



WATERLOO

BREWING

***CONDENSED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)***

FIRST QUARTER FISCAL 2022

Quarter Ended May 2, 2021

STATEMENTS OF FINANCIAL POSITION

As at May 2, 2021 and January 31, 2021

(Not audited or reviewed by the Company's external auditor)

	Notes	May 2, 2021	January 31, 2021
ASSETS			
Current assets			
Accounts receivable		\$ 11,960,452	\$ 9,871,061
Inventories		18,801,565	14,344,496
Prepaid expenses		982,986	729,260
		31,745,003	24,944,817
Non-current assets			
Property, plant and equipment	5	51,846,951	46,630,107
Right-of-use assets	6	27,810,657	26,936,861
Intangible assets		14,992,102	15,002,826
Construction deposits		830,657	1,949,074
		95,480,367	90,518,868
TOTAL ASSETS		127,225,370	115,463,685
LIABILITIES AND EQUITY			
Current liabilities			
Bank indebtedness		8,028,390	3,366,489
Accounts payable and accrued liabilities		25,852,128	21,341,335
Current portion of lease liabilities		3,313,002	3,282,080
Non-revolving demand loans	7	28,152,216	25,896,379
Current portion of long-term debt		427,747	510,275
		65,773,483	54,396,558
Non-current liabilities			
Provisions		1,035,539	1,019,962
Lease liabilities		21,918,859	21,522,379
Long-term debt		1,243,248	1,367,930
Deferred income tax liability		3,426,101	3,462,495
		27,623,747	27,372,766
TOTAL LIABILITIES		93,397,230	81,769,324
Equity			
Share capital	8, 9	39,953,562	39,546,216
Share-based payments reserves	9	2,072,547	2,245,415
Deficit		(8,197,969)	(8,097,270)
TOTAL EQUITY		33,828,140	33,694,361
COMMITMENTS			
TOTAL LIABILITIES AND EQUITY		\$ 127,225,370	\$ 115,463,685

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 COMPREHENSIVE INCOME

For the quarters ended May 2, 2021 and April 26, 2020

(Not audited or reviewed by the Company's external auditor)

	Notes	Quarter ended	
		May 2, 2021	April 26, 2020
Revenue	11	\$ 22,484,185	\$ 14,842,478
Cost of sales	12	17,487,382	11,145,445
Gross profit		4,996,803	3,697,033
Selling, marketing and administration expenses	12	3,596,069	2,839,249
Other expenses	12,13	643,787	632,819
Finance costs		911,249	428,444
Loss (gain) on disposal of property, plant and equipment and right-of-use assets		(17,209)	218,063
Loss before tax		(137,093)	(421,542)
Income tax recovery		(36,394)	(126,462)
Net loss and comprehensive loss for the quarter		\$ (100,699)	\$ (295,080)
Basic loss per share	14	\$ -	\$ (0.01)
Diluted loss per share	14	\$ -	\$ (0.01)

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

STATEMENTS OF CHANGES IN EQUITY

As at May 2, 2021, January 31, 2021 and April 26, 2020

(Not audited or reviewed by the Company's external auditor)

	Share Capital		Share based payments reserve	Retained earnings/(deficit)	Total equity
	Number of Shares	Amount (\$)			
At January 31, 2020	35,229,728	\$ 39,126,283	\$ 2,108,671	\$ (7,348,452)	\$ 33,886,502
Comprehensive loss for the period	-	-	-	(295,080)	(295,080)
Shares repurchased and cancelled, including fees	(60,940)	(187,626)	-	-	(187,626)
Share-based payments	-	-	169,472	-	169,472
At April 26, 2020	35,168,788	38,938,657	2,278,143	(7,643,532)	33,573,268
Comprehensive income for the remainder of the year	-	-	-	3,295,093	3,295,093
Shares repurchased and cancelled, including fees	(64,349)	(189,432)	-	-	(189,432)
Stock options exercised	304,266	767,623	(655,583)	-	112,040
Shares issued	8,981	29,368	-	-	29,368
Dividends paid	-	-	-	(3,748,831)	(3,748,831)
Share-based payments	-	-	622,855	-	622,855
At January 31, 2021	35,417,686	39,546,216	2,245,415	(8,097,270)	33,694,361
Comprehensive loss for the period	-	-	-	(100,699)	(100,699)
Shares issued	17,993	86,013	-	-	86,013
Stock options exercised	166,408	321,333	(312,034)	-	9,299
Share-based payments	-	-	139,166	-	139,166
At May 2, 2021	35,602,087	\$ 39,953,562	\$ 2,072,547	\$ (8,197,969)	\$ 33,828,140

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

STATEMENTS OF CASH FLOWS

For the quarters ended May 2, 2021 and April 26, 2020

(Not audited or reviewed by the Company's external auditor)

	Notes	Quarter ended	
		May 2, 2021	April 26, 2020
Operating activities			
Net loss		\$ (100,699)	\$ (295,080)
Adjustments for:			
Income tax recovery		(36,394)	(126,462)
Finance costs		911,249	428,444
Depreciation and amortization of property, plant and equipment, right-of-use assets and intangibles	5,6,12,13	2,349,979	1,735,679
Loss (gain) on disposal of property, plant and equipment and right-of-use assets	6	(17,209)	218,063
Share-based payments		139,166	169,472
Change in non-cash working capital		(2,500,083)	1,743,519
Less:			
Interest paid		(682,679)	(413,954)
Cash provided by operating activities		63,330	3,459,681
Investing activities			
Purchase of property, plant and equipment	5	(4,913,073)	(3,363,659)
Construction deposit paid		(830,657)	(744,046)
Proceeds from sale of right-of-use assets, net	6	17,916	-
Purchase of intangible assets		(42,297)	(30,812)
Cash used in investing activities		(5,768,111)	(4,138,517)
Financing activities			
Increase in bank indebtedness		4,661,901	253,680
Issuance of non-revolving demand loans	7	3,362,543	2,041,549
Repayment of non-revolving demand loans		(1,106,705)	(432,921)
Repayment of long-term debt		(209,513)	(114,786)
Repayment of lease liabilities		(1,098,757)	(881,060)
Issuance of shares, net of fees	9	86,013	-
Shares repurchased and cancelled, including fees		-	(187,626)
Proceeds from stock option exercise	9	9,299	-
Cash generated from financing activities		5,704,781	678,836
Net increase/(decrease) in cash		-	-
Cash, beginning of year		-	-
Cash, end of year		\$ -	\$ -
Non-cash investing activities:			
Acquisition of assets under lease	6	\$ 1,532,415	\$ 3,818

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”) 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, distribution and sale of beer, cider, spirit-based and malt-based beverages. The Company manufactures products under its own trademarks, as well as under license. The Company also produces products for other customers under co-manufacturing arrangements. 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 unaudited condensed interim financial statements of the Company were authorized for issue on May 26, 2021, by the Company’s Board of Directors.

3. BASIS OF PRESENTATION

3.1. STATEMENT OF COMPLIANCE

These unaudited condensed interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”). The unaudited condensed interim financial statements do not include all of the information required for full annual financial statements.

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 Company’s annual financial statements for the year ended January 31, 2021.

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

On August 27, 2020, the IASB finalized its response to the ongoing reform of inter-bank offered rates and other interest rate benchmarks by issuing a package of amendments to IFRS Standards.

The amendments were effective February 1, 2021. The adoption of these amendments did not have an impact on the business of the Company.

3.3 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.

3.4 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.

3.5 SEASONALITY

The alcoholic beverage industry in Canada is seasonal in nature. Accordingly, the Company has historically experienced a seasonal pattern in its operating results, with the first and last quarters historically exhibiting lower revenues. Therefore, the results in any one quarter are not indicative of results in any other quarter, or for the year as a whole.

4. USE OF ESTIMATES AND JUDGMENT

The preparation of financial statements in conformity with IFRS requires management to make judgments, 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 judgments 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 judgments 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.

COVID-19 ESTIMATION UNCERTAINTY

During the first quarter of fiscal 2022 and subsequent to May 2, 2021, the COVID-19 pandemic has had a material impact on the global economy, the scale and duration of which remains uncertain. To date, there has been significant volatility in foreign exchange rates, restrictions on the conduct of businesses, including travel restrictions, and supply chain disruptions. Depending on the duration and extent of the impact of COVID-19, this could materially impact the Company's results of operations, cash flows, and financial position and could result in changes to estimates used. Changes related to these could be material.

For further details on the Company's response to the COVID-19 pandemic, please refer to the *Description of the Business* section of the Management's Discussion and Analysis for the first quarter ending May 2, 2021.

5. 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, 2020	\$ 10,805,668	\$ 9,292,844	\$ 39,009,590	\$ 2,536,383	\$ 735,418	\$ 555,852	\$ 188,089	\$ 63,123,844
Additions	2,327,082	1,335,551	15,323,884	392,904	55,285	-	23,057	19,457,763
Disposals	(231,433)	-	(189,595)	-	-	-	-	(421,028)
Balance at January 31, 2021	12,901,317	10,628,395	54,143,879	2,929,287	790,703	555,852	211,146	82,160,579
Cumulative depreciation and impairment								
Balance at February 1, 2020	(2,320,229)	(7,583,588)	(17,432,351)	(1,985,234)	(395,241)	(455,561)	(142,962)	(30,315,166)
Depreciation charge for the year	(656,461)	(815,455)	(3,350,663)	(390,645)	(106,297)	(75,850)	(16,772)	(5,412,143)
Depreciation on disposals	13,370	-	183,467	-	-	-	-	196,837
Balance at January 31, 2021	(2,963,320)	(8,399,043)	(20,599,547)	(2,375,879)	(501,538)	(531,411)	(159,734)	(35,530,472)
Net book value as at January 31, 2021	\$ 9,937,997	\$ 2,229,352	\$ 33,544,332	\$ 553,408	\$ 289,165	\$ 24,441	\$ 51,412	\$ 46,630,107
Cost or deemed cost								
Balance at February 1, 2021	\$ 12,901,317	\$ 10,628,395	\$ 54,143,879	\$ 2,929,287	\$ 790,703	\$ 555,852	\$ 211,146	\$ 82,160,579
Additions	520,167	214,058	6,016,549	90,572	6,071	-	14,730	6,862,147
Disposals	-	-	-	-	-	-	-	-
Balance at May 2, 2021	13,421,484	10,842,453	60,160,428	3,019,859	796,774	555,852	225,876	89,022,726
Cumulative depreciation and impairment								
Balance at February 1, 2021	(2,963,320)	(8,399,043)	(20,599,547)	(2,375,879)	(501,538)	(531,411)	(159,734)	(35,530,472)
Depreciation charge for the period	(200,622)	(253,721)	(1,055,605)	(83,350)	(27,508)	(19,384)	(5,113)	(1,645,303)
Depreciation on disposals	-	-	-	-	-	-	-	-
Balance at May 2, 2021	(3,163,942)	(8,652,764)	(21,655,152)	(2,459,229)	(529,046)	(550,795)	(164,847)	(37,175,775)
Net book value as at May 2, 2021	\$ 10,257,542	\$ 2,189,689	\$ 38,505,276	\$ 560,630	\$ 267,728	\$ 5,057	\$ 61,029	\$ 51,846,951

5. PROPERTY, PLANT & EQUIPMENT (continued)

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

	Quarter ended	
	May 2, 2021	April 26, 2020
Additions during the period	\$ 6,862,147	\$ 4,414,084
Construction deposits paid in a prior period	(1,949,074)	(1,050,425)
Increase to asset retirement obligation asset	-	-
	\$ 4,913,073	\$ 3,363,659

6. RIGHT-OF-USE ASSETS

	Equipment	Building	Vehicles	Total right-of-use assets
Cost or deemed cost				
Balance at February 1, 2020	\$ 12,145,686	\$ 17,563,239	\$ 397,169	\$ 30,106,094
Additions	189,745	954,184	167,352	1,311,281
Disposals	-	-	(91,732)	(91,732)
Balance at January 31, 2021	12,335,431	18,517,423	472,789	31,325,643
Cumulative depreciation and impairment				
Balance at February 1, 2020	(1,507,960)	(622,097)	(135,041)	(2,265,098)
Depreciation charge for the period	(1,185,167)	(854,638)	(151,562)	(2,191,367)
Depreciation on disposals	-	-	67,683	67,683
Disposals	-	-	-	-
Balance at January 31, 2021	(2,693,127)	(1,476,735)	(218,920)	(4,388,782)
Net book value as at January 31, 2021	\$ 9,642,304	\$ 17,040,688	\$ 253,869	\$ 26,936,861
Cost or deemed cost				
Balance at February 1, 2021	\$ 12,335,431	\$ 18,517,423	\$ 472,789	\$ 31,325,643
Additions	22,868	1,468,013	41,534	1,532,415
Disposals	-	-	(28,107)	(28,107)
Balance at May 2, 2021	12,358,299	19,985,436	486,216	32,829,951
Cumulative depreciation and impairment				
Balance at February 1, 2021	(2,693,127)	(1,476,735)	(218,920)	(4,388,782)
Depreciation charge for the period	(306,561)	(309,126)	(35,968)	(651,655)
Depreciation on disposals	-	-	21,143	21,143
Balance at May 2, 2021	(2,999,688)	(1,785,861)	(233,745)	(5,019,294)
Net book value as at May 2, 2021	\$ 9,358,611	\$ 18,199,575	\$ 252,471	\$ 27,810,657

During the first quarter ended May 2, 2021, to manage anticipated growth, the Company added additional square footage of warehouse space, based on its signed lease agreement. As a result, the right-of-use assets and lease liabilities increased by \$1,468,013.

6. RIGHT-OF-USE ASSETS (continued)

During the first quarter ended May 2, 2021, the Company disposed of leased vehicles for proceeds of \$17,916 resulting in a gain on disposal of \$17,209, including the reversal of the remaining lease liability of \$6,257.

7. NON-REVOLVING DEMAND LOANS

During the first quarter ended May 2, 2021, under its loan agreement with HSBC Bank Canada, the Company received a new non-revolving demand loan of \$3,362,543, bearing interest at a fixed rate of 3.83% with fixed monthly payments of \$45,699, including principal and interest. The remaining principal balance is due March 18, 2028 unless demanded earlier by the bank.

8. SHARE CAPITAL

On May 26, 2021, the Board of Directors of the Company approved a quarterly dividend of \$0.0276 per share, payable on August 4, 2021 to shareholders of record as of July 21, 2021.

9. SHARE-BASED PAYMENTS

During the first quarter ended May 2, 2021, 371,665 stock options were exercised with a weighted average exercise price of \$3.69 per share, 368,332 of which were exercised on a cash-less basis, resulting in the issuance of 166,408 common shares for aggregate proceeds of \$9,299. The fair value of options exercised during the first quarter is \$321,333.

The Company granted 280,000 stock options to executive officers during the first quarter of fiscal 2022, pursuant to the Company's stock option plan, with a weighted average exercise price of \$6.61 per share.

10. CAPITAL STRUCTURE

The Company's capital structure consists of the following:

	Quarter Ended	
	May 2, 2021	January 31, 2021
Bank indebtedness	\$ 8,028,390	\$ 3,366,489
Lease liabilities, non-revolving demand loans, and long-term debt	55,055,072	52,579,043
Total debt	63,083,462	55,945,532
Equity:		
Share capital	39,953,562	39,546,216
Share-based payments reserves	2,072,547	2,245,415
Deficit	(8,197,969)	(8,097,270)
Total Equity	33,828,140	33,694,361
Total capitalization (total debt plus total equity)	\$ 96,911,602	\$ 89,639,893

11. REVENUE

The Company's revenue consists of the following streams:

	Quarter ended	
	May 2, 2021	April 26, 2020
Revenue from the sale of goods:		
Gross revenue	\$ 28,953,782	\$ 24,419,241
Less: Production taxes and distribution fees	16,645,369	13,983,282
Revenue (net)	12,308,413	10,435,959
Revenue from the rendering of services:		
Gross revenue	10,175,772	4,406,519
Total revenue	\$ 22,484,185	\$ 14,842,478

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

12. EXPENSES BY NATURE

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

	Quarter ended	
	May 2, 2021	April 26, 2020
Depreciation of property, plant & equipment and right-of-use assets		
Cost of sales	\$ 1,640,385	\$ 1,197,221
Other expenses	656,573	489,134
Amortization of intangible assets		
Other expenses	53,021	49,324
Salaries, benefits and other personnel-related expenses		
Cost of sales	3,155,411	2,085,125
Selling, marketing and administrative expenses	1,892,854	1,338,655
Other expenses	1,537	26,625

13. OTHER EXPENSES

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

	Quarter ended	
	May 2, 2021	April 26, 2020
Depreciation of property, plant & equipment and right-of-use assets	\$ 656,573	\$ 489,134
Amortization of intangible assets	53,021	49,324
Other personnel-related expenses	1,537	26,625
Foreign exchange (gains) losses	(67,344)	67,736
	\$ 643,787	\$ 632,819

14. EARNINGS PER SHARE

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

	Quarter Ended	
	May 2, 2021	April 26, 2020
Net loss for the period	\$ (100,699)	\$ (295,080)
Average number of common shares outstanding	35,463,193	35,197,891
Effect of options	950,137	67,693
Average number of diluted common shares outstanding	36,413,330	35,265,584
Basic loss per share	\$ -	\$ (0.01)
Diluted loss per share	\$ -	\$ (0.01)

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

David J. Birch, Chief Financial Officer
Waterloo Brewing Ltd.
T: 416-895-4824
F: 519-742-9874
info@waterloobrewing.com

SHARE REGISTRAR AND TRANSFER AGENT

Computershare Investor Services Inc.
100 University Avenue, 8th Floor
Toronto, Ontario
M5J 2Y1

EXTERNAL AUDITOR

KPMG LLP
115 King Street South, 2nd Floor
Waterloo, Ontario
N2J 5A3

CORPORATE COUNSEL

Wildeboer Dellelce LLP
Suite 800, Wildeboer Dellelce Place
365 Bay Street
Toronto, Ontario
M5H 2V1

LOCATION

Corporate Office & Manufacturing Facility
400 Bingemans Centre Drive, Kitchener, Ontario,
N2B 3X9
T: 519-742-2732
F: 519-742-9874
www.waterloobrewing.com

BOARD OF DIRECTORS

Peter J. Schwartz, Chairman
David R. Shaw
Edward H. Kernaghan
George H. Croft
John H. Bowey
Stan G. Dunford

OFFICERS

George H. Croft, President, and Chief Executive Officer
David J. Birch, Chief Financial Officer
Russell N. Tabata, Chief Operating Officer