

Brewers Retail Inc.

Financial statements

(Expressed in thousands of Canadian dollars)

December 31, 2023



Independent auditor's report

To the Shareholders of
Brewers Retail Inc.

Opinion

We have audited the financial statements of **Brewers Retail Inc.** [the "Company"], which comprise the statement of financial position as at December 31, 2023, and the statement of operations and comprehensive income, statement of changes in shareholders' equity (deficit) and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ["IFRSs"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company 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.

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 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Company 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.

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

Ernst + Young LLP

Toronto, Canada
March 6, 2024

Chartered Professional Accountants
Licensed Public Accountants



Brewers Retail Inc.
Statement of Financial Position
As at December 31, 2023

(Expressed in thousands of Canadian dollars)

	2023 \$	2022 \$
Assets		
Current assets		
Cash and cash equivalents	57,845	63,806
Trade receivables (notes 6 and 22)	71,251	66,341
Empties deposits	971	5,789
Inventories (note 7)	21,778	25,644
Other current assets	2,123	2,618
	153,968	164,198
Property, plant and equipment (note 8)	71,857	73,488
Right-of-use assets (note 9)	285,578	295,648
Intangible assets (note 10)	50,976	52,255
Pension benefit assets (note 16)	101,964	71,291
Deferred income tax assets (note 17)	31,470	40,760
	695,813	697,640
Liabilities and shareholders' equity (deficit)		
Current liabilities		
Bank indebtedness (note 11)	58,000	53,000
Trade and other payables and provisions (notes 5, 12 and 22)	128,031	150,337
Current lease liabilities (note 14)	51,692	51,904
	237,723	255,241
Deferred gain on sale leaseback (note 14)	4,193	4,663
Lease liabilities (note 14)	303,343	314,438
Other employee future benefits (note 16)	49,614	46,645
	594,873	620,987
Commitments (note 15)		
Shareholders' equity (deficit)		
Share capital (note 19)	200,345	200,345
Deficit	(85,619)	(87,553)
Accumulated other comprehensive loss	(13,786)	(36,139)
Total shareholders' equity (deficit)	100,940	76,653
	695,813	697,640

See accompanying notes

Approved by the Board of Directors

DocuSigned by:

Renata Mantoan, Director

DocuSigned by:

Tom Muir, Director

Brewers Retail Inc.

Statement of Operations and Comprehensive Income

For the year ended December 31, 2023

(Expressed in thousands of Canadian dollars)

	2023	2022
	\$	\$
Revenue		
Service charges <i>(notes 5 and 22)</i>	359,327	341,567
Other <i>(notes 5 and 22)</i>	102,759	110,900
	462,086	452,467
Expenses		
Operating <i>(notes 6, 7, 14 and 22)</i>	73,196	73,820
Salary and wages <i>(note 22)</i>	197,557	198,043
Benefits <i>(notes 16 and 22)</i>	50,083	41,495
Occupancy <i>(note 14)</i>	33,794	32,586
Administration	5,591	6,375
Finance <i>(notes 11 and 14)</i>	24,527	20,663
Depreciation and amortization <i>(notes 8, 9 and 10)</i>	73,634	72,795
	458,382	445,777
Operating income	3,704	6,690
Gain on sale of real property <i>(note 14)</i>	478	2,082
Other income	-	372
Income before income taxes	4,182	9,144
Income tax expense <i>(note 18)</i>	2,248	3,451
Net income	1,934	5,693
Other comprehensive income, net of taxes		
Actuarial gains (losses)		
Pension <i>(notes 16 and 17)</i>	23,366	32,330
Other employee future benefits <i>(notes 16 and 17)</i>	(1,013)	5,586
Total other comprehensive income	22,353	37,916
Total comprehensive income	24,287	43,609

See accompanying notes

Brewers Retail Inc.

Statement of Changes in Shareholders' Equity (Deficit)

For the year ended December 31, 2023

(Expressed in thousands of Canadian dollars)

	Share capital \$	Deficit \$	Accumulated other comprehensive loss \$	Total shareholders' equity (deficit) \$
Balance, January 1, 2023	200,345	(87,553)	(36,139)	76,653
Net income	—	1,934	—	1,934
Actuarial gains, net of taxes	—	—	22,353	22,353
Balance, December 31, 2023	200,345	(85,619)	(13,786)	100,940
Balance, January 1, 2022	200,345	(93,246)	(74,055)	33,044
Net income	—	5,693	—	5,693
Actuarial gains, net of taxes	—	—	37,916	37,916
Balance, December 31, 2022	200,345	(87,553)	(36,139)	76,653

See accompanying notes

Brewers Retail Inc.

Statement of Cash Flows

For the year ended December 31, 2023

(Expressed in thousands of Canadian dollars)

	2023	2022
	\$	\$
Operating activities		
Net income for the year	1,934	5,693
Add (deduct) non-cash items		
Depreciation and amortization (notes 8, 9 and 10)	73,634	72,795
Interest expense (note 14)	11,725	11,065
Deferred income taxes (notes 17 and 18)	1,220	2,560
Loss (gain) on disposal of property, plant and equipment (note 8)	(309)	214
Gain on lease remeasurement	—	(73)
Amortization of deferred gain (note 14)	(478)	(2,082)
Other benefit expenses (note 16)	7,150	3,300
Defined benefit plan expenses (note 16)	1,123	(818)
Other benefit contributions (note 16)	(5,554)	(5,422)
Net change in non-cash working capital items (note 21)	(15,100)	(1,300)
Cash provided by operating activities	75,345	85,932
Investing activities		
Purchase of property, plant and equipment and intangible assets (notes 8, 10 and 21)	(23,823)	(24,970)
Proceeds from sale of property, plant and equipment (note 8)	411	—
Cash used in investing activities	(23,412)	(24,970)
Financing activities		
Bank indebtedness (note 11)	5,000	—
Payments on lease liabilities (note 14)	(62,894)	(61,356)
Cash used in financing activities	(57,894)	(61,356)
Net decrease in cash and cash equivalents during the year	(5,961)	(394)
Cash and cash equivalents, beginning of year	63,806	64,200
Cash and cash equivalents, end of year	57,845	63,806

See accompanying notes

Brewers Retail Inc.

Notes to the financial statements

December 31, 2023

(Expressed in thousands of Canadian dollars)

1. Corporate information

As at December 31, 2023, Brewers Retail Inc. (the "Company"), operating as "The Beer Store," was owned by 28 Ontario brewers and, pursuant to a services agreement with each brewer, acts as a low cost, efficient distributor and retailer for the products of any brewer wishing to sell in the Province of Ontario. The Company is a corporation formed under the laws of the Province of Ontario, Canada, by articles of amalgamation dated May 1, 1988, as amended. The Company's head office is located at 12258 Coleraine Drive, Bolton, Ontario, Canada.

The Company and its shareholders are parties to a Master Framework Agreement ("MFA") with the Government of Ontario dated September 22, 2015. Pursuant to the MFA, the Company entered into a shareholders' agreement dated January 1, 2016 (the "Shareholders Agreement") with its shareholders. Under the terms of the Shareholders Agreement, the Company operates on a self-sustaining, break-even cash flow basis. Any excess or shortfall of the Company's revenue versus costs is refunded or charged on a pro rata basis to all brewers that sell product through the Company. The Board of Directors of the Company determines the amount and timing of payments brewers are entitled to receive from or refund to the Company to maintain cash flow neutrality. The MFA has an initial term of 10 years. The Government of Ontario provided the Company with notice in December 2023 that the MFA will not be renewed upon expiration. The Company is authorized to continue to operate for a period of at least seven years from the date of termination, December 31, 2025. Further, the Government of Ontario and the Company entered into a non-binding term sheet dated December 13, 2023 pursuant to which the Company will be maintained as the primary distributor of beer in Ontario, and the Ontario Deposit Return Program agreement will be renewed for a five year term.

The Company is governed by a Board of Directors. Pursuant to the Shareholders Agreement, the Board of Directors is composed of 15 members, 11 of whom are representatives of the First equity shareholders and 4 of whom are independent directors.

2. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The financial statements have been presented in thousands of Canadian dollars (the Company's functional currency) unless otherwise stated. The audited financial statements were approved by the Board of Directors on March 6, 2024.

3. Summary of accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of measurement

The financial statements have been prepared on a historical cost basis, unless otherwise indicated.

Financial instruments

A financial asset or financial liability is recognized when the Company becomes a party to the contractual provisions of the asset or liability. A financial asset or financial liability is recognized initially (at trade date) at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the instrument, except for financial assets and financial liabilities classified as fair value through profit or loss, in which case they are initially recognized at fair value and the transaction costs are expensed in the statement of operations and comprehensive income.

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Financial assets are classified on initial recognition as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss. Financial liabilities are classified as either fair value through profit or loss or financial liabilities measured at amortized cost. The classification depends on the purpose for which the financial assets and liabilities were acquired. Management determines the classification of its financial assets and liabilities at initial recognition.

After initial recognition, financial assets are measured at their fair values, except for items classified as subsequently measured at amortized cost. After initial recognition, financial liabilities are measured at amortized cost.

Financial assets are derecognized if the Company's contractual rights to the cash flows from the financial assets expire. Financial liabilities are derecognized if the Company's obligations specified in the contract expire or are discharged or cancelled.

Financial assets subsequently measured at amortized cost

Financial assets subsequently measured at amortized cost are instruments in which the financial asset is held with the objective of collecting contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Cash and cash equivalents, trade receivables and empties deposits are measured at amortized cost, using the effective interest rate method less provision for impairment (trade receivables). Empties deposits represent the deposit value of returned empty alcoholic beverage containers. The carrying value of the Company's financial assets approximates the fair value because of their short-term nature. Any impairment of these financial assets is included within operating expenses in the statement of operations and comprehensive income.

Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are non-derivative financial liabilities. Bank indebtedness, trade and other payables and provisions are classified as financial liabilities measured at amortized cost using the effective interest rate method. Trade and other payables are classified as current liabilities if payment is due within one year or less. The carrying value of trade and other payables and provisions generally approximates the fair value due to their short-term nature.

Impairment of financial assets

The Company recognizes a loss allowance for the expected credit losses on financial assets measured at amortized cost. A simplified approach is applied when calculating expected lifetime credit losses. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance at an amount equal to lifetime expected credit losses at each reporting date. The Company has established the allowance based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and economic environment.

Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventory is based on purchase price. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. If the carrying value exceeds the net realizable amount, a write-down is recognized. The write-down may be reversed in a subsequent period if the circumstances that caused it no longer exist and there is a subsequent increase in the value of the inventory.

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Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of items and directly attributable incidental expenses that are necessary to make the assets available for use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost can be measured reliably. The carrying amount of any replaced part is derecognized. All other costs, including repairs and maintenance, are included in the statement of operations and comprehensive income during the year in which they are incurred.

Depreciation

Land and assets under construction are not depreciated. Depreciation on other assets is calculated on a straight-line basis to allocate the cost of the asset, less any residual value, over its estimated useful life. The range of the estimated useful lives for each class of property, plant and equipment is as follows:

Buildings	10–45 years
Leasehold improvements	Over term of lease
Machinery, equipment and fixtures	3–20 years
Containers, kegs and pallets	4–20 years

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates each part separately. Residual values, methods of depreciation and useful lives of the assets are reviewed annually and adjusted, if appropriate.

Intangible assets

Acquired intangible assets consist of computer software and are measured at cost less accumulated amortization and any impairment losses. Acquired computer software is capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line basis over an estimated useful life of 3 to 15 years.

Costs that are directly associated with the development of identifiable and unique software and applications controlled by the Company, and that will generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Such costs include employee costs and overhead directly attributed to development of the asset. Computer software development costs recognized as assets are amortized on a straight-line basis over 15 years. Application development costs recognized as assets are amortized over 40 months on a straight-line basis.

Assets under construction are stated at cost, net of accumulated impairment losses, if any.

Costs associated with maintaining computer software programs are recognized as an expense when incurred.

Impairment of non-financial assets

Property, plant and equipment, right-of-use ("ROU") assets and intangible assets with finite useful lives are assessed annually for indications of impairment.

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Intangible assets not yet available for use are tested for impairment annually. If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognized in the statement of operations and comprehensive income. The recoverable amount of an asset is the higher of its fair value less cost to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows.

Non-financial assets that have been previously impaired are reviewed for possible reversal of the impairment at each reporting date.

Provisions

Provisions are recognized only in those circumstances where the Company has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount can be made.

Provisions are measured at management's best estimate of the expenditure required to settle the obligation and are discounted if settlement is expected to occur more than a year from the end of the reporting period.

Leases

At inception of a contract, the Company assesses whether that contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company leases a variety of different assets that can be broadly categorized as real estate and equipment. The Company leases retail and logistics sites to carry out retail and distribution operations. The Company also leases various equipment not limited to but including delivery vehicles, trailers and office and other equipment used in daily operation of the business. The non-cancellable contract periods for the Company's leases typically range from 5 to 15 years.

Lessee accounting

The Company records a ROU asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, consisting of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or restore the site on which it is located, less any lease incentives received.

The ROU asset is depreciated on a straight-line basis over the lease term. The lease term includes the non-cancellable period of the lease, periods covered by options to extend the lease where the Company is reasonably certain to exercise the option and periods covered by options to terminate the lease where the Company is reasonably certain not to exercise the option.

In addition, the ROU asset is periodically reduced by impairment losses, if necessary, and adjusted for certain remeasurements of the lease liability.

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The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company, lease payments in an optional renewal period if the Company is reasonably certain to exercise the renewal option, and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. The Company has used the relevant incremental borrowing rate, as the interest rate implicit in its leases cannot be readily determined. The lease liability is subsequently measured at amortized cost using the effective interest rate method.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in estimate of the amount expected to be payable under a residual value guarantee or if the Company changes its assessment of whether or not it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset.

The lease liability is also remeasured when the underlying lease contract is amended. When there is a decrease in contract scope, the lease liability and ROU asset will decrease relative to this change, with the difference recorded in profit or loss prior to the remeasurement of the lease liability.

Variable lease payments

Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

Recognition exemptions

The Company has elected to use the recognition exemptions under IFRS 16, *Leases* ("IFRS 16") for short-term leases and leases for which the underlying asset is of low value on a class-by-class and lease-by-lease basis, respectively.

Income taxes

Income tax expense for the year comprises current and deferred income taxes. Income taxes are recognized in the statement of operations and comprehensive income, except to the extent that they relate to items recognized directly in equity. Levies other than income taxes, such as taxes on real estate, are included in occupancy expenses.

Current income taxes

Current income taxes are based on the results of the period and are adjusted for items that are not taxable or not deductible. Current income taxes are calculated using income tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in the preparation and filing of income tax returns with respect to situations in which applicable income tax regulations are subject to interpretation. Provisions are established, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

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Deferred income taxes

Deferred income taxes are recognized, using the liability method, on temporary differences arising between the income tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income taxes are determined using income tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilized.

Deferred income tax assets and deferred income tax liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities, the deferred income tax assets and deferred income tax liabilities relate to income taxes levied by the same taxation authority and same taxable entity, and there is an intention to settle the balances on a net basis.

Employee benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the present value of future benefits that employees have earned in the current and prior periods and deducting the fair value of any plan assets.

The calculation of the defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan ("asset ceiling"). To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurement of the net defined benefit liability, which comprises actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), is recognized immediately in other comprehensive income. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the opening net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

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When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Other employee future benefits

The Company's net obligation in respect of other long-term employee benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods and is discounted to its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

Bonus plans

The Company recognizes a liability for bonuses based on a formula that takes into consideration the achievement of specified performance measures determined by the Board of Directors. The Company recognizes an accrual where contractually obliged or where there is a past practice that has created a constructive obligation to make such compensation payments.

Termination benefits

Termination benefits are payable when employment is terminated by the Company involuntarily or whenever an employee accepts voluntary redundancy in exchange for these benefits.

Finance expenses

Finance expenses include interest expense, credit and debit card charges, banking fees and foreign currency gains and losses on financial assets and financial liabilities. Interest expense is recognized using the effective interest rate method.

Revenue

The Company's revenue can be broken into two major categories: service charges and other revenue. These two categories can be further disaggregated into the major streams shown in note 5.

Service charges

Service charge revenue is earned through the provision of basic and elected services. Basic service charges are earned based on the volume of products sold throughout Ontario to home consumers and licensees at rates determined annually. Elected service charge revenue includes fees related to the handling of empty containers, delivery of product to third-party partners and promotional services.

Other revenue

Related products

The Company earns revenue on the sale of beer-related products sold in store such as ice and Company-branded merchandise, etc.

Draught services

There are three main types of draught services revenue: equipment supply, installation services and prepaid line cleaning.

Draught services purchases and sells draught services equipment to home consumers, licensees and brewers.

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Draught services also provides custom installation services to licensees and brewers. Installations encompass all types of service-based projects that are completed over time. Typically, these projects include some form of draught tower installation or repairs and maintenance. Highly customized work or tower prototypes may be associated with more detailed contract documents.

Prepaid line cleaning represents services provided to maintain draught lines within customer draught equipment. Line cleaning can be prepaid by customers for services that may span from a single-line cleaning instance upwards of up to 18 months.

Recycling

The Company earns revenue through the sale and delivery of used alcoholic beverage cans and secondary packaging to a third-party recycler. The Company also earns a fee as the exclusive coordinator, collector, sorter and recycler of alcoholic beverage containers in the Province of Ontario.

Performance obligations

The Company records revenue from contracts with customers in accordance with the five steps in IFRS 15, *Revenue from Contracts with Customers* as follows:

- Identify the contract with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price, which is the total consideration provided by the customer;
- Allocate the transaction price among the performance obligations in the contract based on their relative fair values; and
- Recognize revenue when the relevant criteria are met for each unit.

The chart below outlines the nature of various performance obligations in the Company's contracts with customers and the timing of the satisfaction of the performance obligation.

Performance obligations from contracts with customers	Timing of satisfaction of the performance obligation
Basic service charges	
Basic services as outlined in the user agreement with brewers	Over time as the service is provided
Elected service charges	
Delivery of product to third-party partners	At the point of delivery
Provision of a listing for beer products in retail stores	Over time as the service is provided
Collection and sorting of empty beer bottles and cans	Upon collection of empty beer containers
Provision of retail space for displaying brewer advertising as well as administering sampling program on behalf of brewers	As the space/tasting is provided
Transfer of beer from distribution centre/retail store to retail store	Upon transfer
Other revenues	
Sale of ice and related products	At the point of sale
Preparation of used alcoholic beverage cans for commodity sale and delivery to a third-party	At the point of shipment
Coordination, collection, sorting and recycling of alcoholic, empty beverage containers in Ontario	Over time as the service is provided

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Performance obligations from contracts with customers	Timing of satisfaction of the performance obligation
Draught line cleaning services	As the line cleaning has been performed
Draught services installation projects	At completion of the project
Supply draught services products	At the point of sale

The Company bills its customers for revenue earned at the time the performance obligation has been satisfied with payment due within 0–30 days upon billing, with the exception of draught services installation projects. Draught services installation projects are progress billed and paid in accordance to terms agreed upon with the customer.

Although there are no significant judgments in determining the performance obligation or when it has been met for any of the Company's revenue streams, the difference, if any, between total revenue collected and cash expenditures incurred is allocated among the brewers in accordance with the terms of the Company's Shareholders Agreement and recorded as an adjustment to service charges revenue. This is determined by the end of the reporting period; thus, there is no variable consideration for service fee revenue.

Further, the only revenue stream requiring some judgment when it comes to determining when the performance obligation has been met is draught services. The Company will recognize those performance obligations as part of any draught services contract and only recognize revenue to the extent the obligations have been met. At the end of the reporting period, the Company estimates the status of projects based on the work performed relative to the total work required.

Contract liabilities

The Company records a contract liability when it receives payment from a customer in advance of providing goods and services. This is limited to draught service related projects and prepaid line cleanings.

New and amended standards and interpretations

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2023 (unless otherwise stated).

Definition of Accounting Estimates – Amendments to IAS 8

The amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments had no impact on the Company's financial statements.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1, *Presentation of Financial Statements* ("IAS 1") and IFRS Practice Statement 2, *Making Materiality Judgements* provide guidance and examples to help entities apply materiality judgments to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their "significant" accounting policies with a requirement to disclose their "material" accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments have had an impact on the Company's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Company's financial statements.

Brewers Retail Inc.

Notes to the financial statements

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Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12

The amendments to IAS 12, *Income Taxes* narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities.

The amendments had no impact on the Company's financial statements.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company will adopt these new and amended standards and interpretations, if applicable, when they become effective.

Lease Liability in a Sale and Leaseback – Amendments to IFRS 16

In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16.

The amendments are not expected to have a material impact on the Company's financial statements.

Classification of Liabilities as Current or Non-current – Amendments to IAS 1

In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within 12 months.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. The amendments are not expected to have a material impact on the Company's financial statements.

Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7

In May 2023, the IASB issued amendments to IAS 7, *Statement of Cash Flows* and IFRS 7, *Financial Instruments: Disclosures* to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

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The amendments will be effective for annual reporting periods beginning on or after January 1, 2024.

The amendments are not expected to have a material impact on the Company's financial statements.

4. Critical accounting estimates and judgments

The preparation of these financial statements requires management to make estimates and judgments that affect the reported and disclosed amounts of assets, liabilities, revenue and expenses in the financial statements and accompanying notes. Management bases its estimates and judgments on historical experience and on various other assumptions that it considers to be reasonable. The resulting accounting estimates will, by definition, seldom equal the related actual results. Actual results could differ from those estimates under different assumptions or conditions.

Impairment

The Company reviews non-financial assets when there is any indication that the asset might be impaired and annually for assets not yet in use.

Leases

The Company estimates the lease term by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise a termination option. The Company makes certain qualitative and quantitative assumptions when determining the value of the economic incentive.

The Company makes judgments in determining whether a contract contains an identified asset. The identified asset should be physically distinct or represent substantially all of the capacity of the asset and should provide the Company with the right to substantially all of the economic benefits from the use of the asset.

The Company also makes judgments regarding whether or not it has the right to control the use of the identified asset. The Company has the right to control the asset when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decisions about how and for what purpose the asset is used are predetermined, the Company has the right to direct the use of the asset if it has the right to operate the asset or if it designed the asset in a way that predetermines how and for what purpose the asset will be used. The Company makes judgments in determining the incremental borrowing rate used to measure the lease liability for each lease contract, including an estimate of the asset-specific security impact. The incremental borrowing rate should reflect the interest that the Company would have to pay to borrow at a similar term and with a similar security.

Certain of the Company's leases contain extension or renewal options that are exercisable only by the Company and not by the lessor. At lease commencement, the Company assesses whether it is reasonably certain to exercise any of the extension options based on the expected economic return from the lease. The Company will typically exercise extension options on its real estate leases, primarily due to the significant cost that would be required to relocate both retail and logistics operations and related equipment. The Company will periodically reassess whether it is reasonably certain to exercise the options and account for any changes at the date of the reassessment.

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Employee future benefits

Employee future benefits include defined benefit pension plans, post-retirement and post-employment benefit plans. The present value of the employee future benefits obligation depends on several factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the employee future benefits expense include the discount rate, medical cost trends, mortality rates and future salary increases. These assumptions are based on management's best estimates under consideration of expert advice from independent actuaries. Any changes in these assumptions will impact the amount of the employee future benefits obligation disclosed in the financial statements.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the employee future benefits obligation. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in Canadian dollars and have terms to maturity approximating the terms of the related future benefits obligation.

Income taxes

The Company computes an income tax provision. However, actual amounts of income tax expense only become final on filing and acceptance of the income tax return by the relevant taxation authorities, which occurs subsequent to the issuance of these financial statements. Additionally, the estimation of income taxes includes evaluating the recoverability of deferred income tax assets based on an assessment of the ability to use the underlying future income tax deductions against future taxable income before they expire. The assessment is based on existing tax laws and estimates of future taxable income. To the extent estimates differ from the final income tax return, earnings would be affected in a subsequent period.

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities or which are otherwise considered to involve uncertainty. These provisions are made using the best estimates of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of each reporting period. However, it is possible that at some future date an additional liability could result from audits by taxation authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Lawsuits and legal claims

Litigation and claims arise from time to time in the normal course of business. The Company records provisions, when necessary, that reflect management's best estimate of any potential liability relating to these claims. However, the Company cannot predict with certainty the final outcome of these matters.

5. Revenue

All amounts relating to revenue in the statement of operations and comprehensive income are from contracts with customers.

Brewers Retail Inc.

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The Company derives revenue from the transfer of goods and services over time and at a point in time in the following major streams:

	2023	2022
	\$	\$
Service charges		
Basic services	262,422	248,546
Elected services	96,905	93,021
	<u>359,327</u>	<u>341,567</u>
Other		
Related products	4,986	5,320
Draught services	6,524	6,103
Recycling	82,836	91,116
All other segments	8,413	8,361
	<u>102,759</u>	<u>110,900</u>
	<u>462,086</u>	<u>452,467</u>

The Company has recognized the following revenue-related contract liabilities included in trade and other payables and provisions:

	2023	2022
	\$	\$
Contract liability – draught services contracts	<u>1,247</u>	417

The following table shows how much of the revenue recognized in the current reporting period relates to carried-forward draught services contract liabilities:

	2023	2022
	\$	\$
Revenue recognized that was included in the contract liability balance at the beginning of the period		
Draught services contracts	<u>400</u>	155

6. Trade receivables

Trade receivables are amounts due from customers for goods sold and services provided in the ordinary course of business.

	2023	2022
	\$	\$
Trade receivables (note 22)	72,569	67,831
Provision for impairment	(1,318)	(1,490)
	<u>71,251</u>	<u>66,341</u>

Brewers Retail Inc.

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The following table summarizes the changes in the provision for impairment of trade receivables:

	2023	2022
	\$	\$
Opening balance, January 1	1,490	1,494
Provision for impairment	152	249
Utilization of impairment provision	(324)	(253)
Closing balance, December 31	1,318	1,490

A provision for impairment is recorded for trade receivables balances based on the credit score, current financial conditions of the customer and other relevant information, considering expected lifetime credit losses.

The impairment charge on receivables is included in operating expenses in the statement of operations and comprehensive income.

7. Inventories

	2023	2022
	\$	\$
Beer	15,548	20,176
Dispensing equipment	5,385	4,720
Other	845	748
	21,778	25,644

An inventory provision of \$nil (2022 – \$nil) has been recorded, with the corresponding recovery of \$nil (2022 – \$35) included in operating expenses in the statement of operations and comprehensive income.

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8. Property, plant and equipment

	2023						
	Land	Buildings	Leasehold improvements	Machinery, equipment and fixtures	Containers, kegs, and pallets	Assets under construction	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Opening balance, January 1	303	6,674	78,266	61,343	21,287	2,035	169,908
Additions	—	647	8,680	3,434	3,339	(66)	16,034
Transfers	—	—	468	220	—	(892)	(204)
Disposals	—	—	(107)	(2,101)	(3,661)	—	(5,869)
Closing balance, December 31	303	7,321	87,307	62,896	20,965	1,077	179,869
Accumulated depreciation							
Opening balance, January 1	—	3,377	41,332	40,183	11,528	—	96,420
Depreciation	—	211	6,575	6,425	4,148	—	17,359
Transfers	—	—	—	—	—	—	—
Disposals	—	—	(32)	(2,075)	(3,660)	—	(5,767)
Closing balance, December 31	—	3,588	47,875	44,533	12,016	—	108,012
Net book value	303	3,733	39,432	18,363	8,949	1,077	71,857

Brewers Retail Inc.

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							2022
	Land	Buildings	Leasehold improvements	Machinery, equipment and fixtures	Containers, kegs, and pallets	Assets under construction	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Opening balance, January 1	303	6,272	67,800	57,599	22,033	2,107	156,114
Additions	—	406	9,578	3,685	4,356	1,639	19,664
Transfers	—	—	1,250	461	—	(1,711)	—
Disposals	—	(4)	(362)	(402)	(5,102)	—	(5,870)
Closing balance, December 31	303	6,674	78,266	61,343	21,287	2,035	169,908
Accumulated depreciation							
Opening balance, January 1	—	3,181	36,035	34,087	12,094	—	85,397
Depreciation	—	197	5,505	6,441	4,536	—	16,679
Transfers	—	—	—	—	—	—	—
Disposals	—	(1)	(208)	(345)	(5,102)	—	(5,656)
Closing balance, December 31	—	3,377	41,332	40,183	11,528	—	96,420
Net book value	303	3,297	36,934	21,160	9,759	2,035	73,488

The Company disposed of assets with a net book value of \$102 (2022 – \$214) for net proceeds of \$411 (2022 – nil) and recognized a gain on sale in the statement of operations and comprehensive income of \$309 (2022 – loss of \$214).

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9. Right-of-use assets

	2023				
	Buildings	Delivery vehicles	Equipment	Trailers	Total
	\$	\$	\$	\$	\$
Cost					
Opening balance, January 1	399,803	32,093	13,421	9,218	454,535
Additions	4,162	8,016	2,021	733	14,932
Remeasurements	25,019	(12)	(69)	—	24,938
Disposals	(3,114)	(8,524)	(2,848)	(710)	(15,196)
Closing balance, December 31	425,870	31,573	12,525	9,241	479,209
Accumulated depreciation					
Opening balance, January 1	132,729	15,710	6,861	3,587	158,887
Depreciation	41,077	5,318	2,562	983	49,940
Disposals	(3,114)	(8,524)	(2,848)	(710)	(15,196)
Closing balance, December 31	170,692	12,504	6,575	3,860	193,631
Net book value	255,178	19,069	5,950	5,381	285,578
	2022				
	Buildings	Delivery vehicles	Equipment	Trailers	Total
	\$	\$	\$	\$	\$
Cost					
Opening balance, January 1	365,681	25,152	13,431	8,519	412,783
Additions	11,349	9,351	1,238	848	22,786
Remeasurements	29,429	—	(51)	—	29,378
Disposals	(6,656)	(2,410)	(1,197)	(149)	(10,412)
Closing balance, December 31	399,803	32,093	13,421	9,218	454,535
Accumulated depreciation					
Opening balance, January 1	98,018	13,054	5,321	2,633	119,026
Depreciation	41,367	5,066	2,737	1,103	50,273
Disposals	(6,656)	(2,410)	(1,197)	(149)	(10,412)
Closing balance, December 31	132,729	15,710	6,861	3,587	158,887
Net book value	267,074	16,383	6,560	5,631	295,648

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10. Intangible assets

			2023
	Software	Assets under construction	Total
	\$	\$	\$
Cost			
Opening balance, January 1	68,874	5,633	74,507
Additions	5,974	58	6,032
Transfers	3,756	(4,732)	(976)
Disposals	—	—	—
Closing balance, December 31	78,604	959	79,563
Accumulated amortization			
Opening balance, January 1	22,252	—	22,252
Amortization	6,335	—	6,335
Disposals	—	—	—
Closing balance, December 31	28,587	—	28,587
Net book value	50,017	959	50,976
			2022
	Software	Assets under construction	Total
	\$	\$	\$
Cost			
Opening balance, January 1	68,125	1,631	69,756
Additions	1,337	4,002	5,339
Transfers	—	—	—
Disposals	(588)	—	(588)
Closing balance, December 31	68,874	5,633	74,507
Accumulated amortization			
Opening balance, January 1	16,997	—	16,997
Amortization	5,843	—	5,843
Disposals	(588)	—	(588)
Closing balance, December 31	22,252	—	22,252
Net book value	46,622	5,633	52,255

Brewers Retail Inc.

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11. Bank indebtedness

The Company has a \$90 million (2022 – \$110 million) operating credit facility with a major Canadian financial institution guaranteed by Molson Canada 2005 and Labatt Brewing Company Limited.

The credit facility is used to fund the Company's operating cash requirements and bears interest at the Canadian prime rate or at the Canadian Dollar Offered Rate ("CDOR") plus a risk premium, depending on the type of borrowing employed. The Company may also choose to issue letters of credit that bear interest. The unused residual of the \$90 million (2022 – \$110 million) credit facility is subject to a standby charge. As at December 31, 2023, \$58,000 (2022 – \$53,000) was drawn on this facility. Interest expense on the operating credit facility included in finance expenses in the statement of operations and comprehensive income was \$3,683 in 2023 (2022 – \$1,710).

12. Trade and other payables and provisions

Trade and other payables consist of obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers, amounts collected on behalf of brewers and amounts owing to the liquor board for the procurement of foreign beer.

Trade and other payables

	2023	2022
	\$	\$
Shareholder brewers (<i>note 22</i>)	17,629	41,108
Other brewers and liquor board	17,024	19,119
Other payables	62,733	54,241
Accrued liabilities	30,645	35,869
	<u>128,031</u>	<u>150,337</u>

Provisions included in accrued liabilities

	2023	2022
	\$	\$
Opening balance, January 1	819	898
Additional provision	386	481
Utilization of provision	(948)	(560)
Closing balance, December 31	<u>257</u>	<u>819</u>

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13. Financial instruments and risk management

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. In the normal course of business, the Company is exposed to credit risk from its trade receivables. The carrying values of trade receivables are net of the allowance for expected lifetime credit losses. The loss provision for expected lifetime credit losses is estimated based on past experience, specific risks associated with the customer and other relevant information. The Company uses various controls and processes, such as credit checks and billing in advance to mitigate credit risk. The Company monitors and takes appropriate action to suspend services when customers have violated established payment terms.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has a revolving credit facility, which bears interest based on prevailing market interest rates. The Company does not hold any significant interest-bearing assets. The Company prepares budgets and forecasts to monitor this risk.

Foreign exchange risk

Due to the nature of its core business, the Company has limited exposure to foreign exchange risk as service charges are denominated in the Company's functional currency.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by monitoring its operating requirements. The Company prepares budgets and forecasts to monitor this risk.

14. Lease liabilities

	2023	2022
	\$	\$
Current lease liabilities	51,692	51,904
Long-term lease liabilities	303,343	314,438
	355,035	366,342

The table below summarizes the lease liability activity:

	2023	2022
	\$	\$
Opening balance, January 1	366,342	366,154
Additions	14,933	22,786
Remeasurements	24,929	27,693
Interest expense	11,725	11,065
Payments on lease liabilities	(62,894)	(61,356)
Closing balance, December 31	355,035	366,342

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The table below summarizes the maturity profile of the Company's lease liabilities based on the contractual undiscounted payments:

	2023
	\$
No later than one year	62,940
Later than one year and no later than five years	205,386
Later than five years	139,767
	408,093

The Company recognized \$478 (2022 – \$2,082) of the deferred gains that resulted from 2018 sale leaseback transactions in the statement of operations and comprehensive income.

Below is a summary of lease expenses that were not considered in the lease liability or ROU asset value. Variable lease expenses shown below are not included in the definition of a lease payment under IFRS 16. For real estate leases, the Company records the below expenses as part of occupancy expenses in the statement of operations and comprehensive income. For equipment leases, these costs are included in operating expenses in the statement of operations and comprehensive income.

	2023		2022	
	Operating expenses	Occupancy expenses	Operating expenses	Occupancy expenses
	\$	\$	\$	\$
Short-term leases	56	19	48	86
Low value leases	384	—	381	—
Variable lease expenses	—	21,791	—	21,914
	440	21,810	429	22,000

15. Commitments

The Company is committed to the following lease-related expenses, as at December 31:

	2023
	\$
No later than one year	15,469
Later than one year and no later than five years	38,163
Later than five years	29,718
	83,350

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16. Employee future benefits

The Company maintains defined contribution and defined benefit pension plans for both salaried and hourly paid employees. The Company also maintains other employee future benefits including post-retirement and post-employment plans. Costs for post-employment benefits are accrued over the periods in which employees earn the benefits.

Actuarial valuations for the defined benefit pension plans were completed as at March 1, 2023. The next valuation is required to be completed as at March 1, 2026.

The following tables summarize the components of employee future benefits expense recognized in the statement of operations and comprehensive income and the funded status and amounts recognized in the statement of financial position for the respective plans:

(a) Statement of financial position

The change in the benefit obligation and fair value of plan assets is as follows:

	2023		2022	
	Defined benefit pension plans	Other employee future benefits	Defined benefit pension plans	Other employee future benefits
	\$	\$	\$	\$
Benefit obligation, January 1	722,393	46,645	959,582	56,363
Current service cost	4,042	5,770	5,286	5,687
Interest cost	35,771	2,535	29,927	1,631
Actuarial losses (gains)	26,114	1,373	(221,621)	(7,596)
Benefits paid	(47,807)	(5,554)	(46,363)	(5,422)
Plan participants' contributions	361	—	251	—
Past service costs	—	—	(4,669)	—
Immediate recognition of actuarial gains	—	(1,155)	—	(4,018)
Benefit obligation, December 31	740,874	49,614	722,393	46,645
Fair value of plan assets, January 1	793,684	—	986,065	—
Actual return on plan assets	96,600	—	(146,269)	—
Employer contributions	—	5,554	—	5,422
Plan participants' contributions	361	—	251	—
Benefits paid	(47,807)	(5,554)	(46,363)	(5,422)
Fair value of plan assets, December 31	842,838	—	793,684	—
Net employee future benefit (asset) liability, December 31	(101,964)	49,614	(71,291)	46,645
Pension benefit assets	(101,964)	—	(71,291)	—
Pension benefit liabilities	—	—	—	—
	(101,964)	—	(71,291)	—

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(b) Statement of operations and comprehensive income

The amounts recognized in the statement of operations and comprehensive income are as follows:

	2023		2022	
	Defined benefit pension plans	Other employee future benefits	Defined benefit pension plans	Other employee future benefits
	\$	\$	\$	\$
Recognized in net income				
Current service cost	4,042	5,770	5,286	5,687
Administrative cost	811	—	881	—
Net interest	(3,730)	2,535	(2,316)	1,631
Past service costs	—	—	(4,669)	—
Immediate recognition of actuarial gains	—	(1,155)	—	(4,018)
	1,123	7,150	(818)	3,300
Recognized in other comprehensive income				
Actuarial losses (gains)	26,114	1,373	(221,621)	(7,596)
Return on plan assets (greater) less than discount rate	(57,910)	—	177,631	—
	(31,796)	1,373	(43,990)	(7,596)
	(30,673)	8,523	(44,808)	(4,296)

Defined contribution plans

During the year ended December 31, 2023, the Company recognized an expense, representing employer contributions to the defined contribution plans, in the amount of \$5,965 (2022 – \$5,751) recorded in benefits on the statement of operations and comprehensive income.

(c) Allocation of plan assets

	2023		2022	
	Salary	Bargaining unit	Salary	Bargaining unit
	%	%	%	%
Equity instruments	21	21	27	25
Debt instruments	72	73	66	68
Real estate	7	6	7	7
	100	100	100	100

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(d) Significant actuarial assumptions

	2023 %	2022 %
Discount rate		
Salary pension plan	4.60	5.11
Bargaining unit pension plan	4.62	5.13
Post-retirement benefits	4.62	5.14
Post-employment benefits	4.57	5.07
Future salary increases	3.00	4.00
Medical cost trend rate	5.00	5.00

The mortality rate is based on Canadian Pensioners Mortality tables. These mortality tables tend to change only at intervals in response to demographic changes.

(e) Estimated employer contributions to employee future benefit plans in 2024

	\$
Defined benefit plans	1,511
Defined contribution plans	6,331
Other employee future benefit plans	5,642

(f) Sensitivity analysis

The table below shows the impact on the present value of the obligation as at December 31, 2023 for changes in the significant assumptions.

	Defined benefit pension plans		Other employee future benefits	
	Increase \$	Decrease \$	Increase \$	Decrease \$
Change in assumptions				
Discount rate (1%)	(74,797)	90,793	(3,807)	4,444
Mortality rate (increase of one year in life expectancy)	25,192	—	712	—
Medical cost trend rate (1%)	—	—	2,245	(2,013)

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17. Deferred income taxes

	2023			
	Opening balance, January 1	Recognized in net income	Recognized in other comprehensive income	Closing balance, December 31
	\$	\$	\$	\$
Employee future benefits	(6,531)	728	(8,070)	(13,873)
Property, plant and equipment	26,419	(1,311)	—	25,108
Non-capital losses	—	—	—	—
Reserves and deferred income	20,872	(630)	—	20,242
Other	—	(7)	—	(7)
Net deferred income tax asset	40,760	(1,220)	(8,070)	31,470

	2022			
	Opening balance, January 1	Recognized in net income	Recognized in other comprehensive income	Closing balance, December 31
	\$	\$	\$	\$
Employee future benefits	7,919	(780)	(13,670)	(6,531)
Property, plant and equipment	24,306	2,113	—	26,419
Non-capital losses	3,630	(3,630)	—	—
Reserves and deferred income	21,135	(263)	—	20,872
Net deferred income tax asset	56,990	(2,560)	(13,670)	40,760

18. Income tax expense

	2023	2022
	\$	\$
Current income tax expense		
Current period	934	909
Adjustment in respect of prior periods	94	(18)
	1,028	891
Deferred income tax expense		
Origination and reversal of temporary differences	1,220	2,560
	2,248	3,451

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Reconciliation of income tax expense

	2023 \$	2022 \$
Income before income taxes	4,182	9,144
Income tax rate	26.5%	26.5%
Provision for income taxes based on effective tax rate	1,108	2,423
Adjustments resulting from:		
Permanent differences	112	75
Adjustment in respect of prior periods	94	(18)
Write-down of deferred tax asset	934	909
Other	—	62
Income tax expense	2,248	3,451

19. Share capital

Share capital consists of the following:

Authorized

First equity shares, issuable in up to 200 series, with each series consisting of exactly 100 shares

Up to 10,000 Second equity shares

Issued and outstanding

	2023 \$	2022 \$
2,800 First equity shares	3	3
10,000 Second equity shares	200,342	200,342
	200,345	200,345

The First equity shares are reserved for issuance to any qualifying Ontario brewer that wishes to subscribe for shares and carry the right to vote and to receive dividends if, as and when declared by the Board of Directors. First equity shareholders have the right to require the Company to redeem their shares at any time for the original subscription price. The First equity shares rank senior to the Second equity shares with respect to the payment of amounts owed on the occurrence of a liquidation event involving the Company, as defined in the MFA. The amount to which First equity shareholders are entitled on liquidation of the Company will be calculated in accordance with the articles of amalgamation of the Company, as amended, and is limited to increases in the net book value of the Company after December 31, 2014 and subject to adjustment for certain asset liquidation gains and losses and certain changes to pension obligations of the Company. Qualifying Ontario brewers are entitled to subscribe for 100 First equity shares, issuable in series, for an aggregate subscription price of one hundred dollars. The terms of each series of First equity shares are identical. During the year ended December 31, 2023, the Company issued a total of 300 First equity shares (2022 – nil) to three qualifying Ontario brewers (2022 – nil) and redeemed a total of 500 First equity shares (2022 – 100 First equity shares) from five qualifying Ontario brewers (2022 – one qualifying Ontario brewer).

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The Second equity shares are allocated among Molson Canada 2005 (5,088 shares), Labatt Brewing Company Limited (4,492 shares) and Sleeman Breweries Ltd. (420 shares). Second equity shareholders do not have the right to vote or to receive dividends but are entitled to receive any residual value on liquidation of the Company, after payment of the liquidation amount owed to the First equity shareholders.

20. Capital risk management

The Company's capital consists of share capital, accumulated other comprehensive loss and deficit. The Company's objectives in managing capital are to ensure adequate operating funds are available to maintain its business activities and to provide a cost-effective operation for brewers. Additionally, the Company aims to ensure sufficient liquidity to support its stores, execute its business plans and enable the internal financing of capital projects.

The Company primarily uses capital to finance non-cash working capital requirements as well as investments in new locations, existing renovation projects and information technology software and hardware. The Company currently funds these requirements out of its internally generated cash flows.

The Company is not subject to any externally imposed capital requirements. There has been no change with respect to the overall capital risk management strategy during the year.

21. Net change in non-cash working capital items

	2023	2022
	\$	\$
Increase in trade receivables	(4,910)	(6,099)
Decrease (increase) in empties deposits	4,818	(342)
Decrease (increase) in inventories	3,866	(2,411)
Decrease (increase) in other current assets	495	(779)
Increase (decrease) in trade and other payables and provisions	(22,306)	8,364
Add back:		
Change in unpaid property, plant and equipment and intangible assets included in trade and other payables and provisions	2,937	(33)
	<u>(15,100)</u>	<u>(1,300)</u>

22. Related party transactions and balances

The Company carried out transactions with related parties throughout the year in the normal course of operations. These transactions were recorded at the amount of consideration established and agreed to by the related parties. All transactions with related parties are unsecured with no loss allowance.

Brewers' Distributor Ltd.

Brewers' Distributor Ltd. ("BDL") is an affiliated company owned and controlled by Labatt Brewing Company Limited and Molson Canada 2005. Corporate functions including key management personnel of the Company are shared with BDL.

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Shareholders

Shareholders in 2023 include 28 qualifying Ontario brewers (2022 – 30 brewers) holding First equity shares, three of which also hold Second equity shares.

	2023	2022
	\$	\$
Service charges and other revenues – shareholders	324,943	304,883
Operating costs charged to BDL	7,649	7,435
Trade receivables – shareholders	643	1,213
Trade receivables – BDL	1,045	1,064
Trade and other payables – shareholders	17,629	41,108

Key management personnel

Key management personnel are those individuals who have authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel include the President and four Vice Presidents.

Key management personnel compensation comprises salaries and short-term benefits, post-employment benefits and other long-term benefits. The Company has elected to present the compensation for key management personnel in aggregate due to the small number of individuals comprising this group. Compensation of key management personnel for the year ended December 31, 2023 was \$3,033 (2022 – \$2,144).

The Board of Directors comprises those individuals who have significant influence over the Company. Total compensation for the independent members of the Board of Directors for the year ended December 31, 2023 was \$240 (2022 – \$240).