# QUARTERLY REPORT

## THIRD QUARTER 2019 HIGHLIGHTS

| $000, except sales volumes & per share amounts | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Sales volumes (hectolitres or "**hl**")[1] | 50,327 | 55,741 | 134,202 | 152,564 |
| Gross revenue | $ 18,081 | $ 18,825 | $ 52,224 | $ 50,257 |
| Net revenue | 11,189 | 13,764 | 33,114 | 36,757 |
| EBITDA[2] | 639 | 1,563 | (417) | 3,075 |
| Operating income (loss) | (761) | 747 | (3,485) | 715 |
| Net income (loss) | (201) | 587 | (1,625) | 440 |
| Income (loss) per share (basic and diluted) | $ (0.03) | $ 0.08 | $ (0.23) | $ 0.06 |

(1) Excludes contract manufacturing volumes due to the nature of the agreements.
(2) Non-GAAP Measure. See "*Non-GAAP Measures*".

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("**MD&A**") of the financial condition and results of operations of Big Rock Brewery Inc. (the "**Corporation**" or "**Big Rock**") for the three and nine months ended September 30, 2019 and 2018.

This MD&A should be read in conjunction with the unaudited consolidated financial statements of the Corporation and accompanying notes as at and for the three and nine months ended September 30, 2019 (the "**Financial Statements**") and the December 30, 2018 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, 2018, 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 October 31, 2019.

## CORPORATE PROFILE

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

Founded in 1985, Big Rock was the first craft brewery in Alberta and stands out as a pioneer in the Canadian craft beer industry. Big Rock produces, markets and distributes its premium high-quality specialty craft beers and ciders primarily in Canada. The Corporation owns and operates production facilities in Alberta, British Columbia ("**BC**") and Ontario. Today, Big Rock's primary brewing, packaging and warehousing facility is located in Calgary, Alberta and has been in operation since 1996. Big Rock has distribution facilities in Calgary and Edmonton, and sales staff resident in Alberta, BC, Saskatchewan, Manitoba and Ontario.

In April 2015, Big Rock opened a brewery and eatery in Vancouver, BC's 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 on February 1, 2017, a fourth location was opened in Toronto, Ontario in the Liberty Village area, and is operated as Liberty Commons at Big Rock Brewery tasting room and restaurant.

Given the Corporation's footprint in Western Canada, the Corporation also has several co-packaging arrangements through private label agreements, and most recently, in 2018, co-manufacturing agreements.

## INDUSTRY TRENDS, INDICATORS AND OUTLOOK

The growth in competition for craft beer in Canada continues to be influenced by low barriers to entry, unprecedented consumer choice, and upstart alcoholic beverage categories such as the Ready-to-Drink ("**RTD**") and "better for you" beverages, all competing for much of the same consumers. These challenges are especially strong in the Corporation's largest market, Alberta, Canada's only fully private market. The Corporation estimates that in Alberta alone, there are now over 5,000 active beer stock keeping units ("**SKUs**") and over 135 manufacturer/packaging licenses, up from approximately 3,000 active beer SKUs and 38 manufacturing/packaging licenses in 2015. Additionally, the Corporation believes the decline in beer consumption in North America has been potentiated in Alberta the over last several years given the decline in population aged 18 to 34 in the province, which has been identified in the past by third parties as the largest influencer of domestic beer consumption relative to other age groups.

Throughout 2019, in response to such market trends, the Corporation introduced to market a diverse set of new innovations (a new craft lager, a light low-calorie lager, a lemon wheat ale, a rosé cider, and three vodka sodas) in addition to its high-quality seasonal offerings. Moving forward, the Corporation will continue to monitor consumer trends and develop new products, either through owned brands or licensing, in response to such trends moving forward. Additionally, the Corporation will place a great emphasis on package type, package size, and variety offerings in response to consumer demand.

Big Rock has and will continue to evaluate a diverse range of growth opportunities given its production, sales and distribution footprint in Canada, and especially in Alberta. Through sourcing new partners, launching new innovations, or growing through acquisitions, Big Rock continues to pursue new opportunities to fully utilize its assets and human capital.

As previously announced, the Corporation was impacted favourably by the August 21, 2019 amendment of the Alberta Gaming, Liquor and Cannabis Commission's ("**AGLC**") beer mark-up policy, effective September 13, 2019, which reduced the Corporation's mark-up on beer in Alberta to $0.64 per litre from $1.25 per litre. The new, gradual Alberta beer mark-up framework is consistent with other provinces as opposed to the former provincial grant program that was in-place. Management believes the amendment will allow for the Corporation to be competitive in its current and future markets, given the revival of Big Rock's profitability – a pioneer of the craft beer industry in Canada and a business that has been supporting this industry for over 34 years.

## SELECTED QUARTERLY FINANCIAL INFORMATION

Big Rock experiences seasonal fluctuations in volumes, net revenues 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:

| | 2019 | | | 2018 | | | | 2017 |
|---|---|---|---|---|---|---|---|---|
| ($000, except hl and per share amounts) | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 |
| Sales volumes (hl)[1] | 50,327 | 48,900 | 34,975 | 49,013 | 55,741 | 56,012 | 40,811 | 46,788 |
| Net revenue | 11,189 | 13,299 | 8,626 | 11,991 | 13,764 | 13,527 | 9,466 | 11,089 |
| EBITDA[2] | 639 | 335 | (1,391) | 1,058 | 1,563 | 1,245 | 267 | 623 |
| Operating profit (loss) | (761) | (495) | (2,229) | 199 | 747 | 473 | (505) | 33 |
| Net income (loss) | (201) | 297 | (1,721) | (82) | 587 | 240 | (387) | (141) |
| Earnings per share (basic & diluted) | $ (0.03) | $ 0.04 | $ (0.25) | $ (0.01) | $ 0.08 | $ 0.04 | $ (0.06) | $ (0.02) |
| **$ Per hl Amounts** | | | | | | | | |
| Net revenue | 222.33 | 271.96 | 246.63 | 244.65 | 246.93 | 241.50 | 231.95 | 237.01 |
| Cost of sales | 143.34 | 189.08 | 181.44 | 146.10 | 136.94 | 135.15 | 136.53 | 148.14 |
| Selling expenses | 62.77 | 59.88 | 83.66 | 63.35 | 65.48 | 65.74 | 76.33 | 61.45 |
| General & administrative | 28.69 | 30.39 | 41.37 | 27.58 | 28.88 | 30.08 | 28.55 | 24.22 |
| Operating profit (loss) | (15.12) | (10.12) | (63.73) | 4.06 | 13.40 | 8.44 | (12.37) | 0.71 |
| Net income (loss) | (3.99) | 6.07 | (49.21) | (1.67) | 10.53 | 4.28 | (9.48) | (3.01) |

(1) Excludes contract manufacturing volumes due to the nature of the agreements.
(2) Non-GAAP Measure. See "*Non-GAAP Measures*".

## RESULTS OF OPERATIONS

Big Rock reported a net loss of $201 and $1,625 for the three and nine months ended September 30, 2019 compared to a net income of $587 and $440 in the same periods in 2018. Big Rock's operating loss of $761 and $3,485 for the three and nine months ended September 30, 2019 declined by $1,508 (301.9%) and $4,200 (587.4%), compared to the Corporation's operating income of $747 and $715 for the same periods in the prior year due to the elimination of the Alberta Small Brewers Development Grant ("**ASBD**") grant in late 2018. Management estimates the net negative impact of the late 2018 Alberta beer mark-up changes to be approximately $2.2 million and $6.4 million for the three and nine months ended September 30, 2019, respectively.

As previously announced, the Corporation implemented significant cost cutting measures in the second quarter of 2019 and one-time restructuring charges thereto to mitigate its operating losses incurred in the difficult Alberta beer tax environment at the time. However, effective September 13, 2019, the Corporation's Alberta beer tax rate was reduced to $0.64 per litre which is a 4 percent increase to the net rate (adjusted for grant) that the Corporation was subject to in late 2018, before the ASBD grant program elimination. Management believes this revised beer tax framework allows for the evaluation and pursuit of profitable and sustainable growth until the end of the current Alberta government's term, however, Big Rock will continue to be proactive with the government moving forward.

## SEGMENTED INFORMATION

Big Rock has two reportable business segments, wholesale and retail, which are monitored by senior 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 September 30** | Wholesale 2019 | Wholesale 2018 | Retail 2019 | Retail 2018 | Eliminations 2019 | Eliminations 2018 | Consolidated **2019** | Consolidated 2018 |
|---|---|---|---|---|---|---|---|---|
| Net Revenue | $ 10,491 | $ 13,370 | $ 828 | $ 546 | $ (130) | $ (152) | **$ 11,189** | $ 13,764 |
| Cost of sales | 6,748 | 7,003 | 596 | 782 | (130) | (152) | **7,214** | 7,633 |
| Gross profit | 3,743 | 6,367 | 232 | (236) | – | – | **3,975** | 6,131 |
| Selling expenses | 3,157 | 3,645 | 2 | 5 | – | – | **3,159** | 3,650 |
| Segment profit | $ 586 | $ 2,722 | $ 230 | $ (241) | $ – | $ – | **816** | 2,481 |
| General and administrative cost | | | | | | | **1,444** | 1,610 |
| Depreciation and amortization | | | | | | | **133** | 124 |
| Operating income (loss) | | | | | | | **(761)** | 747 |
| Finance expense | | | | | | | **96** | 69 |
| Other income (expense) | | | | | | | **555** | 4 |
| **Income (loss) before income taxes** | | | | | | | **$ (302)** | $ 682 |

| **Nine months ended September 30** | Wholesale 2019 | Wholesale 2018 | Retail 2019 | Retail 2018 | Eliminations 2019 | Eliminations 2018 | Consolidated **2019** | Consolidated 2018 |
|---|---|---|---|---|---|---|---|---|
| Net Revenue | $ 31,682 | $ 35,528 | $ 1,823 | $ 1,719 | $ (391) | $ (490) | **$ 33,114** | $ 36,757 |
| Cost of sales | 21,181 | 18,796 | 2,016 | 2,469 | (391) | (490) | **22,806** | 20,775 |
| Gross profit | 10,501 | 16,732 | (193) | (750) | – | – | **10,308** | 15,982 |
| Selling expenses | 9,005 | 10,427 | 8 | 20 | – | – | **9,013** | 10,447 |
| Segment profit | $ 1,496 | $ 6,305 | $ (201) | $ (770) | $ – | $ – | **1,295** | 5,535 |
| General and administrative cost | | | | | | | **4,377** | 4,460 |
| Depreciation and amortization | | | | | | | **403** | 360 |
| Operating income (loss) | | | | | | | **(3,485)** | 715 |
| Finance expense | | | | | | | **311** | 237 |
| Other income (expense) | | | | | | | **577** | (10) |
| **Income (loss) before income taxes** | | | | | | | **$ (3,219)** | $ 468 |

## Net Revenue

Net revenue includes wholesale beer, cider and alcoholic beverage sales, net of excise taxes and provincial government liquor taxes, contract manufacturing revenues, retail restaurant and store sales from Big Rock's Alberta, BC and Ontario locations and can sourcing for a third party. Geographically, Alberta continued to represent the largest share of the Corporation's sales, followed by BC and Ontario.

| ($000, except volumes) | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | Change | 2019 | 2018 | Change |
| Sales volumes (hl) | 50,327 | 55,741 | (5,414) | 134,202 | 152,564 | (18,362) |
| Gross revenue | $ 18,081 | $ 18,825 | $ (744) | $ 52,224 | $ 50,257 | $ 1,967 |
| Federal excise taxes | (1,606) | (1,660) | 54 | (4,487) | (4,358) | (129) |
| Provincial liquor tax programs | (5,286) | (3,401) | (1,885) | (14,623) | (9,142) | (5,481) |
| Net revenue | $ 11,189 | $ 13,764 | $ (2,575) | $ 33,114 | $ 36,757 | $ (3,643) |
| **Net revenue by segment** | | | | | | |
| Wholesale | $ 10,361 | $ 13,218 | $ (2,857) | $ 31,291 | $ 35,038 | $ (3,747) |
| Retail | 828 | 546 | 282 | 1,823 | 1,719 | 104 |
| Net revenue | $ 11,189 | $ 13,764 | $ (2,575) | $ 33,114 | $ 36,757 | $ (3,643) |
| **$ per hl** | | | | | | |
| Wholesale net revenue | $ 205.87 | $ 237.13 | $ (31.26) | $ 233.16 | $ 229.66 | $ 3.50 |

Sales volumes were 50,327 hl and 134,202 hl for the three and nine months ended September 30, 2019, a decrease of 5,414 hl (9.7%) and 18,362 hl (12.0%), compared to similar periods in 2018. Net revenue was $11,189 and $33,114 for the three and nine months ended September 30, 2019, a decrease of $2,575 (18.7%) and $3,643 (9.9%) compared to the same periods in 2018, primarily due to the ASBD grant program elimination, which resulted in an estimated loss in net revenue year-over-year of $2,150 and $6,400, respectively, until the recent policy amendment.

Gross revenue was $18,081 and $52,224 for the three and nine months ended September 30, 2019, a decrease of $744 (4.0%) and an increase of $1,967 (3.9%) compared to the prior year.

### Wholesale Revenue

Wholesale net revenue decreased to $10,361 and $31,291 for the three and nine months ended September 30, 2019, compared to $13,218 and $35,038, the prior year, respectively.

Due to the ASBD grant program elimination and the subsequent increase in the net Alberta beer taxes for the Corporation, the Corporation was forced to pursue price increases in late 2018 and early 2019, resulting in greater than forecasted sales volume declines year-over-year. Contract manufacturing production volumes continued to grow year-over-year and mitigated sales volume declines resulting from the price increases during the first half of 2019.

### Retail Revenue

Retail net revenue was $828 and $1,823 for the three and nine months ended September 30, 2019, an increase of $282 (51.6%) and $104 (6.1%) compared to the same period in 2018, primarily reflecting the Calgary retail operations performance.

## Cost of Sales

Cost of sales was $7,214 and $22,806 for the three and nine months ended September 30, 2019, a decrease of $419 and an increase of $2,031 as compared to the same periods in 2018. Cost of sales represented 64.5% and 68.9% of net revenue, an increase of 9.0% and 12.4% from 55.5% and 56.5%, compared to the same periods in 2018. This is due to net revenue declines as a result of the ASBD grant program elimination and the addition of a lower margin business in sourcing cans for a third party.

Management anticipates cost of sales to trend down towards its 2018 percentage of revenues as a result of the recent AGLC beer mark-up policy amendment.

## Selling Expenses

Selling expenses decreased by $491 and $1,434 for the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018 as described below:

- Delivery and distribution costs decreased marginally by $10 and $39 for the three and nine months ended September 30, 2019 due to lower sales volumes;

- Salaries and benefits costs decreased by $305 and $420 for the three and nine months ended September 30, 2019 as a result of cost cutting initiatives implemented during the second quarter of 2019; and

- Marketing and sales costs decreased by $176 and $975 for the three and nine months ended September 30, 2019 as a result of cost cutting initiatives implemented during the second quarter of 2019.

## General and Administrative Expenses

In comparison to 2018, general and administrative expenses decreased by $166 to $1,444 for the three months ended September 30, 2019 due to the decrease in share appreciation rights ("**SARs**") expense of $92 and professional fees of $40, and decreased by $83 to $4,377 for the nine months ended September 30, 2019 primarily due to decreases in professional fees of $384 and salaries and wages of $314, offset by a one-time restructuring charge of $458.

General and administrative expenses were 12.9% and 13.2% of net revenue in the three and nine month periods ended September 30, 2019, versus 11.7% and 12.1% in the same periods in 2018. This increase is due to the significant decrease in net revenues in 2019 offset by the implemented cost cutting measures.

## Finance Expenses

Finance expenses increased slightly during the three months ended September 30, 2019 by $7 to $96 and increased by $74 to $311 for the nine months ended September 30, 2019, as compared to the same period in 2018, due to servicing of the license obligation of the Fireweed Brewing Corp. ("**Fireweed**") transaction and an increase in the Corporation's total debt outstanding.

## Depreciation and Amortization

Depreciation and amortization expenses were $845 and $2,491 in the three and nine month periods ended September 30, 2019, versus $793 and $2,351, in the same period in 2018. The increase in depreciation and amortization in 2019 is primarily related to the acquisition of certain Fireweed assets in the fourth quarter of 2018.

## Other Income

Other income was $555 and $577 in the three and nine month periods ended September 30, 2019, compared to income of $4 and loss of $10 during the same periods in 2018, due to a one-time gain from the reduction of the Fireweed license obligation as a result of the impaired receivable and penalty settlement. Refer to *Cash Flows from Financing Activities* for further detail.

## Income Taxes

Current income tax recoveries of $81 and $16 were recorded for the three and nine months ended September 30, 2019, versus a recovery of $51 and $71 for the same periods in 2018. They reflect expected taxes recoverable arising from the transitional provisions on the taxation of partnership deferral structures. Deferred tax recovery of $20 and $1,578 were recorded for the three months and nine months ended September 30, 2019.

The deferred income tax provision differs from the statutory rate of 26.57% (2018 – 26.86%) 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, 2018 to September 30, 2019:

| ($000, unless otherwise stated) | Increase/ (Decrease) | Primary factors explaining change |
|---|---|---|
| Accounts receivable | (919) | Decrease due to settlement of BC Liquor Distribution Branch ("**BCLDB**")/Fireweed amounts |
| Inventories | 1,293 | Increase in brew in progress and finished goods inventory due to timing of production |
| Prepaid expenses & deposits | 75 | Increase in community sponsorships |
| Property, plant & equipment | (1,610) | Decrease due to depreciation offset by new plant additions |
| Intangible assets | (80) | Decrease due to amortization of intangible assets |
| Bank indebtedness | 2,167 | Increase due to seasonality and lower revenues following the ASBD grant elimination |
| Accounts payable & accrued liabilities | (136) | Decrease consistent with increase in bank indebtedness |
| Share-based payments | (61) | Decreased due to reduced share price effecting SARs valuation, offset by amortization of share options |
| Long term debt & finance lease | (589) | Net repayment of term loans and finance leases |
| License obligation | (1,033) | Net repayment of license obligation and settlement of BCLDB/Fireweed receivable amounts |
| Lease incentive | 20 | Amortization of lease incentive |
| Deferred income taxes | (1,577) | Tax effect of changes in temporary differences |

## LIQUIDITY AND CAPITAL RESOURCES

### Capitalization

| As at ($000, unless otherwise stated) | September 30, 2019 | December 30, 2018 |
|---|---|---|
| Cash | $ (167) | $ (1,902) |
| Total debt[2] | 7,353 | 5,775 |
| Net debt | 7,186 | 3,873 |
| Shareholders' equity: | | |
| Shareholders' capital | 113,845 | 113,845 |
| Contributed surplus | 1,718 | 1,578 |
| Accumulated deficit | (78,464) | (76,839) |
| Total shareholders' equity | 37,099 | 38,584 |
| Total capitalization (total debt plus shareholders' equity, net of cash) [1] | $ 44,285 | $ 42,457 |
| | | |
| Net debt to total capitalization ratio [1] | 16.2% | 9.1% |

(1) Non-GAAP measure. See "*Non-GAAP Measures*".
(2) Includes bank indebtedness, long term debt, and obligations under finance leases; excludes license obligations.

## Capital Strategy

The Corporation defines its total capitalization to include common shares of the Corporation ("**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 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.

The Corporation 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 had a positive working capital position of $1,486 at September 30, 2019, compared to a positive working capital position of $4,557 at December 30, 2018.

As at September 30, 2019, the Corporation had total current assets and total current liabilities of $9,892 and $8,406, respectively, compared to $11,178 and $6,621, respectively, as at December 30, 2018. The decrease in current assets can be attributed to a decrease in the cash balances as a result of the significant decrease in margins prior to the September 13, 2019 Alberta beer mark-up change and settlement of the Fireweed receivable balances. The increase in current liabilities can be attributed to an increase in bank indebtedness.

The Corporation may issue new Common Shares, debt or other securities, 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 of Big Rock (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) net debt (debt less cash) to EBITDA and (ii) EBITDA to debt repayments, interest, income taxes and dividends paid ("**Fixed Charges**"). Net debt to EBITDA 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, whose nearest GAAP measure is net income, or net loss as applicable, with the reconciliation between the two as follows:

| ($000) | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | Change | 2019 | 2018 | Change |
| Net income (loss) | $ (201) | $ 587 | $ (788) | $ (1,625) | $ 440 | $ (2,065) |
| Add back: | | | | | | |
| Interest | 96 | 69 | 27 | 311 | 237 | 74 |
| Taxes | (101) | 95 | (196) | (1,594) | 28 | (1,622) |
| Depreciation & amortization | 845 | 793 | 52 | 2,491 | 2,351 | 140 |
| EBITDA[(1)] | $ 639 | $ 1,544 | $ (905) | $ (417) | $ 3,056 | $ (3,473) |

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

These practices 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 from Financing Activities*").

### *Cash Flows from Operating Activities*

Cash used in operating activities for the three months ended September 30, 2019 totalled $880 and for the nine months ended September 30, 2019 totalled $2,476, decreases of $444 and $2,519 compared to the same periods last year, primarily due to seasonality and the elimination of the ASBD grant program.

### ***Cash Flows from Financing Activities***

Cash provided by financing activities for the three months ended September 30, 2019 totalled $911 and for the nine months period ended September 30, 2019 totalled $1,547, increases of $119 and $981 compared with the same period in 2018 due to repayment of long-term debt and license obligation.

The Corporation has a $5 million revolving operating loan facility (the "**Operating Facility**") and a $6 million 5-year revolving term loan facility (the "**Term Facility**"). The Operating Facility is available for general operating purposes and funding capital expenditure requirements. The Term Facility is available to fund capital expenditures. Advances under both credit facilities may be made by way of Canadian prime rate loans and letters of credit. Interest is payable for prime-based loans under the 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 percent. Fees for letters of credit are at 2.5 percent with a minimum fee payable.

The facilities impose 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 earnings before interest, taxes and depreciation, less an amount for maintenance capital compared to the rolling 12-months Fixed Charges. In addition, Big Rock's borrowings cannot exceed a borrowing base which is determined by the fair value of the Corporation's assets.

On July 16, 2019, Big Rock's borrowing base was reconfirmed by its lender at $11 million, with the maturity dates being extended to May 23, 2021 with an option for extension. On August 1, 2019, Big Rock's lender waived the financial covenants under its credit facilities until and including June 30, 2020.

As at September 30, 2019, Big Rock's bank indebtedness was $2,330 (December 30, 2018 - $163), of which $1,470 was outstanding on the operating loan facility (December 30, 2018 - $nil).

| As at | September 30, 2019 | December 30, 2018 |
|---|---|---|
| Term debt | $ 3,439 | $ 3,778 |
| Debt issue costs | (5) | (13) |
| | 3,434 | 3,765 |
| Current portion | (428) | (409) |
| **Long term debt** | $ 3,006 | $ 3,356 |

On October 18, 2018, the Corporation closed an asset purchase and licensing transaction with Fireweed. As part of the license agreement entered into, the Corporation is to pay Fireweed a fee calculated based on the Corporation's sales volumes of Fireweed trademarked products, on a monthly basis, with a maturity date of December 31, 2024, with an obligation to purchase the trademarks at a pre-determined price, net of all license fees paid up until the maturity date.

| As at | September 30, 2019 | December 30, 2018 |
|---|---|---|
| License obligation | $ 1,697 | $ 1,720 |
| Gain on liability modification | (1,010) | — |
| | 687 | 1,720 |
| Current portion | (186) | (138) |
| **License obligation** | $ 501 | $ 1,582 |

On September 12, 2019, the Corporation and Fireweed reached a letter agreement (the "**Letter Agreement**") with respect to payments that were incorrectly deposited into Fireweed's bank account, relating to the sale of Rock Creek and Duke cider products, by the British Columbia Liquor Distribution Branch. The Letter Agreement calls for the settlement of the outstanding receivable of $457, recovery of legal fees of $30 and penalty interest of $609 (term conterminous with the expiry of the license obligation) to be applied against the license obligation as at September 30, 2019. The net present value of the remaining license obligation after the settlement is $687 (discounted based on the Corporation's borrowing rates in effect as at the time of the Fireweed transaction). As a result, the Corporation recorded a net gain of $550.

On January 25, 2017, Big Rock converted a $2.5 million finance facility to a sale and leaseback arrangement. 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 for contingent rental payments.

| As at | September 30, 2019 | December 30, 2018 |
|---|---|---|
| Current portion | $ 362 | $ 347 |
| Long term portion | 1,227 | 1,500 |
| **Total finance lease** | $ 1,589 | $ 1,847 |

As of September 30, 2019, the net carrying amount of the leased assets is $2,108 (December 30, 2018 – $2,206). The depreciation of the assets recorded under finance lease is included in the cost of sales on the Interim Consolidated Statements of Comprehensive Loss. The obligation under finance lease is secured by the lessor's rights over the leased assets.

### *Cash Flows from Investing Activities*

During the three and nine month periods ended September 30, 2019, a total of $27 and $807 was spent on capital expenditures, compared to $244 and $691 for the same periods in 2018, primarily attributable to the installation of the assets acquired as part of the Fireweed transaction.

## 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:

| | 2019 | 2020 | 2021 | 2022 | 2023 | thereafter |
|---|---|---|---|---|---|---|
| Utilities contracts | $ 30 | $ 30 | $ 14 | $ — | $ — | $ — |
| Raw material purchase commitments | 2,087 | 762 | 244 | 205 | 219 | 22 |
| Marketing sponsorships | 304 | 207 | 35 | — | — | — |
| Operating leases | 718 | 765 | 766 | 775 | 633 | 251 |
| Long-term debt | 428 | 452 | 477 | 504 | 532 | 1,046 |
| License obligation | 186 | 194 | 203 | 104 | — | — |
| Finance lease | 362 | 382 | 845 | — | — | — |
| **Total** | **$ 4,115** | **$ 2,792** | **$ 2,584** | **$ 1,588** | **$ 1,384** | **$ 1,319** |

Big Rock has entered into operating lease agreements for storage facilities, warehouses, breweries, and retail locations. The remaining lease terms range between four and ten years. Certain leases contain extension and renewal options. Operating lease payments of $489 were recognized as an expense in the Financial Statements for the nine months ended September 30, 2019 (2018 - $529).

## 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*.

## SHAREHOLDERS' CAPITAL

Big Rock is authorized to issue an unlimited number of Common Shares with no par value. The Common Shares trade on the Toronto Stock Exchange under the symbol "BR". As at October 31, 2019, Big Rock had the following issued and outstanding:

- 6,981,628 Common Shares;
- 331,587 time-based SARs;
- 81,000 market-performance SARs;
- 285,000 time-based options; and
- 69,000 market-performance options.

There was no new time-based share appreciation rights ("**SARs**") and options granted during the three months period ended September 30, 2019.

The Board of Directors may issue an unlimited number of SARs under the SARs plan. SARs granted under the SARs 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 the Common Shares have traded during the five trading days immediately preceding the date of grant. The exercise of SARs is settled in cash.

Big Rock has granted stock options to certain officers and directors of the Corporation pursuant to the share option plan. Options granted under the share option 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 the Common Shares have traded during the five trading days immediately preceding the date of grant.

*See Note 15 to the Interim Consolidated Financial Statements for more detailed information.*

## 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. In addition, there has been an increased number of imports and new alcoholic beverage offerings 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 craft divisions of the major breweries, it is likely that competitive pressures on price will continue. As a result, selling prices may vary more frequently.

### *Tax Risk*

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 AGLC provides the necessary licensing approvals. Other licenses have been obtained from various other government authorities. Management believes that Big Rock is in compliance with all licenses, permits, and approvals.

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

The beer tax structure in Alberta has changed six times in the last six years, contributing to market uncertainty and has impacted Big Rock's results in a corresponding manner. In particular, changes announced by the Government of Alberta in July 2016 replaced the former graduated tax rate structure with a flat tax rate of $1.25 per litre and a grant program for Alberta small breweries. In June 2018, a trade review panel ordered that the Government of Alberta's small brewers' 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. On November 26, 2018, the Government of Alberta announced the cancellation of the ASBD grant program, effective December 16, 2018, and a graduated net beer tax system for Alberta producers of less than 50,000 hectolitres per year. This change imposed a significant tax increase on Big Rock's sales volumes.

On August 21, 2019, the Government of Alberta and the AGLC amended the beer mark-up structure to include breweries with annual world-wide production of less than 400,000 hectolitres, such as Big Rock, by implementing a graduated mark-up that extends to $0.80 per litre. Effective September 13, 2019, the Corporation's mark-up on Alberta beer sales was reduced to $0.64 per litre from $1.25 per litre.

As Alberta is the Corporation's predominant market, future changes to this mark-up rate structure could have a significant impact on the Corporation's financial results. The Corporation will continue to be proactive with the Government of Alberta and continues to evaluate its long-term business plan in order to mitigate the risk of future mark-up rate structure fluctuations.

### *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, management believes the risk is immaterial. The Corporation 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 weighted average interest rate for the three months ended September 30, 2019 was 6.5% (2018 - 4.00%).

### *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 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.

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.

### *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 of the Corporation 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 14, 2019 that is available on www.sedar.com.

## OUTLOOK & STRATEGY

The Corporation's operating results for the three and nine month periods ended September 30, 2019 declined as compared to the same periods in 2018, reflecting the elimination of the ASBD grant program and the resulting increase in the net Alberta beer taxes for the Corporation, partially offset by price increases and cost cutting initiatives. However, effective September 13, 2019, the Corporation's Alberta beer tax rate was reduced significantly to $0.64 per litre.

In 2019, the Corporation continues to focus on the following:

### *Maximizing Capacity Utilization of Assets*

The Corporation will continue to pursue opportunities to maximize capacity utilization of its assets whether through organic growth of existing brands, introduction of new brands, license agreements, mergers and acquisitions and/or contract manufacturing agreements. Given the Corporation's footprint, especially in Alberta, management continues to evaluate new growth opportunities.

The Corporation will look to expand its cellar capacity in Calgary as new business is pursued, as this is the most significant bottleneck the Corporation faces in pursuing growth. Outside of cellar capacity, the Corporation is well positioned for significant growth given its brewing capacity, packaging and warehousing capacity, distribution network and sales force.

### *Organic Growth*

Big Rock continues to monitor consumer trends in Canada in an effort to drive innovation in the craft beer and cider industry in Canada. In response to market research and consumer trends, Big Rock launched several new products in 2019: *Rock Creek Rosé Cider, Jackrabbit Light Lager, Big Rock Craft Lager, Grasshopper with Lemon, the Darcy's Poolside Grapefruit Lager and three Cottage Springs Vodka Sodas* which the Corporation licensed on April 3, 2019.

Management continues to focus on growth of its signature brands and believes it is well positioned to achieve growth, despite the ever-increasing competition in the Canadian craft beer industry. The Corporation continues to offer high quality seasonal brands in 2019, consistent with the high-quality traditions and practices behind its signature offerings.

### *Cannabis*

In light of the planned legalization of cannabis-infused beverages expected in late 2019 or early 2020, the Corporation has evaluated and will continue to evaluate opportunities in the cannabis space.

### *Cost Reductions*

Cost reductions are an ongoing initiative implemented and supported by the Corporation's management team, many of whom are new since 2018.

## CRITICAL ACCOUNTING ESTIMATES & JUDGEMENTS

There have been no changes in Big Rock's critical accounting estimates in the three and nine months ended September 30, 2019. 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, 2018.

## FUTURE ACCOUNTING PRONOUNCEMENTS

The Corporation's consolidated financial statements as at and for the three and nine month periods ended September 30, 2019 have been prepared using the IFRS standards and interpretations currently issued. Accounting policies currently adopted under IFRS are subject to change as a result of new standards being issued with an effective date of December 31, 2018 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 International Accounting Standard Board has issued the following pronouncement, which is not yet effective for Big Rock:

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 will be effective for Big Rock 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 standard, amendment and interpretations is permitted. Big Rock has not early adopted this standard and 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 September 30, 2019.

## 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 year ended December 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 September 30, 2019, 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 September 30, 2019. In addition, there were no material changes to Big Rock's internal controls over financial reporting since the most recent interim period.

## 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 ("**GAAP**"). These financial measures do not have any standardized meaning under the Corporations' Generally Accepted Accounting Principles and therefore may not be comparable to similar measures presented by other issuers. The following terms "total capitalization", "net debt", "net debt to total capitalization ratio", "EBITDA", "net debt to EBITDA", "EBITDA to Fixed Charges", "working capital" 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. Net debt to EBITDA is calculated by dividing EBITDA by net debt (debt less cash) and EBITDA to Fixed Charges is calculated by dividing the combined debt repayments, interest, income taxes and dividends paid amounts by EBITDA. Working capital is defined as current assets minus current liabilities. Management uses these non-GAAP measures 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:

- the Corporation's business plans;
- the Corporation's monitoring of consumer plans and expectations regarding the developments of new products including in the cannabis space;
- expectations regarding the Corporation's evaluation of growth opportunities and plans with respect to the same;
- projections of market prices and costs;
- anticipated supply and demand of Big Rock's products;
- the Corporation's ability to maximize capacity utilization;
- the Corporation expanding its cellar capacity;
- the Corporation's ability to offer high quality seasonal brands; and
- the impact of recent changes in Alberta beer tax rate (provincial tax).

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, including the net beer taxes and grant rates, in which Big Rock operates; and
- there will be no supply issues with Big Rock's vendors.

Big Rock's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth above and as set out under the heading "Risk Factors" in the Corporation's 2018 Annual Information Form dated March 14, 2019 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.