



**BIG ROCK BREWERY INC.**

**ANNUAL INFORMATION FORM**

**For the Financial Year Ended December 30, 2021**

**March 14, 2022**

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## GLOSSARY OF TERMS

"**ABCA**" means the *Business Corporations Act*, R.S.A. 2000, c. B-9, as amended, including the regulations promulgated thereunder;

"**AGLC**" means the Alberta Gaming, Liquor and Cannabis Commission;

"**Big Rock Board**" or "**Board**" means the board of directors of Big Rock;

"**Common Shares**" means common shares in the capital of Big Rock;

"**Corporation**" or "**Big Rock**" means Big Rock Brewery Inc.;

"**CRA**" means the Canada Revenue Agency;

"**GAAP**" means International Financial Reporting Standards, as adopted by the Canadian Accounting Standards Board;

"**GPCo**" means Big Rock Brewery Operations Corp.;

"**Limited Partnership**" means the Big Rock Brewery Limited Partnership;

"**Person**" means any individual, partnership, association, body, corporate, trustee, executor, administrator, legal representative, government, regulatory authority or other entity;

"**RTD**" means ready-to-drink;

"**Shareholders**" means the holders from time to time of Common Shares; and

"**TSX**" means the Toronto Stock Exchange.

Words importing the singular number only include the plural and vice versa and words importing any gender include all genders. All dollar amounts set forth in this Annual Information Form are in Canadian dollars, except where otherwise indicated.

## FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Information Form may constitute forward-looking statements. These statements relate to future events or Big Rock's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Big Rock believes that the expectations reflected in those 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 Annual Information Form should not be unduly relied upon by investors as actual results may vary materially from such forward-looking statements. These statements speak only as of the date of this Annual Information Form and are expressly qualified, in their entirety, by this cautionary statement.

In particular, this Annual Information Form contains forward-looking statements pertaining to the following:

- that Big Rock's 2022 capital budget will be used in the manner anticipated;
- the anticipated benefits to be derived from Big Rock's 2022 capital projects;
- the anticipated benefits to be derived from Big Rock's upgraded packaging capabilities;
- the expectation that Big Rock will continue to develop and offer new beer and other alcoholic beverages of the highest quality;
- Big Rock's ability to ensure that its products reach its customers with maximum freshness and flavor;
- the availability of ingredients;
- Big Rock's ability to react quickly on trends in the high growth RTD category, but also quickly innovate and lead new trends in the marketplace;
- Big Rock's expectations that it is well positioned with its partners to remain a pioneer and innovator in craft ciders, to react quickly on trends in the high growth RTD category, and quickly innovate and lead new trends in the marketplace;
- anticipated benefits to be derived from pasteurization;
- Big Rock's expectations that it will expand the use of its e-commerce platform in existing provinces and key regions;
- the anticipated launch date of Big Rock's online portal;
- that Big Rock will continue to support community events through certain sponsorships once public health measures related to COVID-19 are lifted;
- expected sales and production volumes;
- projections of market prices and costs;
- expected treatment under governmental regulatory and taxation regimes, including but not limited to the continuation of the Alberta small brewer's mark-up regime and the Alberta Small Brewers Development Program;
- anticipated growth in Big Rock's contract manufacturing business and sales as a result of amendments to the AGLC's liquor manufacturing policies;
- potential expansion markets and sales international markets;
- supply and demand of Big Rock's products;
- projections in market trends and consumer preferences;
- Big Rock's positioning to benefit from market trends;
- Big Rock's dividend policy; and
- expectations with regard to the challenges and opportunities posed by COVID-19 and the duration of the same.

In addition, readers are further cautioned that the preparation of financial statements in accordance with GAAP requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses.

With respect to the forward-looking statements listed above and contained in this Annual Information Form, management has made assumptions regarding, among other things:

- overhead and administrative costs;
- sales volumes in the current fiscal year as a basis for determining sales volumes in the next fiscal year;
- input costs for brewing and packaging materials remaining constant or not significantly increasing;
- there being no supply issues with Big Rock's vendors;
- there being no material changes to the regulatory environment in which Big Rock operates;
- there being no material changes to applicable tax regulations or tax laws regarding Big Rock (including federal and provincial tax regimes governing breweries);
- that Big Rock's 2022 capital budget will allow Big Rock to complete its 2021 capital projects; and
- the duration and extent of the COVID-19 pandemic.

Some of the risks which could affect future results and the assumptions underlying forward-looking statements, and which could cause results to differ materially from those expressed in the forward-looking information and statements contained herein include, but are not limited to:

- the impact of general economic conditions and industry conditions;
- competition from other current and future industry participants;
- governmental regulation, including the requirements determined by provincial liquor control boards;
- applicable tax laws and potential changes to such tax laws (including federal and provincial tax regimes governing breweries);
- production or sales volumes not remaining consistent;
- supply and demand of products not being as predicted;
- shifts in market trends away from craft beer;
- input costs for brewing and packaging not remaining consistent with estimates;
- the lack of availability of qualified personnel for management or services;
- the inability to access sufficient capital from internal and external sources and the cost of such capital;
- fluctuation in foreign exchange or interest rates;
- the inability to meet listing standards;
- that Big Rock's 2022 capital budget will not be used in the manner anticipated;
- Big Rock's 2022 capital projects and Big Rock's upgraded packaging capabilities will not result in the benefits as anticipated;
- Big Rock will be unable to continue to develop and offer new high quality beer and other alcoholic beverages;
- the availability of ingredients;
- Big Rock will be unable to react quickly on trends in the high growth RTD category or quickly innovate and lead new trends in the marketplace;
- Big Rock will be unable to quickly innovate and lead new trends in the marketplace; and
- stock market volatility.

**Readers are cautioned that the foregoing list of assumptions and risk factors is not exhaustive. Readers should carefully review and consider the risk factors described herein and other risks described elsewhere in this Annual Information Form. See "*Risk Factors*".**

**The forward-looking information and statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking information and statements included in this Annual Information Form are made as of the date of this Annual Information Form and Big Rock does not undertake any obligation to publicly update such forward-looking information and statements to reflect new information, subsequent events or otherwise unless so required by applicable securities laws.**

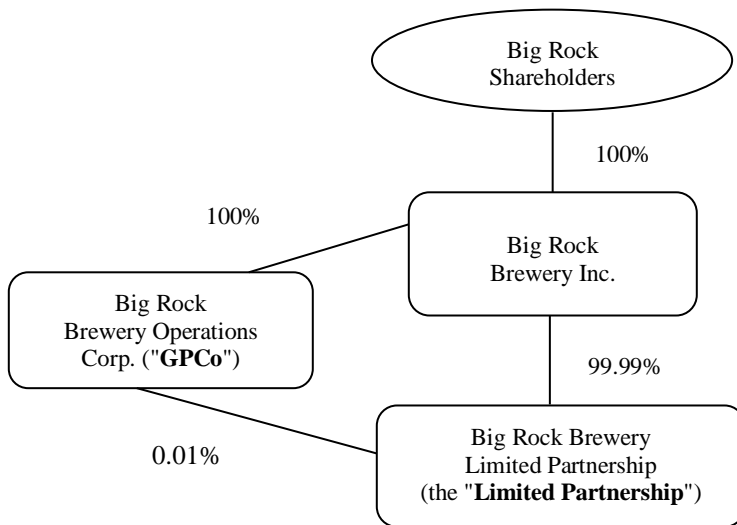
## OVERVIEW OF CORPORATE STRUCTURE

### Name, Address and Incorporation

Big Rock is a corporation governed by the ABCA and was incorporated on November 15, 2010. The registered office is located at Suite 2400, 525 – 8<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 1G1. The head office is located at 5555 – 76th Avenue S.E., Calgary, Alberta, T2C 4L8.

### Intercorporate Relationships

The following diagram describes the inter-corporate relationships among Big Rock and each of its material subsidiaries as of the date hereof, as well as the percentage of votes attaching to the outstanding voting securities of each subsidiary.



The Limited Partnership is a limited partnership governed by the laws of the Province of Alberta. The Limited Partnership is the operating entity through which Big Rock conducts its business. Big Rock and GPCo, a wholly owned subsidiary which is incorporated under the ABCA, are the only partners in the Limited Partnership.

## BUSINESS INFORMATION CONCERNING BIG ROCK

### General Description and Development of the Business

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 as a pioneer in the Canadian craft beer industry. 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. 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, British Columbia, Saskatchewan, Manitoba and Ontario.

Given the Corporation's footprint in Western Canada, the Corporation also has several private label arrangements, licensing arrangements and contract manufacturing arrangements.

### **Recent Developments**

In January 2022, the Corporation announced Don Sewell's resignation from his position as Chief Financial Officer of the Corporation effective February 11, 2022. The Corporation concurrently appointed its current Director of Finance, Bill Hahn, as its interim Chief Financial Officer.

In January 2022, the Corporation permanently closed its Vancouver Taproom & Restaurant as a result of the financial toll the continuing COVID-19 pandemic and related restrictions had on its operations. The brewing operations at the location remain unchanged and continue to service the Vancouver and British Columbia markets.

On February 7, 2022, Big Rock announced the approval of a \$1.4 million capital budget for 2022 consisting of \$1.0 million to complete certain approved 2021 capital projects supporting packaging and information technology ("IT") digital transformation. The remaining \$0.4 million relates to new 2022 capital projects focused on optimizing capacity in brewing and packaging at its Calgary brewery and maintenance capital.

On March 10, 2022, the Corporation's lender approved an amendment to the commitment letter permitting the fixed charge coverage ratio to be waived for the fiscal quarter ending March 31, 2022, reduced to not less than 0.5 to 1 for the fiscal quarter ending June 30, 2022 and set to 1.15 to 1 for all subsequent reporting periods. The amendments also include restrictions on additional draws of Term Debt until such time that the Corporation achieves a fixed charge coverage ratio of 1.15 or greater. In addition, the Corporation's borrowings cannot exceed a borrowing base of 65 percent of the fair value of the Corporation's assets.

### **Three-Year History**

#### ***Year-ended December 30, 2021***

In February 2021, Big Rock announced the approval of its 2021 capital plan of \$8.8 million focused on strategic equipment investments to expand the Corporation's packaging capabilities at its Calgary facility and the modernization of its production, sales market and finance process through investments in IT. In November 2021, the Corporation announced the commissioning of its new can line at its Calgary Facility. The upgrades have increased total packaging capacity in Calgary to up to 1.4 million hectoliters per year, while adding significant flexibility for various can formats, bottles and kegs.

In February 2021, the Corporation and its lender, ATB Financial, agreed to amend the terms under the Corporation's credit agreement to, among other things, increase the Corporation's total committed credit to an aggregate of \$16.0 million, an increase of 45% from \$11.0 million.

In April 2021, the Corporation announced the retirement of Brewmaster and Vice President, Operations, Paul Gautreau, effective June 1, 2021. Additionally, the Corporation announced the appointment of Sam Galick to the role of Vice President, Operations and Graham Kendall as Director of Brewing Operations and Brewmaster.

In May 2021, the Corporation announced the divestiture of the Corporation's Etobicoke brewery for total cash consideration of approximately \$2.1 million, net of transaction costs.

In May 2021, the Corporation announced an increase to the Corporation's 2021 capital budget to a total of \$9.5 million.

In September 2021, the Corporation terminated its license agreement and related obligations with Fireweed Brewing Corp. ("**Fireweed**") and acquired all of Fireweed's licenses, trademarks and related intellectual property in exchange for a cash payment of \$0.5 million.

In December 2021, the Corporation announced that it had secured a new three-year co-pack agreement with an existing partner at its Calgary brewery whereby the Corporation will produce various beer and RTD products.

In December 2021, the Corporation and its lender agreed to amend the terms under the Corporation's credit agreement to, among other things, reduce the fixed charge coverage ratio covenant from 1.1 to 0.5 for the period ended December 31, 2021.

#### ***Year ended December 30, 2020***

On July 1, 2020, Big Rock's financial covenant waiver period under its credit facilities ended. See "*Business Information Concerning Big Rock – Three-Year History – 2019*". The Company has since been in compliance with such financial covenants.

#### ***Year ended December 30, 2019***

In 2019, Big Rock entered into a license agreement with Iconic Brewing Company ("**Iconic**"), pursuant to which Big Rock has licensed the right to manufacture Iconic's RTD beverage brands in Alberta and British Columbia (the "**License Agreement**"). In 2020 Iconic merged with a leading Ontario craft beverage company, Ace Hill Brewing Company Inc., to create Ace Beverage Group. The License Agreement has an initial term of five years, with the provision for a five-year extension.

On August 1, 2019, Big Rock's lender waived the financial covenants under its credit facilities until and including June 30, 2020. See "*Risk Factors – Financial Risks*".

Effective September 13, 2019, the Government of Alberta and the AGLC amended the mark-up policy for Alberta beer sales reducing Big Rock's anticipated Alberta beer tax. See "*Business Information Concerning Big Rock – Regulatory Matters*".

In September 2019, the Corporation entered into an agreement with Fireweed that reduced the Corporation's license obligation with Fireweed and, in addition to a penalty payable by Fireweed, fulfilled the write-off of account receivable balances owing by Fireweed.

#### **Impact and Response to COVID-19 Pandemic**

The COVID-19 pandemic necessitated a shift in business models for the Corporation and other beverage alcohol manufacturers in Canada. Beginning in the second quarter of 2020, The Corporation along with the beverage alcohol market in Canada was forced to adapt to evolving consumer preferences in light of increased social distancing measures and government restrictions. Key consumer trends that Big Rock has experienced in 2020 and 2021 include:

- the proliferation of expired products due to supply chain management and on-premise closures;
- the rapid decline in keg and on-premise revenues with recurring bar and restaurant closures and re-opening for only brief periods with physical distancing measures in place;
- a surge in retail packaged product sales as consumption venues shifted;
- a shift in demand for larger package types;
- limited access to consumers due to the inability to do tastings, limited trade marketing and event cancellations necessitating a shift to digital marketing of existing and new products;
- the launch of direct-to-consumer sales as distribution channels became restricted; and
- stock-outs for manufacturers as a major shift in production and inventory was required to fulfil demand spikes.

The extent and the impact, if any, of the COVID-19 pandemic will depend on developments beyond the Corporation's control, including actions taken by governments, financial institutions, monetary policy authorities, and public health authorities to contain and respond to public health concerns and general economic conditions as a result of the pandemic. Big Rock cannot be certain of the potential effects any such actions may have on the business or operation and financial results for the fiscal year ending December 30, 2022. See "*Risk Factors – Impact of Pandemics*". Big



Rock has followed all public health and safety guidelines to mitigate the impact of the COVID-19 virus and has periodically curtailed non-essential face to face meetings, stopped non-essential travel, and required Big Rock personnel and contractors entering Canada to self-isolate, as required. Additionally, Big Rock has held staff medical briefings and increased sanitization at its facilities and other work areas. Big Rock will continue to actively monitor the situation and may take further actions in the future.

### **Big Rock Products & Brands**

The Corporation's strategy is to brew beer and produce other alcoholic beverages of the highest quality. In seeking to brew beer of the highest quality, the Corporation has followed this basic formula: start with a fully trained, experienced brewmaster, use only 100% natural ingredients and batch brew recipes in the traditional European manner.

The Corporation ensures that its premium product reaches its customers with maximum freshness and flavour by using state-of-the-art filtration and packaging technologies. The multi-micro sterile filtration system used by the Corporation sterilizes the beer and removes yeast and other microorganisms. The packaging equipment employs a carbon dioxide double evacuation system that ensures that virtually no oxygen is dissolved into the beer during the packaging process. Both processes improve the stability of the beer and increase the shelf-life of the product thereby allowing for wider distribution. The Corporation remains the sole brewery in North America to maintain British Retail Consortium certification, a demanding process that focuses on quality products, and leading-class food safety processes.

The Corporation currently offers a selection of beer, ciders, and RTD beverages under the following brands: Big Rock, Tree Brewing, Rock Creek Cider, Dukes Cider, AGD, Shaftbury, Bow Valley, White Peaks and Cottage Springs. The Corporation also produces an ongoing selection of seasonal beers and ciders.

To be responsive to varying customer style and flavour preferences, the Corporation is continually engaged in developing and testing new products. To this end, the Corporation will continue to develop and offer new products to the market to display its passion for craft brewing and the ability to continually innovate alcoholic beverage products at all three of its breweries as well as through its strategic partnerships.

The Corporation offers various types of branded apparel and accessories, including jackets, headwear, sweaters, glassware, belt buckles and coolers.

The only products or services that account for 15% or more of Big Rock's total consolidated revenues are wholesale beer, cider, RTD beverage sales and contract manufacturing of such products on behalf of third parties, which represented net revenues of \$45.2 million and \$43.5 million in the years ended December 30, 2021 and 2020, respectively. Remaining revenues are represented by retail store sales and restaurant sales.

### **Brewing Operations**

Big Rock currently has two main operating breweries: the original and largest brewery located in Calgary, Alberta and a smaller brewery in Vancouver, British Columbia. Additionally, Big Rock has a packaging brewery located at Liberty Village in Toronto, Ontario. At each facility, the Corporation's beers are batch brewed in modern, stainless-steel brewhouses and fermented in fully enclosed stainless-steel tanks to ensure the most sterile conditions possible. The beer is kept chilled under pressure to retain its natural carbonation. After fermentation, the beer is cold filtered and stored in bright beer tanks ready for packaging.

Product is generally brewed in response to anticipated orders and is shipped within three weeks of receipt of the order, with the majority of orders being shipped the next day. The Calgary brewery currently has a 200 hectolitres ("hl") and 20 hl brewing system, a 3 hl nano brewing system along with packaging capacity of 1.2 million hectolitres (assuming a 50-week, 24/7 operation at 80% operating effectiveness) to support packaging of beer, cider and RTD beverages annually which includes Big Rock products as well as third party contract manufactured products.

The Corporation established its second brewery in Vancouver, British Columbia which has a 25 hl brewing system and packages beer in kegs and 473 millilitre ("ml") aluminum cans for the Corporation's British Columbia markets.

The Vancouver brewery also includes an onsite restaurant and lounge, which has a seating capacity of approximately 158 persons.

In May 2021, the Corporation announced the divestiture of its brewery in Etobicoke, Ontario. See "*Business Information Concerning Big Rock – Three Year History – 2021*".

## **Ingredients**

The only ingredients used in the Corporation's handcrafted ales and lagers are water, hops, yeast and various combinations of two-row malting barley, malted wheat and malted rye. Other natural ingredients are also used for certain products to provide unique innovative flavours. No artificial flavours or preservatives are used in the brewing of Big Rock's beer offerings.

The Corporation uses select prairie-grown two-row malting barley, which provides a distinctive flavour to the Corporation's beers. Choice hops are purchased through agents in Yakima, Washington, which is the centre of one of the largest hop growing regions in the world. The Corporation also imports some rarer global hops as part of its method of utilizing traditional practices and recipes in the creation of some of its offerings. The Corporation propagates the proprietary strains of yeast used exclusively at its breweries. Other ingredients are available through local sources in Alberta. The Corporation is not dependent on any one supplier and believes that adequate sources of ingredients are available.

The Corporation works closely with an orchardist located in Kelowna, BC to source ingredients for its family of authentic dry ciders. Flavour innovation has driven growth in this category, and Big Rock is well-positioned with its partners to remain a pioneer and innovator in craft ciders.

The Corporation partners with leading RTD beverage brands to discover market-leading flavours and recipes. New innovation in the "Better For You" ("BFY") and crafted cocktails categories passes through a rigorous discovery process that includes direct-from-consumer feedback on flavours, recipe iteration, packaging, and merchandising. With a portfolio spanning both the BFY and crafted cocktails categories, the Corporation is well-positioned to not only react quickly on trends in the high growth RTD category, but also quickly innovate and lead new trends in the marketplace.

## **Packaging**

The Corporation packages its beers in 30 litre vertical kegs, 58.6 litre full-size kegs, 330 ml long neck glass bottles, 355 ml standard aluminum cans, 355 ml sleek aluminium cans and 473 ml aluminum cans. Limited edition products may also be packaged in other bottle sizes. The Corporation can supplier is its largest vendor who supplies almost all of cans used in production due to suppliers' proximity to the Calgary brewery which enables the Corporation to apply just-in-time delivery strategies to manage warehouse space and cost. Although the Corporation has access to alternative can sources, any major disruption in this supplier's ability to provide cans could result in significant delays in production or significant increases in costs to obtain an alternative source for cans.

The Corporation uses state-of-the-art packaging technologies which employ a carbon dioxide double evacuation system to ensure that virtually no oxygen is dissolved into the beer during the packaging process. This improves the stability of the beer, resulting in a shelf-life of 120 to 200 days for the Corporation's bottled and canned products.

Prior to the impact of COVID-19 restrictions, approximately 20% of the Corporation's beer by volume was sold in kegs, which are used primarily by pubs, restaurants and bars. The Corporation expects this trend to resume upon the lifting of such restrictions. The remainder of the Corporation's production is sold in bottles and cans, with cans being the fastest growing segment of the business. The Corporation was one of the first North American craft brewers to package its beer in cans. Compared to bottles, cans provide greater stability of finished product by eliminating damage caused by exposure to light and have better shipping, packaging and handling characteristics. The food grade liner in each can, along with the Corporation's German-made canning line which employs the same carbon dioxide double evacuation system as the Corporation's bottling line, means that the Corporation's canned products equals or exceeds the high quality of its bottled products.

Big Rock utilizes branded one-way recyclable proprietary bottles as well as aluminum cans. In all Canadian markets where the Corporation sells its products, deposits are collected at the point of sale for both bottles and cans, which are refundable upon return to specified depots or retailers. Purchasers of Big Rock's kegs are charged a refundable keg deposit which is reimbursed when the kegs are returned to the Corporation.

In February 2021, the Corporation announced an \$8.8 million capital program, which was subsequently increased to \$9.5 million in May 2021, at its Calgary facility which is the largest since the brewery was built in 1996. See "*Business Information Concerning Big Rock – Three Year History – 2021*". The capital program improved overall efficiency, reduced loss, created new packaging capabilities and improved and protected quality of all produced beverages through a can-line upgrade and new tunnel pasteurizer. The can-line upgrade was commissioned on November 15, 2021 and provides high-speed capabilities on multiple can formats and increased packaging capacity of up to 1.4 million hectolitres per year. On February 7, 2022, the Corporation announced an additional \$1.4 million capital budget for 2022 to, among other things, help complete 2021 capital projects that support packaging and IT digital transformation and new 2022 capital projects focused on optimizing capacity in brewing and packaging at its Calgary brewery. See "*Business Information Concerning Big Rock – Recent Developments*". Pasteurization will open further expansion opportunities for the Corporation into the rapidly growing RTD market enabling new product innovations and new contract manufacturing opportunities. While certain brands will remain unpasteurized according to consumer preferences, the Corporation plans to utilize pasteurization on other existing brands which will significantly reduce waste and increase stability and shelf-life of these products.

### **Brewing Facilities and Equipment**

As of December 30, 2021, the Corporation owned 10.8 acres of land in Calgary. The current brewing capacity of the Corporation's facilities is adequate to meet its foreseeable needs and is outlined in the following table:

<b>Brewing System</b>	<b>Location</b>	<b>Vessel size (hl)</b>
Nano brewery	Calgary	3
Kaspar Schulz pilot brewery	Calgary	20
Main brewery	Calgary	200
BC brewery	Vancouver	25
Restaurant brewery	Liberty Village, Toronto	6

The Calgary facility houses three brewing systems of varying capacities, which brew in batches of 3 hl, 20 hl and 200 hl, respectively. The Calgary brewing facilities consist of a brewhouse, laboratory, packaging lines, cold storage area and shipping area.

The Corporation has established a second brewery in Vancouver, British Columbia, which incorporates a 25 hl brewing system and produces and packages beer in kegs and 473 ml cans. Fermentation tank capacity at the location is approximately 26,000 hl annually.

In May 2021, the Corporation announced the divestiture of its brewery in Etobicoke, Ontario. See "*Business Information Concerning Big Rock – Three Year History – 2021*".

### **Employees**

At December 30, 2021, the Corporation had a total of 129 regular active full-time salaried employees, 2 regular active part-time employees, 49 casual hourly employees and 7 inactive employees on leave.

The Corporation believes its future success is dependent on its ability to attract and retain talented employees with diverse backgrounds and the continuous investment in and the development and support of such employees.

Management has developed and implemented the Corporation's 90-day project based formal management system called "The Big Rock Way" which encourages employee engagement and collaboration.

### **Specialized Skill and Knowledge**

Big Rock's operations and ongoing product development require the specialized skills and knowledge of experienced brewers. To this end, Big Rock employs an experienced brewmaster at its Calgary brewery. Big Rock's brewmaster is responsible for making the beer, ciders and RTD beverages, including selecting the ingredients, creating the recipes and overseeing the fermentation process.

### **Marketing and Distribution**

Big Rock delivers a premium brand position with all of its products based on its exemplary quality and distinctive style within each product category. As one of Canada's founding craft brewers with over 35 years of brewing experience, Big Rock produces premium, fresh, all-natural craft and mainstream beers, ciders and RTD beverages. All aspects of the Corporation's products – the beer, cider and RTD beverages, the ingredients, the artwork and detail in the labels and packaging and the choice of brand names – serve to illustrate this quality and flavour-rich style.

The Corporation believes that educating distributors, retailers and consumers about the freshness and distinctive quality of the Corporation's brands and products is paramount to maintain loyal supporters.

The Corporation is in the process of shifting its marketing strategy from a branded house to a house of brands positioning. This combined with a new mixed marketing model that includes an increased use of digital & social media will allow the Corporation to target segmented consumers based on brand with regionally relevant content. The Corporation is focused on building brand awareness and advocacy in all regions where the Corporation promotes its products through geo-targeted campaigns.

In 2021, the Corporation added to its existing distribution channels, by piloting a new retail e-commerce platform in Ontario that allows the Corporation to expand distribution in the Greater Toronto Area. The Corporation expects to expand the use of this model across its other existing provinces and key regions.

Big Rock also partners with tourism organizations, chambers of commerce and community associations to position the Corporation as an important part of the regions in which it operates.

The Corporation sponsors a significant number of cultural and community events, beer festivals and entertainment venues to create awareness of its product and position the Corporation as a significant supporter of the community. These partnerships are a significant component of Big Rock's marketing strategy as they provide an excellent medium for sampling its products, reinforcing its brand, and positioning the brewery as an investor in the community. Big Rock has been able to leverage its various regional folk festival sponsorships to combine them into a national folk festival program. This positions Big Rock as the lead partner in folk music festivals in Canada giving the Corporation the opportunity to create proprietary content and engage in conversations via digital and social media channels. In addition to these partnerships, the Corporation developed and hosted Big Rock Barn Burner concerts at its Calgary brewery for consumers to sample Big Rock's products and experience the brand. Although these sponsorships and events have been temporarily suspended or significantly impacted by restrictions imposed by local public health authorities in response to the COVID-19 pandemic, the Corporation continues to maintain its relationship with its community partners and expects to continue to support such community events through these sponsorships if and when such public health measures are eased or lifted. See "*Impact and Response to COVID-19 Pandemic*" and "*Risk Factors – Impact of Pandemics*".

Big Rock also uses posters, shirts, glassware, signage and other items bearing the Corporation's name, logo and trademarks to promote sales of the Corporation's products.

In addition, the Corporation has invested in two tasting room/retail locations (Calgary and Toronto) and two restaurants (Calgary and Toronto) where consumers can taste and experience Big Rock's products and brands. Consumer feedback in these spaces enables the influence of future product innovation schedules. These direct-to-consumer touch points are tools in which the Corporation can expose more consumers to products, brand experiences and events, and gain insights to inform decisions.

In May 2021, the Corporation announced the divestiture of its brewery in Etobicoke, Ontario. See "*Business Information Concerning Big Rock – Three Year History – 2021*".

In January 2022, the Corporation closed its Vancouver Taproom & Restaurant as a result of the financial toll the continuing COVID-19 pandemic and related restrictions had on its operations. See "*Business Information Concerning Big Rock – Recent Developments*".

## **Markets**

### ***Alberta***

Alberta, the Corporation's principal market, accounted for approximately 80% of sales in fiscal 2021. The Corporation's sales representatives operate from sales and distribution offices in Calgary and Edmonton. The sales representatives regularly visit their customers (licensed retail stores and establishments such as restaurants and bars), to maintain product awareness and quality control. The Corporation also employs and contracts "service technicians" who ensure that draught dispensing equipment in licensed bars and restaurants are working properly and that draught lines are cleaned at regular intervals. The inside sales department in Calgary receives orders by telephone as well as through its online portal which was recently developed in 2021 and will be fully launched in early 2022. The shipping department ensures prompt delivery.

### ***Other Canadian Provinces***

In Saskatchewan and Manitoba, Big Rock has contracted with Brewers Distributors Ltd. to handle its distribution in these provinces, which provides the Corporation with access to almost 2,000 accounts. The Corporation also employs a full-time dedicated Big Rock sales force in Saskatchewan.

In British Columbia, Big Rock has an agreement with the Province's primary liquor distributor, Direct Tap for distribution of its kegged beer and cider to on-premise customers and also acts as its warehouse for packaged goods to be sent to the British Columbia Liquor Distribution Branch ("BCLDB") distribution centers where it is then distributed to the BC Government liquor stores and private retail stores throughout the Province.

In Ontario, Big Rock sells bottled and canned beer through a number of Liquor Control Board of Ontario ("LCBO") retail stores, Brewers Retail Inc. outlets, and a select number of grocery stores. Additionally, Big Rock sells all container formats at the Big Rock retail location at Liberty Commons and online through various e-commerce platforms.

## **Competition**

The specialty or craft beer sector of the North American beer industry is made up of smaller-scale breweries and contract breweries, including brewpubs, microbreweries and regional speciality breweries, whose annual output ranges from a few hundred hectolitres to several hundreds of thousands of hectolitres. Makers of craft beer generally distinguish their products from mainstream brands by offering a wider variety of product styles that are batch brewed, more full-flavoured and are brewed according to traditional European methods.

Big Rock seeks to distinguish its products on the basis of flavour, freshness, a dedication to all malt beers, and regional identity. By comparison, the leading national and international brands employ "wort streams" and adjuncts (malted barley substitutes) rather than individually crafted recipes to create efficiency and variety in their portfolio, have nationally oriented marketing programs and do not provide the same level of local service or procurement that Big Rock provides. In addition, the Corporation believes that the consistent flavour, quality and authenticity of its batch-

brewed beer distinguishes it from other regional microbreweries which may not be able to achieve the same degree of consistency.

Big Rock experiences intense competition in Canada. The lager market, the largest segment of the beer market, is dominated by the world's two largest brewers and, to a certain extent, Big Rock's craft lager products compete with the offerings of these brewers. However, the Corporation's principal competitors in Canada are the increasing number of craft breweries plus other breweries in the premium-priced category, both domestic brewers and foreign brewers from countries such as Belgium, the United States, Italy, Germany and the United Kingdom. The AGLC lists almost 7,000 beer products as being available, which is by far the highest among all Canadian jurisdictions with over four times the number of listings currently offered by the LCBO which is the world's largest single purchaser of alcohol.

### **Regulatory Matters**

The brewery business is highly regulated. Big Rock's business is dependent on obtaining and maintaining all required licenses. Various permits, licenses and approvals are necessary to the brewery operation and to permit the sale of alcoholic beverages. Licenses are currently required by various local, provincial and federal agencies in areas where the Corporation produces and distributes its products.

The Corporation's right to manufacture and sell its products in Alberta, its primary market, is governed by a liquor license, which is renewed annually by the AGLC subject to the Corporation's compliance with the *Gaming, Liquor and Cannabis Act*, the regulations thereunder, and all conditions prescribed by the AGLC. Such regulations relate primarily to sales, delivery and selling practices.

All sales of liquor in Alberta must be made through AGLC-licensed retail outlets or licensees (i.e., bars, restaurants, and hotels). The AGLC remits payment for product sales to the Corporation, net of AGLC commissions, the federal goods and services tax and returns.

As a brewery, the Corporation is subject to regulation by the CRA. Breweries are required to notify the CRA whenever there is a material change in the brewing process, brewing or packaging equipment, or changes or additions to the location of the brewery. The CRA requires the Corporation to maintain a 'Brewers Bond', payable to the CRA, equivalent to one month's excise tax based on the highest month's excise tax over the past year. The Corporation's operations are subject to audit and inspection by the CRA at any time. The Corporation is required to prepare daily production reports and submit them monthly. Prior to April 1, 2021, the Corporation's taxable production was subject to a federal excise tax of: \$3.366/hl on the first 2,000 hl; \$6.732/hl on the next 3,000 hl; \$13.464/hl on the next 10,000 hl; \$23.562/hl on the next 35,000 hl; \$28.611/hl on the next 25,000 hl; and \$33.66/hl over 75,000 hl. Federal excise tax rates increased on April 1, 2021 based on the consumer price index. Effective April 1, 2021, the Corporation's taxable production is subject to a federal excise tax of: \$3.400/hl on the first 2,000 hl; \$6.800/hl on the next 3,000 hl; \$13.600/hl on the next 10,000 hl; \$23.800/hl on the next 35,000 hl; \$28.900/hl on the next 25,000 hl; and \$34.00/hl over 75,000 hl. Federal excise tax rates increase annually on April 1<sup>st</sup> based on the consumer price index.

Other agencies which regulate the Corporation's business include the BCLDB, the Saskatchewan Liquor and Gaming Authority ("**SLGA**"), the Manitoba Liquor & Lotteries ("**MBLL**"), the LCBO, Alcohol New Brunswick Liquor, the Northwest Territories Liquor Commission and the Yukon Liquor Corporation.

Effective August 5, 2016, the graduated beer mark-up rate structure in Alberta was replaced by a flat rate mark-up of \$1.25 per litre for all breweries. At the same time, a new program was introduced by the Alberta Ministry of Agriculture and Forestry to provide a grant to Alberta-based breweries whose annual worldwide production ("**AWP**") is less than 400,000 hl and whose qualifying production and sales of beer in Alberta is less than 300,000 hl annually. The Alberta Small Brewers Development Program ("**ASBD**") became effective August 5, 2016 and provided a grant at graduated rates based on quantity of beer manufactured and sold in Alberta (containing up to 11.9% alcohol by volume), which is re-measured every six months (at June 30 and December 31) based on each brewery's previous 12 months of sales in Alberta. The ASBD was generally designed so that, for Alberta-based producers, the net result of the flat mark-up offset by the ASBD grant mirrored the previous graduated mark-up rates; however, the grant program was capped at an annual maximum of \$12 million per participant brewery.

In May 2018, the ASBD was ruled non-compliant with the *Agreement of Internal Trade* (1994) as discriminating against non-Alberta breweries in the sale of products within Alberta. The Alberta government was required to repeal or amend the program within six months. In its place, the Province implemented a universal small brewer mark-up for producers with less than 50,000 hl AWP of beer. Beginning December 16, 2018, eligible breweries were subject to mark-ups of between \$0.10 and \$0.60 per litre, while producers with annual production greater than 50,000 hl AWP were subject to mark-ups of \$1.25 per litre. As a result of this revision, the Alberta government imposed a significant tax increase on Big Rock's sales volumes. However, effective September 13, 2019, the Government of Alberta and the AGLC amended the provincial mark-up policy for Alberta beer sales by extending the reduced beer mark-up to producers with AWP of less than 400,000 hectolitres by implementing a graduated scale of up to \$0.80/litre. Big Rock's mark-up on Alberta beer sales was reduced to \$0.64/litre from \$1.25/litre as a result of this regulatory amendment.

As Alberta is Big Rock's predominant market, any further changes to the Alberta mark-up rate structure could have significant impacts on the Corporation's financial results. See "*Risk Factors*".

On March 27, 2020, the AGLC announced several amendments to the AGLC's liquor manufacturing policies, to allow manufacturers, including the Corporation, to pursue growth opportunities in the cider and RTD beverage categories without impacting the profitability of their beer businesses. Management believes the amendments will support the growth of its contract manufacturing business near-term and provides significant opportunities for growth in sales long-term, however anticipates a negative impact on the profitability of its Rock Creek cider series beyond 2020. The Nielsen Company has estimated that hard seltzers cannibalized beer and other flavoured-malt beverages market share by 4% in the United States in 2019 and is expecting this trend to grow as a wave of hard seltzers have been launched in 2020 by many of the large brewers at varied price points. Management believes the trend in the United States is consistent with what they are seeing in Canada and believes the recent amendments to the AGLC's liquor manufacturing policies provides the Corporation the opportunity to participate in this growing category in alcohol, consistent with its licensing and subsequent launch of Ace Beverage Group's brands, including Cottage Springs, in Alberta and British Columbia in 2019. The Corporation continues to work with the Government of Alberta on modernizing the definition of 'Refreshment Beverages' within the AGLC's Policy Handbook to align more closely with craft beer and reflect the tremendous growth in a category that, until recently, has been relatively small.

### **Trade Regulations**

Canada is party to a number of international trade agreements with other countries around the world that generally provide for, among other things, preferential access to various international markets for certain Canadian export products. Examples of such trade agreements include the Comprehensive Economic and Trade Agreement, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and, most prominently, the United States Mexico Canada Agreement (the "**USMCA**"), which replaced the former North American Free Trade Agreement ("**NAFTA**") on July 1, 2020.

Canada has also pursued a number of other international free trade agreements with other countries around the world. As a result, a number of free trade or similar agreements are in force between Canada and certain other countries while in other circumstances Canada has been unsuccessful in its efforts. To date, the Corporation does not have significant cross-border sales and is not actively pursuing such strategies. However, amendments to trade regulations could adversely affect the Corporation's ability to enter into new markets or the costs associated with inputs into the Corporation's products. See "*Risk Factors – Trade Regulation*".

### **Intangible Property**

The formulas for the Corporation's beers are proprietary trade secrets of the Corporation and are important to the Corporation's business. Big Rock has registered the trademark "Big Rock". Big Rock also owns other trademarks each of which is registered in Canada and some of which are registered in the United States, including the following: Alberta Genuine Draft, AGD Light, Big Rock Grill, Big Rock Honey Brown Lager, Eddies, Grasshopper Ale, Magpie Rye Ale, McNally's Extra Ale, Scottish Style Heavy Ale, Warthog Ale and Rock Creek. The Corporation uses the name "Traditional Ale" under license. Big Rock considers all of its trademarks as having substantial value and will pursue registration of its trademarks whenever appropriate.

This Annual Information Form includes, or may include, trademarks and trade names that are protected under applicable intellectual property laws and are the property of Big Rock. Solely for convenience, our trade-marks and trade names referred to in this Annual Information Form may appear without the ® or ™ symbols, or other applicable symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights to these trademarks, and trade names.

### **Business Environment**

The Corporation's signature beer products compete primarily in the premium beer segment, the defining qualities of which are taste, price, quality, and image. This category includes both domestic and imported premium beers. The premium beer segment has become increasingly competitive over the past several years due to the major domestic brewers producing and aggressively marketing craft style beer products and the entry of more imported premium products into the marketplace.

Large multi-national beer companies have substantially greater resources for support of marketing and distribution activities and compete aggressively with extensive advertising and promotion campaigns. However, the increased emphasis on "fuller-flavoured" beers by the large brewers has the effect of increasing customer awareness of premium beers and the continued growth of this segment.

Big Rock is well positioned to benefit from a continued movement of consumer preferences towards higher quality, more flavourful beers. The Corporation will continue to focus its marketing efforts on its core brands. The Corporation believes that its brand equity and the quality and consistency of its products will ensure that it is able to compete effectively with both the domestic premium brands and the imports.

Due to the increase in the level of health consciousness of consumers, the Corporation foresees a potential market trend back towards lagers and pilsners. See "*Risk Factors – Consumer Preferences*". Big Rock has positioned itself to capitalize on this potential emerging trend, due to Big Rock's "Lager Cellar" which is an operational capacity unique in the craft sector.

Beer sales are generally dependent to a significant degree on weather and the seasons, so the second and third fiscal quarters, spring and summer, are historically stronger than autumn and winter, the first and fourth fiscal quarters. The higher volumes of sales in the summer months are also affected by weather conditions and holidays. See "*Risk Factors – Seasonality*".

### **Environmental Matters**

Big Rock is committed to sustainable production in all its brewing operations. Big Rock's operations are subject to a variety of extensive applicable provincial and municipal environmental laws, by-laws, permit requirements and regulations regarding water discharges, emissions, waste handling and disposal. Such laws, by-laws or regulations may impose liability for the cost of remediation, and for certain damages resulting from sites of past releases of hazardous materials. Big Rock's policy is to comply with all such legal requirements. However, there can be no assurance that environmental laws will not become more stringent in the future or that the Corporation will not incur material costs in the future in order to comply with such laws. Management believes to the best of its knowledge, Big Rock complies with all existing applicable environmental laws and regulations.

### **DIVIDENDS**

Big Rock previously declared dividends on a quarterly basis. In March 2015, Big Rock announced the suspension of the Corporation's quarterly dividend until further notice; however, all future decisions with respect to the declaration of dividends on the Common Shares will be made by the Board on the basis of Big Rock's earnings, financial requirements and other conditions existing at such future time, such as growth opportunities, expectations of future economic conditions, income taxes payable by Big Rock and access to capital markets, as well as the satisfaction of liquidity and solvency tests imposed by the ABCA on corporations for the declaration and payment of dividends. See "*Risk Factors*".



## **DESCRIPTION OF CAPITAL STRUCTURE**

The authorized capital of Big Rock consists of an unlimited number of Common Shares and an unlimited number of preferred shares.

The preferred shares are issuable in series and may contain the rights, privileges and restrictions as determined by the Board at the time of any issuance. With respect to the payment of dividends or the distribution of assets in the event of liquidation, dissolution, bankruptcy or winding-up of Big Rock, preferred shareholders are entitled to preference over the holders of Common Shares. Preferred shareholders are not entitled to receive notice of, attend, or vote at general meetings of the shareholders.

Each Common Share entitles the holder to receive notice of and to attend all meetings of the shareholders of Big Rock and to one vote at such meetings. The holders of Common Shares are entitled to receive any dividends declared by the Board on the Common Shares. The holders of Common Shares will be entitled to share equally in any distribution of the assets of Big Rock upon the liquidation, dissolution, bankruptcy or winding-up of Big Rock or other distribution of its assets among the Shareholders for the purpose of winding-up its affairs.

## **MARKET FOR SECURITIES**

The Common Shares are listed for trading on the TSX under the symbol "BR". The following table sets forth the closing price range and trading volumes of the Common Shares as reported by the TSX for the most recently completed financial year.

Period ended	High (\$)	Low (\$)	Volume (Shares)
<u>2021</u>			
January 31	5.19	4.65	13,492
February 28	5.40	4.51	36,739
March 31	6.04	5.20	126,777
April 30	7.25	5.74	280,540
May 31	6.39	5.87	62,917
June 30	6.24	5.81	41,032
July 31	6.47	5.85	47,739
August 31	6.10	5.69	14,663
September 30	6.26	5.75	24,344
October 31	6.25	5.81	19,687
November 30	6.10	5.60	18,328
December 30	6.20	5.06	20,052

### DIRECTORS AND OFFICERS

The Big Rock Board currently consists of six individuals. The directors are elected annually by ordinary resolution of Shareholders and hold office until the next annual meeting of Shareholders. The following are the names and municipality of residence of the directors and executive officers of Big Rock as at December 30, 2021, and their principal position with Big Rock as at the date thereof:

Name and Municipality of Residence	Position	Date First Appointed to Position	Principal Occupation Over the Last 5 Years
Michael Kohut <sup>(1)</sup> Calgary, Alberta, Canada	Chairman Director of the Corporation	November 9, 2017 March 7, 2008	Chief Financial Officer of Hammerhead Resources Inc. Prior thereto, Vice President, Finance of Paramount Resources Ltd. Prior thereto, Chief Financial Officer of Trilogy Energy Corp.
Wayne Arsenault Calgary, Alberta, Canada	Chief Executive Officer and President	September 7, 2017	Chief Executive Officer and President of the Corporation since September 7, 2017. Prior thereto, Chief Executive Officer of Corey Nutrition Company Inc. from June 1, 2015 to August 31, 2017. Prior thereto Alignment Champion and Vice President, Operations of Moosehead Breweries Limited.
Don Sewell <sup>(5)</sup> Calgary, Alberta, Canada	Chief Financial Officer	July 11, 2018	Vice President, Investment Banking at National Bank Financial Inc.
Kathleen McNally-Leitch <sup>(2)(4)</sup> Calgary, Alberta, Canada	Vice Chair and Director	August 27, 1996	Vice Chairman of Big Rock; Investor.
James Riddell <sup>(3)</sup> Calgary, Alberta, Canada	Director	April 28, 2006	Chairman and President & Chief Executive Officer of Paramount Resources Ltd.
P. Donnell Noone <sup>(1)(2)(3)(4)</sup> Greensboro, North Carolina, USA	Director	May 14, 2015	Co-founder, Principal and Managing partner of VN Capital Management, LLC.
Stephen J. Giblin <sup>(1)</sup> Vancouver, British Columbia, Canada	Director	May 10, 2018	Chair of the Board of the Fairmont Hot Springs Resort. Former President and Chief Executive Officer of SilverBirch Hotels & Resorts.

<u>Name and Municipality of Residence</u>	<u>Position</u>	<u>Date First Appointed to Position</u>	<u>Principal Occupation Over the Last 5 Years</u>
Alanna McDonald <sup>(2)</sup> <sup>(3)</sup> <sup>(4)</sup> Harrison, New York, USA	Director	May 10, 2018	President of Maybelline Garnier essie at L'Oreal USA. Prior thereto, Brand Director of Procter & Gamble Greater China.

Notes:

- (1) Member of Audit Committee of the Board ("**Audit Committee**").
- (2) Member of Corporate Governance Committee of the Board.
- (3) Member of the Compensation and Human Resources Committee of the Board.
- (4) Member of the Strategy and Investment Committee of the Board.
- (5) Mr. Sewell resigned from his position as Chief Financial Officer of the Corporation effective February 15, 2022. The Corporation concurrently appointed Bill Hahn as its interim Chief Financial Officer. See "*Business Information Concerning Big Rock – Recent Developments*".

### **Directors and Senior Management**

As at the date hereof, the directors and executive officers of Big Rock, as a group, beneficially owned or controlled or directed, directly or indirectly, 2,679,934 Common Shares or approximately 38.4% of the outstanding Common Shares. The term of office for each director is from the date of the meeting pursuant to which the director was elected until the annual meeting next following or until his or her successor is elected or appointed.

### ***Cease Trade Orders***

None of the above directors or executive officers, as at the date of this Annual Information Form, or within 10 years before the date of this Annual Information Form, has been, a director, chief executive officer or chief financial officer of any company (including Big Rock), that:

- (a) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or
- (b) was subject to a cease trader order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

### ***Bankruptcies***

Except as disclosed below, no director or executive officer of Big Rock, or a shareholder holding a sufficient number of securities of Big Rock to affect materially the control of Big Rock:

- (a) is as at the date of this Annual Information Form, or has been within the 10 years before the date of this Annual Information Form, a director or executive officer of any company (including Big Rock) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

- (b) has, within the 10 years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Mr. Michael Kohut and Mr. James Riddell were directors of Great Prairie Energy Services Inc. ("**Great Prairie**") on January 22, 2016 when it applied for and obtained an order from the Court of Queen's Bench of Alberta under the *Companies' Creditors Arrangement Act*. Mr. Kohut and Mr. Riddell resigned as directors of Great Prairie on January 22, 2016.

Mr. James Riddell resigned as director of Sonde Resources Corp. ("**Sonde**") on March 27, 2014. On February 2, 2015, Sonde filed a voluntary assignment in bankruptcy pursuant to the provisions of the *Bankruptcy and Insolvency Act* (Canada).

Mr. James Riddell was a director of Strategic Oil & Gas Ltd., a public oil and gas company, when it filed for creditor protection under the *Companies' Creditors Arrangement Act* (Canada) on April 10, 2019 and when it became subject to a cease trade order on May 7, 2019 for failing to file its annual financial statements and management's discussion and analysis, which order remains in effect.

### ***Penalties and Sanctions***

No director or executive officer of Big Rock, or a shareholder holding a sufficient number of securities of Big Rock to materially affect the control of Big Rock, has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Board Practices and Committees**

Directors of the Corporation hold office until the close of the next annual meeting of Shareholders, unless such directors either resign or are removed. Officers serve at the pleasure of the Board, subject to the terms of employment agreements, if any, and applicable employment laws.

### ***Audit Committee***

The Audit Committee is responsible for the engagement of the Corporation's independent auditors and reviews with them the scope and timing of their audit services and any other services they are asked to perform, their report on the Corporation's financial statements following completion of the audit and the Corporation's policies and procedures with respect to internal accounting and financial controls. This committee is comprised of three directors, all of whom are independent and financially literate within the meaning of National Instrument 52-110 – *Audit Committees*. See Schedule "A" attached hereto for the Terms of Reference for the Audit Committee.

The Corporation's Audit Committee is composed of the following members:

<u>Member</u>	<u>Independent</u>	<u>Financially Literate</u>	<u>Relevant Education and Experience</u>
Stephen J. Giblin (Chair)	Yes	Yes	Chair of the Board of the Fairmont Hot Springs Resort. Former President and Chief Executive Officer of SilverBirch Hotels & Resorts.
P. Donnell Noone	Yes	Yes	MBA; Co-founder, principal and managing partner of VN Capital Management, LLC. Prior thereto, Director of New Business Development for Global Corporate Services at American Express Company.
Michael Kohut	Yes	Yes	Chief Financial Officer of Hammerhead Resources Inc. Prior thereto, Vice President, Finance of Paramount Resources Ltd. and Chief Financial Officer of Trilogy Energy Corp.

In fulfilling its responsibilities, the Audit Committee held regular meetings in 2021 with its external auditors and with management. In these meetings, the Audit Committee discussed with management and the external auditors, among other things, the quality and acceptability of accounting principles and significant transactions or issues encountered during the period. In addition, the Audit Committee met with Big Rock's external auditors independent of management to provide for independent and confidential assessment of management and the internal controls as they relate to the quality and reliability of Big Rock's financial statements.

The aggregate fees billed for professional services by Ernst & Young LLP during fiscal 2021 and fiscal 2020 are as follows:

	<u>Fiscal 2021</u>	<u>Fiscal 2020</u>
Audit Fees	\$ 210,000	\$ 197,000
Tax Fees	-	16,634
Total Fees	\$ 210,000	\$ 213,634

The nature of each category of fees is as follows:

***Audit Fees***

Audit fees were paid for professional services rendered by the auditors for the audit of the annual consolidated financial statements or services provided in connection with statutory and regulatory filings or engagements.

***Tax Fees***

Tax fees were paid for tax compliance, tax advice and tax planning professional services. These services consisted of: tax compliance including the review of tax returns; and tax planning and advisory services relating to common forms of domestic and international taxation (i.e., income tax, capital tax, Goods and Services Tax, Harmonized Sales Tax and other value added taxes).

## **RISK FACTORS**

An investment in Big Rock involves risks and uncertainties and should be carefully considered. The following risks, together with additional risks and uncertainties not currently known to the Corporation or that it may deem immaterial, could impair the Corporations' business, financial condition, and results of operations. The market price of the Corporation's shares could decline if one or more of these risks and uncertainties develop into actual events.

### ***Impact of Pandemics***

Pandemics, epidemics or outbreaks of an infectious disease in Canada or worldwide, including COVID-19, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu or any other similar illnesses could have an adverse impact on the Corporation's results, business, financial condition or liquidity.

In March 2020, the World Health Organization declared COVID-19 a global pandemic, prompting many countries around the world to close international borders and order the closure of institutions and businesses deemed non-essential. The COVID-19 pandemic has negatively impacted the Canadian, U.S., and global economies; disrupted Canadian, U.S., and global supply chains; disrupted financial markets; contributed to a decrease in interest rates; resulted in ratings downgrades, credit deterioration and defaults in many industries; forced the closure of many businesses, led to loss of revenues, increased unemployment and bankruptcies; and necessitated the imposition of quarantines, physical distancing, business closures, travel restrictions, and sheltering-in-place requirements in Canada, the U.S., and other countries.

While the duration and full impact of the COVID-19 pandemic is not yet known, effects of COVID-19 may also include disruptions to production operations, access to materials and services, increased employee absenteeism from illness, and temporary closures of the Corporation's facilities.

The extent to which the Corporation's operational and financial results are affected by COVID-19 will depend on various factors and consequences beyond its control such as the duration and scope of the pandemic; additional actions taken by business and government in response to the pandemic, and the speed and effectiveness of responses to combat the virus. Additionally, COVID-19 and its effect on local and global economic conditions stemming from the pandemic could also aggravate the other risk factors identified herein, the extent of which is not yet known.

### ***Inflation and Cost Management***

Inflation has risen to the highest levels in decades in Canada with year over year inflation rates rising to 4.8% at the end of 2021. This inflation is predominantly driven by costs of goods as input costs continue to increase with the two most significant largest contributing factors being continued supply chain constraints and rising energy prices. As such, delivery and distribution costs, utility costs and other necessary supplies at an economic cost cannot be assured. These are integral requirements for the Corporation's business and it is reasonable to expect that inflation, supply shortages or increases in demand could impact the Corporation's future economic performance and competitiveness, as it may entail a meaningful increase in costs for various goods and services that the Corporation may not be able to pass onto customers. In addition, the operations of the Corporation could be affected by the economic context should interest rates, inflation or unemployment levels reach levels that influence consumer trends and spending and, consequently, impact the sales and profitability of the Corporation. The Corporation may not be able to effectively or successfully address such risks and uncertainties or successfully implement operating strategies to mitigate the impact of such risks and uncertainties. In the event that the Corporation fails to do so, such failure could materially harm the Corporation's business.

### ***Commodity Price Risk***

Big Rock is exposed to commodity price risk in the areas of utilities (primarily electricity and natural gas), malted barley, water, glass and aluminum, where fluctuations in the market price or availability of these items could negatively impact Big Rock's cash flow and production. While Big Rock manages such risk through entering into contracts which both secure supply and set pricing, Big Rock may still be negatively affected by long-term supply disruptions or commodity price increases.

### ***Foreign Exchange Risk and Management***

Big Rock is exposed to fluctuations the United States dollar-Canadian dollar exchange rate through its aluminum can supply contract. Fluctuations in the United States dollar-Canadian dollar exchange rate may increase Big Rock's expenses. The Corporation also relies on a small number of foreign suppliers and thus has limited exposure to variations in non United States dollar-Canadian dollar foreign exchange rates.

### ***Competition***

Big Rock operates in a highly competitive environment. The Corporation's beer products compete primarily in the premium beer segment, the defining qualities of which are taste, price, quality, and image. This category includes both domestic and imported premium beers and craft beers. The premium beer segment has become increasingly competitive over the past several years due to the major domestic brewers producing and aggressively marketing craft style beer products and the entry of more imported premium products into the marketplace. The large multi-national beer companies have substantially greater resources for support of marketing and distribution activities and compete aggressively with extensive advertising and promotion campaigns. Competition has also increased in the micro and craft beer segment, with significant growth in the number of craft breweries and products in all of the Corporation's markets. These sources of competition may reduce demand for the Corporation's products, which could have an adverse effect on revenue and profitability.

With the vast choice of craft brands now available, and the advertising of craft divisions of the major breweries and growth in RTD alcoholic beverages, it is likely that competitive pressures on price will continue. When coupled with low barriers to entry, it has resulted in unprecedented consumer choice and blurring of categories, channels and competition in the beverage alcohol space. Such pricing pressures may have an adverse impact on Big Rock's margins and profitability. Due to the ongoing shifting effects of competition, the ability to predict future sales and profitability with any degree of certainty is limited.

### ***Credit Risk***

Credit risk is the risk that the counterparty to a financial asset will default, resulting in Big Rock incurring a financial loss. Big Rock has a concentration of credit risk because a majority of its accounts receivable are from provincial liquor boards, under provincially regulated industry sale and payment terms. Big Rock's credit risk is limited as a result of payment in full being collected by provincial liquor boards at the time of sale and receivables being with government agencies. However, the Corporation's exposure to additional credit risk has increased with the recent growth in Big Rock's co-packing business. Big Rock also carries additional credit risk in relation to product sold through third party warehouses in British Columbia, Ontario, Manitoba and Saskatchewan. While Big Rock attempts to manage such risk through requiring "Cash on Delivery", it is impossible to eliminate entirely any risk of counterparty default.

### ***Liquidity Risk***

Big Rock's principal sources of liquidity are its cash flows from operations and existing or new credit facilities. Although Big Rock takes steps to manage liquidity risk through the use of its credit facilities and other means, such measures expose Big Rock to additional interest expense, which may negatively affect profitability.

### ***Interest Rate Risk***

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

Big Rock has not entered into any derivative instruments to manage interest rate fluctuations. As a result, increases in interest rates will increase interest expense and negatively affect profitability.

### ***Ability to Retain Key Personnel***

Big Rock's business is dependent in part on its ability to retain key personnel, including but not limited to its brewmasters and other operational personnel that have a key role in developing and producing Big Rock's products. While Big Rock believes that it can secure the expertise necessary to continue to develop new product offerings and to continue to produce its existing product offerings to its current quality standards, the inability to retain key personnel or fill key personnel vacancies could have a material adverse effect on Big Rock's business.

### ***Dependence on Sales Personnel***

Big Rock's business is dependent in part on its ability to maintain effective distribution and sales networks. While Big Rock currently has secured effective sales and distribution channels for its products, the termination of any such relationships could require Big Rock to negotiate replacement arrangements, which could disrupt sales and/or have a material adverse effect on the Corporation's business.

### ***Government Regulation***

Big Rock operates in an environment that is subject to extensive government regulation. Big Rock requires various permits, licenses, and approvals from several government agencies in order to operate in its market areas. In Alberta, Big Rock's largest market, the AGLC provides the necessary licensing approvals. Other licenses have been obtained from the BCLDB, the SLGA, the MLCC, the LCBO and Canada Customs and Revenue Agency – Excise.

Changes in government regulation or the conditions on which Big Rock is authorized to operate in its principal markets may adversely affect the Corporation's operations or profitability.

### ***Taxation***

As a brewery, the Corporation is subject to regulation by the CRA. These regulations currently impose notification and bonding requirements, as well as production reporting. In addition, the Corporation's taxable production is subject to a federal excise tax. See "*Business Information Concerning Big Rock – Regulatory Matters*". Any increase in such regulation or the level of excise tax levied upon the Corporation's taxable production may adversely affect the Corporation's business and financial results.

The Corporation is also subject to provincial mark-up rates levied by provincial liquor control bodies, including the AGLC. In recent years there have been significant revisions to the Alberta mark-up and grant structures applied by the AGLC. See "*Business Information Concerning Big Rock – Regulatory Matters*". As Alberta is Big Rock's predominant market, any further changes to this mark-up rate or grant structure may adversely impact the Corporation's business and financial results.

There can be no assurance that in the future new or increased regulations will not be adopted at city, municipal, provincial or federal levels in the Corporation's markets. Such measures could include proposals for higher taxes on alcoholic beverages, or efforts to further regulate or limit producers, distributors or retailers of alcoholic beverages. The adoption of any such measures could have a material adverse effect on the Corporation's business and financial results.

### ***Cybersecurity***

Cyber-attacks have the potential to impact the Corporation both operationally and financially. The Corporation is taking an active approach to cybersecurity risk mitigation through the establishment of an IT governance committee, the outsourcing of its IT to an IT managed services firm, through employee engagement and education, and through periodic internal controls evaluations and improvement. However, IT systems are subject to an increasing threat of continually evolving cybersecurity risks including computer viruses, security breaches and cyberattacks. Additionally, the Corporation is subject to the risk of unauthorized access to its IT systems or its information through fraud or other means.



### ***Expansion Outside of Alberta***

Big Rock's ability to grow its business outside its home market of Alberta is dependent on the availability of appropriate facilities, or sites on which facilities can be constructed, in strategic growth markets. Even if such facilities can be located at reasonable cost, there can be no assurance that it will be possible to obtain permits and licenses necessary to operate such facilities. Additionally, there can be no assurance that local demand in these markets will be sufficient to justify continued operations.

### ***Dependence on Proprietary Formulas***

The formulas for the Corporation's beers are proprietary trade secrets. Although the Corporation takes measures to safeguard such formulas, there can be no assurance that existing or future competitors will not develop beers of the same or similar tastes and qualities as the Corporation's beers. Competing products with the same or similar tastes and qualities as the Corporation's beers could erode demand for Big Rock's products and have a material adverse effect on Big Rock's business.

### ***Seasonality***

Beer sales are generally dependent to a significant degree on weather and the seasons. Spring and summer historically yield higher demand than autumn and winter. The higher volume of sales in the summer months are also affected by weather conditions and holidays. Sub-seasonal temperatures, particularly during the summer months, may result in lower than average demand for Big Rock's products and have a negative impact on sales. See "*Business Information Concerning Big Rock – Business Environment*".

### ***Consumer Preferences***

The premium beer market has grown substantially over the past decade. The Company believes that one factor in such growth has been increasing consumer demand for more full-flavoured beer in a wider variety of styles. A shift in demand profiles away from craft beer products could negatively affect Big Rock's current business plan and profitability. There has also been an increase in the level of health consciousness amongst consumers. This trend can lead to reduced consumption negatively affecting Big Rock's business.

### ***Trademark Infringement***

Big Rock relies on the brand recognition associated with its existing product offerings. Under the laws of the United States and Canada, Big Rock may enforce its trademarks by enjoining infringing users and by obtaining damages against intentional infringers. A person who used such trademark before the Corporation's first use, if the trademark is used on a similar product and there is a likelihood of confusion, could enjoin the Corporation from using a trademark. In the event the Corporation was denied from continuing to use any one or more of its existing trademarks, it is possible that the resulting loss of brand recognition could negatively impact sales.

### ***Brand Promotion***

A critical component of Big Rock's future growth is its ability to promote and sustain its brands, which it believes can be achieved by providing a high-quality user experience. An important element of Big Rock's brand promotion strategy is establishing a relationship of trust with its consumers. In order to provide a high-quality user experience, Big Rock has invested and will continue to invest substantial amounts of resources in the development of its products, infrastructure, fulfilment and customer service operations. If Big Rock's consumers are dissatisfied with the quality of the products or services sold to them, the customer service they receive or their overall customer experience, Big Rock's consumers may stop purchasing products and services from it.

### ***Intellectual Property***

The ownership and protection of Big Rock's intellectual property is a significant aspect of Big Rock's future success. In accordance with industry practice, Big Rock's proprietary rights are currently protected through a combination of

copyright, trademark and contractual provisions. Although Big Rock has registrations for certain trademarks, it may be unable to obtain or maintain trademark registrations for the marks and names it uses in one or more countries. In the event of actual or alleged infringement or contravention of rights, Big Rock may be forced to cease using these marks and names. There is no assurance that Big Rock's competitors will not develop similar technology, business methods or that Big Rock will be able to exercise its legal rights.

### ***Operating Hazards***

Big Rock's operations are subject to certain hazards and liability risks faced by all brewers, such as potential contamination of ingredients or products and equipment defects. While Big Rock has not experienced a contamination problem in its products, the occurrence of such a problem could result in a product recall, which could damage Big Rock's reputation and or result in financial loss.

In addition, a major equipment defect or malfunction could adversely affect product quality or supply. Although Big Rock maintains insurance against certain risks, such insurance could be insufficient to cover any or all potential financial losses.

### ***Restrictions on Potential Growth***

Big Rock may distribute a substantial portion of its operating cash flow to shareholders in the form of dividends. As a result, the Corporation's ability to make future capital and operating expenditures is dependent on increased cash flow or external financing. The inability to source such funds could limit the future growth of Big Rock. In addition, the level of Big Rock's indebtedness from time to time could impair Big Rock's ability to obtain additional financing on a timely basis or on satisfactory terms.

The inability of Big Rock to manage growth effectively could have a material adverse impact on its business, operations and prospects.

### ***Dilution***

Big Rock may make future acquisitions or may enter into financings or other transactions involving the issuance of securities of Big Rock, which may be dilutive to existing shareholders.

Big Rock is authorized to issue an unlimited number of Common Shares for the consideration and on those terms and conditions as are established by the Board, without the approval of Shareholders.

### ***Dividends***

Big Rock does not currently declare dividends. See "*Dividends*". Big Rock's ability to declare future dividends, if any, is dependent upon, among other things, the operational performance of Big Rock's business, Big Rock's operating and capital obligations, net income, cash from operating activities, net debt levels, exchange rates, access to capital markets and timing and level of income tax payments, as well as the satisfaction of solvency tests imposed by the ABCA on corporations for the declaration and payment of dividends. Further, future treatment of any dividends for tax purposes will be subject to the nature and composition of Big Rock's dividends and potential legislative and regulatory changes.

### ***Trade Regulation***

The Corporation's results can be adversely impacted by political, legal, or regulatory developments in Canada and elsewhere that affect local operations and local and international markets. Changes in government, government policy or regulations, changes in law or interpretation of settled law, third-party opposition to industrial activity generally or projects specifically, and duration of regulatory reviews could impact the Corporation's existing operations and planned projects. This includes actions by regulators or other political actors to delay or deny necessary licenses and permits for the Corporation's activities or restrict the operation of third-party infrastructure that the Corporation relies on. Additionally, changes in environmental regulations, assessment processes or other laws, and increasing and expanding stakeholder consultation, may increase the cost of compliance or reduce or delay available business

opportunities and adversely impact the Corporation's results. Other government and political factors that could adversely affect the Corporation's financial results include increases in taxes (including retroactive claims) and changes in trade policies and agreements. A change in federal, provincial or municipal governments in Canada may have an impact on the directions taken by such governments on matters affecting the Corporation.

### ***Legal Decisions***

New legal decisions in the jurisdictions that Big Rock operates can negatively affect the Corporation. Legal decisions made by the Supreme Court of Canada and other provincial courts can impact the way the Corporation, among others, produces, distributes and advertises their products. Legal decisions made in jurisdictions where Big Rock does not operate can limit the Corporation's ability to expand into new markets.

### ***Litigation***

From time to time, Big Rock may be involved in legal actions and disputes arising from the ordinary course of business. A negative result could adversely affect the Corporation's business.

### ***Russian Ukrainian Conflict***

In February 2022, Russian military forces invaded Ukraine. In response, Ukrainian military personnel and civilians are actively resisting the invasion. Many countries throughout the world have provided aid to the Ukraine in the form of financial aid and in some cases military equipment and weapons to assist in their resistance to the Russian invasion. The North Atlantic Treaty Organization ("**NATO**") has also mobilized forces to NATO member countries that are close to the conflict as deterrence to further Russian aggression in the region. The outcome of the conflict is uncertain and is likely to have wide-ranging consequences on the peace and stability of the region and the world economy. In addition, certain countries including Canada and the United States, have imposed strict financial and trade sanctions against Russia, which sanctions may have far reaching effects on the global economy. The long-term impacts of the conflict and the sanctions imposed on Russia remain uncertain.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

To the knowledge of the directors and executive officers of Big Rock, there were no material interests, direct or indirect, of directors or executive officers of Big Rock, any Shareholder who beneficially owns, or controls or directs, directly or indirectly, more than 10% of the Common Shares, or any known associate or affiliate or such persons, in any transaction during the three most recently completed financial years of the Corporation or during the current financial year that has materially affected or is reasonably expected to materially affect Big Rock, other than as disclosed herein.

## **INTERESTS OF EXPERTS**

The Corporation's auditors are Ernst & Young LLP, Chartered Professional Accountants, Ernst & Young Tower, 2200, 215 – 2nd Street S.W., Calgary, Alberta, T2P 1M4. Ernst & Young LLP is independent in accordance with the Chartered Professional Accountants of Alberta Rules of Professional Conduct.

## **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the Common Shares is Odyssey Trust Company of Canada at its offices in Calgary, Alberta.

## **MATERIAL CONTRACTS**

The Corporation is not party to any material contracts entered into by the Corporation within the most recently completed financial year, or before the most recently completed financial year but that are still in effect, other than in the ordinary course of business.

### **CONFLICTS OF INTEREST**

Certain directors of Big Rock are associated with other companies or entities, which may give rise to conflicts of interest. In accordance with the ABCA, directors who have a material interest in any person who is a party to a material contract or proposed material contract with Big Rock are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of the Corporation. Big Rock is not aware of any existing or potential material conflicts of interest between Big Rock and any director or officer of Big Rock.

### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

There are no material legal proceedings, penalties or sanctions to which Big Rock is a party or of which any of its property is the subject, nor are any such proceedings, penalties or sanctions known to Big Rock to be contemplated.

To the best of Big Rock's knowledge, it is not currently a party to any regulatory investigation or proceedings or subject to any potential penalties, which are likely to have a material adverse effect on the business, operations or financial condition of the company.

### **ADDITIONAL INFORMATION**

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans is contained in the Corporation's information circular for its annual meeting of Shareholders held on May 18, 2022. Additional financial information is provided in the Corporation's audited consolidated financial statements and management's discussion and analysis for the financial year ended December 30, 2021.

Additional information relating to Big Rock, including the materials listed in the preceding paragraphs, may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**SCHEDULE "A"**  
**AUDIT COMMITTEE**  
**TERMS OF REFERENCE**

**PART I**

**Establishment of Committee and Procedures**

**1. Committee**

There shall be a committee, to be known as the Audit Committee (the "**Committee**") of the Board of Directors (the "**Board**") of Big Rock Brewery Inc. ("**Big Rock**" or the "**Corporation**").

**2. Purpose of the Committee**

The overall purpose of the Committee is to ensure that the Corporation's management has designed and implemented an effective system of internal financial controls and disclosure controls and procedures, to review and report on the integrity of the consolidated financial statements of the Corporation, to review the Corporation's compliance with regulatory and statutory requirements as they relate to financial statements, taxation matters and disclosure of material facts.

**3. Composition of Committee**

The Committee shall consist of three or more directors, all of whom shall be "independent" as defined in National Instrument 52-110 - *Audit Committees* ("**NI 52-110**").

**4. Appointment of Committee Members**

Members of the Committee shall be appointed at the meeting of the Board held immediately following the annual meeting of shareholders, and shall hold office until the next annual meeting, or until their successors are appointed, or until they cease to be directors of the Corporation.

Each member shall be "financially literate" being defined under NI 52-110 as having the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that can reasonably be expected to be raised by the Corporation's financial statements.

**5. Vacancies**

Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board and shall be filled by the Board if the membership of the Committee is less than three directors. Any member may be removed or replaced at any time by the Board. Any member shall cease to be a member upon ceasing to be a director.

**6. Committee Chair**

The Board shall appoint a Chair for the Committee and the Chair shall preside at all meetings of the Committee.

**7. Absence of Committee Chair**

If the Chair of the Committee is not present at any meeting of the Committee, one of the other members of the Committee present at the meeting shall be chosen by the Committee to preside at the meeting.

**8. Secretary**

The Committee shall appoint a Secretary at each meeting of the Committee who need not be a director of the Corporation.

**9. Meetings**

The Chair or any two members of the Committee or the external auditors may call a meeting of the Committee. The Committee shall meet at least four times per year. All Committee members are expected to attend each meeting, in person or by electronic media.

**10. Quorum**

Two members of the Committee, present in person or by electronic media that permit all persons participating in the meeting to speak to each other, shall constitute a quorum. All decisions must be unanimous or referred to the Board. No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present or by a resolution in writing signed by all of the members of the Committee.

**11. Notice of Meetings**

Notice of the time and place of every meeting shall be given in writing or electronic communication to each member of the Committee at least 72 hours prior to the time fixed for such meeting, provided, however, that a member may in any manner waive a notice of a meeting; and attendance of a member at a meeting is a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transactions of any business on the grounds that the meeting is not lawfully called. An annual schedule of meetings is to be established and maintained. The external auditor is to be advised of all meetings.

**12. Attendance of Guests at Meeting**

The Committee may invite such officers, directors and employees of the Corporation as it may see fit from time to time to attend at meetings of the Committee and assist thereat in the discussion and consideration of the matters being considered by the Committee. The CEO and CFO of Big Rock shall be a resource to the Committee.

**13. Procedure, Minutes and Reporting**

The Committee shall fix its own procedure at meetings, keep minutes of its proceedings and report to the Board when the Committee may deem appropriate (but not later than the next meeting of the Board). Meeting agendas will be prepared and provided in advance to members, along with appropriate meeting materials.

**14. External Auditors**

The CFO shall advise the Corporation's auditors of the names of the members of the Committee promptly after their appointment and the auditors may be called to attend any meeting of the Committee. The Committee shall meet with the external auditors as the Committee may deem appropriate to consider any matter which the Committee or the auditors believe should be brought to the attention of the directors or the shareholders of the Corporation. The external auditors will report directly to the Committee.

**15. Review of Terms of Reference**

The Committee shall review its terms of reference periodically and recommend changes to the Board.

**16. Independent Advisors**

With approval from the Board Chair, the Chair of the Committee shall engage independent counsel and other advisors as it deems necessary to carry out its duties or an investigation into actions by management. Furthermore, the Committee has the authority to set and pay compensation for any such advisors which are employed by the Committee.

## PART II

### MANDATE OF COMMITTEE

#### 1. Specific Mandates

The Committee shall:

- (a) review, discuss with management and recommend to the Board for approval, Big Rock's audited annual financial statements, including management discussion and analysis, all financial statements in prospectuses and other offering memoranda, financial statements required by regulatory authorities and all prospectuses and documents which may be incorporated by reference into a prospectus, including without limitation, the management information circular before such documents are publicly disclosed or are filed with applicable regulatory bodies;
- (b) review, discuss with management and approve the release to the public of Big Rock's interim reports, including the financial statements, management discussion and analysis and news releases on quarterly financial results and releases to the public;
- (c) review with management and report to the Board, on a periodic basis, Big Rock's obligations pursuant to covenants, warranties of performance or guarantees, including those of any wholly owned subsidiaries, of any indebtedness, liability or obligation;
- (d) review the audit plans of the external auditors of Big Rock including the degree of coordination in those plans and the extent to which the planned audit scope can be relied upon to detect weaknesses in internal control, fraud or other illegal acts;
- (e) review the external audit practices and procedures;
- (f) review the annual post-audit or management letter from the external auditor and management's response and follow-up in respect of any identified weakness, and inquire regularly of management and the external auditors of any significant issues between them and how they have been resolved;
- (g) review the internal control procedures (including information technology, security and control) to monitor the effectiveness of Big Rock's internal controls and to monitor compliance with, Big Rock's policies, and avoidance of conflicts of interest;
- (h) review management plans regarding any significant changes in accounting practices or policies and the financial impact thereof;
- (i) review with management, the external auditors and if necessary legal counsel, any litigation, claim or contingency, including tax assessments that could have a material effect upon the financial position of Big Rock, and the manner in which these matters have been disclosed in the financial statements;
- (j) review with management and others as necessary, issues relating to legal and regulatory responsibilities to monitor Big Rock's efforts to ensure compliance;
- (k) review the Corporation's compliance with regulatory and statutory requirements as they relate to financial statements, tax matters and disclosure of material facts;
- (l) review the recommendations of management as to the re-appointment or appointment of the external auditors and make recommendations thereon to the Board; and, review and approve the basis and the amount of the external auditors' fees; it is specifically acknowledged that, pursuant to the *Business Corporations Act* (Alberta), the shareholders have the ultimate responsibility to appoint and replace



external auditors and that the external auditors are accountable to the Committee and the Board as representatives of the shareholders;

- (m) review any non-audit related services provided by the external auditors and the relevant fees, and the impact of these services on the independence of the external auditors. For greater certainty, the Committee shall annually review a formal written statement of the external auditor delineating all relationships between Big Rock and the external auditor;
- (n) in cooperation with the Compensation & Human Resources Committee, review the succession plan and appointment in respect of the CFO of Big Rock;
- (o) identify and monitor the management of the principal risks that could impact the financial reporting of the Board;
- (p) review officers' expenses;
- (q) meet separately with the external auditors and report to the Board on such meetings;
- (r) review with the external auditors the adequacy and appropriateness of the accounting policies used in preparation of the financial statements;
- (s) review with Management and the external auditor any disagreement regarding financial reporting;
- (t) ensure that adequate "whistleblower" facilities are established and maintained through the establishment of a procedure for:
  - (i) the receipt, retention and treatment of complaints received by management regarding accounting, and/or internal controls;
  - (ii) the receipt, retention and treatment of confidential, anonymous submissions by employees regarding questionable accounting or auditing matters;
- (u) periodically review and reassess the adequacy of this mandate and these terms of reference;
- (v) recommend to the Board policies to safeguard Big Rock's assets, timeliness and accuracy of accounting records and investment practices and procedures;
- (w) review and approve Big Rock's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of Big Rock;
- (x) perform other activities related to this mandate as requested by the Board and institute and oversee special investigations as necessary; and
- (y) approve all related party transactions at the inception of the relationship with the related party.