WATERLOO BREWING

# MANAGEMENT'S DISCUSSION & ANALYSIS

## THIRD QUARTER FISCAL 2023

## Quarter ended October 30, 2022

# 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"), for the quarterly period ended October 30, 2022 ("the third quarter of fiscal 2023") in comparison with the quarterly period ended October 31, 2021 ("the third quarter of fiscal 2022"). This MD&A should be read in conjunction with: (i) the Company's unaudited condensed interim financial statements for the third quarters of fiscal 2023 and 2022 and the notes thereto, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"); and (ii) the annual report of the Company for the year ended January 31, 2022, including the sections on risks and uncertainties within the MD&A for fiscal 2022. The interim financial statements for the third quarter of fiscal 2023 have not been audited or reviewed by the Company's auditors, KPMG LLP. This MD&A has been prepared as of December 14, 2022. 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.

Subsequent to the third quarter of fiscal 2023, on December 14, 2022, the Company announced that it entered into a definitive arrangement agreement with Carlsberg Breweries A/S and Carlsberg Canada Inc. ("Carlsberg Canada") (the "Arrangement Agreement") pursuant to which Carlsberg Canada has agreed to acquire all of the issued and outstanding shares of the Company, by way of a statutory plan of arrangement under the Business Corporations Act (Ontario) (the "Transaction"). Under the terms of the Arrangement Agreement, the Company's shareholders will receive $4.00 in cash for each Company share held. Each in-the-money option of the Company outstanding will be deemed to be vested and disposed of to the Company for an in-the-money cash payment, and all Company options issued and outstanding shall thereafter be immediately cancelled. Subject to the satisfaction of closing conditions, including obtaining the requisite Company shareholder and option holder approvals and approval from the Ontario Superior Court of Justice, the acquisition is expected to be completed in the first quarter of fiscal 2024.

### 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, EBITDA*, operating efficiencies, costs, and expansion of its facilities. 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 December 14, 2022, 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, 2023 ("fiscal 2023") will increase; no material changes in consumer preferences; brewing, blending, and packaging efficiencies will improve; the cost of input materials for brewing, blending, and packaging will increase; competitive activity from other manufacturers will continue; no early termination of agreements with co-manufacturing customers; no material change to the regulatory environment in which the Company operates and no material supply, cost or quality control issues with vendors and required court and shareholder approvals in respect of the Transaction. 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 and 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 December 14, 2022, 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 financial measure, therefore it does not have any standardized meaning prescribed by IFRS and may not be similar to measures presented by other companies. EBITDA represents earnings before interest, income taxes, depreciation and amortization, gain or loss on disposal of property, plant, and equipment and right-of-use assets, unrealized gain on foreign exchange contracts, gain on misappropriated funds 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. See "Results of Operations" on page 6 of this MD&A for a quantitative reconciliation of Net Income (Loss) to EBITDA.

## DESCRIPTION OF THE BUSINESS

### *Products*

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

The Company's products include packaged and draft premium craft beer under the Waterloo brand name, and mainstream domestic beer under the Laker brand name (collectively, the "Waterloo Beer Brands"). The Company also owns the rights to the Seagram trademark in Canada. The Company produces, sells, markets and distributes Seagram ready-to-drink coolers and ciders across Canada. Under an exclusive long-term licensing agreement, the Company produces, sells, markets and distributes beer and seltzers under the LandShark® trademark in Canada.

Pursuant to a co-manufacturing agreement with Loblaws Inc. ("Loblaws"), the Company produces, sells, markets and distributes various beer products on behalf of Loblaws under the licensed President's Choice® and No Name® trademarks. The Company produces various products under a contract with Canada Dry Mott's, Inc. The Company also has co-manufacturing agreements with other customers, including Hiram Walker®, 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 craft beer is also sold in Atlantic Canada, Western Canada, and the USA. Seagram and LandShark® products are sold across Canada.

### *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 ready-to-drink coolers are sold through the provincial liquor boards. The Company distributes Laker, LandShark®, and Waterloo craft beers, as well as Seagram cider, in certain grocery stores in Ontario. The Company expects the number of licensed grocery stores in Ontario to remain stable throughout fiscal 2023. The Company also has a retail store and taproom located in Kitchener, Ontario where the Company's products can be purchased.

### *Operating Facility*

The Company's registered corporate office and production facility is in Kitchener, Ontario. The Company has a 186,000 square foot leased facility, which includes a warehouse, a brewing, blending, and packaging facility, a retail store, and a taproom.

In fiscal 2022, the Company completed the installation of a second canning line which increased canning capacity from 0.45 million hectolitres to 1.20 million hectolitres annually. The Company also completed several liquid capacity enhancing projects which increased total liquid production capacity from 0.75 million hectolitres to 1.40 million hectolitres annually.

## SELECTED QUARTERLY 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)* | **Quarter Ended (unaudited)** | | |
|---|---|---|---|
| | **October 30, 2022** | October 31, 2021 | October 25, 2020 |
| **Income Statement Data** | | | |
| Gross Revenue[1] | **$ 38,783** | $ 39,153 | $ 35,347 |
| Net Revenue (after production taxes and distribution fees) | **$ 26,155** | $ 26,878 | $ 22,825 |
| EBITDA* | **$ 4,355** | $ 4,334 | $ 4,035 |
| Net Income | **$ 194** | $ 738 | $ 965 |
| Earnings per share | | | |
| Basic | **$ 0.01** | $ 0.02 | $ 0.03 |
| Diluted | **$ 0.01** | $ 0.02 | $ 0.03 |
| **Balance Sheet Data** | | | |
| Total Assets | **$ 132,691** | $ 127,463 | $ 109,331 |
| Total Lease Liabilities, Non-revolving Demand loans, and Long-term Debt[2] | **$ 56,343** | $ 56,652 | $ 45,872 |

[1] The prior period comparative amounts have been adjusted to reflect a reclassification from production taxes and distribution fees to gross revenue in the amount of $5,155 for the quarter ended October 31, 2021 and $5,336 for the quarter ended October 25, 2020.

[2] refer to note 11 of the interim financial statements for the quarter ended October 30, 2022

* EBITDA is a non-IFRS financial measure, therefore it does not have any standardized meaning prescribed by IFRS and may not be similar to measures presented by other companies. EBITDA represents earnings before interest, income taxes, depreciation and amortization, gain or loss on disposal of property, plant, and equipment and right-of-use assets, unrealized gain on foreign exchange contracts, gain on misappropriated funds 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. See "Results of Operations" on page 6 of this MD&A for a quantitative reconciliation of Net Income (Loss) to EBITDA.

## RESULTS OF OPERATIONS

| *(in thousands of dollars except per share amounts)* | Quarter ended (unaudited) | | Fiscal year-to-date ended (unaudited) | |
|---|---|---|---|---|
| | **October 30, 2022** | October 31, 2021 | **October 30, 2022** | October 31, 2021 |
| Gross revenue[1] | **$ 38,783** | $ 39,153 | **$ 132,684** | $ 121,609 |
| Less: Production taxes and distribution fees [1] | **12,628** | 12,275 | **55,787** | 38,044 |
| Net revenue | **26,155** | 26,878 | **76,897** | 83,565 |
| Cost of sales | **20,797** | 20,918 | **60,745** | 61,448 |
| Gross profit | **5,358** | 5,960 | **16,152** | 22,116 |
| | **20.5%** | 22.2% | **21.0%** | 26.5% |
| Selling, marketing and administration | **3,193** | 3,364 | **10,749** | 11,898 |
| Income before the undernoted | **2,165** | 2,596 | **5,403** | 10,218 |
| Other expenses | **1,026** | 1,006 | **3,182** | 2,797 |
| Finance costs | **862** | 599 | **2,313** | 1,885 |
| Gain on misappropriated funds, net | **-** | - | **-** | (900) |
| Gain on disposal of right-of-use assets | **(2)** | (15) | **(5)** | (37) |
| Income (loss) before tax | **279** | 1,006 | **(87)** | 6,473 |
| Income tax provision (recovery) | **85** | 268 | **(26)** | 1,681 |
| Net Income (loss) | **194** | 738 | **(61)** | 4,792 |
| Earnings per share | | | | |
| Net Income | **$ 0.01** | $ 0.02 | **$ -** | $ 0.13 |
| Diluted | **$ 0.01** | $ 0.02 | **$ -** | $ 0.13 |
| Net revenue increase (decrease) | **-2.7%** | 17.8% | **-8.0%** | 34.3% |
| **Consisting of:** | | | | |
| Increase (decrease) in owner brand net revenue | **-0.3%** | 6.4% | **-1.4%** | 6.7% |
| Increase (decrease) in co-manufacturing net revenue | **-5.6%** | 35.4% | **-15.4%** | 88.8% |

[1] The prior period comparative amounts have been adjusted to reflect a reclassification from production taxes and distribution fees to gross revenue in the amount of $5,155 and $15,899 for the quarter ended and fiscal year-to-date periods ended October 31, 2021, respectively.

## RECONCILIATION OF NET INCOME (LOSS) TO EBITDA*

*Reconciliation of Net Earnings (loss) to EBITDA**

| *(in thousands of dollars)* | Quarter ended (unaudited) October 30, 2022 | Quarter ended (unaudited) October 31, 2021 | Fiscal year-to-date ended (unaudited) October 30, 2022 | Fiscal year-to-date ended (unaudited) October 31, 2021 |
|---|---|---|---|---|
| Net income (loss) | **$ 194** | $ 738 | **$ (61)** | $ 4,792 |
| Add (deduct): | | | | |
| Income tax recovery (provision) | **85** | 268 | **(26)** | 1,681 |
| Gain on misappropriated funds | **-** | - | **-** | (900) |
| Depreciation and amortization | **2,914** | 2,491 | **8,882** | 7,475 |
| (Gain) loss on disposal of property, plant and equipment, and right-of-use assets | **(2)** | (37) | **130** | (85) |
| Share-based payments | **302** | 275 | **810** | 685 |
| Finance costs | **862** | 599 | **2,313** | 1,933 |
| Subtotal | **4,161** | 3,596 | **12,109** | 10,789 |
| EBITDA * | **4,355** | 4,334 | **12,048** | 15,581 |

* EBITDA is a non-IFRS financial measure, therefore it does not have any standardized meaning prescribed by IFRS and may not be similar to measures presented by other companies. EBITDA represents earnings before interest, income taxes, depreciation and amortization, gain or loss on disposal of property, plant, and equipment and right-of-use assets, unrealized gain on foreign exchange contracts, gain on misappropriated funds 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.

## NET REVENUE

Gross revenues were $38.8 million and $132.7 million for the third quarter and fiscal year-to-date periods ended October 30, 2022, respectively, compared to $39.1 million and $121.6 million for the third quarter and fiscal year-to-date periods ended October 31, 2021. Net revenues for the third quarter and fiscal year-to-date periods ended October 30, 2022 were $26.2 million and $76.9 million, respectively, compared to $26.9 million and $83.6 million in the same periods ended October 31, 2021. Net revenues are calculated by deducting from gross revenues the distribution fees paid to TBS and Provincial liquor boards, and Federal and Provincial alcohol taxes.

Gross and net revenue in the third quarter of fiscal 2023 were impacted by an increase in Laker volumes offset by a decrease in co-manufacturing business and an increase in taxes and fees from branded sales volumes year over year.

### BRANDED VOLUMES

| (in hectolitres rounded to nearest 100) | Quarter ended October 30, 2022 | Quarter ended October 31, 2021 | Fiscal year-to-date ended October 30, 2022 | Fiscal year-to-date ended October 31, 2021 |
|---|---|---|---|---|
| Laker | **63,400** | 57,300 | **186,600** | 178,800 |
| Waterloo | **5,700** | 6,400 | **17,000** | 20,900 |
| LandShark® | **14,800** | 16,000 | **44,200** | 44,200 |
| Seagram [1] | **3,000** | 4,500 | **10,700** | 15,000 |
| **Total Branded Volume** | **86,900** | 84,200 | **258,500** | 258,900 |

Branded sales volumes increased in the third quarter of fiscal 2023 by 3.2% over fiscal 2022's third quarter sales volumes. The industry beer volumes decreased by approximately 4.3% in the third quarter of fiscal 2023, indicating that the Company continues to grow market share within the Ontario market.

During the quarter ended October 30, 2022, the Laker family brand sales volumes increased by 10.6% over the quarter ended October 31, 2021. The Company maintained the value pricing of its Laker family products throughout the quarter, in particular on its single 473ml cans. Subsequent to the third quarter of fiscal 2023, the Company increased the price of its Laker single 473ml cans in line with the balance of the industry with respect to the mainstream domestic category. The Company has proactively committed marketing and trade investment in all channels of distribution to support maintaining and growing its market share and is also observing a shift to value priced products given the economic conditions.

Waterloo branded sales volumes decreased by 10.9% in the quarter ended October 30, 2022, compared to the quarter ended October 31, 2021, which is consistent with the overall trend in the craft category.

LandShark® sales volumes in the quarter ended October 30, 2022 decreased by 7.5% over the quarter ended October 31, 2021. The Company experienced softness in the LandShark® Seltzer brand, consistent with industry trends, while the LandShark® Lager brand held flat.

Seagram brand sales volumes decreased by 33.3% during the third quarter of fiscal 2023 compared to the same period of fiscal 2022. The decrease is attributable to increased competitiveness in the ready-to-drink segment. The LCBO has approved the launch of a new Seagram product for the first quarter of fiscal 2024.

In the quarter ended October 30, 2022, the premium category accounted for 27.0% of the volume included in the table on the bottom of page 6, compared to 31.9% in the quarter ended October 31, 2021. The Company maintains 5% of the total market share measured by the volume of TBS retail sales in Ontario.

### CO-MANUFACTURING REVENUE

Revenue generated from co-manufacturing products for customers decreased by 5.7% in the third quarter of fiscal 2023 compared to a 35.4% increase in the third quarter of fiscal 2022. On a fiscal year-to-date basis co-manufacturing revenue decreased by 15.4% in fiscal 2023 compared to the same period in fiscal 2022. The decrease was primarily driven by supply chain challenges in procuring raw materials that affected various co-manufacturing partners and industry wide softness which created decreased demand from some of the Company's co-manufacturing customers.

## PRODUCTION TAXES & DISTRIBUTION FEES

During the third quarter of fiscal 2023 the Company's production tax and distribution fees represented approximately 46.1% of gross revenue from the sale of goods, compared to 45.3% in the same period during fiscal 2022.

## COST OF SALES

Cost of sales were $20.8 million in the third quarter of fiscal 2023, a decrease of $0.1 million from the third quarter of fiscal 2022. Cost of sales represented 79.5% of net revenue in the third quarter of fiscal 2023, compared to 77.8% in the third quarter of fiscal 2022. The increase in cost of sales as a percentage of net revenue was driven by an increase in costs for raw materials, packaging, and freight as a result of rising inflation and supply chain challenges among the Company's suppliers. The Company continued to experience pressures on the cost of materials that it procures, packaging materials and flavours which, on average, increased since fiscal 2022. The Company continues to proactively manage its suppliers to mitigate operational impacts and inflationary pressures.

## SELLING, MARKETING, AND ADMINISTRATION

In the third quarter of fiscal 2023, selling, marketing and administration ("SM&A") expenses totaled $3.2 million, down $0.2 million from the third quarter of fiscal 2022. As a percentage of net revenue SM&A expenses were 12.2% and 14.0% in the third quarter and fiscal year-to-date period ended October 30, 2022, respectively, compared to 12.5% and 14.2% in the same periods of fiscal 2022.

## DEPRECIATION AND AMORTIZATION

Total depreciation and amortization expense for the third quarter and fiscal year-to-date period ended October 30, 2022 was $2.9 million and $8.9 million, respectively, compared to $2.5 million and $7.5 million in the same periods of fiscal 2022. The increase, on a year-to-date basis, was largely driven by the installation of capacity and capability-based production equipment during fiscal 2022 and fiscal 2023 as well as increased square footage at the Company's leased warehouse facility in the first two quarters of fiscal 2022.

## FINANCE COSTS

In the third quarter of fiscal 2023, finance costs were $0.9 million and $2.3 million on a fiscal year-to-date basis, compared to $0.6 million and $1.9 million in the same periods of fiscal 2022. The increase in finance costs is a result of the increased use of the operating line of credit as well as the increase in prime rate.

## LOSS (GAIN) ON DISPOSAL OF PROPERTY, PLANT, AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the third quarter of fiscal 2023, the Company had a nominal gain due to the disposal of equipment. On a fiscal year-to-date basis, the Company had a net gain also related to the disposal of equipment as well as leased vehicles.

## INCOME TAXES

In the third quarter of fiscal 2023, the Company recorded an income tax provision of $0.1 million, compared to $0.3 million recorded in the third quarter of fiscal 2022 with an effective tax rate of 30.5% in the third quarter of fiscal 2023. On a fiscal year-to-date basis, the income tax recovery is $0.1 million in fiscal 2023 compared to an expense of $1.7 million in fiscal 2022.

## NET EARNINGS

The Company had a net income of $0.2 million in the third quarter of fiscal 2023, compared to a net income of $0.7 million in the third quarter of fiscal 2022. On a fiscal year-to-date basis, the net loss was $0.1 million for fiscal 2023, compared to net income of $4.8 million in fiscal 2022.

## 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.

As at October 30, 2022, the Company had advances drawn under its operating line of credit and outstanding debt. During the third quarter of fiscal 2023, HSBC Bank Canada ("HSBC") and the Company agreed to an amendment to the Senior Funded Debt to EBITDA* covenant in the Company's loan agreement with HSBC on a temporary basis until January 31, 2023. As of October 30, 2022, the Company is in compliance with all covenants to its lenders.

The Company has an operating line of credit with HSBC with an available credit amount of $23 million until January 31, 2023 and $20 million thereafter. The operating line of credit is margined against accounts receivable and inventory of the Company and bears interest at a rate ranging from prime to prime plus 1.5% per annum depending on the Company's leverage ratio. On October 30, 2022, the Company had bank indebtedness of $14.9 million, compared to bank indebtedness of $16.9 million as of January 31, 2022.

*Reconciliation of Working Capital Position*

| *(in thousands of dollars)* | | **October 30, 2022** | | January 31, 2022 |
|---|---|---|---|---|
| Total current assets per Statements of Financial Position | **$** | **37,167** | $ | 32,122 |
| Less total current liabilities per Statements of Financial Position | | **45,111** | | 40,386 |
| Working capital position | **$** | **(7,944)** | $ | (8,264) |

The Company had a negative working capital position of $7.9 million on October 30, 2022, compared to a negative working capital position of $8.2 million on January 31, 2022, representing an improved working capital position of approximately $0.3 million.

Current assets of the Company were $37.2 million as of October 30, 2022, compared to $32.1 million as of January 31, 2022.

As of October 30, 2022, the Company's balance of accounts receivable and contract assets increased by $3.7 million compared to the balance as of January 31, 2022.

Inventory as of October 30, 2022 increased by $1.2 million compared to the balance as of January 31, 2022 as a result of additional raw materials and finished goods on hand to support the Company through supply chain challenges during the remainder of fiscal 2023.

Property, plant, and equipment has decreased by $2.9 million at October 30, 2022, from January 31, 2022. The decrease includes purchases of $2.6 million offset by depreciation of $5.5 million.

As of October 30, 2022, right-of-use assets decreased by $0.8 million compared to the balance as of January 31, 2022, driven by additions of $2.4 million primarily for equipment leased through HSBC, offset by depreciation of $3.2 million.

Intangible assets increased by $0.3 million as of October 30, 2022, compared to January 31, 2022, due to the purchase of new listings offset by amortization costs.

The Company's current liabilities were $45.1 million on October 30, 2022, compared to $40.4 million at January 31, 2022, an increase of $4.7 million. The increase is attributable to decreased bank indebtedness of $2.0 million, offset by an increase to accounts payable of $5.0 million, related to an overall increase in trade payables associated with the business' seasonality. In addition, the Company had $1.1 million of dividends payable at October 30, 2022, compared to nil at January 31, 2022.

As of October 30, 2022, the Company had lease liabilities (including the current portion) of $28.4 million, a decrease of $1.3 million from January 31, 2022, driven by lease payments of $3.7 million made during the fiscal year to date ended October 30, 2022, offset by new leases of $2.4 million entered into during the period.

Long-term debt (including the current portion) was $28.0 million as of October 30, 2022, an increase of $0.9 million from the balance at January 31, 2022, as a result of repayments of $4.1 million, offset by the issuance of $5.0 million of new long-term debt.

Deferred income tax liabilities as of October 30, 2022 decreased slightly to $5.7 million compared to $5.8 million on January 31, 2022.

As at October 30, 2022, the Company had 35,911,472 common shares and 2,960,838 stock options issued and outstanding. Each stock option is exercisable for one common share. During the third quarter of fiscal 2023, 16,000 options were exercised, no options were granted pursuant to the Company's stock option plan, and no options were forfeited. On a fiscal year-to-date basis, 735,000 options were granted pursuant to the Company's stock option plan, 92,000 options were exercised, and 6,000 options were forfeited.

## CASH FLOW

In the third quarter of fiscal 2023 and 2022, the Company generated $3.4 million and $2.0 million of cash from operations, respectively. On a fiscal year-to-date basis, the Company generated cash from operations of $9.6 million in fiscal 2023 compared to $6.6 million in fiscal 2022. The increase in cash provided by operating activities during the third quarter of fiscal 2023 is mainly attributable to the change in non-cash working capital (decrease of $0.1 million in the third quarter of fiscal 2023 compared to a decrease of $1.8 million in the third quarter of fiscal 2022 resulting from strong inventory management).

The amount of cash used in investing activities in the third quarter of fiscal 2023 was $0.1 million ($2.6 million used on a fiscal year-to-date basis) compared to $2.5 million used in the third quarter of fiscal 2022 ($10.6 million used on a fiscal year-to-date basis) and relates primarily to purchases of property, plant, and equipment. On a fiscal year-to-date basis, the Company spent $2.1 million in fiscal 2023 compared to $9.9 million in fiscal 2022 on property, plant, and equipment. Further, on a fiscal year-to-date basis, $0.5 million was spent on the purchase of intangible assets in fiscal 2023.

The amount of cash used in financing activities in the third quarter of fiscal 2023 was $3.3 million ($7.0 million used on a year-to-date basis), compared to $0.5 million generated in the third quarter of fiscal 2022 ($4.1 million generated on a year-to-date basis). In the third quarter of fiscal 2023, the Company received no new debt and paid principal payments of $2.4 million on long-term debt and its lease liabilities ($7.8 million on a year-to-date basis), compared to no new debt received in the third quarter of fiscal 2022 ($4.5 million on a fiscal year-to-date basis) and paid $2.2 million of principal repayments in the third quarter fiscal 2022 ($6.8 million on a fiscal year-to-date basis). During the third quarter of fiscal 2023, the Company's bank indebtedness increased by $0.2 million (decrease of $2.0 million on a year-to-date basis), compared to an increase of $0.9 million in the third quarter of fiscal 2022 (increase of $6.4 million on a year-to-date basis). Further, during the third quarter of fiscal 2023 the Company paid $1.1 million in dividends, compared to $1.0 million in the third quarter of fiscal 2022.

## COMMITMENTS

The Company utilizes leases to finance manufacturing, office equipment, vehicles, and the buildings where it has its manufacturing, warehouse, and retail operations. By entering into leases, the Company is able to update its equipment more frequently and reduce the burden on cash otherwise required to purchase 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.

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:

| *(in thousands of dollars)* | **Lease liabilities** | **Long-term debt** | **Short-term & low-value lease commitments** | **Other commitments** | **Total** |
|---|---|---|---|---|---|
| Due within one year | $ 3,678 | $ 6,386 | $ 99 | $ 7,146 | **$ 17,309** |
| Due in one to two years | 10,513 | 21,075 | 17 | 2,596 | **34,201** |
| Due in two to five years | 14,529 | 524 | 1 | 12 | **15,066** |
| | 28,720 | 27,985 | 117 | 9,754 | **66,576** |

## RISK FACTORS, STRATEGIES, AND OUTLOOK

### *Risk Factors*

#### Licensing

The Company requires various permits, licenses, and approvals from several government agencies 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. In Ontario, trends continue to favour canned beer products over bottle beer products, which has benefited the Company's brands. In the first quarter of fiscal 2022, the Company made a strategic investment in production capacity with the installation of a second can line and expansion to the Company's brewing and blending capacity. As a result, the Company has more than doubled its can line capacity to 1.2 million hectolitres annually and has a liquid capacity of 1.4 million hectolitres annually.

#### 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. As of the date of this MD&A, the MRP remains unchanged. There can be no assurance that future changes to the pricing environment will not have a material impact on the Company. The Company's key competitors have increased the price for mainstream domestic beer to a level above the legal minimum. The Company has historically positioned its brands at the same price point to achieve an additional profit margin per unit, however with the reduction of the MRP, there is no certainty that this will continue in the future. During the fourth quarter of fiscal 2023, the Company increased the retail price of its Laker 473ml cans by 7.5%, consistent with the balance of the industry within the mainstream domestic category.

The Company will continue to mitigate ongoing pressure on beer volumes by actively pursuing co-manufacturing contracts that provide incremental volume and gross margin. As required, profits from co-manufacturing 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 in new equipment to continually improve overall product quality.

The Company is currently certified under the internationally recognized Global Food Safety Standard and completed its annual re-certification audit in fiscal 2023. Quality improvement resonates with existing and potential co-manufacturing customers and will be a key factor in maintaining and growing the co-manufacturing business to utilize available capacity.

During fiscal 2023, the Company's Waterloo Altbier won gold at the 2022 Ontario Brewing Awards in the "Amber Bitter European Beer" category, Waterloo Chocolate Hazelnut Porter won silver at the 2022 Canadian Brewing Awards in the "Experimental Beer" category, Waterloo Chocolate Hazelnut Porter was awarded Silver at the 2022 Canadian Brewing Awards, Waterloo Black Currant Pomegranate Saison won bronze at the 2022 Ontario Brewing Awards in the "Fruit Beer" category, and Laker Lager and Laker Ice won a Gold Medal from the globally recognized 2022 Monde Selection Quality Institute. All such recognitions are a testament to the Company's continued commitment to quality and craftsmanship.

### 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 union contract was ratified in August 2021 and expires on December 31, 2023. There is no guarantee that disruption during negotiations with respect to a new TBS union contract 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.

### 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, and 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.

### 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.

### 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 cybersecurity 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.

### International Conflict

International conflict and other geopolitical tensions and events, including war, military action, terrorism, trade disputes, and international responses thereto have historically led to, and may in the future lead to, uncertainty or volatility in the global supply chain and financial markets. Russia's invasion of Ukraine earlier in the year has led to sanctions being levied against Russia by the international community and may result in additional sanctions or other international action, any of which may have a destabilizing effect on commodity prices, supply chain and global economies more broadly. Supply chain disruptions may adversely affect our business, financial condition, and results of operations.

The extent and duration of the current Russian-Ukrainian conflict and related international action cannot be accurately predicted at this time and the effects of such conflict may magnify the impact of the other risks identified herein and in the Company's Annual Information Form, including those relating to commodity price volatility, global financial conditions and supply chain disruptions. The situation is rapidly changing and unforeseeable impacts, including on our shareholders and counterparties on which we rely and transact with, may materialize, and may have an adverse effect on our business, results of operation and financial condition.

## *Strategy & Outlook*

The Company will support the Laker brand through ongoing marketing initiatives to drive volume and continue to focus on growing Waterloo, Seagram, and LandShark® which all contribute a higher amount of profit per unit sold. The Company will also continue to pursue long-term meaningful co-manufacturing agreements.

The Company has the exclusive Canadian rights to both the LandShark® and Margaritaville® brands for beer, cider, and ready-to-drink coolers until 2030 with an option to extend to 2040. 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. In the second quarter of fiscal 2022, the Company introduced LandShark® seltzer, a vodka-based product which is available at the LCBO, as well as a malt-based mixer pack available at TBS. The Company promoted its new LandShark® Seltzer by offering a free can within specially marked 24-bottle cases of LandShark® Lager. In the first quarter of fiscal 2023, the Company introduced a new LandShark® Seltzer flavour, Passionfruit Strawberry.

The Company continues to develop new innovative flavours. The Company also released new Seagram malt-based Seltzers available in a variety of flavours within a mixed pack of twelve 355ml sleek cans and is expected to continue to drive growth of the Seagram portfolio of brands.

The Laker family requires a sustained marketing investment to ensure the retention of existing customers and to attract new consumers. During fiscal 2023, the Company promoted the brand with a contest for a consumer to win 1 of 100 Retro Laker Coolers. Contest entries were found within specially marked 15 packs of 355ml cans.

The Company will continue to utilize its leading-edge manufacturing capability with a focus on lowering costs and improving efficiency. The Company has invested $13.4 million in significant liquid capacity upgrades and in fiscal 2022, installed a second can line to handle increased owner brand and co-manufacturing volume.

During fiscal 2023, the Company will continue to focus on the following priorities:

### Organic growth and Co-manufacturing Volume Growth

Throughout fiscal 2023, management's strategy is focused on organic growth of its premium brands: Waterloo, Seagram, and LandShark®. Management continues to invest to drive growth through brand support (advertising media, and in-store promotional activities) and the launch of new products. The Company continues to offer seasonal brands within its Waterloo craft portfolio securing listings in all major retail channels (LCBO, TBS, and grocery stores) in Ontario. As well, during the balance of fiscal 2023, the Company will focus on growth of the summer themed LandShark® brand, including the new LandShark® Seltzer available at the LCBO. The Company is positioned well within its core Ontario beer business. Laker, the Company's domestic mainstream brand, increased 10.6% in the third quarter of fiscal 2023 and significantly outpaced the industry. Laker is winning share from others in this important category and is now the second largest mainstream domestic brand family in the province of Ontario. The Company will continue to be price competitive and look for margin expansion should the market conditions evolve in the balance of the year.

The Company will continue to seek new and expanded co-manufacturing relationships. The installation of a second can line presents further opportunities for the Company to expand its co-manufacturing business. In the third quarter of fiscal 2023, the Company announced the extension of two contracts with long-term strategic co-manufacturing partners. One contract was extended by three years and is anticipated to deliver revenue of $10 million. The second contract was also extended and was amended to include the production of additional ready-to-drink products in North America. This contract is estimated to generate $8 million of revenue per year.

### 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 in recent years.

With the decrease to the MRP by Ontario's provincial government in August 2018, along with their pause on increases to the provincial Beer and Wine Tax through to March 2023, the Company will strive to maintain healthy margins while facing potential competitive challenges.

Sales of Seagram and Waterloo products, along with LandShark®, 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

Cost mitigation will be a focus of management throughout fiscal 2023 and beyond. Management will continue to work diligently to mitigate increasing costs related to procurement of raw materials, freight and general overhead in anticipation of continued rising costs over the course of the next year.

## 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:

| **$000's *except per share amounts*** | **Q3 2023** | **Q2 2023** | **Q1 2023** | **Q4 2022** | **Q3 2022** | **Q2 2022 [1]** | **Q1 2022** | **Q4 2021** |
|---|---|---|---|---|---|---|---|---|
| Net Revenue | $26,155 | $29,498 | $21,245 | $28,201 | $26,878 | $34,202 | $22,484 | $24,459 |
| Selling, marketing & administration | 3,193 | 4,040 | 3,516 | 3,188 | 3,364 | 4,938 | 3,596 | 2,982 |
| Net Income (loss) | 194 | 730 | (984) | 1,010 | 738 | 4,155 | (101) | 109 |
| EPS (Basic) | $ 0.01 | $ 0.02 | $ (0.03) | $ 0.03 | $ 0.02 | $ 0.11 | $ - | $ 0.01 |
| EPS (Diluted) | $ 0.01 | $ 0.02 | $ (0.03) | $ 0.03 | $ 0.02 | $ 0.11 | $ - | $ - |

1. Excluding the impact of a gain on misappropriated funds, net income in the second quarter of fiscal 2022 was $3.3 million, and EPS (basic and diluted) was $0.09 per share.

## IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

The Company's future accounting pronouncements and significant accounting policies are discussed in detail within notes 3.3 and 5.0, respectively, to the Company's annual audited financial statements for the year ended January 31, 2022.

## CHANGES TO ACCOUNTING POLICIES

The new standards and interpretations adopted during the period did not have a material impact on the unaudited financial statements. The new standards and interpretations now in effect are discussed within note 3.2 in the Company's unaudited financial statements for the quarter ended October 30, 2022.

## RELATED PARTY TRANSACTIONS

The Company's related party transactions are discussed in note 26 to the Company's annual audited financial statements for the year ended January 31, 2022.

## 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.

### *Revenue recognition from rendering services*

Calculation of accrued revenue from the rendering of co-manufacturing services recognized over time requires management to make estimates about the stage of the Company's efforts to manufacture customer products versus the total performance obligation. Changes to estimates could be caused by a variety of factors, including the type and complexity of the product which impacts the estimated labour required to manufacture it. A change in any of the estimates would result in a change in the amount of revenue recognized 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 Statements of Financial Position.

### *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.

### *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.

### *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.

## OTHER ACCOUNTING ESTIMATES

### *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.

### *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.

## 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 October 30, 2022, 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 October 30, 2022, based on the criteria outlined 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 October 30, 2022, except as noted below.

While evaluating its ICFR as of October 30, 2022, 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.

## 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 counterparties 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, non-revolving demand loans 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 receivable and accounts payable, 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.

The Company's cost of sales includes approximately 66% of purchases denominated 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 2023 and has entered into fixed price contacts, 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 October 30, 2022 and December 14, 2022, 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 $2.79 to $7.37.

The total number of common shares and stock options outstanding as of December 14, 2022 is as follows:

| Number of common shares | Number of options |
| --- | --- |
| 35,919,514 | 2,960,838 |

# 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

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

## OFFICERS

George H. Croft, President, and Chief Executive Officer
Enida Zaimi, Chief Financial Officer
Russell N. Tabata, Chief Operating Officer