash Settled

The Board of Directors may issue an unlimited number SARs under the SARs Plan. SARs granted under the plan are exercisable for a period of up to five years from date of grant, at an exercise price that is equal to the weighted average price at which Big Rock's shares have traded during the five trading days immediately preceding the date of grant. The exercise of SARs is settled in cash.

The following liability is recorded in the Financial Statements as at June 30, 2018 and December 30, 2017:

($000)	**June 30, 2018**		December 30, 2017	
Share-based payments - current	$	318	$	599
Share-based payments - long term		20		61
Total liability	$	338	$	660

Big Rock's SARs are granted with different vesting conditions: time-based vesting and market-performance based vesting. Time based SARs granted in 2017 vest over three years, with one third vesting immediately, one-third vesting on the first anniversary date and one-third vesting on the second anniversary date. SARs granted prior to 2017 vested immediately.

Market-performance based vesting SARs, vest in tranches of one-third upon the closing price of the Corporation's shares equaling or exceeding $8.50, $10.50 and $11.50 respectively. None of the SARs are exercisable at June 30, 2018.

Outstanding SARs

	June 30, 2018				December 30, 2017			
	# SARs		Weighted average exercise price ($)	Remaining Life (years)	# SARs		Weighted average exercise price ($)	Remaining Life (years)
Time-based SARs								
Outstanding	499,950	$	8.59	2.93	575,900	$	9.25	2.96
Exercisable	353,029	$	9.57	2.36	407,877	$	10.27	2.38
Market-performance SARs								
Outstanding	81,000	$	6.50	4.00	81,000	$	6.50	4.00
Exercisable	—		—	—	—		—	—

See Note 14 to the Financial Statements for more information.

OFF BALANCE SHEET ARRANGEMENTS

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

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

Big Rock has entered into various commitments for expenditures covering utilities, raw materials, marketing initiatives and leasing of facilities. The commitments for the next five years are as follows:

($000)	2018	2019	2020	2021	2022	thereafter
Utilities contracts	$ 30	$ 30	$ 30	$ 14	$ —	$ —
Raw material purchase commitments	1,726	15	15	—	—	—
Marketing sponsorships	214	105	—	—	—	—
Operating leases	707	702	763	764	775	1,078
Long-term debt	429	449	471	494	517	1,563
Finance lease	338	357	377	943	—	—
Total	$ 3,444	$ 1,658	$ 1,656	$ 2,215	$ 1,292	$ 2,641

Big Rock has entered into operating lease agreements for storage facilities, warehouses, breweries, and retail locations. The remaining lease terms range between four and 10 years. Certain leases contain extension and renewal options. Operating lease payments of $351 were recognized as an expense in the Financial Statements for the six months ended June 30, 2018 (2017 - $382).

SUBSEQUENT EVENTS

On July 23, 2018 Big Rock announced that it has entered into a binding offer with an independent craft brewer (the "Seller") to acquire certain brewing assets and inventory a for gross purchase price of approximately $940, less amounts owing to Big Rock. This arrangement replaces the proposed joint venture arrangement between the parties, previously announced April 19, 2018. The gross purchase price is subject to a holdback for any post-closing adjustments. As a condition to closing, the parties anticipate entering into a license agreement which grants Big Rock exclusive rights to use the Seller's trademarks and other intellectual property. This agreement also grants Big Rock a right to purchase the Seller's intellectual property. In addition, the parties anticipate entering into contract manufacturing agreements which, for a fee, permit the Corporation to exclusively manufacture all of the Seller's branded products in BC and Alberta for subsequent sale by Big Rock in Canada. Closing of this transaction is expected to occur in August 2018.

RISKS RELATED TO THE BUSINESS AND INDUSTRY

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

Premium beers from other craft breweries are continuously entering the market and the large national and multi-national brewers have products that compete directly with craft beers. An increased number of imports are also being sold in the same markets where Big Rock competes for business.

With the vast choice of craft brands now available and the advertising initiatives of pseudo-craft divisions of the multi-national breweries, it is likely that competitive price pressures will continue. As a result, selling prices may vary more frequently.

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

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

The mark-up structure in Alberta has changed four times in the last five years, contributing to market uncertainty and has impacted Big Rock's results in a corresponding manner. In particular, changes announced by the Alberta government in July 2016 replaced former graduated mark-up rate structure with a flat-rate mark-up of $1.25 per litre and a grant program for Alberta small breweries. In June 2018, a Trade Review panel ordered that the Alberta government's small brewer's grant program must be repealed or revised within six months, as it was found to put beer producers from other provinces at a competitive disadvantage in the Alberta market.

As Alberta is Big Rock's predominant market, future changes to this mark-up rate and grant structure could have significant impacts on the Corporation's financial results. The Corporation will continue to assess the longer-term implications of these recent changes.

Financial Risk

The Corporation's principal financial instruments are outstanding amounts drawn from its credit facilities, which, after cash flow from operations, are its main source of financing. Other financial assets and liabilities arising directly from its operations and corporate activities include cash, accounts receivable, bank indebtedness, accounts payable, current taxes payable or receivable and long-term debt. The primary risks arising from the Corporation's financial instruments are foreign exchange risk, interest rate risk, credit risk, liquidity risk and commodity price risk, each of which are discussed below. Management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Foreign exchange risk

The Corporation currently transacts with only a few foreign suppliers and thus has limited exposure to risk due to variations in foreign exchange rates. The Corporation has not entered into any derivative instruments to manage foreign exchange fluctuations; however, management monitors the Corporation's foreign exchange exposure. The Corporation does not have any significant foreign currency denominated monetary liabilities.

Interest rate risk

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

The Corporation has not entered into any derivative instruments to manage interest rate fluctuations; however, management monitors the Corporation's interest rate exposure and given the relatively low expected rate of change in prime interest rates believes the risk is immaterial. Big Rock evaluates the policies surrounding interest rates on an as needed basis and is confident that this policy is sufficient based on current economic conditions, combined with the amount of debt required by the Corporation. The weighted average interest rate for the six months ended June 30, 2018 was 5.6% (2017 - 4.4%).

Credit risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in the Corporation incurring an economic loss. Big Rock has a concentration of credit risk as majority of its accounts receivable are from provincial liquor boards, which are governed under provincially regulated industry sale and payment terms.

The Corporation is not exposed to significant credit risk as payment in full is typically collected by provincial liquor boards at the time of sale and a large portion of receivables are with government agencies. While much of Big Rock's accounts receivable are from provincial government liquor authorities, the timing of receipts of large balances may vary significantly from period to period.

Liquidity risk

Big Rock's principal sources of liquidity are its cash flows from operations and existing or new credit facilities. Liquidity risk is mitigated by maintaining banking facilities, continuously monitoring forecast and actual cash flows and, if necessary, adjusting levels of dividends to shareholders and capital spending to maintain liquidity. Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Corporation's operations.

Commodity price risk

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

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

For a more detailed discussion of risk factors that could materially affect Big Rock's results of operations and financial condition please refer to the Risk Factors section of the Corporation's Annual Information Form dated March 8, 2018 that is available on www.sedar.com.

CRITICAL ACCOUNTING ESTIMATES & JUDGEMENTS

There have been no changes in Big Rock's critical accounting estimates in the three and six months ended June 30, 2018. Further information on the Corporation's critical accounting policies and estimates can be found in the notes to the audited annual financial statements and MD&A for the year ended December 30, 2017.

FUTURE ACCOUNTING PRONOUNCEMENTS

The Corporation's consolidated financial statements as at and for the three and six months ended June 30, 2018 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, 2017 or later. A change in an accounting policy used may result in material changes to Big Rock's reported financial position, results of operations and cash flows. The IASB has issued the following pronouncements, which are not yet effective for Big Rock:

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

- IFRS 9 *Financial Instruments* has been amended, effective for annual periods beginning January 1, 2018 and early adoption is permitted. The amended standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard requires classification of financial assets based on the reporting entity's business model objectives for managing those financial assets and the characteristics of the contractual cash flows. As a result, both the classification and measurement of certain financial assets may change. Additionally, for liabilities designated at fair value through profit and loss, fair value changes attributable to changes in credit risk will be presented through other comprehensive income instead of net income. These amendments introduce a single, forward – looking "expected loss" impairment model for financial assets which will require more timely recognition of expected credit losses, and a fair value through other comprehensive income category for financial assets that are debt instruments.

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

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

Early adoption of the above standards, amendment and interpretations is permitted. Big Rock has not early adopted any of these standards, 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 (in his own capacity and acting in the capacity of the CFO) has concluded that the Corporation's disclosure controls and procedures are effective as of June 30, 2018.

INTERNAL CONTROLS OVER FINANCIAL REPORTING UPDATE

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

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

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

The CEO and CFO acknowledge responsibility for the design of ICFR and confirm that there were no changes in the Corporation's controls over financial reporting for the three months ended June 30, 2018, 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 June 30, 2018, the CEO (in his own capacity and acting in the capacity of the CFO) has concluded that the Corporation's ICFR were effective as at that date. No material weaknesses existed within the Corporation's ICFR as of June 30, 2018. In addition, there were no material changes to Big Rock's internal controls over financial reporting since the most recent interim period.

OUTLOOK

Big Rock's operating results for the three and six months ended June 30, 2018 improved compared to the first and second quarter of 2017, reflecting pricing and product mix initiatives which were implemented during the latter part of 2017.

Big Rock's profitability is highly sensitive to changes in government policy affecting mark-up rates and agriculture-related provincial government grant programs. Late in 2016, the Alberta government introduced a revision to the provincial mark-up policy which resulted in a flat mark-up rate, and a grant program, administered by the Department of Agriculture. Under this structure, the maximum grant rate available to producers is based on optimal annual sales in Alberta of 150,000 hl. The Corporation initiated discussions with the Alberta government and undertook actions to mitigate the impact of higher net mark-up rates by reducing the number of limited-time offer price promotions and implementing price increases in Alberta for the fourth quarter of 2017 on Big Rock's value and private label brand categories. To improve Big Rock's grant rate going forward, the Corporation took steps to optimize its Alberta sales volumes and profit margins by discontinuing two lower margin products in 2017. As a result, Big Rock's net mark-up rate (mark-up less grant), and profit margins improved during the last quarter of 2017 and first six months of 2018. The Corporation expects the grant rate improvement to continue until the end of August 2018, at which time the grant rate will be reset, based on the existing Alberta Small Brewers Development Grant policy in effect at that time.

In June 2018, an Alberta Trade Review panel ordered that the ASBD grant program be repealed or revised within six months, as it was found to put beer producers from other provinces at a competitive disadvantage in the Alberta market. Big Rock continues to work with the Alberta Government with the objective of improving policy changes that will effectively stimulate the craft beer industry in the province. The impact of this impending regulatory change cannot currently be estimated, and the changes that will be made may negatively impact Big Rock's mark-up rate in Alberta in the coming months.

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

To diversify revenue base, Big Rock established a local presence in BC and Ontario over the last two and a half years. These markets have been targeted as they are especially responsive to locally brewed, craft beer. The BC brewery, brewpub and retail space commenced operations during the second quarter of 2015, the Ontario brewery and tasting room commenced operations late in the third quarter of 2016 and the brewpub and retail operations located in Liberty Village, near the Etobicoke brewery, opened in February 2017. Growth in the BC market has been lower than initially anticipated in the face of an increase in the number of breweries and products vying for a limited number of listings available through BC government and retail channels.

In response to the competitive business and regulatory environment in BC, Big Rock announced in April 2018 it had entered into a contractual joint venture arrangement with an independent craft brewer (the "Seller"). However, certain closing conditions of the arrangement could not be satisfied, and as a result, the Corporation announced on July 23, 2018 a revised arrangement in which the Corporation entered into a binding offer to acquire certain brewing assets and inventory of the Seller for a gross purchase price of approximately $940, less amounts owing to Big Rock. As a condition to closing, the parties anticipate entering into a license agreement which grants Big Rock exclusive rights to use the Seller's trademarks and other intellectual property. This agreement also grants Big Rock a right to purchase the Seller's intellectual property.

In addition, the parties anticipate entering into contract manufacturing agreements which, for a fee, permit the Corporation to exclusively manufacture all of the Seller's branded products in British Columbia and Alberta for subsequent sale by Big Rock in Canada, and in return Big Rock will pay a fee. This revised arrangement, which is expected to close in August 2018 will result in an increase of the Vancouver brewery's production capacity and utilization and is expected to contribute to the Corporation's profitability in the second half of 2018.

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

Management will continue to monitor and adjust the selling prices of its products, actively manage operating costs, assess regional profitability and focus on operating efficiencies. Management also plans to continue to introduce new permanent and seasonal brands from all three of its production hubs in 2018 and beyond.

NON-GAAP MEASURES

The Corporation uses certain financial measures referred to in this MD&A to quantify its results that are not prescribed by Generally Accepted Accounting Principles. The terms "total capitalization", "net debt", "net debt to total capitalization ratio", "earnings before interest, taxes, depreciation and amortization ("EBITDA") to net debt", "EBITDA to debt repayments, interest, income taxes and dividends paid ("Fixed Charges")" are not recognized measures under GAAP and may not be comparable to that reported by other companies. Total capitalization is calculated by adding shareholders' equity, total debt and cash balances. EBITDA is calculated by adding back to net income, interest, income taxes and depreciation and amortization. EBITDA to net debt is calculated by dividing EBITDA by net debt (debt minus cash) and EBITDA to Fixed Charges is calculated by dividing the combined debt repayments, interest, income taxes and dividends paid amounts by EBITDA. Management uses these ratios to evaluate the Corporation's operating results. A reconciliation of EBITDA to net income (loss), the nearest GAAP measure is contained under "Liquidity and Capital Resources – Capital Strategy". A reconciliation of total capitalization to cash, total debt and total shareholders' equity and a reconciliation of net debt to cash and total debt are provided under "Liquidity and Capital Resources – Capitalization".

In addition, the Corporation's lender uses EBITDA to Fixed Charges ratio to evaluate the Corporation's ongoing cash generating capability and to determine the amounts and rates at which the lender is willing to finance Big Rock. Management believes that, in addition to net income and cash flow from operating activities, these measures are useful supplemental measures as they provide an indication of Big Rock's operating performance and leverage.

Readers are cautioned that these measures should not be construed as an alternative to net income, cash flows from operating activities or other relevant GAAP measures as calculated under GAAP.

FORWARD-LOOKING INFORMATION

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

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

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

- expected sales volumes;
- the expected increase in average margins;
- the potential introduction of new permanent and seasonal brands;
- projections of market prices and costs;
- treatment under governmental regulatory and taxation regimes, including expected price increases resulting from the indexing of excise taxes to inflation;
- supply and demand of Big Rock's products;
- the impact of recent changes in Alberta mark-up rates and any further changes in the future;
- The expected repeal of the ASBD grand program and Big Rock's efforts to work with the Alberta Government to implement policy changes to stimulate the craft beer industry in the province;
- the expected positive effect on the net mark-up rate for self-distributed cider products;
- the expected continued investment in targeted marketing opportunities;
- the expected closing of the Corporation's acquisition of brewing assets and inventory from a British Columbia brewer and associated contract manufacturing and licensing arrangements;

- the expected contribution to the Corporation's profitability in the second half of 2018 from the Corporation's acquisition of brewing assets and inventory from a British Columbia brewery; and
- the expectation the Corporation will have adequate sources of funding to finance the Corporation's operations.

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 supply issues with Big Rock's vendors;
- the Corporation's ongoing discussions with the Alberta Government will be successful in implementing policy changes favourable to Big Rock; and
- the Corporation's transaction with the seller will close as anticipated.

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 2017 Annual Information Form dated March 8, 2018 that is available on SEDAR at www.sedar.com. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. Big Rock does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.