BIG ROCK BREWERY

2019 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

in thousands of Canadian dollars, except volumes, per share amounts and shares	2019	2018
Sales volume (hectolitres) (1)	171,563	201,577
Net revenue	42,653	48,748
Gross profit	12,336	20,812
Operating income (loss)	(5,100)	931
Net income (loss)	(2,922)	360
Income (loss) per share - basic and diluted	($ 0.42)	$ 0.05
Common shares outstanding	6,981,628	6,981,628
Total assets	49,782	56,740
Total debt (2)	6,415	5,775

(1) Excludes contract manufacturing volumes due to the nature of the agreements.
(2) Includes bank indebtedness, long term debt, and obligations under finance leases.

Annual Meeting of Shareholders

The annual meeting of Big Rock shareholders will be held:
Thursday, May 14, 2020.

Table of Contents

CEO'S MESSAGE

To: Big Rock Shareholders

2019 was a challenging year for Big Rock. Effective December 16, 2018, the former Government of Alberta amended the provincial beer mark-up structure while eliminating the Alberta Small Brewers Development ("ASBD") grant program. At the time, the former Government of Alberta proposed a form of financial support to Big Rock until a new permanent mark-up structure was developed. The unprecedented magnitude of the tax increase eroded a significant portion of Big Rock's top-line revenue in Alberta with the total impact of this change estimated at $6.4 million for the financial year ended December 30, 2019. In May of 2019, we were advised that the new Government of Alberta would not implement the temporary financial relief measure that was initially proposed, and instead, they would work towards a new, fair provincial mark-up structure. Within days of receiving this information, we were forced to carry out significant cost cutting measures in addition to the significant pricing changes that were implemented at the beginning of 2019. Together, these measures helped stabilize Big Rock's business.

Despite the underlining improvements in our business, our reported financial results reflect the difficult regulatory environment Big Rock faced in Alberta in 2019. Revenue declined by 13% from $48.7 million to $42.7 million, which was primarily driven by the elimination of the ASBD grant program and the amended beer mark-up policy in Alberta. Sales volume declined by 15% from 202 thousand hectolitres to 172 thousand hectolitres driven by declines in our value portfolio, and EBITDA(1) decreased by $5.3 million from positive EBITDA of $4.2 million (in 2018) to negative EBITDA of $1.1 million (in 2019).

Despite the challenges we faced in 2019, I am very optimistic about the future of Big Rock. Throughout this difficult regulatory period in Alberta, we continued to work in teams on improving our processes. We needed to learn how to work with fewer resources and I am proud of the innovative thinking that has emerged to make our organization stronger. Effective September 13, 2019, the current Government of Alberta and ultimately the Alberta, Gaming, Liquor and Cannabis Commission, amended the Alberta beer mark-up policy, restoring our ability to be competitive in the Alberta beer market. We are focused on returning to revenue growth and continue to implement process improvements to our marketing and sales capabilities in order to grow both sales volume and revenue (2).

In 2019 we continued to demonstrate our strong commitment to innovation and quality. We successfully launched our Rock Creek Rosé Cider, Craft Lager and Jackrabbit products, and we received 11 awards including a gold Alberta Beer award for Pilsner (Czech Style), a gold Canadian Brewing Award for Warthog and a gold Canadian International Beer Award for Rock Creek Rosé Cider.

In 2020 we have several new innovations to release that are targeted at the fastest growing segments in our industry(2). We will remain focused on our mission of "All for Craft, and Craft for All" and will continuously look for the best opportunities to grow our business while remaining focused on being Canada's authentic craft brewery since 1985(2).

Sincerely,

Wayne Arsenault
President & CEO

(1) See "Non-GAAP Measures" in the Management's Discussion and Analysis for the year ended December 30, 2019 enclosed herewith (the "MD&A").
(2) See "Forward Looking Statements" in the MD&A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT’S DISCUSSION AND ANALYSIS

The following is Management’s Discussion and Analysis (“**MD&A**”) of the financial condition and results of operations of Big Rock Brewery Inc. (“**Big Rock**” or the “**Corporation**”) for the years ended December 30, 2019 and 2018.

This MD&A should be read in conjunction with the audited consolidated financial statements of the Corporation and accompanying notes as at and for the years ended December 30, 2019 and 2018 (the “**Consolidated Financial Statements**”). The Consolidated Financial Statements have been prepared using International Financial Reporting Standards (“**IFRS**”) and all amounts are reported in thousands of Canadian dollars unless otherwise noted. Additional information about the Corporation, including the Annual Information Form for the year ended December 30, 2019, can be found on SEDAR at www.sedar.com and on Big Rock’s corporate website at www.bigrockbeer.com. Readers should also read the section “Forward-Looking Information” contained at the end of this document. This MD&A is dated March 13, 2020.

CORPORATE PROFILE

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

Founded in 1985, Big Rock was the first craft brewery in Alberta and stands 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, BC, Saskatchewan, Manitoba and Ontario.

In April 2015, Big Rock opened a brewery and eatery in Vancouver, BC’s thriving downtown craft beer district. This combined brewery and brewpub serves on-premise consumers and provides distribution for Big Rock’s products throughout BC. During the fall of 2016, Big Rock opened a third brewery and tasting room in Etobicoke, Ontario, and on February 1, 2017, a fourth location was opened in the Liberty Village area of Toronto, Ontario, and is operated as Liberty Commons at Big Rock Brewery tasting room and restaurant.

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

INDUSTRY TRENDS AND INDICATORS

Today's beverage alcohol consumer in North America is driven by health and wellness, experience and convenience, flavour, premiumization and value. 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. The Corporation believes the exponential rise in choice of craft beer over the last 5 years may continue. However, Big Rock also believes that its participation in the growing Ready-to Drink alcohol beverage (“**RTD**”) market is vital to the Corporation’s future success. The Corporation entered the RTD market in Alberta and BC in 2019 through the licensing of Cottage Springs’ products and continues to find growth and success with the brand. Big Rock is also looking to utilize its manufacturing footprint, particularly in Calgary, to pursue new revenue streams from the RTD space, to the extent that the Alberta Gaming, Liquor and Cannabis Commission (“**AGLC**”) policy permits. A restrictive policy still governs the RTD market in Alberta and limits the Corporation’s ability to pursue such opportunities, which is the highest growth category in alcohol, globally. Given the economic stimulus that the growing RTD market can provide for the province of Alberta, management is hopeful this avenue of growth will no longer be restricted very soon.

2019 was a set back year for Big Rock given the AGLC beer mark-up policy imposed on the Corporation by the previous Government of Alberta, however, as previously announced, the current Government of Alberta and ultimately the AGLC, amended such policy effective September 13, 2019 improving Big Rock's competitive position in the beer market. Due to the cost restructuring initiatives the Corporation undertook during the second quarter of 2019, Big Rock not only took a cultural hit, but experienced some lapses in processes that are to be expected as employees adopt new and greater responsibilities. Management believes that it has addressed such process gaps through year-end 2019 and has gained momentum in 2020 in re-establishing the great culture that the Corporation prided itself on since 1985.

SELECTED ANNUAL FINANCIAL INFORMATION

	Year Ended December 30		
($000, except volumes and per share amounts)	**2019**	2018	2017
Sales Volumes (hl)[(1)]	171,563	201,577	208,565
Statements of Comprehensive Income Data			
Net revenue	$ 42,653	$ 48,748	$ 46,573
EBITDA[(2)]	(1,062)	4,150	1,907
Operating profit (loss)	(5,100)	931	(1,037)
Net income (loss)	(2,922)	360	(1,020)
Per share – basic and diluted	$ (0.42)	$ 0.05	$ (0.15)
Statements of Financial Position Data			
Total assets	49,782	56,740	53,481
Total debt[(3)]	6,415	5,775	6,416

(1) Excludes contract manufacturing volumes due to the nature of the agreements.
(2) Earnings Before Interest, Tax, Depreciation and Amortization ("**EBITDA**"). See "*Non-GAAP Measures*".
(3) Includes bank indebtedness, long term debt, and obligations under finance leases.

SELECTED QUARTERLY FINANCIAL INFORMATION

Big Rock experiences seasonal fluctuations in volumes, net sales revenue and net income with the second and third quarters typically being stronger than the first and fourth quarters. These seasonal variations are dependent on numerous factors, including weather, timing of community events, consumer behaviour, customer activity and overall industry dynamics, mainly in Western Canada. Additionally, significant fluctuations in the AGLC beer mark-up policy over the last six years has caused significant variation in the impact of provincial government liquor tax programs on net revenue. The selected quarterly information is consistent with these expectations and industry trends.

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

($000, except hl and per share amounts)	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales volumes (hl)[1]	**37,361**	50,327	48,900	34,975	49,013	55,741	56,012	40,811
Net revenue	**9,539**	11,189	13,299	8,626	11,991	13,764	13,527	9,466
EBITDA[2]	**(645)**	639	335	(1,391)	1,075	1,563	1,246	266
Operating profit (loss)	**(1,615)**	(761)	(495)	(2,229)	216	747	473	(505)
Net income (loss)	**(1,297)**	(201)	297	(1,721)	(80)	587	240	(387)
Earnings per share (basic and diluted)	**$ (0.19)**	$ (0.03)	$ 0.04	$ (0.25)	$ (0.01)	$ 0.08	$ 0.04	$ (0.06)
$ Per hl Amounts[1]								
Net revenue	**255.32**	222.33	271.96	246.63	244.65	246.93	241.50	231.95
Cost of sales	**201.04**	143.34	189.08	181.44	146.10	136.94	135.15	136.53
Selling expenses	**62.47**	62.77	59.88	83.66	63.55	65.48	65.72	76.35
General and administrative	**31.56**	28.69	30.39	41.37	27.24	28.88	30.08	28.55
Operating profit (loss)	(43.23)	(15.12)	(10.12)	(63.73)	4.41	13.40	8.46	(12.40)
Net income (loss)	(34.71)	(3.99)	6.07	(49.21)	(1.63)	10.53	4.30	(9.51)

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

RESULTS OF OPERATIONS

Big Rock reported net loss of $2,922 for the year ended December 30, 2019, compared to net income of $360 in 2018. The net loss is due to the then Government of Alberta's elimination of the Alberta Small Brewers Development ("**ASBD**") grant in late 2018. Management estimates the net negative impact of the late 2018 Alberta beer mark-up changes to be approximately $6.4 million for the year.

The Corporation experienced significant sales volume declines in the fourth quarter of 2019 as compared to the fourth quarter of 2018, driven by major declines in private label and value brands as a result of the price increases taken earlier in the year and potentiated by the strategic pricing initiative taken by the Corporation in December 2018 to maximize sales volumes while the ASBD grant program remained in place. Additionally, the Corporation experienced significant inventory revaluation and write-offs in addition to lower than anticipated production volumes in the fourth quarter of 2019 as the Corporation focused on inventory clean-up initiatives to position itself for a stronger 2020.

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

SEGMENTED INFORMATION

Big Rock has two reportable business segments, wholesale and retail, which are monitored by executive management for purposes of making decisions about resource allocation and performance management. The wholesale segment manufactures and distributes beer and cider to provincial liquor boards, grocery chains, and on-premise customers which is subsequently sold to end consumers. The retail segment sells beverages, food and merchandise to end consumers through premises owned and/or operated by the Corporation.

Segment performance is evaluated on a number of measures, the most significant being gross profit net of selling expenses. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. The Corporation's operating assets and liabilities, general and administrative expenses, income taxes and capital expenditures are managed on a corporate basis.

SEGMENTED RESULTS

For the year ended December 30	Wholesale		Retail		Eliminations		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018
Net Revenue	$ 40,851	$ 47,144	$ 2,353	$ 2,245	$ (551)	$ (641)	$ 42,653	$ 48,748
Cost of sales	28,156	25,351	2,712	3,226	(551)	(641)	30,317	27,936
Gross profit (loss)	12,695	21,793	(359)	(981)	—	—	12,336	20,812
Selling expenses	11,336	13,537	11	25	—	—	11,347	13,562
Segment profit (loss)	$ 1,359	$ 8,256	$ (370)	$ (1,006)	$ —	$ —	989	7,250
General and administrative costs							5,556	5,795
Depreciation and amortization							533	524
Operating profit (loss)							(5,100)	931
Finance expense							401	327
Other income)							713	18
(Loss) income before income taxes							$ (4,788)	$ 622

Net Revenue

Net revenue includes wholesale beer, cider and alcoholic beverage sales, net of excise taxes and provincial government liquor taxes, contract manufacturing revenues, retail restaurant and store sales from Big Rock's Alberta, BC and Ontario locations and can sourcing for a third party. Geographically, Alberta continued to represent the largest share of the Corporation's sales in 2019, followed by BC and Ontario.

	Year ended December 30		
($000, except volumes)	2019	2018	Change
Sales volumes (hl)[1]	171,563	201,577	(30,014)
Gross revenue	$ 65,116	$ 66,983	$ (1,867)
Federal excise taxes	(5,443)	(6,003)	560
Provincial liquor tax programs	(17,020)	(12,232)	(4,788)
Net revenue	**$ 42,653**	$ 48,748	$ (6,095)
Net revenue by segment			
Wholesale	$ 40,300	$ 46,503	$ (6,203)
Retail	2,353	2,245	108
Net revenue	**$ 42,653**	$ 48,748	$ (6,095)
$ per hl[1]			
Wholesale net revenue	234.90	230.70	4.20

(1) Excludes contract manufacturing volumes due to the nature of the agreements.

Sales volumes were 171,563 hl for the year ended December 30, 2019, which represents a decrease of 30,014 hl (14.9%), compared to the prior year primarily due to major price increases to Big Rock's products taken at the beginning of 2019 in response to the elimination of the ASBD grant program, in addition to the declining beer consumption and increased competition, particularly in Alberta. Additionally, this significant year-over-year decline was potentiated by the strategic pricing initiatives and resulting sales volume maximization outcome achieved in December 2018.

Gross revenue was $65,116 for the year ended December 30, 2019, a decrease of $1,867 (2.8%) compared to the prior year. Federal excise taxes decreased for the year ended December 30, 2019, due to the overall decline in production as a result of the decline in sales. Provincial liquor taxes increased by $4,788 in fiscal 2019, compared to the prior year as a result of the elimination of the ASBD grant program and a significant decline in sales volume. As a result, net revenue was $42,653 for the year ended December 30, 2019, which represents a decrease of $6,095 (12.5%) as compared to fiscal 2018.

Wholesale Revenue

Wholesale net revenue decreased by $6,203 (13.3%) due to sales volumes decreasing by 30,014 hl (14.9%), for the year ended December 30, 2019, as compared to the prior year. Due to the elimination of the ASBD grant program and the subsequent increase in the net Alberta beer taxes applicable to the Corporation, the Corporation was forced to pursue major price increases in late 2018 and early 2019, especially on low margin, high volume brands, resulting in greater than forecasted sales volume declines year-over-year. Contract manufacturing production volumes continued to grow year-over-year and partially mitigated the sales volume declines resulting from the Corporation's price increases in early 2019.

Retail Revenue

Retail net revenue increased by $108 (4.8%) for the year ended December 30, 2019 compared to the same period in 2018, primarily reflecting the Calgary retail operations performance and revenue driven by Big Rock branded events.

Cost of Sales

Cost of sales was $30,317 for fiscal 2019, an increase of $2,381 from fiscal 2018. Cost of sales represented 71.1% of net revenue in 2019, an increase of 13.8% from 57.3% in 2018. This is due to net revenue declines as a result of the elimination of the ASBD grant program and the addition of a lower margin business in sourcing cans for a third party. Despite the fourth quarter of 2019 being highlighted by inventory and cost of sales revaluations and inventory write-offs, management anticipates cost of sales as a percentage of revenue to trend down in 2020 as a result of the AGLC beer mark-up policy amendment effective September 13, 2019.

Selling Expenses

Selling expenses decreased for the year ended December 30, 2019 by $2,215 to $11,347, as compared with the same period last year, due to the following:

- delivery and distribution costs decreased by $257 due to lower sales volumes;
- salaries and benefits costs decreased by $637, as a result of cost cutting initiatives implemented during the second quarter of 2019; and
- marketing and sales costs decreased by $1,321 as a result of cost cutting initiatives implemented during the second quarter of 2019.

General and Administrative Expenses

General and administrative expenses decreased by $239 to $5,556 for the year ended December 30, 2019, as compared with the same period last year, primarily due to a decrease in salaries and wages of $643 and banking fees of $60, offset by restructuring charges of $476.

General and administrative expenses were 13.0% of net revenue in fiscal 2019, versus 11.9% in fiscal 2018 as a result of the significant impact of the AGLC beer mark-up increase in Alberta through much of 2019.

Finance Expenses

Finance expenses increased in fiscal 2019 by $74 to $401, relative to fiscal 2018, due to servicing of the license obligation of the Fireweed Transaction (as defined herein) with Fireweed Brewing Corp. (“**Fireweed**”) and an increase in the Corporation’s total debt outstanding.

Depreciation and Amortization

Depreciation and amortization expenses were $533 in fiscal 2019, versus $524 in fiscal 2018. The increase in depreciation and amortization in 2019 is primarily related to the acquisition of certain Fireweed assets in the fourth quarter of 2018.

Other Income

Other income was $713 in fiscal 2019, compared to an expense of $18 in fiscal 2018, due to a one-time gain from the reduction of the Fireweed license obligation as a result of the impaired receivable and penalty settlement. Refer to *Cash Flows from Financing Activities* for further detail.

Income Taxes

Current income tax expense of $90 and a deferred tax recovery of $1,956 was recorded for the year ended December 30, 2019. The deferred income tax provision differs from the statutory rate of 26.57% (2018 – 27.07%) due to permanent differences between the carrying amounts of assets and liabilities for accounting purposes and the tax basis, as well as the effect of non-deductible amounts.

FINANCIAL CONDITION

The following chart highlights significant changes in the Consolidated Statements of Financial Position from December 30, 2018 to December 30, 2019:

($000, unless otherwise stated)	Increase/ (Decrease)	Primary factors explaining change
Accounts receivable	(1,739)	Decrease due to grants receivable and other customer amounts
Inventories	(1,241)	Decrease in finished goods due to timing of production schedule, seasonality and revaluation
Prepaid expenses & deposits	(53)	Decrease in community sponsorship due to timing of planned events
Current income taxes	(176)	Decrease due to reduction in expected taxable income
Property, plant and equipment	(2,290)	Decrease due to depreciation offset by new plant additions
Intangible assets	(87)	Decrease due to amortization of intangible assets
Bank indebtedness	1,369	Increase in the combined balances of the Operating Facility balance and outstanding cheques
Accounts payable & accrued liabilities	(1,633)	Decrease consistent with the decrease in inventories related to seasonality
Share-based payments	(130)	New long term incentive grants offset by decrease in share price and former employee forfeiture of share appreciation rights
Long term debt & finance lease	(729)	Net repayment of term loans and finance leases
License obligation	(1,025)	Net repayment of license obligation and settlement of BC Liquor Distribution Branch/Fireweed receivable amounts
Lease incentive	27	Amortization of lease incentive
Deferred income taxes	(1,956)	Tax effect of changes in temporary differences

LIQUIDITY AND CAPITAL RESOURCES

Capitalization

As at December 30, ($000, unless otherwise stated)	2019	2018
Cash	$ (354)	$ (1,902)
Total debt[2]	6,415	5,775
Net debt[1]	6,061	3,873
Shareholders' equity:		
Shareholders' capital	113,845	113,845
Contributed surplus	1,795	1,578
Accumulated deficit	(79,761)	(76,839)
Total shareholders' equity	35,879	38,584
Total capitalization (total debt plus shareholders' equity, net of cash) [1]	$ 41,940	$ 42,457
Net debt to capitalization ratio [1]	14.5%	9.1%

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

Capital Strategy

The Corporation defines its capital to include common shares of the Corporation ("**Common Shares**") plus short-term and long-term debt and finance leases, less cash balances. There are no externally imposed capital requirements on the Corporation. The Corporation's objectives are to safeguard the Corporation's ability to continue as a going concern, to support the Corporation's normal operating requirements and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. This allows management to maximize the profitability of its existing assets, create long-term value and enhance returns for its shareholders.

The Corporation manages its capital structure through prudent levels of borrowing, cash-flow forecasting, and working capital management. Adjustments are made by considering changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the Corporation's capital structure, Big Rock may issue new shares, issue or renegotiate its debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents. Capital requirements of the Corporation are managed by the preparation of an annual expenditure budget which is approved by the board of directors of Big Rock (the "**Board of Directors**") and monitored on a regular basis by management. The budget is updated as necessary depending on numerous factors, including capital deployment, results from operations, general industry conditions and government policy changes.

The Corporation had a positive working capital position of $419 at December 30, 2019, compared to $4,557 at December 30, 2018.

As at December 30, 2019, the Corporation had total current assets and total current liabilities of $6,597 and $6,178, respectively, compared to $11,178 and $6,621, respectively, as at December 30, 2018. The decrease in current assets can be attributed to a decrease in the cash balances as a result of the significant decrease in the Corporation's margins for much of 2019 due to the AGLC beer mark-up increase in addition to the settlement of the Fireweed receivable balances. The increase in current liabilities can be attributed to an increase in the Corporation's bank indebtedness.

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

Additionally, the Corporation monitors its capital using ratios of (i) net debt (debt less cash) to EBITDA and (ii) EBITDA to interest, debt repayments and dividends. Net debt to EBITDA is calculated by dividing net debt by EBITDA. EBITDA to interest, debt repayments and dividends is calculated by dividing EBITDA by the combined interest, debt repayments and dividend amounts. These capital management policies, which remain unchanged from prior periods, provide Big Rock with access to capital at a reasonable cost.

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

	Year ended December 30		
($000, except volumes)	2019	2018	Change
Net income (loss)	$ (2,922)	$ 360	$ (3,282)
Addback:			
Interest	401	327	74
Taxes	(1,866)	262	(2,128)
Depreciation and amortization	3,325	3,201	124
EBITDA[1]	**$ (1,062)**	**$ 4,150**	**$ (5,212)**

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

Cash Flow from Operating Activities

Cash used in operating activities for the year ended December 30, 2019 totalled $1,218, a decrease of $5,826 compared to the prior year. The decrease is primarily due to the elimination of the ASBD grant program in Alberta.

Cash Flow from Financing Activities

Cash provided by financing activities for the year ended December 30, 2019 increased by $1,276 compared to 2018, as the Corporation increased bank indebtedness which includes outstanding cheques.

The Corporation has a $5 million revolving operating loan facility (the "**Operating Facility**") and a $6 million 5-year revolving term loan facility (the "**Term Facility**"). The Operating Facility is available for general operating purposes and funding capital expenditure requirements. The Term Facility is available to fund capital expenditures. Advances under both credit facilities may be made by way of Canadian prime rate loans and letters of credit. Interest is payable for prime-based loans under the Operating Facility at the financial institution's prime rate plus 0.75 percent and for the Term Facility at the financial institution's prime rate plus 1.5 percent. Fees for letters of credit are at 2.5 percent with a minimum fee payable.

The facilities impose a number of positive and negative covenants on Big Rock, including the maintenance of certain financial covenants which are tested at each reporting date. They include the maintenance of a rolling 12-month fixed charge ratio which is required to be a minimum of 1.1 to 1, calculated as the rolling 12-month EBITDA, less an amount for maintenance capital compared to the rolling 12-months Fixed Charges. In addition, Big Rock's borrowings cannot exceed a borrowing base which is determined by the fair value of the Corporation's assets. On August 1, 2019, Big Rock's lender waived the financial covenants under its credit facilities until and including June 30, 2020. Should the Corporation not be in compliance with its debt covenants at September 30, 2020, the Corporation's lender shall have the right to terminate the Corporation's credit facilities and require the Corporation to fulfil its outstanding debt balances immediately, provided an extension to the debt covenants waiver is not received. The Corporation anticipates it will be in compliance with its debt covenants at September 30, 2020.

On July 16, 2019, Big Rock's total facilities were reconfirmed by its lender at $11 million, with the maturity dates being extended to March 23, 2021 with an option for extension.

As at December 30, 2019, bank indebtedness was $1,532 (2018 - $163), of which $870 (2018 - $nil) was outstanding on the operating loan facility.

As at December 30,	2019	2018
Term debt	$ 3,385	$ 3,778
Debt issue costs	(3)	(13)
	3,382	3,765
Current portion	(447)	(409)
Long term debt	$ 2,935	$ 3,356

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

As at December 30,	2019	2018
License obligation	$ 1,705	$ 1,720
Gain on liability modification	(1,010)	—
	695	1,720
Current portion	(185)	(138)
License obligation	$ 510	$ 1,582

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

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

As at December 30,	2019	2018
Current portion	$ 367	$ 347
Long term portion	1,134	1,500
Total finance lease	$ 1,501	$ 1,847

As of December 30, 2019, the net carrying amount of the leased assets is $2,075 (2018 – $2,206). The depreciation of the assets recorded under the finance lease is included in the cost of sales on the Consolidated Statements of Comprehensive Loss. The obligation under finance lease is secured by the lessor's rights over the leased assets.

Cash Flow from Investing Activities

During the year ended December 30, 2019, a total of $953 was spent on capital expenditures, compared to $2,361 for the same periods in 2018, primarily attributable to the installation of the assets acquired as part of the Fireweed Transaction in 2018, maintenance capital expenditures and expenditures related to business system enhancements.

Commitments and Contractual Obligations

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

	2020	2021	2022	2023	2024	thereafter
Utilities contracts	$ 30	$ 30	—	—	—	—
Raw material purchase commitments	2,967	259	244	216	216	—
Marketing sponsorships	369	281	108	-	-	—
Operating leases	758	765	775	775	555	135
Long-term debt	433	458	484	511	539	909
License obligation	185	193	202	114	—	—
Finance lease repayments	367	387	747	—	—	—
Total	$ 5,109	$ 2,373	$ 2,560	$ 1,616	$ 1,310	$ 1,044

Big Rock has entered into operating lease agreements for storage facilities, warehouses, breweries, and retail locations. The remaining lease terms range between four and five years. Certain leases contain extension and renewal options. Operating lease payments of $669 (2018 - $736) were recognized as expense in the Consolidated Statements of Comprehensive Income for the year ended December 30, 2019.

OFF BALANCE SHEET ARRANGEMENTS

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

SHAREHOLDERS' CAPITAL

Big Rock is authorized to issue an unlimited number of Common Shares with no par value. The Common Shares trade on the Toronto Stock Exchange under the symbol "**BR**". As at March 13, 2020, Big Rock had the following issued and outstanding:

- 6,981,628 Common Shares;
- 439,547 time-based share appreciation rights ("**SARs**");
- 81,000 market-performance SARs;
- 285,000 time-based options;
- 69,000 market-performance options; and
- 111,310 restricted share units ("**RSUs**")

During fiscal 2019, the Corporation granted 111,310 RSUs and 118,260 SARs to directors, officers, employees and consultants of the Corporation.

Under the RSU Plan (the "**RSU Plan**"), the Board of Directors may issue a number of RSUs to directors, officers, employees and consultants of the Corporation. The RSU Plan entitles grantees under the plan to receive Common Shares or the cash equivalent. The determination of settling the payout amount in Common Shares or the cash equivalent is at the option of the Board of Directors. RSUs vest over a three year period, with one-third vesting on each of the first, second and third anniversary from the date of grant. RSUs are forfeited if the grantee leaves the Corporation before the vesting date.

The Board of Directors may issue an unlimited number of SARs under the SARS Plan (the "**SARs Plan**"). SARs granted under the SARs Plan are exercisable for a period of up to five years from date of grant, at an exercise price that is equal to the weighted average price at which the Common Shares have traded during the five trading days immediately preceding the date of grant. The exercise of SARs is settled in cash.

Big Rock has granted stock options to certain officers and directors of the Corporation pursuant to the share option plan (the "**Share Option Plan**"). Options granted under the Share Option Plan are exercisable for a period of up to five years from date of grant, at an exercise price that is equal to the weighted average price at which the Common Shares have traded during the five trading days immediately preceding the date of grant.

See Notes 20 and 22 to the Consolidated Financial Statements for more detailed information.

RISKS RELATED TO THE BUSINESS AND INDUSTRY

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

Premium beers from other craft breweries are continuously entering the market and the large national and multi-national brewers have products that compete directly with craft beers. In addition, there has been an increased number of imports and new alcoholic beverage offerings being sold in the same markets where Big Rock competes for business. Alberta, the Corporation's primary market, has continued to see a strong trend towards the discount beer segment due to the ongoing economic challenges Alberta faces. Alberta was also the only province in 2018 to see a negative trend in retail pricing.

With the vast choice of craft brands now available, the advertising initiatives of craft divisions of the major breweries and the growth in the RTD market, it is likely that competitive pressures on price will continue.

Tax Risk

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

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

The beer tax structure in Alberta has changed six times in the last six years, contributing to market uncertainty and has impacted Big Rock's financial results in a corresponding manner. In particular, changes announced by the Government of Alberta in July 2016 replaced the former graduated tax rate structure with a flat tax rate of $1.25 per litre and a grant program for Alberta's small breweries (ASBD). In June 2018, a trade review panel ordered that the Government of Alberta's ABSD grant program must be repealed or revised within six months, as it was found to put beer producers from other provinces at a competitive disadvantage in the Alberta market. On November 26, 2018, the Government of Alberta announced the cancellation of the ASBD grant program, effective December 16, 2018, and a graduated net beer tax framework for Alberta producers of less than 50,000 hectolitres per year. This change imposed a significant tax increase on Big Rock's sales volumes through much of 2019.

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

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

Financial Risk

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

Foreign Exchange Risk

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

Interest Rate Risk

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

The Corporation has not entered into any derivative instruments to manage interest rate fluctuations; however, management monitors the Corporation's interest rate exposure and given the relatively low expected rate of change in prime interest rates believes the risk is immaterial. The Corporation evaluates the policies surrounding interest rates on an as-needed basis and is confident that this policy is sufficient based on current economic conditions, combined with the minimal amount of debt required by the Corporation. The weighted average interest rate for the year ended December 30, 2019 was 5.67% (2018 – 4.58%).

Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in the Corporation incurring an economic loss. Big Rock has a concentration of credit risk as the majority of its accounts receivable are from provincial liquor boards, which are governed under provincially regulated industry sale and payment terms. The Corporation is not exposed to significant credit risk as payment in full is typically collected by provincial liquor boards at the time of sale and receivables are with government agencies. While much of Big Rock's accounts receivable are from provincial government liquor authorities, the timing of receipts of large balances may vary significantly from period to period.

The majority of product sold outside of Canada, which is included in GST and other receivables, is done so on a 'Cash on Delivery' basis with no credit risk.

Liquidity Risk

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

Commodity Price Risk

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

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

For a more detailed discussion of risk factors that could materially affect Big Rock's results of operations and financial condition please refer to the Risk Factors section of the Corporation's Annual Information Form dated March 13, 2020 that is available on www.sedar.com.

SIGNIFICANT FOURTH QUARTER EVENTS

During the fourth quarter of fiscal 2019, the Corporation had net revenues of $9,539, compared to $11,991 in the fourth quarter of fiscal 2018, a decrease of $2,452. The decrease in year-over-year net revenues was primarily due to a 64.3% decline in private label production volumes. The percent decline year-over-year was potentiated due to strategic pricing initiatives taken in the first half of December 2018 while the ASBD grant program remained intact that resulted in a major spike in private label sales volumes.

Cost of sales increased by $350 to $7,511 in the fourth quarter of fiscal 2019, from $7,161 in the fourth quarter of fiscal 2018, due to inventory clean-up initiatives and production driven cost accounting adjustments, which totalled $365 for the fourth quarter of fiscal 2019. Cost of sales as percentage of net revenues increased to 78.7% in the fourth quarter of fiscal 2019, from 59.7% in the fourth quarter of fiscal 2018. With inventory issues resolved and a focus on production schedule and processes, management believes gross profit margins will revert back to pre-2019 historical levels in 2020.

Selling expenses decreased by $781 to $2,334 in the fourth quarter of fiscal 2019, from $3,115 in the comparable period last year, due to cost cutting measures and restructuring initiatives in the second quarter of 2019. Selling expenses as a percentage of net revenues decreased to 24.5% in the fourth quarter of fiscal 2019, from 26.0% in the fourth quarter of fiscal 2018.

General and administrative expenses decreased by $156 to $1,179 in the fourth quarter of fiscal 2019, from $1,335 in the fourth quarter of fiscal 2018, primarily due to a decrease in salaries and benefits costs and other administrative expenses due to cost cutting measures and restructuring initiatives in the second quarter of 2019 offset by the capitalization of professional fees related to the closing of the Fireweed Transaction in the fourth quarter of fiscal 2018. General and administrative expenses as a percentage of net revenues increased to 12.4% in the fourth quarter of fiscal 2019, from 11.1% in the fourth quarter of fiscal 2018.

Finance expenses were $90 in the fourth quarter of fiscal 2019, compared to $71 in the fourth quarter of fiscal 2018, primarily due to an increase in the Operating Facility cash draw compared to the same period in 2018.

Depreciation expenses (inclusive of depreciation expense included in cost of sales) decreased by $16 to $833 in the fourth quarter of fiscal 2019, compared to $849 in the fourth quarter of fiscal 2018, primarily due to an increase in fully depreciated property, plant and equipment compared to the same period in 2018.

Income tax expenses decreased by $506 to a recovery of $272 in the fourth quarter of fiscal 2019, from an expense of $234 in the fourth quarter of fiscal 2018, due primarily to a deferred income tax expense recovery.

OUTLOOK & STRATEGY

The Corporation's financial results for the three months and the year ended December 30, 2019 declined significantly as compared to the same period in 2018, reflecting the elimination of the ASBD grant program and the resulting increase in the net Alberta beer taxes for the Corporation, partially offset by price increases and cost cutting initiatives, which in turn resulted in greater sales volume declines than originally anticipated. However, given the reduction in the Corporation's AGLC beer mark-up to $0.64 per litre (from $1.25 per litre) in September 2019, along with ongoing sales, production planning, inventory and business systems process projects and improvements, management believes the business is well positioned to re-establish the momentum it carried in 2018.

In 2020, the Corporation will be focused on the following:

Maximizing Capacity Utilization of Assets

The Corporation will continue to pursue opportunities to maximize capacity utilization of its assets, especially volume growth opportunities aligned with seasonality, whether through organic growth of existing brands, introduction of new brands, license agreements, mergers and acquisitions and/or contract manufacturing agreements. Given the Corporation's footprint, especially with assets in Alberta, BC and Ontario, management continues to evaluate new growth opportunities that will result in fixed cost absorption.

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

Government Relations

Given the then Alberta Government's elimination of the ASBD grant at the end of 2018, 2019 was a setback year for the Corporation. However, due to the September 2019 amendment of the AGLC beer mark-up policy, the Corporation believes it can improve its competitiveness in the Alberta beer market.

Although a restrictive regulatory policy remains in Alberta for RTD, the highest global growth category in beverage alcohol, management is hopeful the AGLC will alleviate such restrictive policy very soon and allow the Corporation to participate in this category in a meaningful way. The Corporation will continue to pursue government relations efforts to allow Big Rock to better participate in certain high growth categories and pursue investment and growth within the province.

Contract Manufacturing and Export

The Corporation continues to seek new contract manufacturing opportunities, both nationally and internationally, to mitigate some of the sales volume declines the Corporation experienced in the year ended December 30, 2019.

The Corporation is also currently exploring export opportunities to bring its brands and products to foreign markets profitably.

Organic Growth

The Corporation is currently evaluating and re-developing its sales and pricing processes in existing markets to mitigate sale volume declines experienced in recent years.

Cost Reductions

Cost reductions and process improvements are an ongoing initiative implemented and supported by the Corporation's management team.

CRITICAL ACCOUNTING ESTIMATES & JUDGEMENTS

There have been no changes in Big Rock's critical accounting estimates in the three months and year ended December 30, 2019. Further information on the Corporation's critical accounting policies and estimates can be found in the notes to the audited annual financial statements and MD&A for the year ended December 30, 2019.

FUTURE ACCOUNTING PRONOUNCEMENTS

The Corporation's consolidated financial statements as at and for the years ended December 30, 2019 and 2018 have been prepared using the IFRS standards and interpretations currently issued. Accounting policies currently adopted under IFRS are subject to change as a result of new standards being issued with an effective date of December 30, 2019 or later. A change in an accounting policy used may result in material changes to Big Rock's reported financial position, results of operations and cash flows.

IFRS 16 Leases ("**IFRS 16**") was issued in January 2016 and replaces IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Big Rock will adopt IFRS 16 in its financial statements for the fiscal year beginning December 31, 2019 using the modified retrospective approach which does not require restatement of prior period financial information as it recognizes the cumulative effect of IFRS 16 as an adjustment to opening retained earnings and applies the standard prospectively.

Big Rock will elect to use the following exemptions proposed by the new standard:

i) Leases with a remaining lease term of less than twelve months as at December 31, 2019 will be classified as short-term leases; and
ii) Leases of low dollar value will continue to be expensed as incurred.

Big Rock will recognize lease liabilities measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as at December 31, 2019. The associated right of use ("**ROU**") assets will be measured at the lease liability amount on December 31, 2019 resulting in no adjustment to the opening balance of retained earnings.

Effective December 31, 2019, Big Rock will recognize ROU assets and lease liabilities for leases of manufacturing and retail premises and leases of vehicles. Big Rock is in the process of performing an impact assessment of adoption of IFRS 16 on its opening Statement of Financial Position. The impact of IFRS adoption to ROU assets and lease liabilities is expected to be material to the Statement of Financial Position.

DISCLOSURE CONTROLS AND PROCEDURES

The Corporation's management under the supervision of, and with the participation of, the President & Chief Executive Officer ("**CEO**") and Chief Financial Officer ("**CFO**") of the Corporation, have designed and evaluated the effectiveness and operation of its disclosure controls and procedures, as defined under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* ("**NI 52-109**"). Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed with Canadian securities regulatory authorities is recorded, processed, summarized and reported in a timely fashion.

The disclosure controls and procedures are designed to ensure that information required to be disclosed by the Corporation in such reports is then accumulated and communicated to management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure. Due to the inherent limitations in all control systems, an evaluation of the disclosure controls can only provide reasonable assurance over the effectiveness of the controls. The disclosure controls are not expected to prevent and detect all misstatements due to error or fraud. Based on the evaluation of disclosure controls and procedures, the CEO and CFO have concluded that the Corporation's disclosure controls and procedures are effective as of December 30, 2019.

INTERNAL CONTROLS OVER FINANCIAL REPORTING UPDATE

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

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

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

The CEO and CFO acknowledge responsibility for the design of ICFR and confirm that there were no changes in the Corporation's controls over financial reporting for the year ended December 30, 2019, that have materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting.

Based upon their evaluation of these controls as of December 30, 2019, the CEO and CFO have concluded that the Corporation's ICFR were effective as at that date. No material weaknesses existed within the Corporation's ICFR as of December 30, 2019. In addition, there were no material changes to Big Rock's internal controls over financial reporting since the most recent interim period.

NON-GAAP MEASURES

The Corporation uses certain financial measures referred to in this MD&A to quantify its results that are not prescribed by Generally Accepted Accounting Principles. These financial measures do not have any standardized meaning under the Corporation's Generally Accepted Accounting Principles and therefore may not be comparable to similar measures presented by other issuers. The following terms "total capitalization", "net debt", "EBITDA", "net debt to EBITDA", "working capital" are not recognized measures under GAAP and may not be comparable to that reported by other companies. Total capitalization is calculated by adding shareholders' equity, total debt and cash balances. Net debt is defined as total debt minus cash balances. EBITDA is calculated by adding back to net income, interest, income taxes, depreciation and amortization. Net debt to EBITDA is calculated by dividing EBITDA by net debt (debt less cash). Working capital is defined as current assets minus current liabilities. Management uses these non-GAAP measures to evaluate the Corporation's operating results. A reconciliation of EBITDA to net income (loss), the nearest GAAP measure, is contained under "Liquidity and Capital Resources – Capital Strategy". A reconciliation of total capitalization to cash, total debt and total shareholders' equity and a reconciliation of net debt to cash and total debt are provided under "Liquidity and Capital Resources – Capitalization".

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

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

FORWARD-LOOKING INFORMATION

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

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

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

- the Corporation's business plans;
- projections of the Corporation's strength and competitive position;
- anticipated changes to the RTD regulatory environment;
- the Corporation's monitoring of consumer plans and expectations regarding the developments of new products including in the RTD space;
- expectations regarding the Corporation's evaluation of growth opportunities and plans with respect to the same;
- expectations with regard to management's ability to maximize the profitability of its existing assets, create long-term value and enhance returns for its shareholders;
- projections of market prices and costs;
- anticipated supply and demand of Big Rock's products;
- the Corporation's ability to maximize capacity utilization;
- the Corporation expanding its cellar capacity;
- the Corporation's ability to offer high quality seasonal brands;
- the impact of recent changes in Alberta beer tax rate (provincial tax); and
- expectations regarding the Corporation being in compliance with its debt covenants by September 30, 2020.

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

- the Corporation's ongoing discussions with the Alberta Government with respect to the mark-up and grant program will be successful in improving the mark-up and grant programs applicable to the Corporation;
- volumes in the current fiscal year will remain constant or will increase;
- input costs for brewing and packaging materials will remain constant or will not significantly increase or decrease;
- there will be no material change to the regulatory environment, including the net beer taxes and grant rates, in which Big Rock operates; and

- there will be no supply issues with Big Rock's vendors.

Big Rock's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth above and as set out under the heading "Risk Factors" in the Corporation's 2019 Annual Information Form dated March 13, 2020 that is available on SEDAR at www.sedar.com. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. Big Rock does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.

BIG ROCK BREWERY

CONSOLIDATED FINANCIAL STATEMENTS

March 13, 2020

Management's Responsibility for Financial Reporting

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

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

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

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

Wayne Arsenault
President & Chief Executive Officer

Don Sewell
Chief Financial Officer

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Big Rock Brewery Inc.

Opinion

We have audited the accompanying consolidated financial statements of Big Rock Brewery Inc. ("the Corporation"), which comprise the consolidated statements of financial position as at December 30, 2019 and 2018, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at December 30, 2019 and 2018, and its consolidated financial performance and consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required

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to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Ann-Marie Brockett.

Ernst & Young LLP

Calgary, Canada

March 12, 2020

Chartered Professional Accountants

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

	Note	Year ended December 30 2019		2018	
Revenue					
Net revenue	4	$	42,653	$	48,748
Cost of sales	5		30,317		27,936
Gross profit			12,336		20,812
Expenses					
Selling expenses	6		11,347		13,562
General and administrative	7		5,556		5,795
Depreciation and amortization			533		524
Operating expenses			17,436		19,881
Operating (loss) income			(5,100)		931
Finance expenses	8		401		327
Other income	17		713		18
(Loss) income before income taxes			(4,788)		622
Income tax expense (recovery)	9				
Current			90		(71)
Deferred			(1,956)		333
			(1,866)		262
Net (loss) income and comprehensive (loss) income		**$**	**(2,922)**	$	360
Per share amounts					
Basic and diluted	10	**$**	**(0.42)**	$	0.05

See accompanying notes to the consolidated financial statements

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

		As at December 30	
	Note	**2019**	2018
ASSETS			
Current			
Cash		$ 354	$ 1,902
Accounts receivable	11	1,645	3,384
Inventories	12	4,163	5,404
Prepaid expenses and deposits		435	488
		6,597	11,178
Non-current			
Property, plant and equipment	13	40,876	43,166
Intangible assets	14	2,309	2,396
		43,185	45,562
Total assets		**$ 49,782**	$ 56,740
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	16	$ 1,532	$ 163
Accounts payable and accrued liabilities	15	3,049	4,682
Current taxes payable	9	273	449
Long term debt - current	16	447	409
License obligation - current	17	185	138
Finance lease - current	18	367	347
Share-based payments	22	325	433
		6,178	6,621
Non-current			
Long term debt	16	2,935	3,356
License obligation	17	510	1,582
Finance lease	18	1,134	1,500
Lease incentive liability	19	287	260
Share-based payments	22	23	45
Deferred income taxes	9	2,836	4,792
		7,725	11,535
EQUITY			
Shareholders' capital	20	113,845	113,845
Contributed surplus		1,795	1,578
Accumulated deficit	21	(79,761)	(76,839)
		35,879	38,584
Total liabilities and shareholders' equity		**$ 49,782**	$ 56,740

Commitments and contractual obligations 28

See accompanying notes to the consolidated financial statements

	""	""
On behalf of the Board of Directors:	Stephen Giblin Director	Michael Kohut Director

BIG ROCK BREWERY INC.
Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)

		Year ended December 30	
	Note	**2019**	2018
OPERATING ACTIVITIES			
Net (loss) income for the year		$ (2,922)	$ 360
Items not affecting cash:			
Depreciation and amortization		3,325	3,201
Gain on sale of assets		5	(29)
Share-based payments	22	105	68
Lease incentive		27	32
Amortized debt issue costs		3	13
Gain on liability modification	17	(1,010)	—
Deferred income tax (recovery) expense		(1,956)	333
Net change in non-cash working capital related to operations	26	1,205	630
Cash (used in) provided by operating activities		(1,218)	4,608
FINANCING ACTIVITIES			
Increase in bank indebtedness		1,369	79
Repayment of long-term debt		(401)	(403)
Repayment of finance lease		(346)	(330)
Cash provided by (used in) financing activities		622	(654)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(777)	(2,013)
Purchase of intangibles		(176)	(348)
Proceeds from sale of property, plant and equipment		1	141
Cash used in investing activities		(952)	(2,220)
Net (decrease) increase in cash		(1,548)	1,734
Cash, beginning of year		1,902	168
Cash, end of year		**$ 354**	$ 1,902

Supplemental cash-flow information			
Interest paid		$ 304	$ 314
Taxes paid (recovered)		$ 302	$ (226)

See accompanying notes to the consolidated financial statements

BIG ROCK BREWERY INC.

Consolidated Statements of Changes in Shareholders' Equity

(In thousands of Canadian dollars)

	Note	Shareholders' capital	Contributed Surplus	Accumulated deficit	Total
Balance as at December 30, 2017	21	$ 113,845	$ 1,347	$ (77,199)	$ 37,993
Share-based payments	22	—	231	—	231
Total comprehensive income		—	—	360	360
Balance as at December 30, 2018		113,845	1,578	(76,839)	38,584
Share-based payments	22	—	217	—	217
Total comprehensive loss		—	—	(2,922)	(2,922)
Balance as at December 30, 2019		**$ 113,845**	**$ 1,795**	**$ (79,761)**	**$ 35,879**

See accompanying notes to the consolidated financial statements

(In thousands of Canadian dollars, unless otherwise stated)

1. CORPORATE INFORMATION

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

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

These consolidated financial statements (the "**Consolidated Financial Statements**") include the accounts of Big Rock and all of its wholly owned subsidiaries. Subsidiaries are those enterprises controlled by the Corporation. The following companies have been consolidated within the Consolidated Financial Statements:

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

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

These Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board and Interpretations of the International Financial Reporting Interpretations Committee.

These Consolidated Financial Statements were approved and authorized for issue by the Board of Directors of Big Rock (the "**Board of Directors**") on March 12, 2020.

2.2 Basis of presentation

These Consolidated Financial Statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business and have been prepared on the historical cost basis, presented in Canadian dollars. All values are rounded to the nearest thousand dollars except where otherwise indicated.

2.3 Accounting pronouncements adopted

The Corporation adopted the following accounting pronouncements effective December 31, 2018:

IFRS 2 Share-based Payments

Amendments to IFRS *2 Share-based Payments* are effective for annual periods beginning on or after January 1, 2018. The amendments provide guidance on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The adoption of this standard did not have a material impact on the Consolidated Financial Statements.

(In thousands of Canadian dollars, unless otherwise stated)

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* has been amended, effective for annual periods beginning January 1, 2018. IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non – financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. Big Rock adopted this standard effective December 31, 2018. IFRS 9 is applied retrospectively on initial adoption and differences in the measurement of financial instruments upon adoption of IFRS 9 are recognized as an adjustment to opening retained earnings. Big Rock determined that there is no material impact to the recognition and measurement of financial assets and liabilities held and no adjustment to retained earnings was made.

IFRS 9 introduces the requirement to classify and measure financial assets based on their contractual cash flow characteristics and the business model under which the Corporation holds the financial asset. All financial assets and financial liabilities, including derivatives, are recognized at fair value on the Consolidated Statements of Financial Position when the Corporation becomes party to the contractual provisions of a financial instrument or non-financial derivative contract. Financial assets must be classified and measured at either amortized cost, fair value through profit or loss ("**FVTPL**"), or fair value through other comprehensive income ("**FVTOCI**").

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. The adoption of IFRS 9 has not had a significant effect on Big Rock’s accounting results related to classification of financial assets and liabilities.

The following table shows the changes in the measurement models under IAS 39 and the new models under IFRS 9:

Financial Instrument	IFRS 9	IAS 39
Cash and cash equivalents	Amortized cost	Loans and receivables
Accounts receivable	Amortized cost	Loans and receivables
Accounts payable and accrued liabilities	Amortized cost	Financial liabilities measured at amortized cost
Finance lease	Amortized cost	Financial liabilities measured at amortized cost
Long term debt	Amortized cost	Financial liabilities measured at amortized cost
License obligation	Amortized cost	Financial liabilities measured at amortized cost

IFRS 9 uses an ‘expected credit loss’ (“**ECL**”) model that replaces the ‘incurred loss’ model in IAS 39. The new impairment guidance applies to financial assets measured at amortized cost. Big Rock’s financial assets at amortized cost includes cash and cash equivalents and trade and other receivables. Big Rock measures potential loss exposures on trade and other receivables at an amount equal to lifetime ECLs. At every point after the initial recognition, there is at least some risk of default. To assess this risk, Big Rock considers quantitative and qualitative information based on the Big Rock’s historical experience and forward – looking information. Factors considered include customer payment history, customer credit ratings, customer cash flows, industry trends, and commodity pricing forecasts. Big Rock assumes that the credit risk on a financial asset increases significantly the longer it is outstanding. Loss allowances for trade and other receivables are included in general and administrative expenses. The implementation of this methodology did not have a material impact on the allowance for doubtful accounts.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* has been issued and is effective for annual periods beginning on or after January 1, 2018. The standard contains a single model that applies to revenue earned from contracts with customers and two approaches to recognizing revenue: at a point in time and over time. The model establishes a five-step analysis of transactions to revenues earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard also provides a model for the recognition and measurement of sales of certain non-financial assets such as disposals of property, plant, and equipment, but does not apply to insurance contracts, financial instruments or lease contracts, which falls in the scope of other IFRS standards.

Big Rock adopted this guidance and related amendments as of December 31, 2018, applying the modified retrospective approach to all contracts. Under this approach, the cumulative effect of initially applying IFRS 15 must be recognized as an adjustment to the opening deficit at the date of initial adoption and comparatives are not restated. Based on management's comprehensive review of the standard, including evaluation of the five-step approach outlined within the standard, management has concluded that the adoption of IFRS 15 did not have a significant impact to the recording of revenues.

However, the adoption of the standard resulted in a change in the presentation of certain cash payments made to customers as it relates to Committed Marketing Fund ("**CMF**") payments. CMF payments were previously recorded as selling expenses in the Consolidated Statements of Comprehensive Income (Loss). The adoption of the standard resulted in a reduction of revenues and selling expenses by $235 to $42,653 and $11,347 in the year of adoption. Management also evaluated the impact of the adoption of the new standard on other revenue generating activities such as contract manufacturing and licensing arrangements and concluded that there were no changes required.

On the implementation date, the cumulative effect of adopting the new standards to the opening deficit was $nil.

2.4 Standards issued but not yet adopted

IFRS 16 *Leases* ("**IFRS 16**") was issued in January 2016 and replaces IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Big Rock will adopt IFRS 16 in its Consolidated Financial Statements for the fiscal year beginning December 31, 2019 using the modified retrospective approach which does not require restatement of prior period financial information as it recognizes the cumulative effect of IFRS 16 as an adjustment to opening retained earnings and applies the standard prospectively.

Big Rock will elect to use the following exemptions proposed by the new standard:

i) Leases with a remaining lease term of less than twelve months as at December 31, 2019 will be classified as short-term leases; and
ii) Leases of low dollar value will continue to be expensed as incurred.

Big Rock will recognize lease liabilities measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as at December 31, 2019. The associated right of use ("**ROU**") assets will be measured at the lease liability amount on December 31, 2019 resulting in no adjustment to the opening balance of retained earnings.

Effective December 31, 2019, Big Rock will recognize ROU assets and lease liabilities for leases of manufacturing and retail premises and leases of vehicles. Big Rock is in the process of performing an impact assessment of adoption of IFRS 16 on its opening Statement of Financial Position. The impact of IFRS adoption to ROU assets and lease liabilities is expected to be material to the Statement of Financial Position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Significant accounting judgments and estimates

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

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

Significant judgments

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

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

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

Assumptions and critical estimates

Keg deposit liability
In determining the liability for return of keg deposits, Big Rock estimates that a portion of circulating kegs will never be returned for refund. Big Rock estimates that approximately 98% of kegs are returned for refund in each turn of inventory. Management recognizes a liability for one turn plus an additional amount, estimated as 2% of one turn, for very old kegs. As at December 30, 2019, a balance of $391 (2018 - $364) was included in accounts payable and accrued liabilities in respect of the keg deposit liability.

Property, plant and equipment
Calculation of the net book value of property, plant and equipment requires Big Rock to make estimates of the useful economic life of the assets, residual value at the end of the asset's useful economic life, method of depreciation and whether impairment in value has occurred. Residual values of the assets, estimated useful lives and depreciation methodology, are reviewed annually with prospective application of any changes, if deemed appropriate. Changes to estimates could be caused by a variety of factors, including changes to the physical life of the assets. A change in any of the estimates would result in a change in the amount of depreciation and, as a result, a charge to net income recorded in the period in which the change occurs, with a similar change in the carrying value of the asset on the Consolidated Statements of Financial Position. A 10% decrease in useful lives of Big Rock's property, plant and equipment would result in an additional depreciation charge to net income of $314.

3.2 Revenue recognition

Revenue is recognized either at a point in time or over a period of time, and when the revenue can be measured reliably.

Revenue from product sales is recognized at a point in time when the access to the benefits of Big Rock's products have been transferred to the buyer and no significant uncertainties remain regarding collection of the sales proceeds.

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, allowances, discounts, applicable federal and provincial production, environmental and excise taxes levied by provincial liquor boards and the federal government.

Product which has passed its expiration date for freshness or has been damaged and is returned by distributors is accepted and destroyed. Big Rock uses historical experience to estimate the number of returns on a product level using the expected value method.

Interest income is recognized as it accrues (taking into account the effective yield on the asset) unless collectability is in doubt.

Revenue recognition policy in prior years
Revenue is recognized on product sales at the time the product is shipped and when the following conditions exist: title has passed to the purchaser according to the shipping terms, the price is fixed and reasonably determinable, and collection of the sales proceeds is reasonably assured. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, allowances, discounts, applicable federal and provincial production, environmental and excise taxes levied by provincial liquor boards and the federal government.

3.3 Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received, and all related conditions are complied with. Government grants received in respect of expenditures are credited to income, netted against the expense to which they relate. Government grants in respect of capital expenditures are credited to the carrying amount of the related asset and are realized to income over the expended useful life of the related asset.

3.4 Accounts receivable

The majority of Big Rock's accounts receivable are from provincial government liquor authorities which issue weekly or monthly remittances on account. Given that terms are set and receivables over 90 days generally average between five and ten percent of total amounts owing, the Corporation has a policy of reviewing, reconciling and, if necessary, writing off balances older than one year.

3.5 Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using a weighted average cost method and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition to sell. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to complete and sell the products. If the net realizable value is less than cost, inventories are written down. If the net realizable value subsequently increases, a reversal of the loss initially recognized is applied to cost of sales.

Big Rock's inventories include: raw materials (materials and supplies to be consumed in the production process), brews in progress (in the process of production for sale), finished product held for sale in the ordinary course of business, consignment product which is consigned to provincial warehouses for sale and resale goods to be sold in the ordinary course of business in the dry-goods store.

(In thousands of Canadian dollars, unless otherwise stated)

3.6 Property, plant and equipment

Property, plant and equipment ("**PP&E**") are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of PP&E consists of the purchase price, any costs directly attributable to bring the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is provided at rates calculated to write-off the cost of PP&E, less their estimated residual value, using the straight-line method over the following expected useful lives:

Buildings	35-40 years
Machinery and equipment	5-40 years
Office furniture and equipment	5-15 years
Leasehold improvements	10-40 years

Depreciation of these assets commences when the assets are ready for their intended use. The Corporation conducts an annual assessment of the residual balances and useful lives being used for PP&E and any changes arising from the assessment are applied by the Corporation prospectively.

An item of PP&E is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the Consolidated Statements of Comprehensive Income.

3.7 Intangible assets

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses. The cost of an intangible asset consists of the purchase price plus any costs directly attributable to bringing the asset to the condition necessary for its intended use.

Amortization is provided at rates calculated to write-off the cost of intangible assets, less the estimated residual values, using the straight-line method over the following expected useful lives:

Computer software	3 years
Intellectual property	10 years
License	10 years
Website	6 years

Amortization of these assets commences when the assets are ready for their intended use. The Corporation conducts an annual assessment of the residual balances, useful lives and amortization methods being used for intangible assets and any changes arising from the assessment are applied by the Corporation prospectively.

An intangible asset is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the Consolidated Statements of Comprehensive Income.

3.8 Impairment of non-financial assets

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

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, net of depreciation and amortization, had no impairment loss been recognized for the cash-generating unit in prior periods.

3.9 Share-based payments

Under the Corporation’s share-based compensation plans, share-based awards may be granted to executives, employees and non-employee directors. Big Rock uses option pricing models that are determined to result in the best estimate of fair value for its cash-settled and equity-settled instruments, depending on the vesting conditions of the instruments. The Black-Scholes option pricing model is generally used to determine fair values for all instruments that vest over a period of time. For instruments that vest using market-based performance criteria, fair values are determined using a model which takes into account the probability of meeting certain price targets and the Black-Scholes value of underlying instruments at such targets.

Cash-settled transactions

Share-based compensation awards that settle in cash are accounted for as cash-settled plans and are measured at fair value each reporting period. The expense is recognized over the vesting period, with a corresponding adjustment to liabilities over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award.

The costs of cash-settled transactions with employees are initially measured by reference to the fair value at the date on which they are granted. The cumulative expense reflects the Corporation’s best estimate of the difference between the grant price of the instrument and the price of the Corporation’s shares at the date the instrument is ultimately exercised. When awards are surrendered for cash, the cash settlement paid reduces the outstanding liability. At the end of each reporting period, the fair value of the instruments is remeasured to fair value, with a charge or credit to compensation expense within general and administrative expense on the Consolidated Statements of Comprehensive Income and a corresponding increase or decrease to the liability on the Consolidated Statements of Financial Position.

Equity-settled transactions

The Corporation has a share option plan (the “**Share Option Plan**”) which permits the Board of Directors to grant options to acquire common shares of the Corporation (“**Common Shares**”) at the volume weighted average closing price for the five trading days preceding the date of grant. The Corporation is authorized to issue options up to a maximum of 10% of the issued and outstanding Common Shares pursuant to the Share Option Plan. Stock options that give the holder the right to purchase Common Shares are accounted for as equity-settled plans.

Under the Restricted Share Unit Plan (“**RSU Plan**”), the Board of Directors may issue a number of restricted share units **(“RSUs”)** to directors, officers, employees and consultants of the Corporation. The RSU Plan entitles grantees under the plan to receive Common Shares or the cash equivalent. The Corporation is authorized to issue RSUs up to a maximum of 10% of the issued and outstanding Common Shares pursuant to the RSU Plan. RSUs vest over a three year period, with one-third vesting on each of the first, second and third anniversary from the date of grant. RSUs are forfeited if the grantee leaves before the vesting date. The determination of settling the payout amount in Common Shares or the cash equivalent is at the option of the Board of Directors.

The expense is based on the fair value of the options and RSUs at the time of grant and is recognized over the vesting periods of the respective options and RSUs. The cumulative expense reflects the Corporation's best estimate of the number of equity instruments that will ultimately vest and following issuance, a corresponding increase is recorded to Contributed Surplus. Consideration paid to the Corporation on exercise of options is credited to Share Capital and the associated amount in Contributed Surplus is reclassified to Share Capital.

3.10 Taxation

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the Consolidated Statements of Financial Position.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the date of the Consolidated Statements of Financial Position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the Consolidated Statements of Financial Position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the Consolidated Statements of Financial Position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized, or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the date of the Consolidated Statements of Financial Position.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

3.11 Keg deposits

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

3.12 Per share amounts

Basic per share amount is calculated by dividing the net income by the weighted average number of Common Shares outstanding during the period. Diluted per share amount is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of Common Shares outstanding for the effects of dilutive potential Common Shares which comprise the exercise of share options. The calculation assumes that the proceeds on exercise of the options are used to repurchase Common Shares at the average market price during the period. Should the Corporation have a loss in a period, the options would be anti-dilutive and are excluded from the determination of fully diluted loss per Common Share.

3.13 Financial instruments

All financial instruments are recorded at fair value on initial recognition.

3.13 (a) Financial assets

Big Rock determines the classification of its financial assets at initial recognition. All financial assets are initially recorded at fair value plus directly attributable transaction costs.

Loans and Receivables: Loans and Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The subsequent measurement of such financial assets are carried at amortized cost using the effective interest rate method.

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument, or, where appropriate, a shorter period.

Gains and losses are recognized in the Consolidated Statements of Comprehensive Income when the assets are de-recognized or impaired. Cash and accounts receivable have been included in this category.

3.13 (b) Financial liabilities

Under both IFRS 9 and IAS 39, financial liabilities are recognized initially at fair value. The fair value on initial recognition is the fair value of the consideration received. Subsequent to initial recognition financial liabilities are measured at amortized cost using the effective interest rate method.

Financial liabilities comprise accounts payable and accrued liabilities, finance lease obligations, long-term debt and license obligations. Due to the short-term nature of account payable, carrying value is considered to approximate fair value.

3.13 (c) De-recognition of financial instruments

Financial assets are de-recognized when the contractual rights to the cash flow from the financial asset expire or when the contractual rights to those assets are transferred. A financial liability is de-recognized when the obligation is discharged, cancelled or expires. Gains and losses on de-recognition are recognized in income when incurred. Where an existing financial liability is replaced by another from the same lender, on substantially different terms, or the terms of an existing liability are substantially modified, the original liability is de-recognized, and the new liability is recognized with a difference in the carrying amounts recognized in the Consolidated Statements of Comprehensive Income.

Financial assets and liabilities are offset, and the net amount presented on the Consolidated Statements of Financial Position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability, simultaneously. Big Rock does not employ hedge accounting for its risk management contracts.

3.13 (e) Impairment of financial instruments

Big Rock assesses on a forward-looking basis the ECL associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, Big Rock applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

3.13 (f) Financial instruments policy in prior years

The Corporation has applied IFRS 9 retrospectively but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with Big Rock's previous accounting policy. All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held – to – maturity, available – for – sale, loans – and-receivables or at fair value through profit or loss FVTPL. Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through income.

Financial assets classified as loans – and – receivables and held – to – maturity are measured at amortized cost. Financial assets classified as available – for – sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income except for losses in value that are considered other than temporary. At December 30, 2018, the Corporation has not classified any financial assets as FVTPL.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other – financial liabilities ("**OFL**"). Financial liabilities classified as OFL are initially recognized at fair value less directly attributable transaction costs. After initial recognition, OFL are subsequently measured at amortized cost using the effective interest method.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the Consolidated Statements of Comprehensive Income.

Financial assets are assessed for impairment at each reporting date to determine whether there is any objective evidence that they are impaired, which would indicate one or more events have had a negative effect on the estimated future cash flows of the asset and will not be realized. For loans and receivables, the amount of impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. If there is impairment, the carrying amount of the financial asset is reduced by the impairment loss, except for trade receivables where the carrying amount is reduced through the use of an allowance account. The loss is recognized in the Consolidated Statements of Comprehensive Income. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the Consolidated Statements of Comprehensive Income.

3.14 Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as a finance cost.

(In thousands of Canadian dollars, unless otherwise stated)

3.15 Leases

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

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all of the risks and rewards incidental to ownership to the Corporation is classified as a finance lease. Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the Consolidated Statements of Comprehensive Income.

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

Operating lease payments are recognized as an operating expense in the Consolidated Statements of Comprehensive Income on a straight-line basis over the lease term. Lease incentives are initially recorded as a liability on the Consolidated Statements of Financial Position and amortized on a straight line-basis to expenses over the lease term in accordance with *SIC 15 Operating Leases – Incentives.*

4. NET REVENUE

	Year Ended December 30	
	2019	2018
Gross product revenues	$ 65,116	$ 66,983
Federal excise taxes	(5,443)	(6,003)
Provincial liquor tax programs	(17,020)	(12,232)
Net revenue	**$ 42,653**	$ 48,748

Gross product revenues include the sale of wholesale beer, cider and licensed alcoholic beverages, retail store and restaurant sales and can sourcing for a third party. Net revenue includes gross revenues less federal excise taxes and provincial liquor tax charges. Federal excise taxes are assessed on annual world-wide production of beer at tiered rates up to $33.03 (2018 - $32.32) per hectolitre and on flavoured cider production at $31.30 (2018 - $30.60) per hectolitre.

Provincial liquor tax programs include charges paid to provincial liquor control boards to cover distributions and other service charges. During 2019, Big Rock received grant proceeds of $nil (2018 - $10,928) through the ASBD Grant Program of which $nil (2018 - $10,857) has been included in provincial liquor tax programs charges. Effective September 13, 2019, the Alberta Gaming, Liquor and Cannabis Commission ("**AGLC**") amended the Alberta beer mark-up framework to a gradual beer mark-up structure that reduces the mark-up for beer producers with production less than 400,000 hectolitres, such as Big Rock.

(In thousands of Canadian dollars, unless otherwise stated)

5. COST OF SALES

Cost of sales is broken down into its cash and non-cash components as follows:

	Year Ended December 30	
	2019	2018
Operating expenses	$ 21,602	$ 18,573
Salaries and benefits	5,923	6,687
Depreciation and amortization	2,792	2,676
Cost of sales	**$ 30,317**	$ 27,936

6. SELLING EXPENSES

Selling expenses include the following:

	Year Ended December 30	
	2019	2018
Delivery and distribution costs	$ 3,627	$ 3,884
Salaries and benefits	3,501	4,138
Marketing and sales	4,219	5,540
Selling expenses	**$ 11,347**	$ 13,562

7. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include the following:

	Year Ended December 30	
	2019	2018
Salaries and benefits	$ 2,986	$ 3,153
Professional fees	1,016	972
Other administrative expenses	1,554	1,670
General and administrative expenses	**$ 5,556**	$ 5,795

During the year ended December 30, 2019, Big Rock recorded $476 (2018 - $nil) in relation to its restructuring activities.

8. FINANCE EXPENSES

Finance expenses include the following:

	Year Ended December 30	
	2019	2018
Interest on operating facility	$ 18	$ 3
Interest on long term debt	383	324
Finance expenses	**$ 401**	$ 327

(In thousands of Canadian dollars, unless otherwise stated)

9. INCOME TAXES

Income tax expense (recovery) is comprised of the following:

	Year Ended December 30	
	2019	2018
Current tax expense (recovery)	$ 90	$ (71)
Deferred tax (recovery) expense	(1,956)	333
Income tax (recovery) expense	**$ (1,866)**	$ 262

The following table reconciles the estimated income tax expense using a weighted average Canadian federal and provincial tax rate of 26.57% (2018 – 27.07%) to the reported tax expense. The reconciling items represent, aside from the impact of tax rate differentials and changes, non-taxable benefits or non-deductible expenses arising from permanent differences between the local tax base and the reported Consolidated Financial Statements, in accordance with IFRS.

	Year Ended December 30	
	2019	2018
(Loss) income before income taxes	$ (4,789)	$ 622
Income tax (recovery) expense at statutory rate of 26.57% (2018 – 27.07%)	(1,272)	169
Effect on taxes of:		
Share-based payments	58	63
Non-deductible expenses	37	57
True-up of opening timing differences	(191)	(24)
Non-taxable portion of capital gain	—	(2)
Change in tax rate	(577)	—
Other	79	—
Income tax (recovery) expense	**$ (1,866)**	$ 263

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

	Property, plant and equipment	Share & Debt issue costs	Deferral of partnership income	Other	Total
As at December 30, 2018	$ 5,581	$ (5)	$ 392	$ (1,176)	$ 4,792
Charged to the Consolidated Statements of Comprehensive Income	(571)	4	(1,869)	480	(1,956)
As at December 30, 2019	**$ 5,010**	**$ (1)**	**$ (1,477)**	**$ (696)**	**$ 2,836**

(In thousands of Canadian dollars, unless otherwise stated)

10. PER SHARE AMOUNTS

The calculation of per share amounts is based on the following:

	Year Ended December 30	
	2019	2018
Net (loss) income	$ (2,922)	$ 360
Basic:		
Shares outstanding, beginning and end of the year	6,981,628	6,981,628
Effect of stock options outstanding	—	—
Diluted number of shares outstanding, end of the year	6,981,628	6,981,628
Per share amounts:		
Basic	$ (0.42)	$ 0.05
Diluted	$ (0.42)	$ 0.05

11. ACCOUNTS RECEIVABLE

The Corporation’s receivables arise from three main sources: trade receivables from the sale of beer and cider to provincial liquor boards, supplier rebates and other amounts. Other receivables include amounts due from sales to grocery and retail customers and GST balances. The solvency of customers and their ability to pay their receivables was considered in assessing the impairment of accounts receivable. No collateral is held for impaired receivables or for receivables that are past due but not impaired.

The accounts receivable balances are comprised of:

	As at December 30	
	2019	2018
Provincial liquor boards	$ 916	$ 3,149
Other receivables	782	279
Expected credit loss provision	(53)	(44)
Total accounts receivable	**$ 1,645**	$ 3,384

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

	As at December 30	
	2019	2018
Less than 30 days	$ 908	$ 2,635
30 – 60 days	494	173
60 - 90 days	2	278
Over 90 days	241	298
Total accounts receivable	**$ 1,645**	$ 3,384

(In thousands of Canadian dollars, unless otherwise stated)

12. INVENTORIES

Inventories are categorized as follows:

	As at December 30	
	2019	2018
Raw materials and containers	$ 1,670	$ 1,608
Brews in progress	912	983
Finished product	1,109	2,245
Consignment product	395	475
Retail store	77	93
Total inventories	**$ 4,163**	$ 5,404

During the year ended December 30, 2019, charges of $775 (2018 - $408) were recorded to the Consolidated Statements of Comprehensive Income relating to obsolete inventories. There were no reversals of amounts previously charged to income in respect of inventory write-downs during the years ended December 30, 2019 and 2018.

13. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Office furniture and equipment	Leasehold improvem-ents	Total
Cost						
As at December 30, 2017	$ 6,475	$21,136	$ 31,888	$ 2,530	$ 250	$ 62,279
Additions	—	(12)	1,950	55	20	2,013
Disposals	—	—	(135)	(6)	—	(141)
As at December 30, 2018	6,475	21,124	33,703	2,579	270	64,151
Additions	—	3	718	56	—	777
Disposals	—	—	(5)	—	—	(5)
As at December 30, 2019	$ 6,475	$21,127	$ 34,416	$ 2,635	$ 270	$ 64,923
Accumulated Depreciation						
As at December 30, 2017	$ —	$ 2,797	$ 13,920	$ 1,210	$ 124	$ 18,051
Charge	—	764	1,805	373	21	2,963
Disposals	—	—	(27)	(2)	—	(29)
As at December 30, 2018	—	3,561	15,698	1,581	145	20,985
Charge	—	770	1,886	396	10	3,062
Disposals	—	—	—	—	—	—
As at December 30, 2019	$ —	$ 4,331	$ 17,584	$ 1,977	$ 155	$ 24,047
Net book value						
As at December 30, 2018	$ 6,475	$17,563	$ 18,005	$ 998	$ 125	$ 43,166
As at December 30, 2019	**$ 6,475**	**$16,796**	**$ 16,832**	**$ 658**	**$ 115**	**$ 40,876**

At December 30, 2019, the balance of assets under construction and not subject to depreciation was $163 (2018 - $889). At December 30, 2019, property, plant and equipment included finance leases with a net book value of $2,075 (2018 - $2,206), see Note 18. There were no indicators of impairment in the carrying value of the Corporation's property, plant and equipment noted as at December 30, 2019 and 2018.

(In thousands of Canadian dollars, unless otherwise stated)

14. INTANGIBLE ASSETS

Intangible assets are broken down as follows:

	Computer software	Brewing license	Intellectual property	Website costs	Total
Cost					
As at December 30, 2017	$ 759	$ —	$ 219	$ 226	$ 1,204
Additions	136	1,885	38	9	2,068
As at December 30, 2018	895	1,885	257	235	3,272
Additions	177	—	(1)	—	176
As at December 30, 2019	$ 1,072	$ 1,885	$ 256	$ 235	$ 3,448
Accumulated amortization					
As at December 30, 2017	$ 466	$ —	$ 150	$ 22	$ 638
Charge	150	39	20	29	238
As at December 30, 2018	616	39	170	51	876
Charge	31	188	9	35	263
As at December 30, 2019	$ 647	$ 227	$ 179	$ 86	$ 1,139
Net book value					
As at December 30, 2018	$ 279	$ 1,846	$ 87	$ 184	$ 2,396
As at December 30, 2019	**$ 426**	**$ 1,658**	**$ 75**	**$ 150**	**$ 2,309**

As at December 30, 2019 and 2018, there were no indicators of impairment noted in the carrying value of the Corporations intangible assets and no provision is recorded. As at December 30, 2019, $222 (2018 - $222) is not subject to amortization.

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

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

	As at December 30	
	2019	2018
Less than 30 days	$ 2,861	$ 4,442
30 – 60 days	136	136
60 – 90 days	—	47
Over 90 days	52	57
Total accounts payable and accrued liabilities	**$ 3,049**	$ 4,682

16. BANK INDEBTEDNESS AND LONG-TERM DEBT

On December 30, 2016, Big Rock signed a commitment letter to revise the Corporation's bank debt. The Corporation has a $5 million revolving operating loan facility (the **"Operating Facility"**) and a $6 million 5-year revolving term loan facility (the **"Term Debt"**). The Operating Facility is available for general operating purposes and funding capital expenditure requirements. The Term Debt is available to fund capital expenditures. Advances under both credit facilities may be made by way of Canadian prime rate loans and letters of credit. Interest is payable for prime-based loans under the Operating Facility at the financial institution's prime rate plus 0.75 percent and on the Term Debt at the financial institution's prime rate plus 1.5 percent. Fees for letters of credit are at 2.5 percent with a minimum fee payable.

(In thousands of Canadian dollars, unless otherwise stated)

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

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

As at December 30, 2019, bank indebtedness was $1,532 (2018 - $163), of which $870 (2018 - $nil) was outstanding on the Operating Facility.

	As at December 30	
	2019	2018
Term debt	$ 3,385	$ 3,778
Debt issue costs	(3)	(13)
	3,382	3,765
Current portion	(447)	(409)
Long term debt	**$ 2,935**	$ 3,356

17. LICENSE OBLIGATION

	As at December 30	
	2019	2018
License obligation	$ 1,705	$ 1,720
Gain on liability modification	(1,010)	—
	695	1,720
Current portion	(185)	(138)
License obligation	**$ 510**	$ 1,582

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

(In thousands of Canadian dollars, unless otherwise stated)

18. FINANCE LEASE

As at	December 30, 2019			December 30, 2018		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	$ 439	$ 72	$ 367	$ 443	$ 96	$ 347
Between one and five years	1,189	55	1,134	1,649	149	1,500
	1,628	127	1,501	2,092	245	1,847
Reported as:						
Current portion			$ 367			$ 347
Long term portion			1,134			1,500
Present value of finance lease			**$ 1,501**			$ 1,847

On January 25, 2017, the Corporation converted its $2.5 million finance facility to a sale and leaseback arrangement. The lease agreement matures after a term of five years with a fixed interest rate of 5.42%. Lease repayments are fixed, and no arrangements have been entered into for contingent rental payments. As of December 30, 2019, the net carrying amount of the leased assets is $2,075 (December 30, 2018 – $2,206). The depreciation of the assets recorded under the finance lease is included in the cost of sales on the Consolidated Statements of Comprehensive Loss. The obligation under finance lease is secured by the lessor's rights over the leased assets.

19. LEASE INCENTIVE LIABILITY

At December 30, 2019, Big Rock had a lease incentive liability of $287 (2018 - $260) associated with the Corporation's building leases. Amortization is recorded on a straight-line basis over the term of the leases and included in expenses.

20. SHARE CAPITAL

Big Rock is authorized to issue an unlimited number of Common Shares with no par value.

	As at December 30			
	2019		2018	
	# of shares	$ Amount	# of shares	$ Amount
Outstanding, beginning of year	6,981,628	113,845	6,981,628	113,845
Outstanding, end of year	6,981,628	113,845	6,981,628	113,845

21. ACCUMULATED DEFICIT

During 2018, the Corporation made an adjustment to 2017 opening accumulated deficit and accounts receivable as it was determined that revenue related to the recently discontinued ASBD grant program had been under accrued in 2016. This adjustment is not significant to the Consolidated Financial Statements. Because of the adjustment, opening accumulated deficit decreased by $1,110 with a corresponding increase to accounts receivable as at December 30, 2016.

22. SHARE-BASED PAYMENTS

Share based compensation expense, included in general and administrative expenses and recognized in the Consolidated Statements of Comprehensive Income for the years ended December 30, 2019 and 2018 include:

(In thousands of Canadian dollars, unless otherwise stated)

	Year Ended December 30			
	2019		2018	
Equity-settled plans	$	217	$	231
Cash-settled plans		(112)		(163)
Total share-based compensation expense	**$**	**105**	$	68

Liability recognized for share-based compensation recognized on the Consolidated Statements of Financial Position:

	As at December 30			
	2019		2018	
Share-based payments - current	$	325	$	433
Share-based payments – long term		23		45
Total liability	**$**	**348**	$	478

22.1 Share Option Plan

22.1 (a) Time Vesting Options

Share options granted in 2019 vest over four years, with one fifth vesting immediately, followed by one fifth vesting on each subsequent anniversary date. Options granted prior to 2017 vested immediately. All options are exercisable for five years after grant date.

The following is a summary of option transactions under the Share Option Plan:

	December 30, 2019			December 30, 2018		
As at	# of options	Weighted average exercise price ($)	Remaining life (years)	# of options	Weighted average exercise price ($)	Remaining life (years)
Balance, beginning of period	260,000	6.05		75,000	7.75	
Granted	25,000	6.75		185,000	5.36	
Balance, end of period	285,000	6.11	3.31	260,000	6.05	4.21
Exercisable, end of period	124,000	6.29	3.19	67,000	6.43	4.09

The weighted average fair value of options granted in 2019 was estimated using the Black-Scholes option pricing model using the following assumptions:

	Year Ended December 30	
	2019	2018
Weighted average exercise price ($/share)	6.75	5.36
Weighted average fair value ($)	2.78	2.09
Risk-free interest rate (%)	1.47	2.09
Expected life (years)	4.23	4.23
Dividend yield (%)	—	—
Forfeiture rate (%)	—	—
Volatility (%)	44.99	39.80

22.1 (b) Performance Options

During the year, there were no performance stock options granted. During the year ended December 30, 2017, 69,000 performance stock options were granted at an exercise price of $6.50 per option and expire in five years. The options vest in tranches of one-third upon the closing price of the Corporation's Common Shares equalling or exceeding $8.50, $10.50 and $11.50 per share, respectively. None of the options were exercisable at December 30, 2019.

(In thousands of Canadian dollars, unless otherwise stated)

22.2 Share Appreciation Rights Plan

Under the Share Appreciation Rights Plan ("**SARs Plan**"), the Board of Directors may issue an unlimited number of share appreciation rights ("**SARs**"). The SARs are exercisable for five years after grant date. The exercise of SARs is settled in cash. SARs granted in 2019 vest over a three-year period, with one-third vesting immediately, one-third vesting on the first anniversary date and one-third vesting on the second anniversary date. SARs granted prior to 2017 vested immediately.

22.2 (a) Time Vesting SARs

The following is a summary of transactions under the SARs Plan:

	December 30, 2019			December 30, 2018		
As at	# of SARs	Weighted average exercise price ($)	Remaining life (years)	# of SARs	Weighted average exercise price ($)	Remaining life (years)
Balance, beginning of period	406,802	7.50		575,900	9.25	
Granted	118,260	5.11		166,350	5.08	
Exercised	(18,381)	5.19		(37,445)	5.64	
Forfeited	(8,834)	6.62		(238,703)	8.55	
Expired	(58,300)	16.49		(59,300)	14.98	
Balance, end of period	439,547	5.78	3.09	406,802	7.50	3.02
Exercisable, end of period	316,601	6.04	2.58	270,611	8.44	2.45

The weighted average fair value of the SARs granted in 2019 was estimated using the Black-Scholes option pricing model using the following assumptions:

	Year Ended December 30	
	2019	2018
Weighted average exercise price ($/share)	5.11	5.08
Weighted average fair value ($)	2.09	2.52
Risk-free interest rate (%)	1.65	1.87
Expected life (years)	4.89	4.52
Dividend yield (%)	—	—
Forfeiture rate (%)	22.61	—
Volatility (%)	45.57	43.13

22.2 (b) Performance SARs

During the year ended December 30, 2019 and year ended December 30, 2018, there were no performance vesting SARS issued. During the year ended December 30, 2017, 81,000 performance vesting SARs were granted at an exercise price of $6.50 per right and expire in five years. The SARs vest in tranches of one-third upon the closing price of the Corporation's Common Shares equalling or exceeding $8.50, $10.50 and $11.50 per share, respectively. None of the SARs were exercisable at December 30, 2019.

(In thousands of Canadian dollars, unless otherwise stated)

22.3 Restricted Share Unit Plan

The following is a summary of transactions under the RSU Plan:

	December 30, 2019		December 30, 2018	
As at	# of RSUs	Remaining life (years)	# of RSUs	Remaining life (years)
Balance, beginning of period	–	–	–	–
Granted	111,310	2.89	–	–
Balance, end of period	111,310	2.89	–	–
Exercisable, end of period	–	–	–	–

The weighted average fair value of RSUs granted in 2019 was estimated using the Black-Scholes option pricing model using the following assumptions:

	Year Ended December 30	
	2019	2018
Market Price at grant ($)	5.07	–
Risk-free interest rate (%)	1.43	–
Dividend yield (%)	–	–
Forfeiture rate (%)	–	–
Volatility (%)	42.62	–

23. CAPITAL RISK MANAGEMENT

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

	As at December 30	
	2019	2018
Cash	$ (354)	$ (1,902)
Total debt[1]	7,110	7,495
Shareholders' equity:		
Shareholders' capital	113,845	113,845
Contributed surplus	1,795	1,578
Accumulated deficit	(79,761)	(76,839)
Total shareholders' equity	35,879	38,584
Total capitalization (total debt plus shareholders' equity, net of cash balances)	**$ 42,635**	$ 44,177

[1] Includes bank indebtedness, long term debt, obligations under finance leases; and license obligations.

The Corporation manages the capital structure through prudent levels of borrowing, cash-flow forecasting, and working capital management. Adjustments are made by considering changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, Big Rock may issue new shares, issue or renegotiate its debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents. Capital requirements of the Corporation are managed by the preparation of an annual expenditure budget which is approved by the Board of Directors and monitored on a regular basis by management. The budget is updated as necessary depending on numerous factors, including capital deployment, results from operations, general industry conditions and government policy changes.

(In thousands of Canadian dollars, unless otherwise stated)

In addition, the Corporation monitors its capital using ratios of (i) net debt (debt less cash) to earnings before interest, taxes, depreciation and amortization ("**EBITDA**") and (ii) EBITDA to interest, debt repayments and dividends. Net debt to EBITDA is calculated by dividing net debt by EBITDA. EBITDA to interest, debt repayments and dividends is calculated by dividing EBITDA by the combined interest, debt repayments and dividend amounts. These capital management policies, which remain unchanged from prior periods, provide Big Rock with access to capital at a reasonable cost.

24. FINANCIAL INSTRUMENTS

24.1 Fair value

Financial instruments recorded in the Consolidated Statements of Financial Position are categorized based on the fair value hierarchy of inputs. The three levels of the fair value hierarchy are described as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. Big Rock does not use Level 1 inputs for any of its fair value measurements.

Level 2 – Inputs, other than quoted prices in active markets, that are observable for the asset or liability either directly or indirectly. Big Rock's Level 2 inputs include quoted market prices for interest rates and credit risk premiums. Big Rock obtains information from sources including the Bank of Canada and market exchanges. Big Rock uses Level 2 inputs for all of its financial instruments fair value measurements.

Level 3 – Inputs that are not based on observable market data. Big Rock does not use Level 3 inputs for any of its fair value measurements.

24.2 Categories of financial instruments

The Corporation's principal financial instruments are its outstanding amounts drawn from its credit facilities, which, after cash flow from operations, are its main source of financing. Financial assets and liabilities arising directly from its operations and Big Rock's activities include accounts receivable, income tax receivable (payable), bank indebtedness, accounts payable and accrued liabilities, long term debt, finance lease, and share-based payments liabilities.

Big Rock's financial instruments and their designations are:

		As at December 30			
Classification of Financial Instrument	**Designated as**	**2019**		2018	
		Carrying Amount ($)	**Fair Value Amount ($)**	**Carrying Amount ($)**	**Fair Value Amount ($)**
Financial assets					
Cash	—	354	354	1,902	1,902
Accounts receivable	Loans and receivables	1,645	1,645	3,384	3,384
Financial liabilities					
Bank indebtedness	Amortized cost	1,532	1,532	163	163
Accounts payable and accrued liabilities	Amortized cost	3,049	3,049	4,682	4,682
Income taxes payable	Amortized cost	273	273	449	449
Long term debt	Amortized cost	3,382	3,385	3,765	3,778
License obligation	Amortized cost	695	695	1,720	1,720
Finance lease	Amortized cost	1,501	1,501	1,847	1,847

24.3 Financial risk management objectives and policies

The Corporation's financial instruments include cash, accounts receivable, current taxes recoverable (payable), accounts payable and accrued liabilities and amounts due on its line of credit facilities and finance lease obligations. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) *Foreign exchange risk*
The Corporation currently relies on only a few foreign suppliers providing small amounts of goods and thus has limited exposure to risk due to variations in foreign exchange rates. The Corporation has not entered into any derivative instruments to manage foreign exchange fluctuations; however, management monitors foreign exchange exposure. The Corporation does not have any significant foreign currency denominated monetary liabilities.

Foreign currency sensitivity analysis
An increase or decrease in US currency foreign exchange of 3% percent would result in a change to net income for the year ended December 30, 2019 of $32 (2018 – $35).

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

The Corporation has not entered into any derivative instruments to manage interest rate fluctuations; however, management monitors interest rate exposure and given the relatively low expected rate of change in prime interest rates, believes the risk is immaterial.

Big Rock evaluates the policies surrounding interest rates on an as-needed basis and is confident that this policy is sufficient based on current economic conditions, combined with the minimal amount of debt required by the Corporation. The fair value interest rate risk on bank deposits is insignificant as the deposits are short-term and the fair value of the Corporation's long-term debt does not change as interest rates change. The weighted average interest rate incurred by the Corporation in the year ended December 30, 2019 was 5.67% (2018 – 4.58%).

Interest rate sensitivity analysis
In the event interest rates changed by 75 basis points, the Corporation's net income for the year ended December 30, 2019 would be affected by $52 (2018 – $51). The sensitivity analysis assumes the change takes place at the beginning of the financial year and is held constant throughout the reporting period.

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

The credit quality of the Corporation's significant customers is monitored regularly, and allowances are provided for potential losses that have been incurred at the period end date. Receivables that are neither past due, nor impaired are considered collectible. Where concentrations of credit risk exists, management monitors the receivable balances closely to ensure appropriate controls are in place to ensure recovery.

(In thousands of Canadian dollars, unless otherwise stated)

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

Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Corporation's operations. The table presents a maturity analysis of the Corporations financial liabilities based on the expected cash flow from the reporting date to the contractual maturity date:

	Carrying Amount	Due within one year	Due in one to five years	Due greater than five years
Accounts payable and accrued liabilities	$ 3,049	$ 3,049	$ —	$ —
Bank indebtedness	742	742	—	—
Long term debt	3,382	447	1,992	946
License obligation	695	185	510	—
Finance lease	1,501	367	1,134	—
Total contractual repayments	**$ 9,369**	**$ 4,790**	**$ 3,636**	**$ 946**

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

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

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

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

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

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

(In thousands of Canadian dollars, unless otherwise stated)

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

25. KEY MANAGEMENT PERSONNEL COMPENSATION

Key management includes members of the Board of Directors, President and Chief Executive Officer, Chief Financial Officer, Vice President, Operations, Vice President, Sales and the Director, Business Development and Government Relations. The remuneration is included in cost of sales and general and administrative expenses and is comprised as follows:

	Year Ended December 30	
	2019	2018
Salaries and other short-term benefits	$ 1,201	$ 1,417
Share-based compensation	123	97
Total compensation	**$ 1,324**	$ 1,514

26. CHANGE IN NON-CASH WORKING CAPITAL

	Year Ended December 30	
	2019	2018
Accounts receivable	$ 1,739	$ (220)
Inventory	1,241	(418)
Current income taxes	(176)	197
Prepaid expenses	53	(119)
Accounts payable and accrued liabilities	(1,633)	1,209
Share-based payment liabilities	(19)	(19)
Total change in non-cash working capital	**$ 1,205**	$ 630

27. SEGMENTED INFORMATION

For management purposes, the Corporation is organized into operating segments based on its products, services, location and distribution methods. Ten operating segments have been identified. These segments have been aggregated into two reportable segments: the wholesale segment, which manufactures and distributes beer and cider to and through, provincial liquor boards which is subsequently sold on to end consumers and the retail segment, which sells beverages, food and merchandise to end consumers on premises owned and/or operated by the Corporation.

The wholesale segment has similar production processes, types of customers and products that are shipped to customers rather than sold on-site. The retail segment has been aggregated to reflect the products and services sold directly to the end consumer through premises owned and operated by Big Rock.

Management monitors the results of its operating segments separately for making decisions about resource allocation and performance assessment. Segment performance is evaluated on a number of measures, the most significant being profit or loss, which is measured consistently with the definition of profit or loss in the Consolidated Financial Statements. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

(In thousands of Canadian dollars, unless otherwise stated)

Operating assets and liabilities are managed on a corporate basis. General and administrative expenses, current taxes, deferred taxes and capital expenditures are not allocated to segments as they are also managed on a corporate basis. Inter-segment revenues are eliminated on consolidation and are reflected in the "eliminations" column. All other adjustments and eliminations are part of detailed reconciliations presented below.

Profit by Segment

Year ended December 30	Wholesale 2019	Wholesale 2018	Retail 2019	Retail 2018	Eliminations 2019	Eliminations 2018	Consolidated **2019**	Consolidated 2018
Net Revenue	$ 40,851	$ 47,144	$ 2,353	$ 2,245	$ (551)	$ (641)	**$ 42,653**	$ 48,748
Cost of sales	28,156	25,351	2,712	3,226	(551)	(641)	**30,317**	27,936
Gross profit	12,695	21,793	(359)	(981)	–	–	**12,336**	20,812
Selling expenses	11,336	13,537	11	25	–	–	**11,347**	13,562
Segment profit (loss)	$ 1,359	$ 8,256	$ (370)	$ (1,006)	$ –	$ –	**989**	7,250
General and administrative cost							**5,556**	5,795
Depreciation and amortization							**533**	524
Operating (loss) income							**(5,100)**	931
Finance expense							**401**	327
Other income							**713**	18
(Loss) Income before income taxes							**$ (4,788)**	$ 622

28. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

Big Rock has entered into various commitments for expenditures over the next five years:

	2020	2021	2022	2023	2024	thereafter
Utilities contracts	$ 30	$ 30	$ –	$ –	$ –	$ –
Raw material purchase commitments	2,967	259	244	216	216	–
Marketing sponsorships	369	281	108	–	–	–
Operating leases	758	765	775	775	555	135
Long-term debt	433	458	484	511	539	909
License obligation	185	193	202	114	–	–
Finance lease	367	387	747	–	–	–
Total	**$ 5,109**	**$ 2,373**	**$ 2,560**	**$ 1,616**	**$ 1,310**	**$ 1,044**

Big Rock has entered into operating lease agreements for storage facilities, warehouses, breweries, and retail locations. The remaining terms of these leases range between 4 and 5 years. Certain leases contain extension and renewal options. Operating lease payments of $669 (2018 - $736) were recognized as expense in the Statement of Comprehensive Income in 2019.

CORPORATE INFORMATION

Leadership Team

Wayne Arsenault
President & Chief Executive Officer

Don Sewell
Chief Financial Officer

Paul Gautreau
Vice President, Operations & Brewmaster

Paul Howden
Vice President, Sales

Brad Goddard
Director, Business Development & Government Relations

Auditors

Ernst & Young, LLP
Calgary, City Centre
2200 215 2nd Street SW
Calgary, Alberta
T2P 1M4 Canada

Transfer Agent

Computershare Trust Company of Canada 600,
530 8th Avenue SW
Calgary, Alberta
T2P 3S8 Canada

Board of Directors

Michael G. Kohut (1)
Chair of the Board
Calgary, Alberta

Kathleen McNally-Leitch (3)
Chair, Corporate Governance Committee
Calgary, Alberta

P. Donnell Noone (1) (2) (3)
Greensboro, North Carolina, USA

Stephen J. Giblin (1)
Chair of Audit Committee
Vancouver, British Columbia

Alanna McDonald (2) (3)
Harrison, New York, USA

James Riddell (2)
Chair, Compensation & Human Resources Committee
Calgary, Alberta

(1) Audit Committee member

(2) Compensation & Human Resources Committee member

(3) Corporate Governance Committee member

BiG ROCK

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