



WATERLOO

BREWING

2019 ANNUAL REPORT

FOR BRICK BREWING CO. LIMITED

EST. 35 YEARS 1984



**OUR
BUSINESS
IS YOUR
RETURN ON
REFRESHMENT**





YEARS ENDED JANUARY 31, 2019 & 2018

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Brewing Value Today and Tomorrow

Your brewery continues to perform remarkably in an intensely competitive beer and beverage alcohol market. Despite proliferation of new competitors, our impressive track record of revenue and profit growth marches on.

We finished our year with \$53.7 million in revenue (+7.8% versus the previous year) and EBITDA excluding 1X costs of \$10.1 million (+11.6%). We broke through the \$100M gross revenue threshold for the first time in the company's history. We are the only Canadian craft beer stock offering a dividend. All milestones worthy of appreciation and celebration.

A diverse range of sources fuelled our growth last year. Landshark Lager, now in its third full year since launch, grew to an impressive 22,000 hectolitres driven by compelling sales promotions, strong sales execution and a clearly differentiated brand position. Seagram Cider continues to perform above expectations, posting growth of 15% versus the previous year. Our Waterloo Craft division showed great resilience in holding its volume as the number of craft breweries grew to over 270 breweries in Ontario, with another 75 in the planning stages. Laker, the pillar of our business, was more resilient still, holding its volume as consumer interest in mainstream lagers softened and prices of big beer brands dropped to compete against the value segment.

The final driver of growth is our co-pack expertise. In fiscal 2019 our contract manufacturing business grew an astounding +33% versus a year ago. As large beverage makers and brewers seek to compete in craft and niche segments, our facility is perfectly positioned as the solution of choice.

As cannabis companies seek to produce THC- and CBD-infused beverages, we will be the ideal solution for them too. Beverage production in a regulated industry is complex, time-consuming and capital intensive, which promises to make us an integral partner to leading cannabis players.

Our focus, however, remains firmly fixed on our owned brands and increasing our share of the beverage alcohol market in the Ontario market. Completion of our Waterloo Tap House and retail store will be the central element of that strategy. Approved in fiscal 2019 and fully functional by Q3 of this year, the Waterloo Tap House will be a destination for Ontario beer drinkers and a shining showcase for all our owned brands, especially our craft portfolio.

At our new tap house, our finely crafted beers will be on display along with the winning spirit of our company: a belief that time with friends and family is special, so the beer should be too. We put our very best effort into everything we brew because that's what friends, neighbours and families who enjoy our products deserve. Hopefully you'll join us for a Waterloo Craft Lager when the tap house opens in the fall of this year.

Thank you for your continued support of our brewery. We hope we are constantly giving you reasons to believe in the bold ambitions we have for our business.

Cheers!



George H. Croft
President and CEO



MANAGEMENT'S DISCUSSION & ANALYSIS

Years Ended January 31, 2019 and 2018

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 Brick Brewing Co. Limited ("Brick" or the "Company") for the twelve months ended January 31, 2019 ("fiscal 2019") in comparison with the twelve months ended January 31, 2018 ("fiscal 2018"). These comments should be read in conjunction with the audited financial statements for fiscal 2019 and fiscal 2018 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 10, 2019. 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.brickbeer.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 10, 2019 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, 2020 ("fiscal 2020") 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 10, 2019 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.

DESCRIPTION OF THE BUSINESS

Products

The Company produces, sells, markets and distributes packaged and draft premium beer under the Waterloo brand name, and value beer under the Laker and Red Cap brand names (collectively, the “Brick Beer Brands”). The Company also produces, sells, markets and distributes Seagram coolers and ciders across Canada. Pursuant to an exclusive long-term licensing agreement, the Company produces, sells, markets and distributes products under the LandShark®, Margaritaville® and Chudleigh’s 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 brewing and co-packaging agreements with other manufacturers. These customers are not separately identified, as per the terms of those agreements.

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. There are currently over 445 licensed grocery stores in Ontario, with additional store licenses expected to be granted for a total of 450 stores. The Company currently distributes Laker, LandShark®, and Waterloo beers, as well as Seagram cider, in certain grocery stores in Ontario.

Operating Facilities

The Company’s registered head office and production facility are located in Kitchener, Ontario. In fiscal 2020, the Company will be completing a 65,600 square foot expansion of its leased facility which will include an expansion of its warehousing and production facilities, and retail store, and construction of a taproom with a small batch brewhouse. The expansion will allow the Company to improve capabilities, capacity, and efficiencies.

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 product to TBS. On implementation, inventory increased by \$3.5 million to reflect inventory on hand at TBS. Further, 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.

At the time of change to consignment, the Company was required to buy back inventory on hand at TBS, payable over a 26-week period. As at January 31, 2019, the Company has fully paid the amount payable to TBS.

SELECTED ANNUAL INFORMATION

The following table summarizes certain financial information of the Company for the fiscal years indicated below:

(in thousands of dollars, except per share amounts)

	January 31, 2019	January 31, 2018	January 31, 2017
Income Statement Data			
Gross Revenue	\$ 96,413	\$ 98,180	\$ 87,909
Net Revenue (after production taxes and distribution fees)	\$ 50,084	\$ 49,790	\$ 45,176
Earnings before interest, taxes, depreciation and amortization, and share-based payments	\$ 7,558	\$ 8,167	\$ 8,843
Net income	\$ 1,289	\$ 2,602	\$ 3,997
Earnings per share			
Basic	\$ 0.04	\$ 0.07	\$ 0.11
Diluted	\$ 0.04	\$ 0.07	\$ 0.11
Balance Sheet Data			
Total Assets	\$ 61,765	\$ 58,329	\$ 55,751
Total Term Debt and Obligation Under Finance Lease	\$ 13,293	\$ 11,133	\$ 7,766

RESULTS OF OPERATIONS

Results for the year ended:

(in thousands of dollars except per share amounts)

	Fiscal year ended	
	January 31, 2019 ¹	January 31, 2018
Gross revenue	\$ 96,413	\$ 98,180
Less: Production taxes and distribution fees	46,329	48,390
Net revenue	50,084	49,790
Cost of sales	37,109	35,510
Gross profit	12,975	14,280
	25.9%	28.7%
Selling, marketing and administration	9,463	9,143
Income before the undernoted	3,512	5,137
Other expenses	784	814
Finance costs	507	546
Loss on disposal of property, plant and equipment and intangibles	387	131
Income before tax	1,834	3,646
Income tax expense	545	1,044
Net income	1,289	2,602
Earnings per share		
Basic	\$ 0.04	\$ 0.07
Diluted	\$ 0.04	\$ 0.07
Net revenue increase ²	0.6%	10.2%
Consisting of:		
Increase (decrease) in owner brand net revenue ²	-8.0%	6.3%
Increase in co-pack net revenue	33.0%	28.1%

- As a result of a one-time adjustment during the quarter ended April 29, 2018 associated with TBS' change to a consignment basis, the annual results 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.
- Excluding the impact of TBS' change to consignment noted above, net revenue in fiscal 2019 increased by 7.8% and owner brand net revenue increased by 1.1%.

*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 ended	
	January 31, 2019 ¹	January 31, 2018
Net income	\$ 1,289	\$ 2,602
Add (deduct):		
Income tax expense	545	1,044
Depreciation and amortization	4,361	3,528
Loss on disposal of property, plant and equipment and intangibles	387	131
Share-based payments	469	316
Finance costs	507	546
Subtotal	6,269	5,565
EBITDA*	7,558	8,167

* 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 disposal of property, plant, and equipment, 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.

1. As a result of a one-time 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 \$96.4 million and \$98.2 million for the fiscal years ended January 31, 2019 and 2018, respectively. Net revenues for fiscal 2019 were \$50.1 million (fiscal 2018 - \$49.8 million). Net revenues are calculated by deducting from gross revenues the costs of distribution fees paid to TBS and provincial liquor boards and production taxes.

Gross and net revenue were impacted by a decrease in branded sales volumes resulting from pressure in an increasingly competitive industry. The decline in branded sales volumes was mitigated by significant growth in co-pack revenue, both from existing customers and new customers.

In fiscal 2019, the Company's overall branded sales volume was approximately 231,300 hectolitres.

The prior year volumes in the following table were restated to reflect TBS' change to a consignment basis, and therefore represents sales of products to end-consumers at TBS stores and direct shipments by the Company to all other customers. Figures reported under "Branded Volumes" have been adjusted accordingly.

BRANDED VOLUMES

	Quarter ended		Fiscal year-to-date ended	
(in hectolitres rounded to nearest 100)	January 31, 2018		January 31, 2018	
	January 31, 2019	(Restated) ^{1,2}	January 31, 2019	(Restated) ^{1,2}
Laker	39,000	40,300	174,900	175,000
Waterloo	3,700	3,900	21,300	21,500
LandShark® & Margaritaville®	4,400	3,100	24,900	23,100
Other Brands	300	300	1,600	3,400
Seagram Coolers	1,900	2,400	8,600	12,500
Total Branded Volume	49,300	50,000	231,300	235,500

¹ Formosa Springs and Red Baron, reported within other beer brands, were sold until September 2017.

² Includes volume sold under the licensed Seagram Trademark by Blue Spike Beverages in Quebec.

Branded sales volumes decreased in fiscal 2019 by 1.8% from fiscal 2018's sales volumes, largely driven by the absence of volume from the Formosa and Red Baron brands which were sold in fiscal 2018. Further, in December 2017, the Régie des Alcools des Courses et des Jeux du Québec ("RACJ") halted Blue Spike Beverages' production due to products not being in accordance with the regulations in force in Quebec. Production of Seagram coolers in Quebec has not resumed, and therefore has had a negative impact on branded volumes. The contract with Blue Spike Beverages was terminated in the second quarter of fiscal 2019. In the fourth quarter of Fiscal 2019, the Company announced a licensing agreement with Triani Beverages, for the production, distribution, and sales of Seagram cooler products in the province of Quebec. Production is expected to resume in first quarter of fiscal 2020.

During the year ended January 31, 2019, the Laker family brand sales volumes were flat over the year ended January 31, 2018, despite competitive price pressure from mainstream packs and brands. The industry beer volumes decreased by approximately 3.47% (based on counter sales through TBS) in fiscal 2019.

Waterloo brand sales volumes have decreased by 0.5% in fiscal 2019 compared to fiscal 2018. The Company continues to support the Waterloo brands through additional marketing to raise awareness of the Company's craft brewing division, Waterloo Brewing. During fiscal 2019, the Company unveiled a new look, identity, and website for its Waterloo brand to drive brand awareness and volume growth. In the fourth quarter of fiscal 2019, the Company announced a significant expansion of its facility in Kitchener-Waterloo which includes a larger retail store and small batch brewhouse which will greatly enhance the craft brewery experience for those who visit.

LandShark® and Margaritaville® sales volumes increased by 7.1% during the year ended January 31, 2019, compared to the year ended January 31, 2018. The increase in sales volumes of these summer-themed brands is attributable to the highly successful in-case promotions run by the Company.

In the year ended January 31, 2019, the volume included in the table above consisted of 20.7% in the premium category which represents an increase of 3.7% from fiscal 2018 due to a continued focus on craft beers and the introduction of LandShark® Lager. The Company continues to hold less than 5% of the total market share by volume of TBS retail sales in Ontario.

During the year ended January 31, 2019, sales volumes of the Seagram coolers decreased by 31.9% compared to the year ended January 31, 2018. The decrease is primarily a result of no volume sold during the period under the licensed Seagram trademark by Blue Spike Beverages in Quebec as discussed above. Excluding volume sold under license, Seagram volume increased by 1.7% during the year ended January 31, 2019 compared to the year ended January 31, 2018 largely driven by the success of Seagram Cider.

PRODUCTION TAXES & DISTRIBUTION FEES

During fiscal 2019, the Company's production tax increased by 0.5% compared to fiscal 2018 due to the annual increases to the rate of beer and excise taxes. Distribution fees during fiscal 2019 represented approximately 14.9% of gross revenues compared to 14.8% in fiscal 2018.

COST OF SALES

Cost of sales were \$37.1 million for fiscal 2019, an increase of \$1.6 million from fiscal 2018. Cost of sales represented 74.1% of net revenue in fiscal 2019 compared to 71.3% in fiscal 2018; an increase of 2.8%. The annual increase is driven by the growth of co-pack volume and an increase in external warehousing costs as a result of space constraints at the Company's current operating facility. In fiscal 2020, the Company is completing a 65,600 square foot expansion of its warehouse.

SELLING, MARKETING AND ADMINISTRATION

In fiscal 2019, selling, marketing and administration ("SM&A") expenses totalled \$9.5 million which represents an increase of \$0.4 million from fiscal 2018. The net increase is a result of an increase to a performance bonus for all eligible employees.

As a percentage of net revenue, SM&A expenses were 18.9% in fiscal 2019 compared to 18.4% in fiscal 2018. Excluding the impact of the change to consignment by TBS, SM&A expenses for the year ended January 31, 2019 was 17.6% of net revenue.

DEPRECIATION AND AMORTIZATION

The total of depreciation and amortization expense was \$4.4 million in fiscal 2019 compared to \$3.5 million in fiscal 2018.

FINANCE COSTS

In fiscal 2019, finance costs were \$0.5 million, unchanged from fiscal 2018.

LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

In fiscal 2019, losses from the disposal of property, plant and equipment were \$0.4 million compared to a loss of \$0.1 million in fiscal 2018. The loss on disposal was generated on the sale of packaging equipment which was upgraded in fiscal 2019.

INCOME TAX EXPENSE

In fiscal 2019, the Company recorded an income tax expense of \$0.5 million compared to \$1.0 million in fiscal 2018.

NET EARNINGS

The Company had net income of \$1.3 million in fiscal 2019, compared to \$2.6 million in fiscal 2018.

The basic and diluted earnings per share for the year ended January 31, 2019 were both \$0.04 per share. The basic and diluted earnings per share for the year ended January 31, 2018 were both \$0.07 per share.

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, 2019. As at January 31, 2019, the Company was in compliance 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%. At January 31, 2019, the Company had bank indebtedness of \$1.9 million, compared to \$0.8 million as at January 31, 2018.

The Company has a positive working capital position of \$3.9 million as of January 31, 2019 compared to a positive working capital position of \$6.1 million as of January 31, 2018.

Current assets of the Company were \$15.7 million as of January 31, 2019 compared to \$15.5 million as of January 31, 2018.

As of January 31, 2019, the Company's balance of accounts receivable was \$4.9 million compared to a balance of \$7.0 million as of January 31, 2018. The decrease in accounts receivable is attributable to faster collection terms with TBS as a result of the change to consignment. Inventory as of January 31, 2019 increased by \$2.4 million compared to the balance as of January 31, 2018. The increase in inventory is primarily a function of the inclusion of the Company's inventory located at TBS as a result of TBS' change to a consignment basis.

Property, plant and equipment increased by \$2.3 million at January 31, 2019 from January 31, 2018. The increase in property, plant and equipment included purchases of \$7.3 million, of which \$0.3 million were construction deposits paid in fiscal 2018. The additions were offset by depreciation of \$4.2 million and the disposal of equipment for proceeds of \$0.4 million, which generated a loss on disposal of \$0.4 million.

Intangible assets decreased by \$0.1 million at January 31, 2019 from January 31, 2018 due to purchases of listings for \$0.1 million offset by amortization of listings of \$0.2 million.

The Company's current liabilities were \$11.9 million at January 31, 2019 compared to \$9.4 million at January 31, 2018; an increase of \$2.4 million. The increase is attributable to amounts payable in connection with equipment upgrades completed at the end of fiscal 2019.

Deferred income tax liabilities at January 31, 2019 were \$1.7 million, an increase of approximately \$0.6 million from January 31, 2018.

At January 31, 2019, the Company had an obligation under a finance lease (including the current portion) of \$3.0 million, a decrease of \$0.8 million due to principal repayments. In fiscal 2016, the Company entered into a finance lease agreement with HSBC Bank Canada ("HSBC") for the installation of a new state-of-the-art brew house at its Kitchener, Ontario facility.

Long-term debt (including the current portion) at January 31, 2019 increased by \$2.9 million from the balance at January 31, 2018. During the year ended January 31, 2019, the Company received \$4.5 million in term loans from lenders and repaid \$1.6 million through principal repayments.

As at January 31, 2019, the Company had 35,442,639 common shares and 1,494,337 stock options issued and outstanding. Each stock option is exercisable for one common share. During fiscal 2019, 670,000 options were granted pursuant to the Company's stock option plan, 330,994 options were exercised, and 183,333 options were forfeited. Under the employee share purchase program, 16,356 common shares were issued in fiscal 2019.

During fiscal 2019, the Company announced that it would be commencing a normal course issuer bid ("NCIB") for the purchase of up to 1,000,000 of its common shares, representing 2.8% of the 35,475,563 common shares outstanding as of January 7, 2019. The NCIB commenced on January 10, 2019 and terminates on January 9, 2020, or such earlier date on which purchases under the NCIB have been completed. During fiscal 2019, 41,800 common shares were purchased and cancelled by the Company under the NCIB at a weighted average purchase price of \$3.46 per share.

CASH FLOW

During fiscal 2019, the Company generated \$7.6 million of cash from operations compared to \$2.3 million in fiscal 2018. Cashflow from operations has improved in fiscal 2019 primarily as a result of the payment terms for sales collected from TBS reducing from weekly payments to daily payments as part of the change to consignment. Further, in fiscal 2018 funds received in a previous year from one of the Company's customers were used to purchase and install new equipment.

The amount of cash used in investing activities in fiscal 2019 was \$8.0 million compared to \$6.7 million in fiscal 2018. The spending on property, plant and equipment in fiscal 2019 amounts to approximately \$8.3 million and includes construction deposits paid in connection with the expansion of the Company's Kitchener facility. Proceeds of \$0.4 million were received for the sale of equipment that was upgraded during fiscal 2019.

The amount of cash generated from financing activities in fiscal 2019 was \$0.3 million compared to \$1.6 million in fiscal 2018. During the year ended January 31, 2019, the Company paid principal repayments on outstanding long-term debt and obligation under finance lease totalling \$2.3 million. The Company received new term loans which generated proceeds of \$4.5 million. The Company also received proceeds of \$0.2 million from the exercise of stock options. In fiscal 2019, the Company purchased and cancelled 41,800 shares under a normal course issuer bid for a cost of \$0.1 million, including legal fees. Dividends of \$3.0 million were declared and paid in fiscal 2019.

The Company has an operating line of credit with HSBC of \$8.0 million which bears interest at a rate of prime plus 0.20%. As at January 31, 2019, the Company was in compliance with the financial covenants required under the terms of the operating line of credit. At January 31, 2019, the amount drawn on the operating line of credit was \$1.9 million. Bank indebtedness on the statement of financial position includes outstanding cheques.

COMMITMENTS

The Company utilizes several operating leases to finance office equipment, warehouse and manufacturing equipment, and vehicles. The Company also leases the building in Kitchener where it has its manufacturing, warehousing, and retail operations. By entering into operating leases, the Company is able to update its equipment more frequently, not utilize its cash to invest in these assets and in so doing lower its overall average cost compared with purchasing the assets. All leases are evaluated at inception for appropriate accounting treatment. The total of the Company's future lease payments can be found in note 25 to the Company's annual financial statements for the year ended January 31, 2019.

In fiscal 2019, 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 take effect in fiscal 2020 when the expansion is complete.

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	Obligation under finance lease	Operating leases	Other purchase commitments	Total
Due within one year	\$ 1,860	\$ 900	\$ 2,072	\$ 4,910	\$ 9,742
Due in one to five years	7,977	2,326	7,925	-	18,228
Due in over five years	444	-	11,137	-	11,581
	10,281	3,226	21,134	4,910	39,551

On April 10, 2019, the board of directors of the Company approved a quarterly dividend of \$0.025 per share, payable on May 30, 2019 to shareholders of record as of May 16, 2019.

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. Management believes that 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 a further upgrade to its canning line to meet the growing demand for canned beer products. Consumer preference has also shifted towards 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 driven by MRP changes, the quality of the Company's product is more important than ever. The Company invests significantly to continually improve overall product quality.

The Company continues to receive recognition for its brewing quality and brands through both local and international brewing communities and expert panels. The Company's Waterloo brands continue to receive international recognition at the Monde Selection in Belgium which was most recently held in April 2018. After receiving special recognition in 2017 with the International High-Quality Trophy Award for having achieved superior gold product quality in each of the last three years, Waterloo Grapefruit Radler received another gold award at the 2018 event. Waterloo Dark was also recognized with a Silver medal.

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 2019. Quality improvement resonates with existing and potential co-pack customers and will be a key factor in maintaining and growing 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 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. The beverage industry is currently experiencing a shortage in aluminum cans which could negatively impact the Company during the balance of the year. The Company is using its best efforts to manage through the can supply shortage.

Exchange rate risk

Purchases of some key inputs are denominated in U.S. dollars. Any weakening of the Canadian dollar versus the U.S. dollar 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. During fiscal 2018, the Company entered into forward contracts to manage foreign exchange rate fluctuations.

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 t-shirts and winter wear 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 retention of existing customers. The Company recently unveiled a refresh to Laker packaging and the products became available for purchase in the second quarter of fiscal 2019.

In fiscal 2020, the Company will be completing a 65,600 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. The expansion will allow the Company to improve capabilities, capacity, and efficiencies.

Additionally, the Company will focus on utilizing its leading-edge manufacturing capability by filling available capacity, lowering cost, and improving efficiency.

In conjunction with its planned Enterprise Resource Planning system implementation, the Company's largest customer, TBS, has moved from a buy-sell relationship to one of consignment during the first quarter of fiscal 2019. On implementation, inventory increased by \$3.5 million to reflect inventory on hand at TBS. Further, 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.

On December 3, 2018 the Company announced its strategic intention to be a licensed producer of cannabis-infused beverages and that it had partnered with Cannabis Compliance Inc. to secure a research license and standard processing license for these products for the Company from Health Canada. The Company intends to co-produce cannabis-infused beverages for other Licensed Producers who do not have the beverage production capability and eventually intends to launch its own brand within this emerging category.

In fiscal 2020, the Company is focused on the following priorities:

Organic growth

Management is targeting organic growth. The Company is positioned well within its core Ontario beer business. Management continues to focus on growth of its premium brands, Waterloo, Seagram, and LandShark®, driven by brand support and the launch of new products. The Company expects to continue to offer seasonal brands during fiscal 2020, such as the launch of the Waterloo Salted Caramel Porter during the fourth quarter of fiscal 2019. 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. During the first quarter of fiscal 2020, the Company launched Seagram Island Time Anytime, a new vodka-based Ready to Drink beverage. During fiscal 2020, the Company will focus on maintaining the momentum achieved by the successful launch of the summer-themed LandShark® and Margaritaville® products.

The Company will continue to seek new and expanded co-packing relationships. The completion of the can line expansion and the expansion of its facility in fiscal 2020 present further opportunities for the Company to expand its co-pack business.

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 is comparable with mainstream brands. Management believes that this share performance in a highly competitive pricing environment is the result of brand support, a compelling value proposition, and significant quality improvements at Brick in recent years.

With the recent decrease to the minimum retail price by the provincial Ontario 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 Brick. Cost reduction will be a continued focus throughout fiscal 2020.

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:

	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
\$000's except per share amounts	2019	2019	2019	2019 ¹	2018	2018	2018	2018
Net Revenue	\$ 12,338	\$ 14,169	\$ 16,564	\$ 7,013	\$ 10,735	\$ 11,671	\$ 15,904	\$ 11,480
Selling, marketing & administration	2,310	2,225	2,810	2,118	2,095	2,239	2,691	2,118
EBITDA*	2,610	2,804	3,313	(1,169)	1,806	1,682	2,626	2,053
Net Income	685	1,025	1,430	(1,851)	308	387	1,120	787
EPS (Basic)	\$ 0.02	\$ 0.03	\$ 0.04	\$ (0.05)	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.02
EPS (Diluted)	\$ 0.02	\$ 0.03	\$ 0.04	\$ (0.05)	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.02

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.

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 33% of total net revenues in fiscal 2019, followed by the third quarter (approximately 28% of total net revenues in fiscal 2019) which covers the late summer and fall. The first and fourth quarters usually see a reduction in revenues as beer, cooler, and cider consumption is reduced in the colder winter months.

During the fourth quarter of fiscal 2019 gross revenues were \$22.7 million compared to \$22.2 million in the same period last year, an increase of 2.1%, which was primarily driven by higher co-pack volumes. The sales volumes of the Company's beer brands, in the fourth quarter of fiscal 2019, decreased by 0.4% compared to the sales volumes in the fourth quarter of fiscal 2018. The Laker family's sales volumes decreased by 3.2% in the same periods. The Seagram coolers volume, excluding volume produced in Quebec under a royalty agreement, increased by 10.1% in the fourth quarter of fiscal 2019 compared to the same quarter in fiscal 2018. During the same period, co-pack revenues increased by 74.0%.

Net revenues for the fourth quarter of fiscal 2019 were \$12.3 million, compared to \$10.7 million in the same quarter of fiscal 2018. 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 \$2.3 million in the fourth quarter of fiscal 2019 compared to \$2.1 million in the fourth quarter of fiscal 2018. In the fourth quarter of fiscal 2019, bonus compensation of \$0.7 million was provided for, an increase of \$0.3 million from the fourth quarter of fiscal 2018.

Financing costs and other expenses were \$0.2 million in the fourth quarter of fiscal 2019, consistent with the fourth quarter of fiscal 2018.

In the fourth quarter of fiscal 2019 there was an income tax expense of \$0.3 million compared to \$0.2 million in the same quarter of fiscal 2018.

EBITDA* was \$2.6 million in the fourth quarter of fiscal 2019 compared to \$1.8 million in the fourth quarter of fiscal 2018.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

The Company's accounting policies, and future accounting pronouncements, are discussed in detail within note 5 and 6, respectively, to the Company's annual audited financial statements for the year ended January 31, 2019.

Leases

In January 2016, the International Accounting Standards Board ("IASB") issued IFRS 16 *Leases* ("IFRS 16"), which supersedes IAS 17 *Leases*, as well as several interpretations on leases. IFRS 16 eliminates the classification of leases by a lessee between operating and finance leases. Instead, all leases will be classified as finance leases and recognized in the statement of financial position.

IFRS 16 is effective for fiscal years beginning on or after January 1, 2019, with earlier adoption permitted, provided that IFRS 15, *Revenue from Contracts with Customers*, is also applied. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on February 1, 2019 using the modified retrospective approach which does not require restatement of prior period financial information as it recognizes the cumulative effect of IFRS 16 as an adjustment to opening retained earnings and applies the standard prospectively.

The Company intends to use the following practical expedients permitted under the new standard:

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

The Company will recognize lease liabilities measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as at February 1, 2019. The associated right of use ("ROU") assets will be measured at the lease liability amount on February 1, 2019 resulting in no adjustment to the opening balance of retained earnings.

Effective February 1, 2019, the Company will recognize ROU assets and lease liabilities for the lease of its manufacturing facility and leases of Company vehicles. The Company has quantified the impact of adoption of IFRS 16 on its opening Statement of Financial Position and anticipates recognition of ROU assets and lease liabilities of approximately \$11.0 million. The Company also anticipates the following impact on the Statement of Comprehensive Income for the year-ended January 31, 2020: operating expenses to decrease by approximately \$1.2 million, depreciation expense to increase by approximately \$0.7 million, interest expense to increase by approximately \$0.6 million, and a minimal impact to net income.

Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*. 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 Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Company intends to adopt the Interpretation in its financial statements for the annual period beginning on February 1, 2019. The extent of the impact of adoption of the interpretation has not yet been determined.

CHANGES TO ACCOUNTING POLICIES

The Company adopted the following new standards effective February 1, 2018:

Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") which replaces the detailed guidance on revenue recognition requirements that previously existed under IFRS. IFRS 15 provides a comprehensive framework for recognition, measurement and disclosure of revenues from contracts with customers, excluding contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue – at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine

whether, how much and when revenue is recognized. New estimates and judgemental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The Company's current co-packing customers control access to the benefits of the liquid manufactured for packaging, as well as the finished product. As such, the Company has determined that contracts with its existing co-packing customers meet the criteria to recognize revenue over a period of time.

For the Company's other customers (such as TBS, and the Liquor Control Board of Ontario) the Company has determined that revenue generated from these customers is required to be recognized at a point in time. LCBO does not control access to the benefits of the Company's products until they have been shipped to them, at which time revenue is recognized. Products shipped to TBS are sold on a consignment basis and therefore, TBS does not control access to the products. Revenue is recognized at the time the product is sold to TBS' customer. The impact does not have a material effect on the Company's revenue, cost of sales, and net income.

Transition considerations

IFRS 15 can be applied using one of the following two methods: retrospectively to each prior reporting period presented in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, or retrospectively with the cumulative effect of initially applying IFRS 15 recognized in opening retained earnings at the date of initial application (the "modified retrospective method").

The Company adopted IFRS 15 in its financial statements for its annual and interim periods beginning February 1, 2018 and decided to use the modified retrospective method, without restatement of comparatives figures.

IFRS 15 provides for certain optional practical expedients, including upon the initial adoption of the standard. The Company applied the following practical expedients upon adoption of IFRS 15 on February 1, 2018:

- Completed contract – the Company applied IFRS 15 retrospectively only to contracts that were not completed contracts as at February 1, 2018. There were no uncompleted contracts as at February 1, 2018.
- Contract modifications – the Company did not apply IFRS 15 retrospectively to contract modifications that occurred before February 1, 2018.

The adoption of the standard did not have a material impact on the financial statements.

Financial instruments

IFRS 9 Financial Instruments ("IFRS 9") was issued by the IASB in July 2014 and replaced IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") for annual periods beginning on or after January 1, 2018. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released in July 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets.

On adoption of IFRS 9, in accordance with its transitional provisions, the Company has not restated prior periods but has reclassified the financial assets held as at February 1, 2018, retrospectively, based on the new classification requirements and the characteristics of each financial instrument as at the transition date.

There was no impact to the financial statements as a result of the adoption of IFRS 9. The adoption of IFRS 9 from February 1, 2018 resulted in changes in accounting policies. The new accounting policies are set out in note 5.18 of the Company's audited financial statements for the year ended January 31, 2019.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

In June 2016, the IASB issued amendments to IFRS 2 Share-based Payment (“IFRS 2”), clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendments apply for annual periods beginning on or after January 1, 2018. The Company adopted the amendments to IFRS 2 in its financial statements for the annual period beginning on February 1, 2018. The amendments did not have a material impact on the Company’s audited 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, 2019.

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 which 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, an 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 which 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, an 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 judgements 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, 2019 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 year then ended.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management 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 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.

Management performed an assessment of the effectiveness of the Company’s internal control over financial reporting as of January 31, 2019, 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, 2019.

In the course of evaluating its ICFR as at January 31, 2019, the Executive Team identified a disclosable weakness in the area of segregation of duties, caused by limited staffing resources. Specifically, given the size of the Company’s staffing levels, 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 National Instrument 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 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, finance leases, 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 2019 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, 2019, and April 10, 2019, 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 10, 2019 is as follows:

Number of shares	Number of options
35,366,639	1,490,336



AUDITED FINANCIAL STATEMENTS

Years Ended January 31, 2019 and 2018



INDEPENDENT AUDITORS' REPORT

To the Shareholders of Brick Brewing Co. Limited

Opinion

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

- the statements of financial position as at January 31, 2019 and 2018
- the statements of profit or loss and other 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, 2019 and 2018, 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.

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 "Glossy 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:

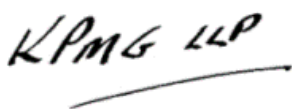
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

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 Matthew Betik.



Waterloo, Canada

April 10, 2019

STATEMENTS OF COMPREHENSIVE INCOME

Years ended January 31, 2019 and 2018

	Notes	January 31, 2019	January 31, 2018
Revenue	7	\$ 50,084,490	\$ 49,790,034
Cost of sales	8	37,108,956	35,509,607
Gross profit		12,975,534	14,280,427
Selling, marketing and administration expenses	8	9,462,821	9,142,571
Other expenses	8,9	784,697	814,256
Finance costs	10	506,595	545,990
Loss on disposal of property, plant and equipment and intangibles		387,294	131,068
Income before tax		1,834,127	3,646,542
Income tax expense	11	545,112	1,044,075
Net income and comprehensive income for the year		\$ 1,289,015	\$ 2,602,467
Basic earnings per share	18	\$ 0.04	\$ 0.07
Diluted earnings per share	18	\$ 0.04	\$ 0.07

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

STATEMENTS OF FINANCIAL POSITION

As at January 31, 2019 and January 31, 2018

	Notes	January 31, 2019	January 31, 2018
ASSETS			
Non-current assets			
Property, plant and equipment	12	\$ 29,393,497	\$ 27,119,488
Intangible assets	13	15,253,736	15,381,578
Construction deposits		1,386,464	323,255
		46,033,697	42,824,321
Current assets			
Accounts receivable	14	4,851,774	6,999,212
Inventories	15	10,316,767	7,891,364
Prepaid expenses		562,756	613,710
		15,731,297	15,504,286
TOTAL ASSETS		61,764,994	58,328,607
LIABILITIES AND EQUITY			
Equity			
Share capital	16	40,001,097	39,747,525
Share-based payments reserves	17	1,325,150	1,026,667
Deficit		(4,269,592)	(2,547,746)
TOTAL EQUITY		37,056,655	38,226,446
Non-current liabilities			
Provisions	19	553,535	538,376
Obligation under finance lease	20	2,212,157	3,011,893
Long-term debt	21	8,420,927	6,019,245
Deferred income tax liabilities	11	1,671,576	1,126,464
		12,858,195	10,695,978
Current liabilities			
Bank indebtedness	22	1,887,253	787,843
Accounts payable and accrued liabilities	23	7,303,233	6,516,382
Current portion of obligation under finance lease	20	799,736	769,962
Current portion of long-term debt	21	1,859,922	1,331,996
		11,850,144	9,406,183
TOTAL LIABILITIES		24,708,339	20,102,161
COMMITMENTS	25,26		
TOTAL LIABILITIES AND EQUITY		\$ 61,764,994	\$ 58,328,607

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, 2019 and January 31, 2018

	Notes	Share Capital		Share based payments reserve	Retained earnings/(deficit)	Total equity
		Number of Shares	Amount (\$)			
At January 31, 2017		35,082,468	\$ 39,651,096	\$ 943,565	\$ (2,758,560)	\$ 37,836,101
Comprehensive income for the year			-	-	2,602,467	2,602,467
Shares repurchased and cancelled, including fees	16	(115,200)	(322,629)	-	-	(322,629)
Stock options exercised	17	299,625	359,008	(233,107)	-	125,901
Shares issued	17	18,233	60,050	-	-	60,050
Dividends paid	16	-	-	-	(2,391,653)	(2,391,653)
Share-based payments	17	-	-	316,209	-	316,209
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

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

STATEMENTS OF CASH FLOWS

Years ended January 31, 2019 and 2018

	Notes	January 31, 2019	January 31, 2018
Operating activities			
Net income		\$ 1,289,015	\$ 2,602,467
Adjustments for:			
Income tax expense	11	545,112	1,044,075
Finance costs	10	506,595	545,990
Depreciation and amortization of property, plant and equipment and intangibles	8,9,12,13	4,360,675	3,527,762
Loss on disposal of property, plant and equipment and intangibles		387,293	131,068
Share-based payments	17	469,506	316,209
Change in non-cash working capital related to operations		612,986	(5,422,741)
Less:			
Interest paid		(533,553)	(463,782)
Cash provided by operating activities		7,637,629	2,281,048
Investing activities			
Purchase of property, plant and equipment	12	(6,931,468)	(8,160,391)
Construction deposit paid		(1,386,464)	(323,255)
Proceeds from sale of property, plant and equipment, net		430,000	2,032,266
Purchase of intangible assets	13	(69,412)	(281,417)
Cash used in investing activities		(7,957,344)	(6,732,797)
Financing activities			
Increase in bank indebtedness		1,099,410	787,843
Issuance of long-term debt, net of fees	21	4,476,518	5,126,215
Repayment of long-term debt	21	(1,557,939)	(1,024,640)
Repayment of obligation under finance lease	20	(769,962)	(741,297)
Dividends paid	16	(3,010,861)	(2,391,653)
Issuance of shares, net of fees	17	53,126	60,050
Shares repurchased and cancelled, including fees	16	(146,310)	(322,629)
Stock option costs	17	(18,510)	-
Proceeds from stock option exercise	17	194,243	125,901
Cash generated from financing activities		319,715	1,619,790
Net increase/(decrease) in cash		-	(2,831,959)
Cash, beginning of year		-	2,831,959
Cash, end of year		\$ -	\$ -

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

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1. CORPORATE INFORMATION

Brick Brewing Co. Limited (“Brick” or the “Company”) is a Canadian-owned and Canadian-based publicly held brewery incorporated in Canada. Brick’s shares are listed on the Toronto Stock Exchange (“TSX”) under the symbol “BRB”. Brick’s head office is located in Kitchener, Ontario at 400 Bingham 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. Brick’s products are distributed to end consumers through The Beer Store (“TBS”), LCBO, and grocery stores 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 10, 2019 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. THE BEER STORE 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 product to TBS. On implementation, inventory increased by \$3,459,577 to reflect inventory on hand at TBS. Further, there was a one-time reversal of gross profit. Net revenue decreased by \$3,586,515, cost of sales decreased by \$1,396,355, gross profit decreased by \$2,190,160, and net income decreased by \$1,565,964.

At the time of change to consignment, the Company was required to buy back inventory on hand at TBS, payable over a 26-week period. As at January 31, 2019, the Company fully paid the amount payable to TBS.

3.3. BASIS OF MEASUREMENT

Depending on the applicable 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 on 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 values are presented in actual Canadian dollars unless otherwise stated.

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.

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.

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 \$450,000.

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 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 intangible 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 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, 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 by others of the Company's resources, 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 finance lease obligations;
- (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 maker". 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)
Buildings and 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

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 a gain on disposal 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 depreciation and impairment losses (refer to impairment policy). In order to reflect that a portion of the listings will be 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, 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

Finance leases

Leases of property, plant and equipment where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are recognized as assets and liabilities (interest-bearing loans and borrowings) at amounts equal to the lower of the fair value of the leased property and the present value of the minimum lease payments at the inception of the lease.

Lease payments are apportioned between the outstanding liability and finance charges to achieve a constant periodic rate of interest on the remaining balance of the liability. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the term of the lease.

Operating leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to income on a straight-line basis over the term of the lease.

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 and warrants 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

From February 1, 2018, 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.

Accounting policies applied until January 31, 2018

The Company has applied IFRS 9 retrospectively but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

Until January 31, 2018, the Company classified its financial assets in the following categories: loans and receivables, held-to-maturity, available-for-sale or FVTPL. The classification depended on the purpose for which the financial assets were acquired. Management determined the classification of its financial assets at initial recognition.

Loans and receivables were financial assets with fixed or determinable payments that are not quoted in an active market. Such assets were recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables were measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprised accounts receivable and construction deposits.

Available-for-sale financial assets were non-derivative financial assets that were designated as available-for-sale and that were not classified as loans and receivables. The Company's cash and cash equivalents were classified as available-for-sale financial assets. Subsequent to initial recognition, they were measured at fair value and changes therein, other than impairment losses were recognized in other comprehensive income and presented within equity in the fair value reserve. When an available-for-sale financial asset was derecognized, the cumulative gain or loss in other comprehensive income was transferred to net income.

The Company initially recognized loans and receivables on the date that they were originated. All other financial assets were recognized initially on the trade date on which the Company became a party to the contractual provisions of the instrument.

The Company derecognized a financial asset when the contractual rights to the cash flows from the asset expired, or it transferred the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset were transferred.

The Company assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired.

Assets classified as loans and receivables: A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) had

an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. The criteria that the Company used to determine that there was objective evidence of an impairment loss included: significant financial difficulty of the issuer or obligor; a breach of contract, such as a default or delinquency in interest or principal payments; it became probable that the borrower would enter bankruptcy or other financial reorganization; and national or local economic conditions that correlate with defaults on the assets. The amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognized in net income.

Assets classified as available-for-sale financial assets: For available-for-sale financial assets, the Company used the same criteria as for loans and receivables above. If any such evidence existed for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in net income, was removed from equity and recognized in net income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increased and the increase could be objectively related to an event occurring after the impairment loss was recognized in net income, the impairment loss was reversed through net income.

Financial liabilities

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

Financial liabilities comprise accounts payable and accrued liabilities, 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.

5.19. NEW STANDARDS AND INTERPRETATIONS ADOPTED

Revenue Recognition

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") which replaced the detailed guidance on revenue recognition requirements that existed under IFRS. IFRS 15 provides a comprehensive framework for recognition, measurement and disclosure of revenues from contracts with customers, excluding contracts that are within the scope of the standards on leases, insurance contracts and financial instruments.

The Company adopted IFRS 15 in its financial statements for the annual period beginning February 1, 2018. The Company's current co-packing customers control access to the benefits of the liquid manufactured for packaging, as well as the finished product. As such, the Company has determined that contracts with its existing co-packing customers meet the criteria to recognize revenue over a period of time. The impact of attributing revenue to production in process does not have a material impact on revenue, cost of sales, and net income.

For the Company's other customers (such as TBS, and the Liquor Control Board of Ontario) the Company has determined that revenue generated from these customers is required to be recognized at a point in time. LCBO does not control access to the benefits of the Company's products until they have been shipped to them, at which time revenue is recognized. Products shipped to TBS are sold on a consignment basis and therefore, TBS does not control access to the products. Revenue is recognized at the time the product is sold to TBS' customer. The impact does not have a material effect on the Company's revenue, cost of sales, and net income.

The cumulative impact as of February 1, 2018, the date of application, was not material and therefore, no transition adjustments were recorded as of February 1, 2018.

Financial Instruments

IFRS 9 *Financial Instruments* ("IFRS 9") was issued by the IASB in July 2014 and replaced IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") for annual periods beginning on or after January 1, 2018. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released in July 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets.

On adoption of IFRS 9, in accordance with its transitional provisions, the Company has not restated prior periods but has reclassified the financial assets held at February 1, 2018, retrospectively, based on the new classification requirements and the characteristics of each financial instrument as at the transition date, as follows:

	Classification		Carrying amount	
	under IAS 39	under IFRS 9	under IAS 39	under IFRS 9
Financial assets:				
Accounts receivable	Loans and receivables	Amortized cost	\$ 6,999,212	\$ 6,999,212
Financial liabilities:				
Bank indebtedness	Financial liabilities	Financial liabilities	787,843	787,843
Accounts payable and accrued liabilities	Financial liabilities	Financial liabilities	6,516,382	6,516,382
Obligations under finance lease	Financial liabilities	Financial liabilities	3,781,855	3,781,855
Long-term debt	Financial liabilities	Financial liabilities	7,351,241	7,351,241

There was no impact to the financial statements as a result of the adoption of IFRS 9. The adoption of IFRS 9 from February 1, 2018 resulted in changes in accounting policies. The new accounting policies are set out in note 5.18.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

In June 2016, the IASB issued amendments to IFRS 2 *Share-based Payment* ("IFRS 2"), clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendments apply for annual periods beginning on or after January 1, 2018. The Company adopted the amendments to IFRS 2 in its financial statements for the annual period beginning on February 1, 2018. The amendments did not have a material impact on the financial statements.

6. FUTURE ACCOUNTING PRONOUNCEMENTS

The following new Standards and Interpretations are not yet effective and have not been applied in preparing these financial statements:

6.1. Leases

In January 2016, the IASB issued IFRS 16 *Leases* ("IFRS 16"), which supersedes IAS 17 *Leases*, as well as several interpretations on leases. IFRS 16 eliminates the classification of leases by a lessee between operating and finance leases. Instead, all leases will be classified as finance leases and recognized in the statement of financial position.

IFRS 16 is effective for fiscal years beginning on or after January 1, 2019, with earlier adoption permitted, provided that IFRS 15, *Revenue from Contracts with Customers*, is also applied. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on February 1, 2019 using the modified retrospective approach which does not require restatement of prior period financial information as it recognizes the cumulative effect of IFRS 16 as an adjustment to opening retained earnings and applies the standard prospectively.

The Company intends to use the following practical expedients permitted under the new standard:

- Leases with a remaining lease term of less than twelve months as at February 1, 2019 will be classified as short-term leases.
- Leases of low dollar value will continue to be expensed as incurred.
- The Company will not apply any grandfathering practical expedients.

The Company will recognize lease liabilities measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as at February 1, 2019. The associated right of use

("ROU") assets will be measured at the lease liability amount on February 1, 2019 resulting in no adjustment to the opening balance of retained earnings.

Effective February 1, 2019, the Company will recognize ROU assets and lease liabilities for the lease of its manufacturing facility and leases of Company vehicles. The Company has quantified the impact of adoption of IFRS 16 on its opening Statement of Financial Position and anticipates recognition of ROU assets and lease liabilities of approximately \$11.0 million.

6.2. Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*. 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 Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Company intends to adopt the Interpretation in its financial statements for the annual period beginning on February 1, 2019. The extent of the impact of adoption of the interpretation has not yet been determined.

7. REVENUE

The Company's revenue consists of the following streams:

	Year Ended January 31, 2019	Year Ended January 31, 2018
Revenue from the sale of goods:		
Gross revenue	\$ 82,500,005	\$ 87,714,638
Less: Production taxes and distribution fees	46,328,714	48,389,548
Revenue (net)	36,171,291	39,325,090
Revenue from the rendering of services:		
Gross revenue	13,913,199	10,464,944
Total revenue	\$ 50,084,490	\$ 49,790,034

As a result of a change to a consignment relationship with its largest customer during the first quarter of fiscal 2019, 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. Had the adjustment for a change to consignment not occurred, gross revenue from the sale of goods would have been \$88,149,742 (2018 - \$87,714,638), production taxes and distribution fees would have been \$48,391,936 (2018 - \$48,389,548), and net revenue from the sale of goods would have been \$39,757,806 (2018 - \$39,325,090). Refer to note 3.2 for further details on the change to consignment.

Services revenue is comprised of revenue generated from contract manufacturing. Brick utilizes available equipment and resources to perform contract manufacturing services for customers in order to generate incremental returns.

8. EXPENSES BY NATURE

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

	Year Ended January 31, 2019	Year Ended January 31, 2018
Depreciation of property, plant & equipment		
Cost of sales	\$ 3,633,055	\$ 2,765,391
Other expenses	530,366	535,793
Amortization of intangible assets		
Other expenses	197,254	226,578
Salaries, benefits and other personnel-related expenses		
Cost of sales	8,475,429	8,106,190
Selling, marketing and administrative expenses	4,393,012	4,185,092
Other expenses	117,876	54,537

9. OTHER EXPENSES

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

	Year Ended January 31, 2019	Year Ended January 31, 2018
Depreciation of property, plant & equipment	\$ 530,366	\$ 535,793
Amortization of intangible assets	197,254	226,578
Other personnel-related expenses	117,876	54,537
Foreign exchange gains	(60,799)	(2,652)
	\$ 784,697	\$ 814,256

10. FINANCE COSTS

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

	Year Ended January 31, 2019	Year Ended January 31, 2018
Interest on long-term debt	\$ 341,257	\$ 246,446
Interest on finance leases	129,192	158,357
Interest on bank indebtedness	65,378	69,732
Other interest expense	6,855	3,738
Unwinding of discount on provisions	15,159	38,248
Fair value adjustments on financial instruments	(51,246)	29,469
	\$ 506,595	\$ 545,990

11. INCOME TAXES

Significant components of income tax expense consist of:

	Year Ended January 31, 2019	Year Ended January 31, 2018
Statement of comprehensive income:		
Deferred tax:		
Origination and reversal of temporary differences	\$ 549,301	\$ 1,051,829
Adjustments in respect of prior years	(4,189)	(7,754)
Total deferred tax charge for the year	545,112	1,044,075
Income tax expense	\$ 545,112	\$ 1,044,075

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:

	Year Ended January 31, 2019	Year Ended January 31, 2018
Income before tax	\$ 1,834,127	\$ 3,646,542
Statutory income tax rate	26.50%	26.50%
Expected tax expense	486,044	966,334
Effect of income tax on:		
Manufacturing and processing deduction	(26,506)	(47,290)
Non-deductible stock-based compensation expense	124,419	83,795
Other non-deductible expenses	22,924	32,276
Other permanent differences	530	2,041
Tax-exempt portion of capital gain	-	42,629
Change in opening deferred income tax balances	(4,189)	(7,754)
Other	(58,110)	(27,956)
	59,068	77,741
Income tax expense	\$ 545,112	\$ 1,044,075

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		-	13,953,402		446,047
No expiry		(20,101,355)		-	-
As at January 31, 2019	\$	(20,101,355)	\$	13,953,402	\$ 446,047
Within one year	\$	-	\$	-	\$ -
One to five years		-		-	-
After five years		-	14,027,007		444,047
No expiry		(17,991,596)		-	-
As at January 31, 2018	\$	(17,991,596)	\$	14,027,007	\$ 444,047

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

	Year Ended January 31, 2019	Year Ended January 31, 2018
Non-capital and capital losses carried forward	\$ 3,543,043	\$ 3,561,732
Net book value of property, plant and equipment more than the tax basis	(4,155,249)	(3,728,490)
Net book value of intangible assets in excess of tax basis	(1,408,878)	(1,301,621)
Other temporary differences	349,508	341,915
Total deferred income tax liability, net	(1,671,576)	(1,126,464)
Classified as:		
Non-current deferred income tax liability	(1,671,576)	(1,126,464)
Change in deferred tax expense, recognized in income for the year	\$ 545,112	\$ 1,044,075

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, 2017	Recognized in profit or loss	Balance at January 31, 2018	Recognized in profit or loss	Balance at January 31, 2019
Property, plant & equipment	\$ (12,208,681)	\$ (2,475,057)	\$ (14,683,738)	\$ (1,680,688)	\$ (16,364,426)
Intangible assets	(4,685,301)	(440,813)	(5,126,114)	(422,405)	(5,548,519)
Financing costs	38,826	(66,845)	(28,019)	29,441	1,422
Asset Retirement Obligation asset & liability	411,599	126,777	538,376	15,159	553,535
SR&ED expenditure pool carryforwards, net of future SR&ED investment tax credit income inclusions	836,383	(2,000)	834,383	(2,000)	832,383
Tax loss carryforwards	15,166,915	(1,139,908)	14,027,007	(73,605)	13,953,402
Other items	-	29,469	29,469	(51,246)	(21,777)
Total	\$ (440,259)	\$ (3,968,377)	\$ (4,408,636)	\$ (2,185,344)	\$ (6,593,980)

12. PROPERTY, PLANT & EQUIPMENT

	Assets owned by the Company								Assets held under finance leases		Total property, plant and equipment
	Land	Buildings and leasehold improvements	Returnable containers	Machinery and equipment	Computer equipment	Furniture and fixtures	Vehicles	Major spare parts	Equipment		
Cost or deemed cost											
Balance at February 1, 2017	\$ 421,488	\$ 5,327,324	\$ 6,808,501	\$ 24,559,953	\$ 1,716,572	\$ 410,229	\$ 347,725	\$ 227,241	\$ 5,483,077	\$	45,302,110
Additions	-	(12,740)	1,111,665	9,245,330	357,177	9,816	-	-	-	-	10,711,248
Disposals	(421,488)	(894,594)	-	(4,608,143)	-	-	-	(87,170)	-	-	(6,011,395)
Balance at January 31, 2018	-	4,419,990	7,920,166	29,197,140	2,073,749	420,045	347,725	140,071	5,483,077		50,001,963
Cumulative depreciation and impairment											
Balance at February 1, 2017	-	(1,880,982)	(6,448,061)	(13,037,240)	(1,271,633)	(219,677)	(252,570)	(200,755)	(281,767)		(23,592,685)
Depreciation charge for the year	-	(301,036)	(236,063)	(2,251,410)	(179,644)	(55,113)	(38,062)	(12,987)	(226,869)		(3,301,184)
Depreciation on:											
Disposals	-	381,167	-	3,543,057	-	-	-	87,170	-		4,011,394
Balance at January 31, 2018	-	(1,800,851)	(6,684,124)	(11,745,593)	(1,451,277)	(274,790)	(290,632)	(126,572)	(508,636)		(22,882,475)
Net book value as at January 31, 2018	\$ -	\$ 2,619,139	\$ 1,236,042	\$ 17,451,547	\$ 622,472	\$ 145,255	\$ 57,093	\$ 13,499	\$ 4,974,441	\$	27,119,488
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	\$ 5,483,077	\$	50,001,963
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	5,483,077		55,889,141
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)	(508,636)		(22,882,475)
Depreciation charge for the period	-	(225,527)	(409,273)	(2,919,567)	(252,223)	(52,617)	(70,047)	(7,298)	(226,869)		(4,163,421)
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)	(735,505)		(26,495,644)
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	\$ 4,747,572	\$	29,393,497

Refer to note 21 and 22 for details on the Company's property, plant and equipment that have been pledged as security for liabilities. Refer to note 20 for property, plant and equipment held under finance lease.

1. 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	\$	3,814,628	\$	11,642,014	\$	11,744	\$	99,200	\$	15,567,586
Acquired separately		281,417		-		-		-		281,417
Disposals		(179,140)		-		-		-		(179,140)
Balance at January 31, 2018		3,916,905		11,642,014		11,744		99,200		15,669,863
Cumulative amortization and impairment										
Balance at February 1, 2018		-		-		-		(68,400)		(68,400)
Amortization charge for the year		(195,778)		-		-		(30,800)		(226,578)
Amortization on disposals		6,693		-		-		-		6,693
Balance at January 31, 2018		(189,085)		-		-		(99,200)		(288,285)
Net book value as at January 31, 2018	\$	3,727,820	\$	11,642,014	\$	11,744	\$	-	\$	15,381,578
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

For the year ended January 31, 2019, 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.

2. ACCOUNTS RECEIVABLE

The accounts receivable balance consists of the following:

	January 31, 2019	January 31, 2018
Trade Customers	\$ 3,804,997	\$ 6,233,859
Other	1,046,777	765,353
	4,851,774	6,999,212
Allowance	-	-
Net, accounts receivable	\$ 4,851,774	\$ 6,999,212

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

	January 31, 2019	January 31, 2018
Allowance, beginning of year	\$ -	\$ 22,208
Additional amounts provided during the year	12,748	-
Amounts written off during the year	(12,748)	(22,208)
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, 2019	January 31, 2018
Not yet due, or less than 31 days past due	\$ 4,595,605	\$ 6,944,932
Past the due date but not impaired:		
31-60 days	111,437	19,083
61-90 days	39,944	35,197
Over 90 days	104,758	-
	\$ 4,851,744	\$ 6,999,212

15. INVENTORIES

The inventories balance consists of the following:

	January 31, 2019	January 31, 2018
Raw materials, supplies and other	\$ 2,446,737	\$ 1,812,220
Work in progress and finished goods	7,870,030	6,079,144
	\$ 10,316,767	\$ 7,891,364

As at January 31, 2019, a provision of \$90,424 (January 31, 2018 - \$30,664) 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, 2019 are \$32,128,305 (January 31, 2018 - \$30,370,846). Included in this amount are charges related to impairment caused by obsolescence. During the year ended January 31, 2019, these charges amounted to \$62,510 (January 31, 2018 - \$33,224).

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, 2019, 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, 2019, 35,442,639 (January 31, 2018 – 35,285,126) common shares were issued and outstanding.

On January 8, 2019, the Company announced that it would be commencing a normal course issuer bid (“NCIB”) for up to 1,000,000 of its common shares, representing 2.8% of the 35,475,563 common shares outstanding as of January 7, 2019. The NCIB commenced on January 10, 2019 and terminates on January 9, 2020, or such earlier date on which purchases under the NCIB have been completed. During fiscal 2019 the Company repurchased and cancelled an aggregate of 41,800 common shares under its NCIB at a volume weighted average price of \$3.46 per common share.

On April 10, 2019, the Board of Directors of the Company approved a quarterly dividend of \$0.025 per share, payable on May 30, 2019 to shareholders of record as of May 16, 2019. During the year ended January 31, 2019, \$3,010,861 of dividends were paid (January 31, 2018 - \$2,391,653).

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, 2019 and January 31, 2018 is presented below:

	Year ended January 31, 2019		Year ended January 31, 2018	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Balance outstanding at beginning of year	1,338,664	\$ 2.85	997,493	\$ 1.88
Granted	670,000	3.92	851,000	3.35
Forfeited	(183,333)	2.99	(20,000)	2.88
Exercised ¹	(330,994)	2.39	(489,829)	1.76
Balance outstanding at end of year	1,494,337	\$ 3.41	1,338,664	\$ 2.85

¹ During the fiscal year ended January 31, 2019, 245,663 stock options were exercised on a cashless basis (January 31, 2018 - 410,827). This resulted in the issuance of 97,626 common shares (January 31, 2018 - 220,623).

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

Exercise price	Number outstanding at January 31, 2019	Weighted average remaining contractual life	Number exercisable at January 31, 2019
1.29	6,000	0.00	6,000
1.50	31,665	0.03	31,665
1.54	36,000	0.04	36,000
2.24	66,669	0.10	10,002
2.29	73,334	0.11	6,666
2.52	20,000	0.03	10,000
3.18	296,668	0.63	30,001
3.48	30,667	0.08	10,000
3.59	258,334	0.62	78,334
3.60	5,000	0.01	1,667
3.86	190,000	0.49	-
3.91	240,000	0.63	-
3.94	150,000	0.40	-
3.95	30,000	0.08	-
4.03	30,000	0.08	-
4.16	30,000	0.08	-
1.29 to 4.16	1,494,337	3.41	220,335

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, 2019 was \$2.39 (January 31, 2018 - \$1.76).

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

	Year ended January 31, 2019	Year ended January 31, 2018
Weighted average fair value per option	\$ 0.87	\$ 0.72
Weighted average share price	\$ 3.95	\$ 3.36
Weighted average exercise price	\$ 3.92	\$ 3.35
Expected volatility	30%	29%
Dividend yield	2%	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, 2019, 16,356 shares were issued under the plan (January 31, 2018 – 18,233) for net proceeds of \$53,126 (January 31, 2018 - \$60,050).

18. EARNINGS PER SHARE

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

	January 31, 2019	January 31, 2018
Net income for the year	\$ 1,289,015	\$ 2,602,467
Average number of common shares outstanding	35,399,393	35,154,516
Effect of options	63,172	276,139
Average number of diluted common shares outstanding	35,462,565	35,430,655
Basic earnings per share	\$ 0.04	\$ 0.07
Diluted earnings per share	\$ 0.04	\$ 0.07

19. PROVISIONS

	Asset decommissioning obligations
Balance at February 1, 2017	\$ 411,599
Change due to the passage of time	38,248
Change due to expansion of leased facility	88,529
Balance at January 31, 2018	\$ 538,376
Current	\$ -
Non-current	\$ 538,376
Balance at February 1, 2018	\$ 538,376
Change due to the passage of time	15,159
Balance at January 31, 2019	\$ 553,535
Current	\$ -
Non-current	\$ 553,535

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. The total undiscounted amount of estimated cash flows required to restore the leased facility as at January 31, 2019 was \$704,904 (January 31, 2018 - \$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%. The amount and timing of cash flows are based upon management's best estimate of this future obligation.

20. OBLIGATION UNDER FINANCE LEASE

The Company has a finance lease with HSBC Bank Canada ("HSBC") for various items of equipment, secured by the equipment under lease. On September 16, 2015 \$5,543,826 was formalized into a lease, subject to interest at 3.80% per annum, with monthly blended payments of approximately \$75,030 until August 16, 2022.

The Company has the following commitments relating to its obligations under finance lease:

	January 31, 2019	January 31, 2018
Due within one year	\$ 900,354	\$ 900,354
Due within one to five years	2,326,016	3,226,370
Due in over five years	-	-
Total Minimum Lease Payments	3,226,370	4,126,724
Less amount representing interest at 3.80%	(214,477)	(344,869)
Present value of finance lease payments	3,011,893	3,781,855
Less current portion under finance lease	(799,736)	(769,962)
	\$ 2,212,157	\$ 3,011,893

Movement in the obligation under finance lease consists of the following:

	January 31, 2019	January 31, 2018
Obligation under finance lease (including current portion), beginning of year	\$ 3,781,855	\$ 4,523,152
Repayment of obligation under finance lease	(769,962)	(741,297)
Obligation under finance lease (including current portion), end of year	\$ 3,011,893	\$ 3,781,855

21. LONG-TERM DEBT

Long-term debt consists of the following:

	January 31, 2019	January 31, 2018
Term debt loan payable to HSBC , bearing interest rate of 3.85% with monthly principal payments of \$23,809 until April 19, 2023.	\$ 1,234,705	\$ 1,520,419
Term debt loan payable to HSBC , bearing interest rate of 3.44% with monthly principal payments of \$26,825 until April 19, 2024.	1,544,349	1,808,206
Term debt loan payable to HSBC , bearing interest rate of 3.92% with monthly principal payments of \$40,907 until July 14, 2024.	2,424,255	2,811,827
Term debt loan payable to HSBC , bearing interest rate of 4.02% with monthly principal payments of \$25,667 until January 22, 2026.	1,876,518	-
Loan payable to Wells Fargo (stated net of transaction costs of \$24,382), bearing interest at 4.006%, and monthly blended payments of \$30,450 until June 9, 2021.	815,938	1,129,559
Loan payable to Wells Fargo, bearing interest at 4.36%, and monthly blended payments of \$35,971 until June 1, 2025.	2,385,084	-
Loan payable to Wells Fargo, bearing interest at 6.12% and repaid.	-	81,230
Total long-term debt	\$ 10,280,849	\$ 7,351,241
Current	\$ 1,859,922	\$ 1,331,996
Non-current	\$ 8,420,927	\$ 6,019,245

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, 2019
Due within one year	\$ 1,859,922
Due in one to five years	\$ 7,976,879
Due in over five years	\$ 444,048
	\$ 10,280,849

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

	January 31, 2019	January 31, 2018
Long-term debt (including current portion), beginning of year	\$ 7,351,241	\$ 3,242,475
Issuance of long-term debt	4,476,518	5,163,067
Repayment of long-term debt	(1,557,939)	(1,024,640)
Financing Fees paid during the year	-	(36,852)
Amortization of financing fees	11,029	7,191
Long-term debt (including current portion), end of year	\$ 10,280,849	\$ 7,351,241

22. BANK INDEBTEDNESS

The Company holds an operating line of credit from HSBC Bank Canada of \$8,000,000 with interest at prime plus 0.20% per the most recent banking agreement. The net balance drawn on the operating line of credit as of January 31, 2019 is \$1,891,944 (January 31, 2018 – 1,009,074). Bank indebtedness includes outstanding cheques. Interest expense for the year ended January 31, 2019 was \$65,378 (January 31, 2018 - \$69,732). These charges have been included as part of finance costs in the statement 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, 2019	January 31, 2018
Trade payables	\$ 2,350,404	\$ 2,892,340
Other payables and accrued liabilities	4,952,829	3,624,042
	\$ 7,303,233	\$ 6,516,382

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.

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, finance leases, 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
Obligations under finance lease	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, 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 obligations under finance lease 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, 2019, being an amount of \$4,851,774 (January 31, 2018 - \$6,999,212).

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. 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 period ended January 31, 2019, approximately 71 percent (January 31, 2018 – 73 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 obligations under finance lease in fiscal 2019 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	\$ 7,303,233	\$ 7,303,233	\$ 7,303,233	\$ -	\$ -
Long-term debt	10,280,849	10,280,849	1,859,922	7,976,879	444,048
Obligation under finance lease	3,011,893	3,011,893	799,736	2,212,157	-
Total contractual repayments	\$ 20,595,975	\$ 20,595,975	\$ 9,962,891	\$ 10,189,036	\$ 444,048

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, 2019, 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.

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 obligations under finance leases 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, 2019	January 31, 2018
Bank indebtedness	\$ 1,887,253	\$ 787,843
Total debt	13,292,742	11,133,096
Net debt	15,179,995	11,920,939
Equity:		
Share capital	40,001,097	39,747,525
Share-based payments reserves	1,325,150	1,026,667
Deficit	(4,269,592)	(2,547,746)
Total Equity	37,056,655	38,226,446
Total capitalization (net debt plus total equity)	\$ 52,236,650	\$ 50,147,385

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, 2019, the Company was in compliance with all of its financial debt covenants.

25. OPERATING LEASES

At January 31, 2019, the Company's commitments under non-cancellable operating leases are as follows:

	Vehicles	Buildings	Office equipment, furniture and fixtures	Total
Future minimum lease payments:				
Due within one year	\$ 616,904	\$ 1,447,238	\$ 7,890	\$ 2,072,032
Due in one to five years	1,505,005	6,413,558	6,339	7,924,902
Due in over five years	-	11,137,429	-	11,137,429
	\$ 2,121,909	\$ 18,998,225	\$ 14,229	\$ 21,134,363

Operating lease expense recognized within cost of sales for the fiscal year ended January 31, 2019 was \$1,727,532 (January 31, 2018 - \$1,656,085).

26. COMMITMENTS

As at January 31, 2019, the Company had the following non-cancellable purchase commitments relating to raw materials and supplies:

	January 31, 2019	January 31, 2018
Due within one year	\$ 4,910,388	\$ 4,254,997
Due in one to five years	-	-
Due in over five years	-	-
	\$ 4,910,388	\$ 4,254,997

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

27. 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:

	Year Ended January 31, 2019	Year Ended January 31, 2018
Short-term employee benefits	\$ 1,670,782	\$ 1,778,312
Post-employment benefits	58,513	57,986
Share-based payments	268,506	139,100
	\$ 1,997,801	\$ 1,975,398

INVESTOR & CONTACT INFORMATION

STOCK EXCHANGE AND LISTED SECURITIES

Brick Brewing Co. Limited is listed on the Toronto Stock Exchange (TSX) under the ticker symbol BRB.

INVESTOR AND ANALYST INQUIRIES

David Birch, Chief Financial Officer

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BOARD OF DIRECTORS

Peter J. Schwartz, Chairman

David R. Shaw

Edward H. Kernaghan

George H. Croft

John H. Bowey

Stan G. Dunford

OFFICERS

George Croft, President and Chief Executive Officer

Russell Tabata, Chief Operating Officer

David Birch, Chief Financial Officer

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