




WATERLOO

BREWING


2020 ANNUAL REPORT



As we were writing this annual report, our community, country, and the entire world are dealing with matters of far greater consequence than the performance of any one business.

We are grateful beyond words to everyone who works here at Waterloo Brewing for everything you did, and continue to do to keep our brewery safe and operational during the COVID crisis. You are allowing us to get us through it. We're going to emerge far stronger as a team and a company as a result.

Although the purpose of this report is to share our pride in the financial performance of our company, it's the admirable work ethic and tenacity of our people during this crisis that is a source of immense pride.



YEAR ENDED JANUARY 31, 2020

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A Standout in the Brewing Crowd

When your company was founded in 1984 there were just over a dozen breweries operating in Canada. Today there are 1,123. Despite the tremendous increase in competitors, total national beer sales have been going in the opposite direction. In this massive and financially valuable beer category, most breweries are not growing. In this crowd, there is one standout: Waterloo Brewing.

We closed the year with \$60.3 million in revenue (+12% versus the prior year) and EBITDA excluding one-time costs of \$12.0 million (+19%). For the second consecutive year, we surpassed \$100M in sales landing at an outstanding \$118.7 million in gross revenue. Standing out further still as the only Canadian craft beer stock offering a dividend.

The Company's growth engines are all delivering. LandShark® Lager, in its fourth full year since launch, grew to 30,000 hectolitres, becoming a formidable player in the premium beer segment. Our Waterloo craft division delivered resilient volume growth despite the number of craft breweries growing to over 300 in Ontario. Laker, the resolute pillar of our business, delivered +20% versus the previous year, growing to over 210,000 hectolitres. That kind of growth is simply remarkable for a mature brand in a declining category and testament to the consistent sales and marketing approach we've taken on the Laker brand over the last several years.

The final driver to our growth and profitability is having established ourselves as the co-pack partner of choice for high-growth brands. The significant contracts we have with several large brewers, numerous craft brewers, Carlsberg Canada for their wildly popular Somersby Cider and others generate not only revenue and profit on their own, but dramatically improve capacity utilization and overall profitability. For large beverage makers and brewers seeking to compete in craft and niche segments, the wide-ranging capabilities of our world-class facility position us as the solution of choice.

The choices we made for growth and profit are delivering strong results and we will remain focused on our owned brands and increasing our share of the beverage alcohol market in Ontario. To reinforce our local roots in our hometown of Kitchener-Waterloo and to accelerate the growth of our craft portfolio, last year we opened our stunning small-batch brewery, taphouse and expanded retail store. These invaluable assets have already helped us dramatically increase our local presence and have directly contributed to the success of our recently launched beer delivery service.

We started as a microbrewery, but our ambitions back then were anything but small. Today our dreams are greater than ever, and the reasons to believe in our continued success are many. We will continue to be the hardest-working brewery in Ontario, motivated to be a great employer, a helpful neighbour to our local community and a creator of great value for our owners. Thank you for all your support over the years and for all that's yet to come.

Cheers,



George H. Croft
President and CEO, Waterloo Brewing Ltd.



MANAGEMENT'S DISCUSSION & ANALYSIS

Year Ended January 31, 2020 and 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") provides a review of the activities, results of operations and financial condition of Waterloo Brewing Ltd. (the "Company" or "Waterloo"), formerly Brick Brewing Co. Limited, for the twelve months ended January 31, 2020 ("fiscal 2020") in comparison with the twelve months ended January 31, 2019 ("fiscal 2019"). These comments should be read in conjunction with the audited financial statements for fiscal 2020 and fiscal 2019 and accompanying notes included therein, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A has been prepared as of April 8, 2020. Additional information relating to the Company, including its annual information form, is available at www.sedar.com or in the investor relations section of the Company's website at www.waterloobrewing.com.

FORWARD-LOOKING STATEMENTS

Except for the historical information contained herein, the discussion in this MD&A contains certain forward-looking statements that involve risks and uncertainties, such as statements of the Company's plans, objectives, strategies, expectations and intentions and include, for example, the statements concerning expected volumes, earnings before interest, taxes, depreciation and amortization and share-based payments ("EBITDA*"), operating efficiencies, costs, expansion of its facilities, and plans to produce cannabis-infused beverages. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "anticipate", "seek", "plan", "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. Although the Company believes that the expectations and assumptions reflected in these forward-looking statements are reasonable, undue reliance should not be placed on these forward-looking statements. These forward-looking statements are not guarantees and reflect the Company's views as of April 8, 2020, with respect to future events. Future events are subject to certain risks, uncertainties and assumptions, which may cause actual performance and financial results to differ materially from such forward-looking statements. The forward-looking statements, including the statements regarding expected volumes, EBITDA*, operating efficiencies and costs are based on, among other things, the following material factors and assumptions: sales volumes in the fiscal year ending January 31, 2021 ("fiscal 2021") will increase; no material changes in consumer preferences; brewing, blending, and packaging efficiencies will improve; the cost of input materials for brewing and blending will increase; competitive activity from other manufacturers will continue; no material change to the regulatory environment in which the Company operates and no material supply, cost or quality control issues with vendors. Readers are urged to consider the foregoing factors and assumptions when reading the forward-looking statements and for more information regarding the risks, uncertainties and assumptions that could cause the Company's actual financial results to differ from the forward-looking statements, to also refer to the remainder of the discussion in this MD&A, the Company's annual information form and various other public filings as and when released by the Company. The forward-looking statements included in this MD&A are made only as of April 8, 2020 and, except as required by applicable securities laws, the Company does not undertake to publicly update such forward-looking statements to reflect new information, future events or otherwise.

* EBITDA is a non-IFRS earnings measure, therefore it does not have any standardized meaning prescribed by International Financial Reporting Standards and may not be similar to measures presented by other companies. EBITDA represents earnings before interest, income taxes, depreciation and amortization, loss on misappropriated funds, gain or loss on disposal of property, plant, and equipment and right of use assets, and share-based payments. Management uses this measurement to evaluate the operating results of the Company. This measure is also important to management since it is used by the Company's lenders to evaluate the ongoing cash-generating capability of the Company and therefore the amounts those lenders are willing to lend to the Company. Investors find EBITDA to be useful information because it provides a measure of the Company's operating performance.

DESCRIPTION OF THE BUSINESS

Products

The Company produces, sells, markets and distributes packaged and draft beer, cider, and spirit-based beverages under its own trademarks, as well as under license. The Company also produces products for other manufacturers under co-packaging arrangements.

The Company's products include packaged and draft premium beer under the Waterloo brand name, and value beer under the Laker and Red Cap brand names (collectively, the "Waterloo Beer Brands"). The Company also produces, sells, markets and distributes Seagram coolers and ciders across Canada. Under an exclusive long-term licensing agreement, the Company produces, sells, markets and distributes products under the LandShark® and Margaritaville® trademarks in Canada.

Pursuant to a co-packaging agreement with Loblaw's Inc. ("Loblaw's"), the Company produces, sells, markets and distributes various beer products on behalf of Loblaw's under the licensed President's Choice® ("PC®") and No Name® trademarks. The Company produces various products under a contract with Canada Dry Mott's, Inc. ("CDMI") and acts as the exclusive sales agent in Ontario for CDMI. The Company also has co-packaging agreements with other manufacturers, including Hiram Walker and Carlsberg and certain other customers that are not separately identified, as per the terms of the Company's agreements with those customers.

Geographic Distribution

The Company's products are sold primarily in Ontario. The Company's Waterloo packaged beer is also sold in Atlantic Canada, Western Canada, and the USA. Seagram, LandShark® and Margaritaville® products are sold in Canada. Seagram coolers are manufactured and distributed in Quebec pursuant to a licensing agreement with Triani Beverages.

Distribution Channels

In Ontario, distribution of packaged beer occurs through The Beer Store ("TBS"), Liquor Control Board of Ontario ("LCBO"), and licensed grocery stores. Consumers can purchase the Company's products through these channels as well as through licensed establishments (bars and restaurants) in Ontario. Seagram coolers are sold through the provincial liquor boards. The Company distributes Laker, LandShark®, and Waterloo beers, as well as Seagram cider, in certain grocery stores in Ontario. The Company expects the number of licensed grocery stores to continue to increase as additional licenses are granted throughout fiscal 2021. The Company also has a retail store and taproom where the Company's products can be purchased.

Operating Facilities

The Company's registered head office and production facility are located in Kitchener, Ontario. The Company has completed a 67,600 square foot expansion of its leased facility, which includes an expansion of its warehouse, production facility, and retail store, and the construction of a taproom with a small-batch brewhouse. The expansion allows the Company to improve capabilities, capacity, and efficiencies. The taproom opened to the public in September 2019.

TBS Consignment

During the first quarter of fiscal 2019, the Company's largest customer, TBS, moved from a buy-sell relationship to one of consignment. This change impacted all brewers supplying products to TBS. On implementation, there was a one-time reversal of gross profit. Net revenue decreased by \$3.6 million, cost of sales decreased by \$1.4 million, gross profit and EBITDA decreased by \$2.2 million, and net income decreased by \$1.6 million.

Leases

Effective February 1, 2019, the Company adopted IFRS 16 *Leases* (“IFRS 16”) which eliminates the classification of leases by a lessee between operating and finance leases and introduces a single, on-Statement of Financial Position accounting model for lessees. As a result, the Company has recognized right-of-use (“ROU”) assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

On transition, the Company recognized ROU assets and lease liabilities of \$10.8 million for the lease of the Company’s manufacturing and warehousing facility as well as Company vehicles. The comparative financial information for fiscal 2019 has not been restated to reflect this change in accounting policy.

As a result of adopting IFRS 16, the Company will no longer reflect rent and vehicle leases as operating expenses. Accordingly, EBITDA*, for fiscal 2020, increased by approximately \$1.2 million. Similarly, depreciation and interest expense increased by \$0.8 million and \$0.6 million, respectively, for fiscal 2020.

Refer to the section *Changes to Accounting Policies* for further details regarding the adoption of IFRS 16.

Loss on Misappropriated Funds

On November 21, 2019, the Company announced that it had been subject to a social engineering cyberattack by a third party that resulted in a wire transfer of \$2.1 million to a fraudulent third-party account. The incident occurred in early November and involved creditor employee impersonation and a fraudulent wire transfer request by such third party from the Company.

To date, the Company has not recovered any funds wired to the fraudulent third-party account. While the Company is actively taking measures to recover the funds, there can be no assurance that such measures will result in the return of all or a portion of the misappropriated funds in a timely manner or at all.

Accordingly, a net loss on misappropriated funds was recorded in the amount of \$1.9 million.

SELECTED ANNUAL INFORMATION

The following table summarizes certain financial information of the Company for each of the fiscal years indicated prepared in accordance with IFRS:

(in thousands of dollars, except per share amounts)

	January 31, 2020	January 31, 2019	January 31, 2018
Income Statement Data			
Gross Revenue	\$ 118,735	\$ 96,413	\$ 98,180
Net Revenue (after production taxes and distribution fees)	\$ 60,333	\$ 50,084	\$ 49,790
Earnings before interest, taxes, loss on misappropriated funds, depreciation and amortization, and share-based payments	\$ 11,617	\$ 7,558	\$ 8,167
Net income ¹	\$ 497	\$ 1,289	\$ 2,602
Earnings per share ¹			
Basic	\$ 0.01	\$ 0.04	\$ 0.07
Diluted	\$ 0.01	\$ 0.04	\$ 0.07
Balance Sheet Data			
Total Assets	\$ 93,131	\$ 61,765	\$ 58,329
Total Term Debt and Lease Liabilities	\$ 42,385	\$ 13,293	\$ 11,133

1. As a result of the loss on misappropriated funds during the last quarter of fiscal 2020 described above, net income was impacted by a loss of \$1.3 million, net of tax. Excluding this loss, net income was \$1.8 million. Similarly, both basic and diluted earnings per share were \$0.05 excluding this loss.

RESULTS OF OPERATIONS

(in thousands of dollars except per share amounts)

	Fiscal year-to-date ended	
	January 31, 2020	January 31, 2019
Gross revenue ¹	\$ 118,735	\$ 96,413
Less: Production taxes and distribution fees ²	58,402	46,329
Net revenue	60,333	50,084
Cost of sales ^{1,2}	42,484	37,109
Gross profit	17,849	12,975
	29.6%	25.9%
Selling, marketing and administration	11,842	9,463
Income before the undernoted	6,007	3,512
Other expenses ¹	1,617	784
Finance costs ¹	1,501	507
Loss on misappropriated funds, net	1,869	-
Loss on disposal of property, plant and equipment and intangibles	(15)	387
Income before tax	1,035	1,834
Income tax provision	538	545
Net income ²	497	1,289
Earnings per share		
Basic	\$ 0.01	\$ 0.04
Diluted	\$ 0.01	\$ 0.04
Net revenue increase (decrease) ³	20.5%	0.6%
Consisting of:		
Increase (decrease) in owner brand net revenue ³	26.5%	(8.0%)
Increase (decrease) in co-pack net revenue	4.8%	33.0%

1. As a result of the adoption of IFRS 16 effective February 1, 2019, for fiscal 2020 cost of sales decreased by \$1.2 million, other expenses increased by \$0.8 million, and finance costs increased by \$0.6 million.
2. As a result of a non-recurring adjustment during the quarter ended April 29, 2018, associated with TBS' change to a consignment basis, the results for fiscal 2019 were impacted as follows: gross revenue decreased by \$5.7 million, production taxes decreased by \$2.1 million, net revenue decreased by \$3.6 million, cost of sales decreased by \$1.4 million, gross profit decreased by \$2.2 million, and net income decreased by \$1.6 million.
3. Excluding the impact of TBS' change to consignment noted above, normalized net revenue and owner brand net revenue for fiscal 2020, increased by 12.4% and 15.1%, respectively.

*Reconciliation of Net Earnings to Earnings Before Interest Taxes Depreciation and Amortization, and Share Based Payments (EBITDA)**

<i>(in thousands of dollars)</i>	Fiscal year-to-date ended	
	January 31, 2020¹	January 31, 2019²
Net income	\$ 497	\$ 1,289
Add (deduct):		
Income tax provision	538	545
Depreciation and amortization	6,334	4,361
Gain (loss) on disposal of property, plant & equipment and right-of-use assets	(15)	387
Share-based payments	892	469
Finance costs	1,501	507
Loss of misappropriated funds	1,870	-
Subtotal	11,120	6,269
EBITDA *	11,617	7,558

1. As a result of the adoption of IFRS 16 effective February 1, 2019, for fiscal 2020, EBITDA* increased by approximately \$1.2 million, depreciation and amortization increased by \$0.8, and finance costs increased by \$0.6 million.
2. As a result of a non-recurring adjustment during the quarter ended April 29, 2018, associated with TBS' change to a consignment basis, net income decreased by \$1.6 million and EBITDA* decreased by \$2.2 million.

NET REVENUE

Gross revenues were \$118.7 million and \$96.4 million for the fiscal years ended January 31, 2020, and 2019, respectively. Net revenues for fiscal 2020 were \$60.3 million (fiscal 2019 - \$50.1 million). Net revenues are calculated by deducting from gross revenues the costs of distribution fees paid to TBS, provincial liquor boards and production taxes.

Gross and net revenue in fiscal 2020 were impacted by an increase in branded sales volumes despite an increasingly competitive industry due to competitive pricing.

Gross and net revenue for fiscal 2019 was impacted by a one-time adjustment of \$5.7 million and \$3.6 million, respectively, associated with TBS' change to a consignment basis.

In fiscal 2020, the Company's overall branded sales volume was 279,100 hectolitres compared to 231,300 hectolitres in fiscal 2019.

BRANDED VOLUMES

(in hectolitres rounded to nearest 100)	Quarter ended		Fiscal year-to-date ended	
	January 31, 2020	January 31, 2019	January 31, 2020	January 31, 2019
Laker	60,200	39,000	210,400	174,900
Waterloo	4,300	3,700	22,500	21,300
LandShark® & Margaritaville®	6,100	4,400	31,800	24,900
Other Beer Brands	200	300	800	1,600
Seagram ¹	2,600	1,900	13,600	8,600
Total Branded Volume	73,400	49,300	279,100	231,300

¹ Includes volume sold under the licensed Seagram Trademark by Triani Beverages in Quebec.

Branded sales volumes increased in fiscal 2020 by 20.7% over fiscal 2019's sales volumes. Volume increases of the Laker and LandShark® brands were the main contributors to the volume increase. The industry beer volumes decreased by approximately 3.6% in fiscal 2020.

During the year ended January 31, 2020, the Laker family brand sales volumes increased by 20.3% over the year ended January 31, 2019, despite being the most impacted by both industry pressure and a very competitive market-place. The Company has maintained value pricing of its Laker family products throughout the year, in particular on its single 473ml cans, while large competitors have been priced higher on their value brands. This has been a critical driver of Laker family volume throughout fiscal 2020.

Waterloo brand sales volumes increased by 5.6% in fiscal 2020 compared to fiscal 2019. This was driven by the continued strength of Waterloo Raspberry Radler which is currently the best selling new radler at the LCBO. The Company also introduced Waterloo Craft Lager earlier in the fiscal year in addition to a seasonal offering of Waterloo Festbier. The Company continues to support the Waterloo brands through additional marketing to raise awareness of the Company's craft portfolio.

LandShark® and Margaritaville® sales volumes increased by 27.7% during fiscal 2020 compared to fiscal 2019. The increase is driven by increased distribution and the successful in-case promotions, such as the inclusion of a free t-shirt in 24-bottle cases of LandShark® lager during the summer peak season and winter promotions of hats and scarves which entered the market in the fourth quarter.

Seagram brand sales volumes increased by 58.1% in fiscal 2020 compared to fiscal 2019. The launch of Seagram's Island Time Anytime vodka-based ready-to-drink beverage is performing extremely well at the LCBO and is a key driver of the growth in the Seagram sales volumes during the third and fourth quarters of fiscal 2020.

In the year ended January 31, 2020, the volume included in the table above consisted of 24.3% in the premium category compared to 20.7% in fiscal 2019. The Company continues to hold less than 5% of the total market share by volume of TBS retail sales in Ontario.

CO-PACK REVENUE

Revenue generated from co-packing products for customers increased by 4.8% in fiscal 2020 compared to a 33.0% increase in fiscal 2019. The increase was primarily driven by new customers in fiscal 2020. The Company continues to seek new partners to drive incremental growth and utilize excess capacity and has recently signed multi-year contracts with Carlsberg®, Hiram Walker®, and another large copack partner that cannot be named due to terms of the Company's agreements with this partner.

PRODUCTION TAXES & DISTRIBUTION FEES

During fiscal 2020, the Company's production tax and distribution fees represented approximately 56.1% of owner-brand gross revenue compared to 54.9% (normalized for the impact of the change to consignment in fiscal 2019) in the same period during fiscal 2019. This is due to annual increases in federal excise tax and distribution fees, offset by a freeze in provincial beer tax rate increases that was effective late fiscal 2019.

COST OF SALES

Cost of sales were \$42.5 million in fiscal 2020, an increase of \$5.4 million from fiscal 2019. Cost of sales represented 70.4% of net revenue in fiscal 2020 compared to 74.1% in fiscal 2019 (normalized for the impact of the change to consignment). The increase of total cost of sales was driven by increased production volume of owner brand products while the decrease in percentage of net revenue was driven by manufacturing efficiencies, improved material cost as a result of a decrease in the price of aluminum, and no rent expense offset by increased depreciation expense, both driven by the adoption of IFRS 16 effective February 1, 2019.

SELLING, MARKETING, AND ADMINISTRATION

In fiscal 2020, selling, marketing and administration ("SM&A") expenses totaled \$11.8 million, up \$2.4 million from fiscal 2019. This was largely driven by an increase in marketing initiatives as the Company continues to support its core brands: Laker, Waterloo, and Seagram; as well as LandShark® and Margaritaville®. During fiscal 2020, the Company participated in radio advertisement for the Laker family during peak summer months. Additionally, programming at the LCBO drove increased sales of LandShark® compared to the prior year. Laker Ice can-in-case for the Laker Lager, Ice and Red bottle packs helped drive the increase in SM&A spending in fiscal 2020.

As a percentage of net revenue SM&A expenses were 19.6% and 18.9% in fiscal 2020 and 2019, respectively. Excluding the impact of the change to consignment, SM&A expenses were 19.6% and 17.6% for the fiscal years 2020 and 2019, respectively.

DEPRECIATION AND AMORTIZATION

Total depreciation and amortization expense for fiscal 2020 and 2019 was \$6.3 million and \$4.4 million, respectively. The increase was largely driven by right of use assets associated with the expansion of the warehouse, installation of capacity and capability-based production equipment and the installation of a taproom and small-batch brewery during fiscal 2020.

FINANCE COSTS

In fiscal 2020 and 2019, finance costs were \$1.5 million and \$0.5 million, respectively. The increase in finance costs in fiscal 2020 is due to additional interest expense recognized on lease liabilities established on the adoption of IFRS 16.

INCOME TAXES

In both fiscal 2020 and 2019, the Company recorded an income tax expense of \$0.5 million. The effective tax rate of 51.9% in fiscal 2020 (2019 – 29.7%) has increased as a result of the non-deductible stock-based compensation expense.

NET EARNINGS

The Company had a net income of \$0.5 million in fiscal 2020, compared to \$1.3 million in fiscal 2019. Excluding the loss on misappropriated funds described above, net income in fiscal 2020 was \$2.4 million.

LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL POSITION

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

The Company had an operating line of credit available and term debt outstanding at January 31, 2020. As of January 31, 2020, the Company complied with all covenants to its lenders.

The Company has an operating line of credit which provides for a maximum of \$8.0 million credit (margined against accounts receivable and inventory of the Company) and bears interest at a rate of prime plus 0.20%. On January 31, 2020, the Company had bank indebtedness of \$0.8 million compared to bank indebtedness of \$1.9 million as of January 31, 2019.

The Company has a negative working capital position of \$3.3 million on January 31, 2020, compared to a positive working capital position of \$3.9 million on January 31, 2019. The decrease in working capital position is attributable to the increased lease liabilities as a result of the adoption of IFRS 16. Further, extensive liquid production capacity upgrades began in the fourth quarter of fiscal 2020 which required utilization of cash for equipment deposits.

Current assets of the Company were \$16.2 million as of January 31, 2020, compared to \$15.7 million as of January 31, 2019. As of January 31, 2020, the Company's balance of accounts receivable increased by \$0.1 million compared to the balance as of January 31, 2019. Inventory as of January 31, 2020, increased by \$0.2 million compared to the balance as of January 31, 2019.

Property, plant, and equipment increased by \$8.2 million on January 31, 2020, from January 31, 2019. The increase includes purchases of \$12.7 million, of which \$1.4 million were construction deposits paid in fiscal 2019. The additions were offset by depreciation of \$4.6 million. As a result of the warehouse expansion completed in fiscal 2020, the asset retirement obligation asset was increased by \$0.4 million.

As of January 31, 2020, right-of-use assets increased by \$23.1 million compared to the balance as of January 31, 2019, which includes \$10.8 million for the lease of the Company's manufacturing facility and Company vehicles resulting from the adoption of IFRS 16 as of February 1, 2019. In addition, \$6.7 million was incurred for the acquisition and installation of manufacturing equipment, \$7.2 million for the expansions relating to the warehouse and Taphouse, as well as \$0.2 million for the lease of company vehicles. The additions were offset by depreciation of \$1.6 million. For further details regarding the adoption of IFRS 16, refer to note 3.2.1 of the Company's audited financial statements for the fiscal year ended January 31, 2020.

Intangible assets decreased slightly as of January 31, 2020, compared to January 31, 2019, due to the purchase of new listings, offset by amortization costs.

The Company's current liabilities were \$19.5 million on January 31, 2020, compared to \$11.9 million at January 31, 2019, an increase of \$7.6 million. The increase is attributable to additional term debt received during the year, and increased lease liabilities as a result of new equipment leases and the adoption of IFRS 16.

Deferred income tax liabilities on January 31, 2020, increased slightly to \$2.2 million compared to \$1.7 million on January 31, 2019.

As of January 31, 2020, the Company had lease liabilities (including current portion) of \$26.1 million, an increase of \$23.1 million from January 31, 2019. The increase is due to lease liabilities of \$10.8 million resulting from the initial adoption of IFRS 16 on February 1, 2019, as well as \$6.9 million related to the new equipment lease agreements as well as for the lease

of Company vehicles. As a result of increased lease payments due to the completion of the Company's warehouse expansion, the lease liability increased by \$6.9 million. The repayment of lease liabilities of \$2.5 million was made during fiscal 2020.

Long-term debt (including the current portion) at January 31, 2020, increased by \$6.0 million from the balance at January 31, 2019. During fiscal 2020, the Company received \$8.0 million of new term debt for the purchase of equipment offset by principal repayments of \$2.0 million.

As at January 31, 2020, the Company had 35,229,728 common shares and 2,839,337 stock options issued and outstanding. Each stock option is exercisable for one common share. During fiscal 2020, 1,590,000 options were granted according to the Company's stock option plan, 200,999 options were exercised, and 44,001 options were forfeited. Under the employee share purchase program, 31,763 common shares were issued in fiscal 2020.

During fiscal 2020, the Company announced that it would be renewing its normal course issuer bid ("NCIB") for the purchase of up to 1,000,000 of its common shares, representing 2.8% of the 35,221,493 common shares outstanding as of December 31, 2019. The NCIB was renewed on January 10, 2020, and terminates on January 9, 2021, or such earlier date on which purchases under the NCIB have been completed. During fiscal 2020, the Company repurchased and cancelled an aggregate of 323,200 common shares at a weighted average purchase price of \$3.45 per common share under a normal course issuer bid which terminated on January 9, 2020.

CASH FLOW

In fiscal 2020 and 2019, the Company generated \$13.4 million and \$7.6 million of cash from operations, respectively.

The amount of cash used in investing activities in fiscal 2020 and 2019 was \$12.2 million and \$8.0 million, respectively. The spending on property, plant, and equipment in fiscal 2020 and 2019 amounts to approximately \$11.0 million and \$6.9 million, respectively.

The amount of cash deficit from financing activities in fiscal 2020 was \$1.2 million compared to \$0.3 million of cash generated in fiscal 2019. In fiscal 2020, the Company received new term debt of \$8.0 million (2019 - \$4.5 million) and the Company paid principal payments of \$3.5 million on outstanding long-term debt and its lease liabilities compared to \$2.3 million in fiscal 2019. During fiscal 2020, 323,200 shares were purchased and cancelled by the Company for \$1.1 million (2019 - \$0.1 million) under its normal course issuer bid which commenced in fiscal 2019, at a weighted average price of \$3.45 per share. During fiscal 2020, the Company paid \$3.6 million in dividends to shareholders compared to \$3.0 million in fiscal 2019.

The Company has an operating line of credit with HSBC Bank Canada of \$8.0 million which bears interest at a rate of prime plus 0.20%. As of January 31, 2020, the Company was in compliance with the financial covenants required under the terms of the operating line of credit. On January 31, 2020, the amount drawn on the operating line of credit was \$0.8 million compared to \$1.9 million on January 31, 2020.

COMMITMENTS

The Company utilizes leases to finance manufacturing, office equipment and the building where it has its manufacturing, warehouse, and retail operations. By entering into leases, the Company is able to update its equipment more frequently, and not utilize its cash to invest in these assets. The Company accounts for all leases, except for short-term or low-value leases, by presenting lease liabilities and right-of-use assets on its Statement of Financial Position in accordance with IFRS 16. Short-term and low-value leases are expensed as incurred.

In fiscal 2020, the lease for the Company's operating facility was amended to increase the term by approximately twelve years, establish the amount of funding to be provided by the landlord for the expansion of the facility, as well as determine the new lease rates to reflect the increased size of the facility. The new lease rates took effect in the third quarter of fiscal 2020 when the expansion was complete, and a lease liability and right-of-use asset was recorded in the amount of \$6.9 million accordingly.

The Company has other purchase commitments which include amounts for syrup, malt and packaging materials. A summary of the Company's contractual obligations for future periods is as follows:

<i>(in thousands of dollars)</i>	Long-term debt	Lease liabilities	Short-term & low-value lease commitments	Other commitments	Total
Due within one year	\$ 2,946	\$ 2,870	\$ 5	\$ 5,478	\$ 11,299
Due in one to five years	10,533	7,332	8	1,293	19,166
Due in over five years	2,810	15,894	-	-	18,704
	16,289	26,096	13	6,771	49,169

RISK FACTORS, STRATEGIES, AND OUTLOOK

Risk Factors

Licensing

The Company requires various permits, licenses, and approvals from several government agencies in order to operate in its market areas. The Alcohol and Gaming Commission of Ontario ("AGCO") and the Canada Revenue Agency provide the necessary licensing approvals. The Company is in compliance with all licenses, permits, and approvals.

Consumer preference/trends

The beer industry is highly competitive and has experienced an overall decline in beer sales over the past several years. Although the impact is uncertain, the legalization of cannabis in Canada may put further pressure on the sale of the Company's products going forward. In Ontario, trends continue to be towards canned beer products in preference to bottle beer products. In the second quarter of fiscal 2019, the Company completed an upgrade to its canning line to meet the growing demand for canned beer products, as well as further upgrades completed in fiscal 2020, which includes the installation of a new can palletizer and wrapping equipment. Consumer preference has shifted towards canned craft beer which has benefited the Waterloo brands.

Pricing environment

Annual increases in the minimum retail price ("MRP") have seen the price gap between value and mainstream brands reduced, creating increased competitive pressure. Effective August 27, 2018, the Ontario government reduced the MRP for beer to a dollar plus deposit per 341ml bottle. With the government's recent change to the MRP, there can be no assurance that further changes to the pricing environment will not have a material impact on the Company. The Company's key competitors have increased the price for value beer to a level above the legal minimum. The Company has historically positioned its brands at the same price point to achieve additional profit margin per unit, however with the reduction of the MRP, there is no certainty that this will continue in the future.

The Company will continue to mitigate ongoing pressure on beer volumes by actively pursuing co-packing contracts that provide incremental volume and gross margin. As required, profits from co-pack arrangements will be reinvested in selling and marketing initiatives to maintain brand loyalty.

Quality

With the backdrop of intense price competition, the quality of the Company's product is more important than ever. The Company continues to invest significantly to continually improve overall product quality.

The Company is currently certified under the internationally recognized Global Food Safety Standard and successfully completed its annual re-certification audit in the third quarter of fiscal 2020. Quality improvement resonates with existing

and potential co-pack customers and will be a key factor in maintaining and growing the co-pack business to utilize available capacity.

The Beer Store/LCBO

TBS and LCBO are unionized organizations and a strike could have a significant negative impact on the Company. There can be no assurance that a TBS or LCBO strike will not occur in the future. The TBS contract expires December 31, 2020, and there is no guarantee that disruption during negotiations will not have a negative impact on the Company.

The retail beer channel in Ontario is under continuous scrutiny and there can be no assurance that any future changes implemented by the government will not have a material impact on the Company.

Availability of financing

The Company requires continued support from its lenders to maintain its financial condition. The loss of this support could limit expansion opportunities and put a strain on the Company's continuing operations. The ability to maintain current arrangements and secure future financing will depend, in part, upon the prevailing capital market conditions as well as the Company's business performance. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on satisfactory terms.

Commodity price risk

The Company is exposed to commodity price risk with respect to agricultural and other raw materials used to produce the Company's products, including malted barley, hops, corn syrup, water, and packaging materials (including glass, aluminum, cardboard and other paper products), where fluctuations in the market price or availability of these items could impact the Company's cash flow and production. The supply and price can be affected by several factors beyond management's control, including market demand, global events, frosts, droughts and other weather conditions, economic factors affecting growth decisions, plant diseases, and theft. To the extent any of the foregoing factors affect the prices of ingredients or packaging, the Company's results of operations could be materially and adversely impacted. To minimize the impact of this risk, the Company enters into contracts which secure supply and set pricing to manage the exposure to availability and pricing.

Exchange rate risk

Purchases of some key inputs are denominated in U.S. dollars and Euros. Any weakening of the Canadian dollar versus the U.S. dollar or Euro would result in higher material costs. There can be no assurance that the strength of the Canadian dollar will not materially change in the future. The Company enters into forward contracts to manage foreign exchange rate fluctuations and the Company has contracts outstanding as of January 31, 2020.

Information Technology and Cybersecurity risk

The Company uses information technology and the internet, including online banking, to streamline business operations and to improve customer experience. The Company's information systems, and those of its third-party service providers, creditors, and vendors, are vulnerable to an increasing threat of continually evolving cybersecurity risks. These risks may take the form of malware, computer viruses, cyber threats, extortion, employee error, malfeasance, system errors or other types of risks, and may occur from inside or outside of the organization. Cybersecurity risk is increasingly difficult to identify and quantify and cannot be fully mitigated because of the rapidly evolving nature of the threats, targets, and consequences. Additionally, unauthorized parties may attempt to gain access to these systems or the Company's information through fraud or other means of deceiving the Company's third-party service providers, employees, creditors or vendors. The Company's operations depend, in part, on how well it and its suppliers protect networks, equipment, information technology systems and software against damage from a number of threats. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems, and software, as well as pre-emptive expenses to mitigate the risks of failures. However, if the Company is unable or delayed in maintaining, upgrading or replacing its information

technology systems and software, the risk of a cyber security incident could materially increase. Any of these and other events could result in information system failures, delays and/or increases in capital expenses.

In addition, targeted attacks on the Company's systems (or on systems of third parties that it relies on), failure or non-availability of a key IT system or a breach of security measures designed to protect IT systems could result in disruptions to the Company's operations through delays or the corruption and destruction of its data, extensive personal injury, property damage, loss of confidential information or financial or reputational risks. As the threat landscape is ever-changing, the Company must make continuous mitigation efforts. The Company employs third-party information technology services and continually monitors and improves its internal controls to protect against known and emerging threats. However, there can be no assurance that the Company's ability to monitor for or mitigate cybersecurity risks will be fully effective, and it may fail to identify cybersecurity breaches or discover them in a timely manner. Refer to the disclosable material weakness discussed in the Internal Control Over Financial Reporting section below.

COVID-19 (Coronavirus) risk

The Company's ability to manufacture and supply products and its sales revenue, results of operations, cashflow and liquidity may be adversely impacted by the ongoing COVID-19 (coronavirus) outbreak.

As a result of the global outbreak of COVID-19 and its declaration by the World Health Organization to be a "pandemic", certain actions are being taken by governments and businesses in the United States, Canada, the UK, China and around the world to control the outbreak, including restrictions on public activities, travel and commercial operations. The Company has been managing certain supply delays. However, as the outbreak and the global response to it continue, the Company's operations may be materially adversely affected by additional supply delays, shortages of labour and components, and/or partial or complete closure of its facility (including to protect the health and safety of the Company's employees), all which may continue for an extended time. Any inability to manufacture and deliver products to customers could result in a range of potential adverse consequences, including loss of business and reputational damage. The outbreak may also impact the financial viability of suppliers, and could cause them to exit certain business lines, or change the terms on which they are willing to provide products. While the Company continues to be proactive and mitigate the adverse effects, impacts of the outbreak may significantly reduce the Company's cashflow, liquidity and its ability to maintain compliance with covenants in its operating lines of credit. In addition, the outbreak could adversely affect the Canadian economy in general, resulting in an economic downturn that could adversely affect demand for the Company's products. Given the ongoing and dynamic nature of the coronavirus outbreak, it is very difficult to predict the severity of the impact on the Company's business. The extent of such impact will depend on future developments, which are highly uncertain, including new information which may emerge concerning the spread and severity of the coronavirus and actions taken to address its impact, among others. The repercussions of this health crisis could have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

Strategy & Outlook

The Company will continue to focus on growing the Waterloo, Seagram, LandShark® and Margaritaville® trademarks, all of which contribute a higher amount of profit per unit sold. The Company has the exclusive Canadian rights to both the LandShark® and Margaritaville® brands for beer, cider, and coolers. The Company will continue to offer in-case promotions, such as the inclusion of merchandise in specially marked cases of LandShark® bottles and provide increased marketing support to further grow the brand in Canada. The Laker family requires a sustained marketing investment to ensure the retention of existing customers and to attract new consumers. While the Company has benefited from positioning Laker products at prices lower than its competitors, the Company does not expect this to continue throughout fiscal 2021 as competitors respond to the Company's price point. The Company reintroduced a promotion to include a free can in specially marked cases of Laker bottles during the second quarter of fiscal 2020.

In October 2020, the Company completed a 67,600 square foot expansion of its leased facility including an increase to its warehousing and production facilities, a larger retail store, and construction of a taproom with a small-batch brewhouse.

Additionally, significant liquid capacity upgrades are underway to handle increased owner brand and co-pack volume expected in the coming quarter.

The Company will continue to utilize its leading-edge manufacturing capability by filling available capacity, lowering cost, and improving efficiency.

In fiscal 2021, the Company will be focused on the following priorities:

Organic growth and Copack Volume Growth

Management is targeting organic growth. The Company is positioned well within its core Ontario beer business. Management continues to focus on the growth of its premium brands, Waterloo, Seagram, LandShark® and Margaritaville®, driven by brand support and the launch of new products. The Company expects to continue to offer seasonal brands. The Company reintroduced its Waterloo Salted Caramel Porter during the third quarter of fiscal 2020, as well as Waterloo Festbier in October. Back by popular demand (originally debuted as part of the fiscal 2019 Radler Sampler pack), Waterloo Raspberry Radler has been added as a permanent addition to the Waterloo family of products. Additionally, Waterloo Pineapple Radler has received permanent LCBO listing and will be distributed throughout Ontario in fiscal 2021. During the first quarter of fiscal 2020, the Company launched Seagram Island Time Anytime, a new vodka-based ready-to-drink beverage, which has had tremendous success at the LCBO and in fiscal 2021, the Company will be extending this brand to include a new Seagram Tiki Mule. During fiscal 2020, the Company will also focus on maintaining the momentum achieved by the successful launch of the summer-themed LandShark® and Margaritaville® products. On March 11, 2020, the Company announced a five-year extension to the original term with Margaritaville Malt Beverages, LLC, for the rights to Landshark Lager through December 31, 2030, and the option to renew for an additional 10-years through December 31, 2040.

The Company will continue to seek new and expanded co-packing relationships. The completion of the canning line expansion and the expansion of its facility in fiscal 2020 present further opportunities for the Company to expand its co-pack business. The Company has recently signed multi-year contracts with both Carlsberg® and Hiram Walker®, for the Somersby® and ABSOLUT® brands, respectively, and with another large copack partner that cannot be identified due to the terms of the Company's agreements with that partner.

Improving gross margin per unit

The Laker brand margin has performed well despite the presence of many beer brands at the same or similar pricing. Laker's fit and finish are comparable with mainstream brands. Management believes that this volume performance in a highly competitive pricing environment is the result of brand support, a compelling value proposition, and significant quality improvements at Waterloo Brewing in recent years.

With the recent decrease to the MRP by Ontario's provincial government in August 2018, the Company will strive to maintain healthy margins while facing potential competitive challenges.

Sales of Seagram and Waterloo products, along with LandShark® and Margaritaville®, will also contribute to margin improvement due to higher revenue per unit. The Company will continue to maximize margin and minimize complexity within the organization by delisting underperforming brands.

Cost reduction

Management believes that cost reduction is an ongoing initiative and forms part of the culture at Waterloo Brewing. Cost reduction will be a continued focus throughout fiscal 2021.

SUMMARY OF QUARTERLY RESULTS

The following table presents selected unaudited quarterly financial information for each of the eight quarters indicated prepared in accordance with IFRS:

<i>\$000's except per share amounts</i>	Q4 2020 ²	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019 ¹
Net Revenue	\$14,650	\$16,284	\$ 17,047	\$ 12,352	\$ 12,338	\$ 14,169	\$ 16,564	\$ 7,013
Selling, marketing & administration	\$ 2,558	3,384	3,816	2,084	2,310	2,225	2,810	2,118
EBITDA*	3,366	3,220	3,376	1,655	2,610	2,804	3,313	(1,169)
Net Income (loss)	(936)	588	952	(107)	685	1,025	1,430	(1,851)
EPS (Basic)	\$ (0.03)	\$ 0.02	\$ 0.02	\$ -	\$ 0.02	\$ 0.03	\$ 0.04	\$ (0.05)
EPS (Diluted)	\$ (0.03)	\$ 0.02	\$ 0.02	\$ -	\$ 0.02	\$ 0.03	\$ 0.04	\$ (0.05)

1. Refer to the "TBS Consignment" section under "Description of the Business" for further details on the one-time impact of the change to consignment by TBS, the Company's largest customer.
2. Excluding the impact of the loss on misappropriated funds, net income in the fourth quarter of fiscal 2020 was \$0.9 million, and EPS (basic and diluted) was \$0.03 per share.

SIGNIFICANT FOURTH QUARTER EVENTS

The Company's revenue streams are influenced by seasonality. The second quarter, which covers the summer months, has historically been the strongest quarter for the Company, representing approximately 28.3% of total net revenues in fiscal 2020, followed by the third quarter (approximately 27.0% of total net revenues in fiscal 2020) which covers the late summer and fall. The first and fourth quarters usually see a reduction in revenues as consumption of alcoholic beverages is reduced in the colder winter months.

During the fourth quarter of fiscal 2020 gross revenues were \$30.3 million compared to \$22.7 million in the same period last year, an increase of 33.5%, which was primarily driven by higher owner brand volumes. The sales volumes of the Company's beer brands, in the fourth quarter of fiscal 2020, increased by 47% compared to the sales volumes in the fourth quarter of fiscal 2019. The Laker family's sales volumes increased by 54% in the same periods driven primarily by competitive pricing. The Seagram coolers volume, excluding volume produced in Quebec under a royalty agreement, increased by 10.5% in the fourth quarter of fiscal 2020 compared to the same quarter in fiscal 2019 as a result of the continued success of Seagram Island Time Anytime. During the same period, co-pack revenues decreased by 10.4%.

Net revenues for the fourth quarter of fiscal 2020 were \$14.7 million, compared to \$12.3 million in the same quarter of fiscal 2019. Net revenues are calculated by deducting from gross revenues the costs of distribution fees paid to TBS and the LCBO and production taxes.

Selling, marketing and administration expenses were \$2.6 million in the fourth quarter of fiscal 2020 compared to \$2.3 million in the fourth quarter of fiscal 2019. In the fourth quarter of fiscal 2020, bonus compensation of \$0.3 million was provided for, a decrease of \$0.3 million from the fourth quarter of fiscal 2019.

Financing costs and other expenses were \$0.4 million in the fourth quarter of fiscal 2020, compared to \$0.2 million in the fourth quarter of fiscal 2019.

In the fourth quarter of fiscal 2019 there was an income tax recovery of \$0.3 million compared to \$0.3 million income tax expense in the same quarter of fiscal 2019.

EBITDA* was \$3.4 million in the fourth quarter of fiscal 2020 compared to \$2.6 million in the fourth quarter of fiscal 2019.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

The Company's accounting policies and future accounting pronouncements are discussed in detail within notes 3.2 and 5.0, respectively, to the Company's annual audited financial statements for the year ended January 31, 2020.

CHANGES TO ACCOUNTING POLICIES

The Company adopted the following new standards effective February 1, 2019:

Leases

In January 2016, the IASB issued IFRS 16 which supersedes IAS 17 *Leases*, as well as several interpretations of leases. IFRS 16 eliminates the classification of leases by a lessee between operating and finance leases and introduces a single, on-balance sheet accounting model for lessees. As a result, the Company has recognized right-of-use ("ROU") assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The details of this change in accounting policy are disclosed below.

Significant accounting policies

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant, and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments;
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payment in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Leases with a term less than twelve months or of a low value are expensed as incurred.

Transition

The Company adopted IFRS 16 in its unaudited interim financial statements for the period beginning February 1, 2019, using the modified retrospective approach under which the cumulative effect of initial application is recognized in retained earnings on February 1, 2019. Accordingly, the prior period financial information has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

The Company used the following practical expedients permitted under the new standard:

- i) Leases with a remaining lease term of fewer than twelve months as on February 1, 2019 are classified as short-term leases.
- ii) Leases of low dollar value continue to be expensed as incurred.
- iii) The Company did not apply any grandfathering practical expedients.

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Company recognized lease liabilities of \$10.8 million as at February 1, 2019, which were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate of 5.07%. The associated ROU assets were measured at the lease liability amount on February 1, 2019, resulting in no adjustment to the opening balance of retained earnings. The ROU assets and lease liabilities recognized as of February 1, 2019 relate to the Company's lease of its manufacturing facility and leases of Company vehicles.

In relation to those leases under IFRS 16, the Company has recognized \$27.8 million of ROU assets, net of accumulated depreciation, and \$26.1 million of lease liabilities as on January 31, 2020. During fiscal 2020, the Company has recognized \$1.6 million of depreciation expense and \$0.9 million of interest expense from these leases, instead of operating lease expense, on a year-to-date basis.

Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* (the "Interpretation"). The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments.

The Interpretation requires:

- an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- an entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

The Company adopted the Interpretation in its unaudited interim financial statements for the period beginning on February 1, 2019. The adoption of the Interpretation did not have a material impact on the Company's financial statements.

RELATED PARTY TRANSACTIONS

The Company's related party transactions are discussed in note 27 to the Company's audited financial statements for the year ended January 31, 2020.

CRITICAL ACCOUNTING ESTIMATES

The Company prepares its financial statements in accordance with IFRS, which requires management to make estimates, judgments, and assumptions that it believes are reasonable, based upon the information available. These estimates, judgments, and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates on historical experience and other assumptions, which it believes to be reasonable under the circumstances. Management also evaluates its estimates on an ongoing basis. Actual results could differ from those estimates.

Property, plant, and equipment

The accounting for property, plant, and equipment requires that management make estimates involving the life of the assets, the selection of an appropriate method of depreciation and determining whether an impairment of assets exists.

The Company reviews the residual values, useful lives of depreciable assets and depreciation method on an annual basis and where revisions are made the Company applies such changes in estimates on a prospective basis.

The net carrying amounts of property, plant, and equipment are reviewed for impairment either individually or at the cash-generating unit level at the end of each reporting period. If there are indicators of impairment, an evaluation is undertaken to determine whether the carrying amounts are in excess of their recoverable amounts. An asset's recoverable amount is determined as the higher of its fair value less cost to sell and its value-in-use. To the extent that an asset's carrying amount exceeds its recoverable amount, the excess is fully provided for in the period in which it is determined to be impaired. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods. There is uncertainty in these estimates as the related recoverable amounts are projected for future years based on underlying assumptions such as volume growth, inflation factors, and industry trends that may not materialize. Management uses its best estimates to forecast these amounts, but the actual amounts may vary from estimates. Should future results differ from management's estimates, impairment of these assets and a related write-down may result. As at the date of this report, the Company believes that its estimates are materially correct.

Returnable containers

Returnable containers are recorded at cost net of deposit liabilities and are amortized over their useful lives. To estimate useful life, management uses historical trends and internal studies to obtain a reasonable estimate of the rates of return and usage. Actual results may vary from these estimates. As at the date of this report, the Company is not aware of any facts or circumstances that would cause it to believe that the estimates used are materially incorrect.

Intangible assets

Intangible assets consist of trademarks and listings. Trademarks are recorded at cost and are not amortized but instead are reviewed for impairment at the end of each reporting period. If there are indicators of impairment, an evaluation is undertaken to determine whether the carrying amounts are in excess of their recoverable amounts. An asset's recoverable amount is determined as the higher of its fair value less cost to sell and its value-in-use. There is uncertainty in these estimates as the related recoverable amounts are projected for future years based on underlying assumptions such as volume growth, inflation factors, and industry trends that may not materialize. Management uses its best estimates to

forecast these amounts, but the actual amounts may vary from estimates. Should future results differ from management's estimates, impairment of these assets and a related write-down may result. As at the date of this report, the Company believes that its estimates are materially correct.

Income taxes

The determination of the Company's provision for income tax as well as deferred tax assets and liabilities involves significant judgments and estimates on certain matters and transactions, for which the ultimate outcome may be uncertain. If the outcome differs from management's estimates, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. As at the date of this report, the Company believes that its estimates are materially correct.

Share-based reserves: share-based payments

The Company recognizes compensation expense when options with no cash settlement feature are granted to employees and directors under the stock option plan. Assumptions regarding expected stock volatility and risk-free interest rates are required to calculate the fair value of the consideration received.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Given the uncertainty surrounding the nature of the underlying provision, actual results may vary from the estimates made by management. As at the date of this report, the Company believes that its estimates are materially correct.

DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, with the participation of the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer (collectively, the "Executive Team") are responsible for establishing and maintaining disclosure controls and procedures as defined under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109") for the Company. Management has designed such disclosure controls and procedures or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company is made known to management by others within the Company. Management has evaluated the effectiveness of the Company's disclosure controls and procedures as of January 31, 2020 and has concluded that such procedures were effective, subject to the matters identified below under "Internal Control Over Financial Reporting", in providing such reasonable assurance as of such date and for the quarter then ended.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management, including the Executive team, is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of its financial statements in accordance with IFRS.

The Company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Internal controls over financial reporting, no matter how well designed have inherent limitations. Therefore, internal control over financial reporting determined to be effective can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Executive team performed an assessment of the effectiveness of the Company's internal control over financial reporting as of January 31, 2020, based on the criteria set forth in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organization of the Treadway Commission ("COSO"). Based on this assessment, management has concluded that internal control over financial reporting was effective as of January 31, 2020 except as noted below.

In the course of evaluating its ICFR as of January 31, 2020, the Executive Team identified a disclosable weakness in the area of segregation of duties, caused by limited staffing resources. Specifically, due to the small size of the Company and the limited numbers of accounting staff, certain duties within the accounting and finance department cannot be properly segregated. As a result, there are identifiable instances where personnel had the ability to initiate transactions or accounting entries within certain financial reporting applications that may not be compatible with their other roles and responsibilities. However, none of the segregation of duty or access control deficiencies resulted in a misstatement to the financial statements as the Company relies on certain compensating controls, including periodic review of the financial statements by the Executive Team. This weakness is reported in accordance with NI 52-109 and is considered to be a common area of deficiency for many smaller listed companies in Canada.

On November 21, 2019, the Company announced that it had been subject to a social engineering cyberattack by a sophisticated third party that resulted in a wire transfer of \$2.1 million to a fraudulent third-party account. The incident occurred in early November and involved creditor employee impersonation and a fraudulent wire transfer request by such third party from the Company.

This incident resulted in the Executive Team identifying a disclosable material weakness in ICFR in accordance with NI 52-109 in the area of control over verification of vendor information changes. While there is no impact on the Company's financial reporting as of January 31, 2020, the event identified a material weakness that existed as of November 21, 2019. In order to mitigate the risk of future occurrences of similar cyberattacks and remediate the material weakness, the Company implemented additional controls whereby any changes to vendor information must be confirmed through an alternative means of communication using contact information on file, a review of all vendor changes by senior management, and the completion of an initial payment to the supplier of a nominal value and confirming receipt.

FINANCIAL INSTRUMENTS

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, foreign currency risk, and interest rate risk. These risks are from exposures that occur in the normal course of business and are managed by the Executive Team. The responsibilities of the Executive Team include the recommendations of policies to manage financial instrument risk.

The overall objective of the Executive Team is to effectively manage credit risk, liquidity risk and other market risks in accordance with the Company's strategy. Other responsibilities of the Executive Team include management of the

Company's cash resources and debt funding programs, approval of counter-parties and relevant transaction limits and the monitoring of all significant treasury activities undertaken by the Company.

The Company's significant financial instruments comprise cash, bank indebtedness, lease obligations, and long-term-debt. The main purpose of these financial instruments is to finance the Company's growth and ongoing operations. The Company has various other financial assets and liabilities such as accounts receivables and accounts payables, which arise directly from its operations.

The Company enters into contracts involving non-financial items for the purchase of raw materials and packaging supplies. These contracts are held for the purposes of the receipt or delivery of a non-financial item in accordance with the Company's expected usage requirements.

A portion of the Company's purchases are in U.S. dollars. The Company sells less than 1% of its products in U.S. dollars.

The Company uses significant quantities of malt and hops. The Company uses fixed price contracts of less than one year to reduce the exposure to price fluctuations on these commodities. The Company has secured its required supply of malt and hops for fiscal 2021 and has entered into fixed price contracts, the balance of which are disclosed in the commitments schedule included in this MD&A.

SHARE CAPITAL

The authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. As of January 31, 2020, and April 8, 2020, no preferred shares were issued and outstanding.

The Company has granted stock options to certain officers and key employees pursuant to the Company's stock option plan. Options granted under the plan are exercisable for a period of up to five years from the date of grant, at an exercise price equal to the weighted average price at which the Company's shares have traded during the five trading days immediately preceding the date of grant, subject to a three-year vesting period.

Each stock option outstanding is exercisable for one common share at prices ranging from \$1.29 to \$4.16.

The total number of common shares and stock options outstanding as of April 8, 2020 is as follows:

Number of common shares	Number of options
35,169,675	2,839,337



AUDITED FINANCIAL STATEMENTS

Years Ended January 31, 2020 and 2019



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Waterloo Brewing Limited

Opinion

We have audited the financial statements of Waterloo Brewing Limited (the Entity), which comprise:

- the statements of financial position as at January 31, 2020 and 2019
- the statements of comprehensive income for the years then ended
- the statements of changes in equity for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at January 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

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 "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the 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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

Emphasis of Matter – Change in Accounting Policy

We draw attention to Note 3.2.1 to the financial statements which indicates that the Entity has changed its accounting policy for leases, as a result of the adoption of IFRS 16, Leases, and has applied that change using the modified retrospective method. Our opinion is not modified in respect of this matter.

Other Information

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Glossy Annual Report".

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2020 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

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

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the 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 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Ian Jeffreys.

Waterloo, Canada

April 8, 2020

STATEMENTS OF COMPREHENSIVE INCOME

Years ended January 31, 2020 and 2019

	Notes	January 31, 2020	January 31, 2019
Revenue	6	\$ 60,333,417	\$ 50,084,490
Cost of sales	7,20	42,483,862	37,108,956
Gross profit		17,849,555	12,975,534
Selling, marketing and administration expenses	7,20	11,842,088	9,462,821
Other expenses	7,8,20	1,616,977	784,697
Finance costs	9,20	1,500,682	506,595
Loss on misappropriated funds, net	27	1,869,595	-
Loss (gain) on disposal of property, plant and equipment and right-of-use assets		(15,168)	387,294
Income before tax		1,035,381	1,834,127
Income tax expense	10	537,779	545,112
Net income and comprehensive income for the year		\$ 497,602	\$ 1,289,015
Basic earnings per share	18	\$ 0.01	\$ 0.04
Diluted earnings per share	18	\$ 0.01	\$ 0.04

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

As at January 31, 2020 and January 31, 2019

	Notes	January 31, 2020	January 31, 2019
ASSETS			
Current assets			
Accounts receivable	14	4,976,226	4,851,774
Inventories	15	10,482,912	10,316,767
Prepaid expenses		787,448	562,756
		16,246,586	15,731,297
Non-current assets			
Property, plant and equipment	11	32,808,678	24,645,925
Right-of-use assets (2019 - Assets held under finance leases)	12	27,840,996	4,747,572
Intangible assets	13	15,184,333	15,253,736
Construction deposits		1,050,425	1,386,464
		76,884,432	46,033,697
TOTAL ASSETS		93,131,018	61,764,994
LIABILITIES AND EQUITY			
Current liabilities			
Bank indebtedness	22	783,077	1,887,253
Accounts payable and accrued liabilities	23	12,909,771	7,303,233
Current portion of lease liabilities (2019 - Current portion of obligation under finance lease)	20	2,869,733	799,736
Current portion of long-term debt	21	2,946,038	1,859,922
		19,508,619	11,850,144
Non-current liabilities			
Provisions	19	958,025	553,535
Lease liabilities (2019 - Obligation under finance lease)	20	23,226,137	2,212,157
Long-term debt	21	13,342,788	8,420,927
Deferred income tax liability	10	2,208,947	1,671,576
		39,735,897	12,858,195
TOTAL LIABILITIES		59,244,516	24,708,339
Equity			
Share capital	16	39,126,283	40,001,097
Share-based payments reserves	17	2,108,671	1,325,150
Deficit		(7,348,452)	(4,269,592)
TOTAL EQUITY		33,886,502	37,056,655
COMMITMENTS			
TOTAL LIABILITIES AND EQUITY		\$ 93,131,018	\$ 61,764,994

The accompanying notes are an integral part of these financial statements.

On behalf of the Board:

"Peter J. Schwartz" Director "John H. Bowey" Director

STATEMENTS OF CHANGES IN EQUITY

As at January 31, 2020 and January 31, 2019

	Notes	Share Capital		Share based payments reserve	Retained earnings/(deficit)	Total equity
		Number of Shares	Amount (\$)			
At January 31, 2018		35,285,126	\$ 39,747,525	\$ 1,026,667	\$ (2,547,746)	\$ 38,226,446
Comprehensive income for the year		-	-	-	1,289,015	1,289,015
Shares repurchased and cancelled, including fees	16	(41,800)	(146,310)	-	-	(146,310)
Stock options exercised	17	182,957	365,266	(171,023)	-	194,243
Shares issued	17	16,356	53,126	-	-	53,126
Stock option costs	17	-	(18,510)	-	-	(18,510)
Dividends paid	16	-	-	-	(3,010,861)	(3,010,861)
Share-based payments	17	-	-	469,506	-	469,506
At January 31, 2019		35,442,639	40,001,097	1,325,150	(4,269,592)	37,056,655
Comprehensive income for the year		-	-	-	497,602	497,602
Shares repurchased and cancelled, including fees	16	(323,200)	(1,125,484)	-	-	(1,125,484)
Stock options exercised	17	78,526	171,117	(108,839)	-	62,278
Shares issued	17	31,763	96,722	-	-	96,722
Stock option costs	17	-	(17,169)	-	-	(17,169)
Dividends paid	16	-	-	-	(3,576,462)	(3,576,462)
Share-based payments	17	-	-	892,360	-	892,360
At January 31, 2020		35,229,728	\$ 39,126,283	\$ 2,108,671	\$ (7,348,452)	\$ 33,886,502

STATEMENTS OF CASH FLOWS

Years ended January 31, 2020 and 2019

	Notes	January 31, 2020	January 31, 2019
Operating activities			
Net income		\$ 497,602	\$ 1,289,015
Adjustments for:			
Income tax expense	10	537,779	545,112
Finance costs	9	1,500,682	506,595
Depreciation and amortization of property, plant and equipment, right-of-use assets and intangibles	7,8,11,12,13	6,334,179	4,360,675
Loss (gain) on disposal of property, plant and equipment and right-of-use assets		(15,168)	387,293
Share-based payments	17	892,360	469,506
Change in non-cash working capital related to operations		5,036,143	612,986
Less:			
Interest paid		(1,373,019)	(533,553)
Cash provided by operating activities		13,410,558	7,637,629
Investing activities			
Purchase of property, plant and equipment	11	(11,013,763)	(6,931,468)
Construction deposit paid	11	(1,050,425)	(1,386,464)
Proceeds from sale of property, plant and equipment, net		18,656	430,000
Purchase of intangible assets	13	(134,624)	(69,412)
Cash used in investing activities		(12,180,156)	(7,957,344)
Financing activities			
Increase (decrease) in bank indebtedness		(1,104,176)	1,099,410
Issuance of long-term debt, net of fees	21	7,961,780	4,476,518
Repayment of long-term debt	21	(1,964,832)	(1,557,939)
Repayment of obligation under finance lease	20	(1,563,059)	(769,962)
Dividends paid	16	(3,576,462)	(3,010,861)
Issuance of shares, net of fees	17	96,722	53,126
Shares repurchased and cancelled, including fees	16	(1,125,484)	(146,310)
Stock option costs	17	(17,169)	(18,510)
Proceeds from stock option exercise	17	62,278	194,243
Cash generated from (used in) financing activities		(1,230,402)	319,715
Net increase/(decrease) in cash		-	-
Cash, beginning of year		-	-
Cash, end of year		\$ -	\$ -
Non-cash investing and financing activities:			
Acquisition of assets under lease	12, 20	\$ 13,822,240	\$ -

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

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1. CORPORATE INFORMATION

Waterloo Brewing Ltd. (“Waterloo” or the “Company”), formerly Brick Brewing Co. Limited, is a Canadian-owned and Canadian-based publicly held brewery incorporated in Canada. Waterloo’s shares are listed on the Toronto Stock Exchange (“TSX”) under the symbol “WBR”. Waterloo’s head office is located in Kitchener, Ontario at 400 Bingemans Centre Drive, N2B 3X9.

The Company’s primary business relates to the production and distribution of alcohol-based products. To this end, the Company operates an Ontario-based facility and serves primarily the Ontario market. Waterloo’s products are distributed to end consumers primarily through The Beer Store in Ontario and Provincial Liquor Boards across Canada.

2. DATE OF AUTHORIZATION FOR ISSUE

The financial statements of the Company were authorized for issue on April 8, 2020, by the Company’s Board of Directors.

3. BASIS OF PRESENTATION

3.1. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

3.2 NEW STANDARDS AND INTERPRETATIONS ADOPTED

Except as described below, the accounting policies and methods of computation applied in these financial statements are consistent with those applied in the annual financial statements for the year ended January 31, 2019.

3.2.1 Leases

In January 2016, the IASB issued IFRS 16 *Leases* (“IFRS 16”), which supersedes IAS 17 *Leases*, as well as several interpretations of leases. IFRS 16 eliminates the classification of leases by a lessee between operating and finance leases and introduces a single, on-balance sheet accounting model for lessees. As a result, the Company has recognized right-of-use (“ROU”) assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The details of the accounting policy adopted are disclosed in note 5.13.

Transition

The Company adopted IFRS 16 in its financial statements for the period beginning February 1, 2019, using the modified retrospective approach under which the cumulative effect of initial application is recognized in retained earnings at February 1, 2019. Accordingly, the prior period financial information has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The disclosure requirements in IFRS 16 have not been applied to comparative information.

The Company used the following practical expedients as permitted under the new IFRS 16 standard:

- i) Leases with a remaining lease term of fewer than twelve months on February 1, 2019 are classified as short-term leases.
- ii) Leases of low dollar value continue to be expensed as incurred.
- iii) Initial direct costs from the measurement of the right-of-use asset at the date of initial application have been excluded.
- iv) Hindsight has been used when determining the lease term.

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Company recognized lease liabilities of \$10,839,434 as at February 1, 2019, which were measured at the present value

of the remaining lease payments, discounted using the Company's incremental borrowing rate of 5.07% for building and 4.51% for vehicles. The associated ROU assets were measured at the lease liability amount on February 1, 2019 resulting in no adjustment to the opening balance of retained earnings. The ROU assets and lease liabilities recognized as of February 1, 2019, which were previously classified as operating leases, relate to the Company's lease of its manufacturing facility and leases of Company vehicles.

3.2.2 Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* (the "Interpretation"). The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments.

The Interpretation requires:

- an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- an entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

The Company adopted the Interpretation in its financial statements for the period beginning on February 1, 2019. The adoption of the Interpretation did not have a material impact on the Company's financial statements.

3.3 FUTURE ACCOUNTING PRONOUNCEMENTS

At the date of authorization of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Company and it is still to be determined if any will have a material impact on the Company's financial statements.

Amendments to References to the Conceptual Framework in IFRS Standards

On March 29, 2018 the IASB issued a revised version of its Conceptual Framework for Financial Reporting (the Framework), that underpins IFRS Standards. The IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards to update references in IFRS Standards to previous versions of the Conceptual Framework. Both documents are effective from January 1, 2020 with earlier application permitted.

Definition of a Business (Amendments to IFRS 3)

On October 22, 2018, the IASB issued amendments to IFRS 3 Business Combinations, that seek to clarify whether a transaction results in an asset or a business acquisition.

The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

Definition of Material (Amendments to IAS 1 and IAS 8)

On October 31, 2018, the IASB refined its definition of material and removed the definition of material omissions or misstatements from IAS 8. The amendments are effective for annual periods beginning on or after January 1, 2020. Early adoption is permitted.

3.4 BASIS OF MEASUREMENT

Depending on the applicable International Financial Reporting Standards (“IFRS”) requirements, the measurement basis used in the preparation of these financial statements is cost, net realizable value, fair value or recoverable amount. These financial statements, except for the statements of cash flows, are prepared using the accrual basis.

3.5 FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Canadian dollars, which is the Company’s functional and presentation currency. All financial information presented has been rounded to the nearest dollar, unless otherwise stated.

4. USE OF ESTIMATES AND JUDGEMENT

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of revenue, expenses, assets, liabilities and disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and may result in a material adjustment to the related asset or liability.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements and estimates in applying accounting policies have the most significant effect on the accounting balances below. 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.

4.1 Significant judgments

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.

Leases

The Company has applied judgement to determine the following:

- i. Lease classification prior to February 1, 2019 under IAS 17 and IFRIC 4
The Company enters into leases for premises and operating equipment that may be classified as operating or finance leases. Management exercises judgement to determine whether substantially all the risks and rewards incidental to ownership have been transferred to the Company.
- ii. Leases under IFRS 16 from February 1, 2019
The Company exercises judgement as to whether it is likely to extend the term of the lease when the option is provided. The Company also utilizes a discounted interest rate in the lease that is readily available or the Company’s incremental borrowing rate. The Company also utilizes its best estimate of any costs to dismantle and remove the asset at the end of the lease.

Deferred income taxes

Deferred income tax assets 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.

4.2 Assumptions and critical estimates

Property, plant and equipment

Calculation of the net book value of property, plant and equipment requires Management 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 balance sheet.

Sensitivity analysis

A 10% decrease in useful lives of the Company's property, plant and equipment would result in an additional charge to net income of approximately \$460,000 annually.

Intangible assets

Calculation of the net book value of intangible assets requires Management 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 amortization and whether impairment in value has occurred. Residual values of the assets, estimated useful lives and amortization 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 intangible assets. A change in any of the estimates would result in a change in the amount of amortization 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 balance sheet.

Sensitivity analysis

A 10% decrease in useful lives of the Company's finite life intangible assets would not have a significant impact on net income.

Provisions

The provision relating to asset decommissioning costs requires Management to make estimates of the expected cash flows, annual inflation rate, and discount rate for calculating the future legal obligations associated with the retirement of the Company's leased facility. Changes to estimates could be caused by a variety of factors, including changes due to the passage of time, extension of the lease, or modifications to the leased facility. A change in any of the estimates could result in a change in the amount of depreciation and accretion expense.

Sensitivity analysis

A 10% decrease in the provision would not have a significant impact on net income.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 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 the sale of goods to TBS' customers, as well as to LCBO and other customers, is recognized at a point in time when the access to the benefits of the Company's products have been transferred to the buyer, and no significant uncertainties remain regarding recovery of the consideration due.

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 excises taxes and distribution service charges levied by applicable provincial liquor boards and government approved distribution agents.

Interest income is recognized as earned on an accrual basis using the effective interest method.

Co-pack revenue, arising from the use of the Company's resources to manufacture products for others, is recognized over a period of time to reflect the Company's efforts to manufacture the customers' products. These customers control access to the benefits of the liquid manufactured for packaging, as well as the finished product.

5.2 GOVERNMENT GRANTS

Government grants are recognized where there is reasonable assurance that the grant will be received, and all the required conditions are complied with.

Government grants in respect of capital expenditures are credited to the carrying amount of the related asset and are released to income over the expected useful lives of the relevant assets. Government grants which are not associated with an asset are credited to income to net them against the expense to which they relate.

5.3 FINANCE COSTS

Finance costs consist of the following:

- (a) interest paid or payable on borrowings;
- (b) interest on lease liabilities;
- (c) financing fees;
- (d) accretion on decommissioning obligations; and
- (e) fair value adjustments on financial instruments.

5.4 OPERATING SEGMENTS

Operating segments are reported in a manner consistent with the internal reporting provided to the executive officers of the Company ("Executive Team"), who are considered to be the Company's "chief-operating decision makers". The Executive Team has determined that the Company operates in a single industry segment which involves the production, distribution and sale of alcohol-based products. Virtually all the Company's sales are within Canada, with a small volume sold in the United States.

5.5 FOREIGN CURRENCIES

Foreign currency transactions are accounted for at exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the period end date rate. Gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of comprehensive income. Non-monetary assets and liabilities measured at historical cost and denominated in foreign currencies are translated at the foreign exchange rate prevailing at the date of the transaction. Non-monetary assets and liabilities measured at fair value and denominated in foreign currencies are translated at the foreign exchange rate prevailing at the date the fair value was determined.

5.6 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is measured at cost, or deemed cost, less accumulated depreciation and impairment losses. Cost includes the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by management (i.e. transportation and the costs of dismantling and removing the items and restoring the site on which they are located, if applicable). Expenditures which extend the useful life or increase the service capacity of an asset are capitalized, while expenditures that relate to day-to-day servicing to repair or maintain an asset are expensed as incurred. Major spare parts are recognized as items of property, plant and equipment when the Company expects to use them during more than one period.

Depreciation is provided so as to write off the cost of the asset, less its estimated residual value (if any) over its estimated useful life on the following basis:

Asset Class	Basis	Useful Life (years)
Leasehold improvements	Straight-line	5 – 30
Returnable containers	Straight-line	4 – 7
Machinery and equipment	Straight-line	3 – 30
Computer equipment	Straight-line	2 – 5
Furniture and fixtures	Straight-line	5
Vehicles	Straight-line	3
Major spare parts	Straight-line	4

For lease classification prior to February 1, 2019 under IAS 17 and IFRIC 4 before the adoption of IFRS 16, Assets held under finance leases were initially recorded at the present value of minimum lease payments at the inception of the lease and amortized over the shorter of the lease term and their useful lives.

Where components of assets have different useful lives, depreciation is calculated for each significant component. The estimated useful life of each asset component has due regard to both its own physical life limitations and the future economic benefits expected to be consumed by the Company through use of the asset.

The Company reviews the residual value and useful lives of depreciable assets on an annual basis and where revisions are made to either the residual value or useful life, the Company applies such changes in estimates on a prospective basis.

The Company reviews its depreciation method on an annual basis and where revisions are made to reflect the expected pattern of consumption of the future economic benefits embodied in the asset, the Company applies such changes in estimates on a prospective basis.

The net carrying amounts of property, plant and equipment assets are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amount may not be recoverable. To the extent that these values exceed their recoverable amounts, the excess is fully provided for in the financial year in which it is determined (refer to impairment policy).

Where the Company receives compensation from third parties for items of property, plant and equipment that were impaired, lost or given up, these amounts are presented as an income or expense item in the statements of comprehensive income when they become receivable.

Where an item of property, plant and equipment is disposed of by sale, it is de-recognized and the difference between the carrying value and net sales proceeds is disclosed as an income or expense item in the statements of comprehensive income.

Any items of property, plant and equipment that cease to have future economic benefits expected to arise from their continued use are de-recognized with the associated loss included as depreciation expense.

5.7 BORROWING COSTS

Borrowing costs of qualifying assets are capitalized for periods preceding the dates that the assets are available for use. All other borrowing costs are recognized as expense in the financial period when incurred.

5.8 INTANGIBLE ASSETS

Listings

Listings relate to costs incurred by the Company to list its products within The Beer Store. The Company's products will continue to be listed provided that the products meet sales thresholds specified by The Beer Store. Listings have a finite useful life and are measured at acquisition cost less accumulated amortization and impairment losses (refer to impairment policy). In order to reflect that a portion of the listings have a finite life, the Company amortizes its listings over a 20-year period, which represents management's best estimate of the expected average useful life of these assets.

Trademarks

Trademarks are indefinite life intangibles that relate to brands, trade names, formulas, rights, licenses or recipes that have been acquired by the Company. Trademarks are measured at acquisition cost less any impairment in value (refer to impairment policy).

Computer software and licenses

Purchased software and licenses have finite useful lives and are carried at cost and amortized on a straight-line basis over three years. Costs associated with maintaining purchased computer software programs are recognized as an expense as incurred. Expenditures on internally developed software are capitalized when the expenditures qualify as development activities; otherwise, they are expensed as incurred.

Where an intangible asset is disposed of, it is de-recognized and the difference between its carrying value and the net sales proceeds is reported as a gain or loss on disposal in the statements of comprehensive income in the period the disposal occurs.

5.9 IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of items in property, plant and equipment, right-of-use assets and intangible assets with a finite life are reviewed for impairment at the end of each reporting period. If there are indicators of impairment, an evaluation is undertaken to determine whether the carrying amounts are in excess of their recoverable amounts. Intangible assets with an indefinite life are tested for impairment annually on January 31. An asset's recoverable amount is determined as the higher of its fair value less costs to sell and its value-in-use. Such reviews are undertaken on an asset-by-asset basis, except where assets do not generate cash flows independent of other assets, in which case the assets are grouped together into the smallest group of assets that generate independent cash inflows and then a review is undertaken at the cash-generating unit level.

Where a cash-generating unit includes intangible assets, which are either not available for use or which have an indefinite useful life (and which can only be tested as part of a cash-generating unit), an impairment test is performed at least annually or whenever there is an indication that the carrying amounts of such assets may be impaired.

If the carrying amount of an individual asset or cash-generating unit exceeds its recoverable amount, an impairment loss is recorded in the statements of comprehensive income to reflect the asset at the lower amount. In assessing the value-in-use, the relevant future cash flows expected to arise from the continuing use of such assets and from their disposal are discounted to their present value using a pre-tax discount rate which reflects the current market's assessments of the time value of money and asset-specific risks for which the cash flow estimates have not been adjusted. Fair value less costs to sell is determined as the amount that would be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties.

A reversal of a previously recognized impairment loss is recorded in the statements of comprehensive income when events or circumstances dictate that the estimates used to determine the recoverable amount have changed since the prior impairment loss was recognized. The carrying amount is increased to the recoverable amount but not beyond the carrying amount net of amortization which would have arisen if the prior impairment loss had not been recognized. After such a reversal, the amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

5.10 INVENTORIES

Inventories are recorded at the lower of cost and net realizable value. Cost includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to complete and sell the product.

The cost of raw materials and supplies are determined on a first-in, first-out basis. The cost of finished goods and work-in-process are determined on an average cost basis and include raw materials, direct labour, and an allocation of fixed and variable overhead based on normal capacity.

Inventories are written down to net realizable value if that net realizable value is less than the carrying amount of the inventory item at the reporting date. If the net realizable value subsequently increases, a reversal of the loss initially recognized is applied to cost of sales.

5.11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all cash balances and short-term highly liquid investments with maturities of three months or less from the date of acquisition, that are readily convertible into cash. Cash and cash equivalents are stated at face value, which approximate their fair value.

5.12 PROVISIONS

General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all the provision to be reimbursed, the reimbursement is recognized as a separate asset when reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using current pre-tax discount rates that reflect, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Decommissioning liabilities

The Company recognizes a provision for the restoration costs associated with its leased facilities in the financial period when the related facility modification occurs, based on estimated future costs, using information available at the period end date. The provision is discounted using a current market-based pre-tax discount rate. An increase in the provision due to the passage of time is reflected as a finance cost and the provision is reduced by actual restoration costs incurred. At the time of establishing the provision, a corresponding asset is capitalized, where it gives rise to a future benefit, and depreciated over the useful life of the leased facility.

The provision is reviewed on an annual basis for changes to the future obligation. Changes in the estimated future costs involved or in the discount rate are added to or deducted from the cost of the related asset to the extent of the carrying amount of the asset and are recognized through profit or loss thereafter.

5.13 LEASES

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case

the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments;
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payment in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Leases with a term less than twelve months or of a low value are expensed as incurred.

5.14 INCOME TAXES

Income tax assets/liabilities are comprised of current and deferred tax:

Current tax

Current income tax is calculated based on tax laws enacted or substantially enacted at the period end date in the country where the Company operates and generates taxable income. Current tax includes adjustments to tax payable or recoverable in respect of previous periods.

Deferred tax

Deferred tax is recognized using the balance sheet method in respect of all temporary differences except:

- where the deferred income tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates or joint ventures, where the timing of the reversal of temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets 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 assets and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where deferred tax assets are recognized only to the extent that it is probable that the temporary

differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each period end date 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. To the extent that an asset not previously recognized fulfils the criteria for recognition, a deferred income tax asset is recorded.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the asset is realized, or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the period end date.

Current and deferred taxes relating to items recognized directly in equity are recognized in equity and not in the statements of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxable authority.

Sales tax

Revenues, expenses, assets and liabilities are recognized net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position.

5.15 SHARE CAPITAL

Common share capital

Issued and paid up capital is recognized at the consideration received by the Company. Incremental costs directly attributable to the issuance of shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

A provision is not made for dividends unless the dividends have been declared by the Board of Directors on or before the end of the period and have not been distributed at the reporting date.

5.16 SHARE-BASED PAYMENTS

The Company accounts for all share-based payments to employees and non-employees, consisting of stock options and the employee share purchase plan, using the fair value-based method. Under the fair value-based method, the fair value of the share options are estimated at the grant date, using an option pricing model. Based upon the expected number of options that will vest, the fair value of the options granted is expensed over the vesting period with a credit to share-based payments reserve. When options are exercised, share capital in equity is increased by the amount of the proceeds received and the related amount previously in share-based payments reserve.

5.17 EARNINGS PER SHARE

Basic earnings per share are determined by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the additional shares from the assumed exercise of stock options. The number

of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the period.

5.18 FINANCIAL INSTRUMENTS

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

Financial assets

Financial assets are designated at inception into one of the following categories: held-to-maturity, available-for-sale, loans-and-receivables or at fair value through profit and loss ("FVTPL"). The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Transaction costs associated with financial assets other than those designated at FVTPL are included in the initial carrying amount of the asset.

Subsequent measurement of a financial asset depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its financial assets:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in net income and presented in other gains (losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of comprehensive income.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income ("FVOCI"). Movements in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in net income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to net income and recognized in other gains (losses). Interest income from these financial assets is included in interest income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains (losses) and impairment expenses are presented as a separate line item in the statement of comprehensive income.
- **FVTPL:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a financial asset that is subsequently measured at FVTPL is recognized in net income and presented net within other gains (losses) in the period in which it arises.

Impairment

The Company assesses on a forward-looking basis the expected credit losses 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, the Company applies the simplified approach permitted by IFRS 9 Financial Instruments (IFRS 9), which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Financial liabilities

Under IFRS 9, 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, bank indebtedness, obligations under finance lease, and long-term debt. Due to the short-term nature of account payable, carrying value is considered to approximate fair value.

Derivatives and contracts with embedded derivatives

Derivatives, including separated embedded derivatives, are classified as FVTPL unless they are designated as effective hedging instruments.

The Company considers whether a contract contains an embedded derivative when the Company becomes a party to the contract. Embedded derivatives are separated from the host contract if it is not measured at fair value through profit and loss and when the economic characteristics and risks are not closely related to the host contract.

Contracts involving non-financial items

The Company enters into contracts involving non-financial items for the purchase of raw materials and packaging supplies. These contracts are entered into and held for the purposes of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements.

Fair values

Financial instruments recorded on the 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. The Company does not use Level 1 inputs for 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. The Company's Level 2 inputs include quoted market prices for interest rates and credit risk premiums. The Company obtains information from sources including the Bank of Canada and market exchanges. The Company uses Level 2 inputs for all of its financial instrument fair value measurements.
- Level 3 – inputs that are not based on observable market data. The Company does not use Level 3 inputs for any of its fair value measurements.

RELATED PARTY TRANSACTIONS

The Company views related parties as those persons or entities that are able to directly or indirectly control or exercise significant influence over the Company in making financial and operational decisions. A transaction is a related party transaction where there is transfer of resources, services or obligations between the Company and the related party.

All related party transactions entered into by the Company that are in the normal course of business and have commercial substance are measured at the exchange amount.

6. REVENUE

The Company's revenue consists of the following streams:

	January 31, 2020	January 31, 2019
Revenue from the sale of goods:		
Gross revenue	\$ 104,148,880	\$ 82,500,005
Less: Production taxes and distribution fees	58,401,689	46,328,714
Revenue (net)	45,747,191	36,171,291
Revenue from the rendering of services:		
Gross revenue	14,586,226	13,913,199
Total revenue	\$ 60,333,417	\$ 50,084,490

Services revenue is comprised of revenue generated from contract manufacturing. The Company utilizes available equipment and resources to perform contract manufacturing services for customers.

As a result of a change to a consignment relationship with its largest customer, gross revenue decreased by \$5,649,737 and production taxes decreased by \$2,063,222; a net impact of a decrease of \$3,586,515 to net revenue in fiscal 2019.

7. EXPENSES BY NATURE

Expenses relating to depreciation, amortization, and personnel are included within the following line items on the statements of comprehensive income:

	January 31, 2020	January 31, 2019
Depreciation of property, plant & equipment and right-of-use assets		
Cost of sales	\$ 4,707,988	\$ 3,633,055
Other expenses	1,422,164	530,366
Amortization of intangible assets		
Other expenses	204,027	197,254
Salaries, benefits and other personnel-related expenses		
Cost of sales	8,373,948	8,475,429
Selling, marketing and administrative expenses	4,690,449	4,393,012
Other expenses	46,689	117,876

8. OTHER EXPENSES

The Company's other expenses consist of the following amounts:

	January 31, 2020	January 31, 2019
Depreciation of property, plant & equipment and right-of-use assets	\$ 1,422,164	\$ 530,366
Amortization of intangible assets	204,027	197,254
Other personnel-related expenses	46,689	117,876
Foreign exchange gains	(55,903)	(60,799)
	\$ 1,616,977	\$ 784,697

9. FINANCE COSTS

The Company's finance costs consist of the following amounts:

	January 31, 2020	January 31, 2019
Interest on long-term debt	\$ 419,345	\$ 341,257
Interest on lease liabilities (2019 - Interest on finance leases)	944,525	129,192
Interest on bank indebtedness	94,249	65,378
Other interest expense	9,584	6,855
Unwinding of discount on provisions	61,937	15,159
Fair value adjustments on financial instruments	(28,958)	(51,246)
	\$ 1,500,682	\$ 506,595

10. INCOME TAXES

Significant components of income tax expense consist of:

	January 31, 2020	January 31, 2019
Statement of comprehensive income:		
Deferred tax:		
Origination and reversal of temporary differences	\$ 537,779	\$ 549,301
Adjustments in respect of prior years	-	(4,189)
Total deferred tax charge for the year	537,779	545,112
Income tax expense	\$ 537,779	\$ 545,112

The provision for income taxes differs from the result that would be obtained by applying combined Canadian federal and provincial (Ontario) statutory income tax rates to income before income taxes.

This difference results from the following:

	January 31, 2020	January 31, 2019
Income before tax	\$ 1,035,381	\$ 1,834,127
Statutory income tax rate	26.50%	26.50%
Expected tax expense	274,376	486,044
Effect of income tax on:		
Manufacturing and processing deduction	(22,916)	(26,506)
Non-deductible stock-based compensation expense	236,475	124,419
Other non-deductible expenses	36,305	22,924
Other permanent differences	889	530
Change in opening deferred income tax balances	44,995	(4,189)
Other	(32,345)	(58,110)
	263,403	59,068
Income tax expense	\$ 537,779	\$ 545,112

The above reconciling items are disclosed at the tax rates that apply in the jurisdiction where they have arisen. The statutory income tax rate is the standard income tax rate applicable in the province in which the Company operates.

The Company has accumulated the following net deductible temporary differences, unused tax losses and unused tax credits:

Date of expiry	Net deductible/(taxable) temporary differences		Unused tax losses		Unused tax credits
Within one year	\$	-	\$	-	\$ -
One to five years		-		-	-
After five years		-	14,635,680		448,492
No expiry		(22,888,187)		-	-
As at January 31, 2020	\$	(22,888,187)	\$	14,635,680	\$ 448,492
Within one year	\$	-	\$	-	\$ -
One to five years		-		-	-
After five years		-	13,953,402		446,047
No expiry		(20,101,355)		-	-
As at January 31, 2019	\$	(20,101,355)	\$	13,953,402	\$ 446,047

Deferred tax liabilities included on the statements of financial position are as follows:

	Year Ended January 31, 2020	Year Ended January 31, 2019
Non-capital and capital losses carried forward	\$ 3,716,287	\$ 3,543,043
Net book value of property, plant and equipment more than the tax basis	(4,884,387)	(4,155,249)
Net book value of intangible assets in excess of tax basis	(1,504,614)	(1,408,878)
Other temporary differences	463,767	349,508
Total deferred income tax liability, net	(2,208,947)	(1,671,576)
Classified as:		
Non-current deferred income tax liability	(2,208,947)	(1,671,576)
Change in deferred income tax liability, recognized in income for the year	\$ 537,371	\$ 545,112

The operations of the Company and related tax interpretations, regulations and legislation are subject to change. The Company believes that the amount reported as deferred income tax liabilities adequately reflects management's current best estimate of its income tax exposures.

Movements in temporary differences during the years are as follows:

	Balance at January 31, 2018	Recognized in profit or loss	Balance at January 31, 2019	Recognized in profit or loss	Balance at January 31, 2020
Property, plant & equipment	\$ (14,683,738)	\$ (1,680,688)	\$ (16,364,426)	\$ (2,871,531)	\$ (19,235,957)
Intangible assets	(5,126,114)	(422,405)	(5,548,519)	(377,033)	(5,925,552)
Financing costs	(28,019)	29,441	1,422	(36)	1,386
Asset Retirement Obligation asset & liability	538,376	15,159	553,535	404,490	958,025
SR&ED expenditure pool carryforwards, net of future SR&ED investment tax credit income inclusions	834,383	(2,000)	832,383	(2,445)	829,938
Tax loss carryforwards	14,027,007	(73,605)	13,953,402	682,278	14,635,680
Right-of-use assets	-	-	-	(19,334,747)	(19,334,747)
Lease liability	-	-	-	19,370,228	19,370,228
Other items	29,469	(51,246)	(21,777)	21,777	-
Total	\$ (4,408,636)	\$ (2,185,344)	\$ (6,593,980)	\$ (2,107,019)	\$ (8,700,999)

11. PROPERTY, PLANT & EQUIPMENT

	Leasehold improvements	Returnable containers	Machinery and equipment	Computer equipment	Furniture and fixtures	Vehicles	Major spare parts	Total property, plant and equipment
Cost or deemed cost								
Balance at February 1, 2018	\$ 4,419,990	\$ 7,920,166	\$ 29,197,140	\$ 2,073,749	\$ 420,045	\$ 347,725	\$ 140,071	\$ 44,518,886
Additions	885,306	345,848	5,538,205	199,114	64,546	208,127	13,577	7,254,723
Disposals	-	-	(1,367,545)	-	-	-	-	(1,367,545)
Balance at January 31, 2019	5,305,296	8,266,014	33,367,800	2,272,863	484,591	555,852	153,648	50,406,064
Cumulative depreciation and impairment								
Balance at February 1, 2018	(1,800,851)	(6,684,124)	(11,745,593)	(1,451,277)	(274,790)	(290,632)	(126,572)	(22,373,839)
Depreciation charge for the year	(225,527)	(409,273)	(2,919,567)	(252,223)	(52,617)	(70,047)	(7,298)	(3,936,552)
Depreciation on:								
Disposals	-	-	550,252	-	-	-	-	550,252
Balance at January 31, 2019	(2,026,378)	(7,093,397)	(14,114,908)	(1,703,500)	(327,407)	(360,679)	(133,870)	(25,760,139)
Net book value as at January 31, 2019	\$ 3,278,918	\$ 1,172,617	\$ 19,252,892	\$ 569,363	\$ 157,184	\$ 195,173	\$ 19,778	\$ 24,645,925
Cost or deemed cost								
Balance at February 1, 2019	\$ 5,305,296	\$ 8,266,014	\$ 33,367,800	\$ 2,272,863	\$ 484,591	\$ 555,852	\$ 153,648	\$ 50,406,064
Additions	5,500,372	1,026,830	5,666,790	263,520	250,827	-	34,441	12,742,780
Disposals	-	-	(25,000)	-	-	-	-	(25,000)
Balance at January 31, 2020	10,805,668	9,292,844	39,009,590	2,536,383	735,418	555,852	188,089	63,123,844
Cumulative depreciation and impairment								
Balance at February 1, 2019	(2,026,378)	(7,093,397)	(14,114,908)	(1,703,500)	(327,407)	(360,679)	(133,870)	(25,760,139)
Depreciation charge for the period	(293,851)	(490,191)	(3,341,367)	(281,734)	(67,834)	(94,882)	(9,092)	(4,578,951)
Depreciation on disposals	-	-	23,924	-	-	-	-	23,924
Balance at January 31, 2020	(2,320,229)	(7,583,588)	(17,432,351)	(1,985,234)	(395,241)	(455,561)	(142,962)	(30,315,166)
Net book value as at January 31, 2020	\$ 8,485,439	\$ 1,709,256	\$ 21,577,239	\$ 551,149	\$ 340,177	\$ 100,291	\$ 45,127	\$ 32,808,678

As a result of the expansion of the Company's leased facility as well as the installation of new equipment, the Company increased its estimated cashflows required to restore the leased facility. Accordingly, the asset retirement obligation asset was increased by \$342,553. This increase is included in the additions to Leasehold Improvements in the table above. Refer to note 19 for additional details.

Cash used for purchases of property, plant and equipment consists of the following:

	January 31, 2020	January 31, 2019
Additions during the year	\$ 12,742,780	\$ 7,254,723
Construction deposits paid in the prior year	(1,386,464)	(323,255)
Increase to asset retirement obligation asset	(342,553)	-
	\$ 11,013,763	6,931,468

12. RIGHT-OF-USE ASSETS

	Equipment	Building	Vehicles	Total right-of-use assets*
Cost or deemed cost				
Balance at February 1, 2018	\$ 5,483,077	\$ -	\$ -	\$ 5,483,077
Additions	-	-	-	-
Disposals	-	-	-	-
Balance at January 31, 2019	5,483,077	-	-	5,483,077
Cumulative depreciation and impairment				
Balance at February 1, 2018	(508,636)	-	-	(508,636)
Depreciation charge for the year	(226,869)	-	-	(226,869)
Depreciation on:				
Disposals	-	-	-	-
Balance at January 31, 2019	(735,505)	-	-	(735,505)
Net book value as at January 31, 2019	\$ 4,747,572	\$ -	\$ -	\$ 4,747,572
Cost or deemed cost				
Balance at February 1, 2019	\$ 5,483,077	\$ -	\$ -	\$ 5,483,077
Right-of-use assets on transition to IFRS 16	-	10,623,673	215,761	10,839,434
Additions	6,662,609	6,939,566	220,065	13,822,240
Disposals	-	-	(38,657)	(38,657)
Balance at January 31, 2020	12,145,686	17,563,239	397,169	30,106,094
Cumulative depreciation and impairment				
Balance at February 1, 2019	(735,504)	-	-	(735,504)
Depreciation charge for the period	(772,456)	(622,097)	(156,648)	(1,551,201)
Depreciation on disposals	-	-	21,607	21,607
Balance at January 31, 2020	(1,507,960)	(622,097)	(135,041)	(2,265,098)
Net book value as at January 31, 2020	\$ 10,637,726	\$ 16,941,142	\$ 262,128	\$ 27,840,996

*During fiscal 2019, these assets were presented as assets held under finance leases within Property, Plant and Equipment.

As a result of initially applying IFRS 16, the Company recognized right-of-use assets of \$10,839,434 as of February 1, 2019. Depreciation expense of \$778,745 was recognized from these leases during the year ended January 31, 2020. Refer to note 3.2.1 for further details regarding the impact of the adoption of IFRS 16.

During the third quarter of fiscal 2020, with the completion of the Company's warehouse expansion, the Company's payments for lease of the building increased. As a result, the right-of-use asset increased by \$6,939,566.

13. INTANGIBLE ASSETS

The Company's intangible assets consist of the following:

		Listings		Trademarks		Other		Computer software and licenses		Total
Cost										
Balance at February 1, 2018	\$	3,916,905	\$	11,642,014	\$	11,744	\$	99,200	\$	15,669,863
Acquired separately		69,412		-		-		-		69,412
Balance at January 31, 2019		3,986,317		11,642,014		11,744		99,200		15,739,275
Cumulative amortization and impairment										
Balance at February 1, 2018		(189,085)		-		-		(99,200)		(288,285)
Amortization charge for the year		(197,254)		-		-		-		(197,254)
Balance at January 31, 2019		(386,339)		-		-		(99,200)		(485,539)
Net book value as at January 31, 2019	\$	3,599,978	\$	11,642,014	\$	11,744	\$	-	\$	15,253,736
Cost										
Balance at February 1, 2019	\$	3,986,317	\$	11,642,014	\$	11,744	\$	-	\$	15,640,075
Acquired separately		134,624		-		-		-		134,624
Balance at January 31, 2020		4,120,941		11,642,014		11,744		-		15,774,699
Cumulative amortization and impairment										
Balance at February 1, 2019		(386,339)		-		-		-		(386,339)
Amortization charge for the year		(204,027)		-		-		-		(204,027)
Balance at January 31, 2020		(590,366)		-		-		-		(590,366)
Net book value as at January 31, 2020	\$	3,530,575	\$	11,642,014	\$	11,744	\$	-	\$	15,184,333

For the year ended January 31, 2020, there were no indicators of impairment in the carrying value of the Company's intangible assets.

Refer to note 22 for details on the Company's intangible assets that have been pledged as security for liabilities.

14. ACCOUNTS RECEIVABLE

The accounts receivable balance consists of the following:

	January 31, 2020	January 31, 2019
Trade Customers	\$ 3,766,858	\$ 3,804,997
Other	1,209,368	1,046,777
	4,976,226	4,851,774
Allowance	-	-
Net accounts receivable	\$ 4,976,226	\$ 4,851,774

Movement in the allowance for accounts receivable consists of the following:

	January 31, 2020	January 31, 2019
Allowance, beginning of year	\$ -	\$ -
Additional amounts provided during the year	93,454	12,748
Amounts written off during the year	(93,454)	(12,748)
Allowance, end of year	\$ -	\$ -

The solvency of customers and their ability to repay receivables were considered in assessing the impairment of accounts receivable. No collateral is held in respect of impaired receivables or receivables that are past due but not impaired.

Below is an aged analysis of the Company's accounts receivable:

	January 31, 2020	January 31, 2019
Not yet due, or less than 31 days past due	\$ 4,929,781	\$ 4,595,605
Past the due date but not impaired:		
31-60 days	45,013	111,437
61-90 days	1,432	39,944
Over 90 days	-	104,758
	\$ 4,976,226	\$ 4,851,744

15. INVENTORIES

The inventories balance consists of the following:

	January 31, 2020	January 31, 2019
Raw materials, supplies and other	\$ 2,475,910	\$ 2,446,737
Work in progress and finished goods	8,007,002	7,870,030
	\$ 10,482,912	\$ 10,316,767

As at January 31, 2020, a provision of \$95,480 (January 31, 2019 - \$90,424) has been netted against inventory to account for obsolete materials.

The cost of inventories recognized as cost of sales during the year ended January 31, 2020 are \$35,585,217 (January 31, 2019 - \$32,128,305). Included in this amount are charges related to impairment caused by obsolescence. During the year ended January 31, 2020, these charges amounted to \$122,534 (January 31, 2019 - \$62,510).

Refer to note 22 for details on the Company's inventories that have been pledged as security against liabilities.

16. SHARE CAPITAL

Preferred shares

The Company is authorized to issue an unlimited number of preferred shares with no par value. As at January 31, 2020, no preferred shares were issued and outstanding.

Common shares

The Company is authorized to issue an unlimited number of common shares with no par value. As at January 31, 2020, 35,229,728 (January 31, 2019 – 35,442,639) common shares were issued and outstanding.

On January 8, 2020, the Company announced that it would be renewing its normal course issuer bid (“NCIB”) to permit the Company to purchase for cancellation up to 1,000,000 of its common shares, representing 2.8% of the 35,221,493 common shares outstanding as of December 31, 2019. The NCIB was renewed on January 10, 2020 and terminates on January 9, 2021, or such earlier date on which purchases under the NCIB have been completed. During fiscal 2020, the Company repurchased and cancelled an aggregate of 323,200 common shares under its NCIB at a volume weighted average trading price of \$3.45 per common share under a normal course issuer bid which expired on January 9, 2020.

On April 8, 2020, the Board of Directors of the Company approved a quarterly dividend of \$0.02625 per share, payable on May 29, 2020 to shareholders of record as of May 15, 2020. During the year ended January 31, 2020, \$3,576,462 of dividends were paid (January 31, 2019 - \$3,010,861).

17. SHARE-BASED PAYMENTS

Stock option and share purchase plans

The Company has granted stock options to certain executive officers and key employees, pursuant to the Company’s stock option plan. Options granted under the plan are exercisable for a period of five years from the date of grant at a price equal to the weighted average closing market price at which the Company’s shares have traded on the TSX during the five days immediately preceding the date granted, subject to a three-year vesting period. The stock option plan provides that the maximum number of common shares of the Company issuable upon the exercise of options shall not exceed such number which represents 10% of the issued and outstanding common shares of the Company from time to time.

A summary of the status of the options outstanding under the Company's stock option plan as at January 31, 2020 and January 31, 2019 is presented below:

	Year ended January 31, 2020		Year ended January 31, 2019	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Balance outstanding at beginning of period	1,494,337	\$ 3.41	1,338,664	\$ 2.85
Granted	1,590,000	3.64	670,000	3.92
Forfeited	(44,001)	3.84	(183,333)	2.99
Exercised ¹	(200,999)	2.60	(330,994)	2.39
Balance outstanding at end of period	2,839,337	\$ 3.59	1,494,337	\$ 3.41

¹ During the fiscal year-to-date period ended January 31, 2020, 175,667 stock options were exercised on a cashless basis (January 31, 2019 - 245,663). This resulted in the issuance of 53,194 common shares (January 31, 2019 - 97,626).

A summary of options outstanding under the plan is presented below:

Exercise price	Number outstanding at January 31, 2020	Weighted average remaining contractual life (in years)	Number exercisable at January 31, 2020
1.50	20,000	-	20,000
1.54	36,000	-	36,000
2.24	26,668	0.01	26,668
2.29	30,000	0.01	30,000
3.18	226,669	0.18	93,336
3.35	30,000	0.05	-
3.41	30,000	0.05	-
3.48	30,000	0.03	19,889
3.59	245,000	0.23	156,111
3.60	5,000	-	3,333
3.63	240,000	0.36	-
3.65	1,280,000	1.93	-
3.86	190,000	0.22	63,333
3.91	240,000	0.27	80,000
3.94	150,000	0.16	50,000
4.03	30,000	0.04	10,000
4.16	30,000	0.04	10,000
1.50 to 4.16	2,839,337	3.59	598,670

All outstanding options have a term of five years from the date of grant and vest over a three year period from the date of grant at a rate of one-third per annum of the total number of options granted.

The weighted average share price of options exercised during the year ended January 31, 2020 was \$2.60 (January 31, 2019 - \$2.39).

For options granted, the fair value has been determined using the Black-Scholes fair value option pricing model and the following assumptions:

	January 31, 2020	January 31, 2019
Weighted average fair value per option	\$ 0.86	\$ 0.87
Weighted average share price	\$ 3.71	\$ 3.95
Weighted average exercise price	\$ 3.64	\$ 3.92
Expected volatility	32%	30%
Dividend yield	3%	2%
Risk free interest rate	1%	1%
Weighted average expected life in years	5	5

The resulting fair value is charged to personnel expense over the vesting period of the options with a corresponding increase in the share-based payment reserves. As options are exercised, the corresponding values previously charged to share-based payments reserve are reclassified to share capital. Cash proceeds received upon the exercise of options are credited to share capital.

Employee share purchase plan

Pursuant to the Company's employee share purchase plan, employees are eligible to purchase an allotted number of common shares at a discount of 10% from the average closing market price during the five business days immediately preceding January 15th of any given year. During the year ended January 31, 2020, 31,763 shares were issued under the plan (January 31, 2019 – 16,356) for net proceeds of \$96,722 (January 31, 2019 - \$53,126).

18. EARNINGS PER SHARE

The computations for basic and diluted earnings per share are as follows:

	January 31, 2020	January 31, 2019
Net income for the year	\$ 497,602	\$ 1,289,015
Average number of common shares outstanding	35,341,440	35,399,393
Effect of options	83,157	63,172
Average number of diluted common shares outstanding	35,424,597	35,462,565
Basic earnings per share	\$ 0.01	\$ 0.04
Diluted earnings per share	\$ 0.01	\$ 0.04

19. PROVISIONS

	Asset decommissioning obligations
Balance at February 1, 2018	\$ 538,376
Change due to the passage of time	15,159
Change due to expansion of leased facility	-
Balance at January 31, 2019	\$ 553,535
Current	\$ -
Non-current	\$ 553,535
Balance at February 1, 2019	\$ 553,535
Change due to the passage of time	61,937
Change due to expansion of leased facility	342,553
Balance at January 31, 2020	\$ 958,025
Current	\$ -
Non-current	\$ 958,025

Asset decommissioning costs relate to the future legal obligations associated with the retirement of the Company's leased facility. The obligation is being accreted to income over the remainder of the lease term. During the year ended January 31, 2020, the Company expanded the leased facility. The total undiscounted amount of estimated cash flows required to restore the leased facility as at January 31, 2020 was \$1,489,426 (January 31, 2019 - \$704,904). The key assumptions used by management in computing the fair value of the future obligation are as follows: inflation at 2% and discount rate at 4.28%. The amount and timing of cash flows are based upon management's best estimate of this future obligation.

20. LEASE LIABILITIES

As a result of initially applying IFRS 16, the Company recognized lease liabilities of \$10,839,434 as of February 1, 2019. Interest expense of \$944,525 was recognized from these leases during the year ended January 31, 2020. Refer to note 3.2.1 and 12 for further details regarding the impact of the adoption of IFRS 16.

During fiscal 2020, with the completion of the Company's warehouse expansion, the Company's payments for lease of the building increased. As a result, lease liabilities increased by \$6,939,566.

The Company has a finance lease agreement with HSBC Bank Canada for the acquisition and installation of manufacturing equipment. The Company's obligations under the finance lease agreement is secured by the equipment under the lease agreement. During the fourth quarter of fiscal 2020 equipment was installed, and a lease agreement was formalized, that bears interest of 3.72% with monthly principal payments of \$71,541 until 2027.

Movement in the lease liabilities consists of the following:

	January 31, 2020	January 31, 2019*
Lease liabilities (including current portion), beginning of year	\$ 3,011,893	\$ 3,781,855
Lease liabilities on transition to IFRS 16	10,839,434	-
Lease liabilities for assets acquired under lease	13,822,240	-
Reduction to lease liabilities for disposal of right-of-use assets	(14,638)	-
Interest payable on lease liabilities	944,525	130,392
Repayments during the period	(2,507,584)	(900,354)
Lease liabilities (including current portion), end of year	\$ 26,095,870	\$ 3,011,893
Current	\$ 2,869,733	\$ 799,736
Non-current	\$ 23,226,137	\$ 2,212,157

*Amounts in fiscal 2019 represent obligations under finance leases.

The following amounts were recognized in profit and loss during the year:

	January 31, 2020	January 31, 2019
Interest expense on lease liabilities	\$ 944,525	\$ -
Depreciation on right-of-use assets	1,551,201	-
Expenses related to short-term leases	1,442,301	-
Expenses related to leases of low-value assets	8,711	-

21. LONG-TERM DEBT

Long-term debt consists of the following:

	January 31, 2020	January 31, 2019
Term debt loan payable to HSBC , bearing interest rate of 3.85% with monthly principal payments of \$23,809 until April 19, 2023.	\$ 948,991	\$ 1,234,705
Term debt loan payable to HSBC , bearing interest rate of 3.44% with monthly principal payments of \$26,825 until April 19, 2024.	1,271,271	1,544,349
Term debt loan payable to HSBC , bearing interest rate of 3.92% with monthly principal payments of \$40,907 until July 14, 2024.	2,021,217	2,424,255
Term debt loan payable to HSBC , bearing interest rate of 4.02% with monthly principal payments of \$25,667 until January 22, 2026.	1,639,589	1,876,518
Term debt loan payable to HSBC , bearing interest rate of 3.46% with monthly principal payments of \$46,435 until November 7, 2026.	3,386,715	-
Term debt loan payable to HSBC , bearing interest rate of 3.56% with monthly principal payments of \$26,963 until December 16, 2026.	1,981,184	-
Term debt loan payable to HSBC , bearing interest rate of 3.50% with monthly principal payments of \$33,600 until January 24, 2027.	2,500,000	-
Loan payable to Wells Fargo (stated net of transaction costs of \$13,353), bearing interest at 4.01%, and monthly blended payments of \$30,450 until June 9, 2021.	489,069	815,938
Loan payable to Wells Fargo, bearing interest at 4.36%, and monthly blended payments of \$35,971 until June 1, 2025.	2,050,790	2,385,084
Total long-term debt	\$ 16,288,826	\$ 10,280,849
Current	\$ 2,946,038	\$ 1,859,922
Non-current	\$ 13,342,788	\$ 8,420,927

The term debt loans payable to HSBC are secured by a general security agreement over all assets, a collateral mortgage in the amount of \$1,500,000 over real property, and a first position security interest in processing plant and equipment, accounts receivable and inventories.

The loans payable to Wells Fargo are secured by specific items of equipment.

The Company is in compliance with the financial covenants required under the terms of the term debt loans payable to HSBC.

The aggregate maturities of long-term debt obligations are summarized as follows:

	January 31, 2020
Due within one year	\$ 2,946,038
Due in one to five years	\$ 10,533,113
Due in over five years	\$ 2,809,675
	\$ 16,288,826

Movement in the long-term debt consists of the following:

	January 31, 2020	January 31, 2019
Long-term debt (including current portion), beginning of year	\$ 10,280,849	\$ 7,351,241
Issuance of long-term debt	7,961,780	4,476,518
Repayment of long-term debt	(1,964,832)	(1,557,939)
Amortization of financing fees	11,029	11,029
Long-term debt (including current portion), end of year	\$ 16,288,826	\$ 10,280,849

22. BANK INDEBTEDNESS

The Company holds an operating line of credit from HSBC Bank Canada in the amount of \$8,000,000 which bears interest at a rate of prime plus 0.20% per annum. The net balance drawn on the operating line of credit as of January 31, 2020 is \$790,224 (January 31, 2019 - \$1,891,944). Bank indebtedness includes outstanding cheques. Interest expense for the year ended January 31, 2020 was \$94,249 (January 31, 2019 - \$65,378). These charges have been included as part of finance costs in the statements of comprehensive income.

The operating line is secured by a general security agreement over all assets other than real property, and a general assignment of book debts creating a first priority assignment. The Company is in compliance with the financial covenants required under the terms of the bank operating line of credit.

23. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following categories:

	January 31, 2020	January 31, 2019
Trade payables	\$ 5,695,044	\$ 2,350,404
Other payables and accrued liabilities	7,214,727	4,952,829
	\$ 12,909,771	\$ 7,303,233

The Company's trade payables relate to amounts outstanding for trade purchases relating to the production of alcohol-based products and for general administrative activities.

The Company's other payables category includes amounts relating to federal and provincial sales taxes and production taxes associated with the manufacturing and distribution of alcohol-based products. The Company's accrued liabilities mainly relate to salaries, benefits and other personnel related expenses as well as accruals relating to accounting and legal expenses.

During the last quarter of fiscal 2020, the Company announced that it had been subject to a social engineering cyberattack by a sophisticated third party that resulted in a wire transfer of the Company's funds to a fraudulent third party account. To date, the Company has not recovered any of the funds wired to the fraudulent third party account and the liability to the intended recipient of the wire transfer remains outstanding as at year-end in the amount of \$2,077,515. While the Company is actively taking measures to recover the funds, there can be no assurance that such measures will result in the return of all or a portion of the misappropriated funds in a timely manner or at all. Refer to note 27 for further details.

Accounts payables and accrued liabilities are expected to be settled within the next 12 months.

24. FINANCIAL INSTRUMENTS

This note presents information relating to the Company's exposure to financial instruments and summarizes the Company's policies and processes that are in place for measuring and managing risk. Further qualitative disclosures are included throughout these financial statements.

Principles of risk management

The main risks arising from the Company's financial instruments are credit and sales concentration risk, liquidity risk, foreign currency risk and interest rate risk. These risks are from exposures that occur in the normal course of business and are managed by the executive officers of the Company (the "Executive Team"). The responsibilities of the Executive Team include the recommendations of policies to manage financial instrument risk.

The overall objective of the Executive Team is to effectively manage credit risk, liquidity risk and other market risks in accordance with the Company's strategy. Other responsibilities of the Executive Team include management of the Company's cash resources and debt funding programs, approval of counter-parties and relevant transaction limits and the monitoring of all significant treasury activities undertaken by the Company.

The Company's Finance Group prepares periodic reports which monitor all significant financial activities undertaken by the Company. These reports also monitor loan covenants to ensure continued compliance. The Executive Team reviews these reports to monitor the financial instrument risks of the Company and to ensure compliance with established Company policies and procedures.

Categories of financial instruments

The Company's significant financial instruments comprise cash and cash equivalents, bank indebtedness, lease liabilities, and long-term debt. The main purpose of these financial instruments is to finance the Company's growth and ongoing operations. The Company has various other financial assets and liabilities such as accounts receivables and accounts payables, which arise directly from its operations.

The Company's financial instruments and their designations are:

	Designated as:
Accounts receivable	Amortized cost
Bank indebtedness	Financial liabilities
Accounts payable and accrued liabilities	Financial liabilities
Lease liabilities	Financial liabilities
Long-term debt	Financial liabilities

All financial assets and financial liabilities are recorded at amounts which approximate their fair market value.

Accounts receivable, bank indebtedness, accounts payable, and accrued liabilities approximate their fair values on a discounted cash flow basis because of the short-term nature of these instruments. In general, investments with original maturities of less than three months are classified as cash and cash equivalents.

The carrying amount of long-term debt, and lease liabilities approximate their fair value on a discounted cash basis because these obligations bear interest at market rates.

Credit and sales concentration risk

Exposure to credit risk arises as a result of transactions in the Company's ordinary course of business and is applicable to all financial assets. Investments in cash, short-term deposits and similar assets are with approved counter party banks and other financial institutions. Counter-parties are assessed both prior to, during, and after the conclusion of transactions to ensure exposure to credit risk is limited to an acceptable level.

The maximum exposure of credit risk is limited to the total carrying value of accounts receivable as at January 31, 2020, being an amount of \$4,976,226 (January 31, 2019 - \$4,851,774).

The credit quality of the Company's significant customers is monitored on an on-going basis and allowances are provided for potential losses that have been incurred at the period end date. The Company does not have a history of significant credit losses. Receivables that are neither past due nor impaired are considered credit of high quality. Where concentrations of credit risk exist, management closely monitors the receivable and ensures appropriate controls are in place to ensure recovery.

During the year ended January 31, 2020, approximately 67 percent (January 31, 2019 – 71 percent, excluding the one-time impact of the TBS change to a consignment basis), of the Company's net revenue is attributable to sales transactions with a single customer.

Liquidity risk

Liquidity risk is the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price. The Company's Executive Team is responsible for management of liquidity risk, including funding, settlements, related processes and policies. The operational, tax, capital and regulatory requirements and obligations of the Company are considered in the management of liquidity risk.

The Company manages its liquidity risk utilizing various sources of financing to maintain flexibility while ensuring access to cost-effective funds when required. The Company also manages liquidity risk through the use of its operating line of credit. In addition, the Executive Team utilizes both short and long-term cash flow forecasts and other financial information to manage liquidity risk. Other than the scheduled repayments of long-term debt, and lease liabilities in fiscal 2020 and beyond, all other financial liabilities are due within one year.

The table below presents a maturity analysis of the Company's financial liabilities based on the expected cash flows from the reporting date to the contractual maturity date.

	Carrying Amount	Contractual Cash Flows	Due within one year	Due in one to five years	Due in over five years
Accounts payable and accrued liabilities	\$ 12,909,771	\$ 12,909,771	\$ 12,909,771	\$ -	\$ -
Long-term debt	16,288,826	16,288,826	2,946,038	10,533,113	2,809,675
Lease liabilities	26,095,870	26,095,870	2,869,733	7,332,161	15,893,976
Total contractual repayments	\$ 55,294,467	\$ 55,294,467	\$ 18,725,542	\$ 17,865,274	\$ 18,703,651

Currency risk

The Company currently relies on only a few foreign suppliers providing certain goods and services and thus has limited exposure to risk due to fluctuations in foreign exchange rates. The Company periodically enters into forward contracts to manage foreign exchange rate fluctuations and the Executive Team monitors foreign exchange exposure on an ongoing basis.

The Company does not have any significant foreign currency denominated monetary liabilities.

Interest rate risk

The Company is exposed to interest rate risk to the extent that its bank indebtedness and long-term debt are based upon variable rates of interest.

For the year ended January 31, 2020, if interest rates changed by 1% assuming all other variables remain constant, the change in the Company's net income and comprehensive income would not be significantly impacted.

Market risk

The Company is exposed to commodity price risk with respect to certain raw materials where fluctuations in the market price or availability of these items could impact the Company's cash flow and production. To minimize the impact of this risk, the Company enters into contracts which secure supply and set pricing to manage the exposure to availability and pricing of certain raw materials.

The Company's profitability depends on the selling price of its products to The Beer Store and provincial liquor boards. While these prices are controlled by the Company, they are subject to various legislation, regional supply and demand and general economic conditions.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, liquidity and market risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. The Company's objective is to manage operational risk to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer (collectively, the "Executive Team").

This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance when this is effective.

Compliance with Company's standards is supported by a program of periodic reviews undertaken by the corporate finance group. The results of the reviews are discussed with the Audit Committee as required.

Capital management

For capital management purposes, the Company defines capital as the aggregate of its equity and total debt less cash and cash equivalents. Debt includes bank indebtedness, the current and non-current portions of lease liabilities and the current and non-current portions of long-term debt.

The Company's principal objectives in managing capital are:

- to ensure that it will continue to operate as a going concern;
- to maintain a strong capital base so as to maintain client, investor, creditor and market confidence; and
- to comply with financial covenants required under its various borrowing facilities.

The Company's capital structure consists of the following:

	January 31, 2020	January 31, 2019
Bank indebtedness	\$ 783,077	\$ 1,887,253
Total debt	42,384,696	13,292,742
Net debt	43,167,773	15,179,995
Equity:		
Share capital	39,126,283	40,001,097
Share-based payments reserves	2,108,671	1,325,150
Deficit	(7,348,452)	(4,269,592)
Total Equity	33,886,502	37,056,655
Total capitalization (net debt plus total equity)	\$ 77,054,275	\$ 52,236,650

The Company manages its capital structure and adjusts it in the light of changes in economic conditions and in order to comply with externally imposed financial debt covenants. Financing decisions are generally made on a specific transaction basis and depend on the Company's needs, capital markets and economic conditions at the time of the transaction.

At January 31, 2020, the Company was in compliance with all of its financial debt covenants.

25. COMMITMENTS

As at January 31, 2020, the Company had the following non-cancellable purchase commitments relating to raw materials and supplies:

	January 31, 2020	January 31, 2019
Due within one year	\$ 5,478,221	\$ 4,910,388
Due in one to five years	1,292,787	-
Due in over five years	-	-
	\$ 6,771,008	\$ 4,910,388

All other commitments have been otherwise noted within these financial statements.

26. RELATED PARTY TRANSACTIONS

Key management personnel consist of the officers of the Company and the Company's Board of Directors. The aggregate compensation of key management personnel is set out below:

	January 31, 2020	January 31, 2019
Short-term employee benefits	\$ 1,751,465	\$ 1,670,782
Post-employment benefits	59,298	58,513
Share-based payments	653,439	268,506
	\$ 2,464,202	\$ 1,997,801

27. LOSS ON MISAPPROPRIATED FUNDS

During the last quarter of fiscal 2020, the Company announced that it had been subject to a social engineering cyberattack by a sophisticated third party that resulted in a wire transfer of the Company's funds to a fraudulent third-party account.

To date, the Company has not recovered any funds wired to the fraudulent third-party account. While the Company is actively taking measures to recover the funds, there can be no assurance that such measures will result in the return of all or a portion of the misappropriated funds in a timely manner or at all.

Accordingly, a net loss on the misappropriation of funds was recorded in the amount of \$1,869,595.

28. SUBSEQUENT EVENT

Subsequent to January 31, 2020, as a result of the global outbreak of COVID-19 (“Coronavirus”) and its declaration by the World Health Organization to be a “pandemic”, certain actions are being taken by governments and businesses in the United States, Canada, the UK, China and around the world to control the outbreak by enacting emergency measures, including restrictions on public activities, travel and commercial operations. These measures have caused material disruption to businesses globally and in Ontario resulting in an economic slowdown.

Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions however the success of these interventions is not currently determinable. The current challenging economic climate may lead to adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company’s operating results and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Company is not known at this time. The extent of such impact will depend on future developments, which are highly uncertain, including new information which may emerge concerning the spread and severity of the Coronavirus and actions taken to address its impact, among others. The repercussions of this health crisis could have a material adverse effect on the Company’s business, financial condition, liquidity and operating results.

The Company has been deemed an “essential service” by the Ontario government and therefore, is permitted to continue full operations. The Company’s retail store and taphouse have been closed as a preventative measure. The Company’s lenders have allowed the Company to defer up to three months of principal payments on outstanding debt and the Ontario government is permitting deferral of beer tax payments for five months, without interest and penalties.

INVESTOR & CONTACT INFORMATION

STOCK EXCHANGE AND LISTED SECURITIES

Waterloo Brewing Ltd. is listed on the Toronto Stock Exchange (TSX) under the ticker symbol WBR.

INVESTOR AND ANALYST INQUIRIES

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BOARD OF DIRECTORS

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