THE BEER STORE
OPERATIONS REPORT

A Look at Our Operations in 2017

2017

BREWERS RETAIL INC.

THE BEER STORE

OPERATIONS REPORT

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THE BEER STORE

MESSAGE FROM **THE PRESIDENT**

Ted Moroz

We are very pleased to share with you our 2017 Annual Operations Report.

This year marked a special anniversary for The Beer Store – we celebrated our 90th birthday! This coincided with the 150th anniversary of our beloved country: two historical milestones for two great institutions.
Since 1927, The Beer Store has have been responsibly serving beer lovers in Ontario cold, high quality, fresh beer. For our birthday year, we took time to reflect on our nine decades of environmental stewardship of accepting back all beer containers and packaging sold in Ontario and all ODRP containers since 2007. Ontario is a better place to live and breathe due to the billions of containers diverted from landfills through the dedication and the efforts of our employees and customers. Midway through the year we achieved a significant milestone – the return of the 3 Billionth (ODRP) Ontario Deposit Return Program alcohol container.
Being '*Green before Green was Cool*' and habitually demonstrating environmental leadership in everything we do is a core value for The Beer Store. Our world class deposit return system is known globally as the first widely recognized extended producer program in North America. Although products, packaging, brands and overall scope of has changed exponentially in 90 years, our cultural commitment and leadership to the protect the environment and be at the forefront of environmental efficacy has not waned over time.
Our efforts extend beyond empties returns. After 30 years of using paper price ticket on our shelves and displays we initiated a paperless alternative – digital price tickets. We expect to save thousands of trees and reduce our carbon footprint by pricing overs 150,000 products digitally in our 450 stores.
In regards to selling beer, the growth trend in selection and variety continues. In 2017, The Beer Store once again experienced significant increases in the number of Brewers selling Beers at The Beer Store and for the first time in decades, The Beer Store was proud to boast that there are more Canadian Brewers selling beer at The Beer Store than all other countries combined. Furthermore, Ontario Brewers reached the century mark and The Beer Store is very pleased to share that 87% of its sales are brewed locally in Ontario.
Selling more beer and more variety of beers comes with an added responsibility to increase our vigilance at checking ID and sobriety. Responsible Sale will always remain a cornerstone of our business. A special thanks goes out to our thousands of well-trained employees for challenging over 3 million customers for both age of majority and intoxication. The Beer Store has been a leader in ensuring that only those who should have access to alcohol actually obtain it. This is a sizable challenge as over 60 million equivalent cases are sold per annum to home consumers and licensed establishments. In 2017 The Beer Store was once again pleased to partner with organizations like arrive alive Drive Sober and the Ontario Association of Chiefs of Police who continue to applaud the diligent efforts of TBS employees.
In the spirit of our social responsibility, TBS introduced the sale of non-alcoholic beer in all its retail outlets across the province. Customers now have the option of enjoying the great taste of beer while practicing safety at all times.
With the influx of new Canadians, changes in population cohorts, expansion of new technology, advances in social media and changes in the demands of the discerning shopper, The Beer Store has to reinvent itself to be relevant to the modern consumer. For these reasons, The Beer Store continues to support its online e-commerce channel called Beer Xpress (BX). All customers have to do is click on a brew, pre-pay using their credit card, and schedule a pick-up of their purchases in the store whenever it is convenient for them.
Finally, I want to take this opportunity to thank all our valued customers and hard-working employees for the continued success of The Beer Store's community efforts to raise funds and awareness for so many worthy causes. Volunteering alongside UFCW Local 12R24, the union that represents our bargaining unit employees, we have raised over $14 million in the fight against blood cancers to support the Leukemia and Lymphoma Society of Canada. Other charities that have benefited from our efforts include Rogers House, Ontario Shores Centre for Mental Health Sciences, and Habitat for Humanity – to name just a few.

Thanks for a great year and we will continue to be strong and true to our core values as we enter our 91st year!

TED MOROZ
President

THE YEAR **AT A GLANCE**

A Look at The Beer Store's Overall Operations in 2017

In October of 2017, The Beer Store reached a milestone anniversary. Ninety years of retail excellence was celebrated, as the company looked back and reflected on decades of growth and progress. The Beer Store's ownership continues to expand, as does it's product offering; TBS now proudly sells 870 brands from 191 brewers from all over the world.

The core values remain an essential part of The Beer Store's successes; Health & Safety, Honesty, Integrity and Respect, Social Responsibility, Operational Excellence and Environmental Leadership together make up the foundation of this company's corporate culture. The commitment to social responsibility continues with over 3.3 million ID challenges and over 13,000 intoxication challenges in the 2017 calendar year.

This year welcomed big enhancements to the shopping experience which allows continuous modernization and innovation. Digital Price Tickets were introduced to improve accuracy of prices and eliminate the paper price ticket usage in stores. Prior to the introduction of Digital Price Tickets, the paper tickets were sent to stores on a weekly basis. Today, prices are instantly and accurately updated in every Beer Store location across the province.

There continues to be high demand for e-commerce, which lead to the growth of Beer Xpress services in 2017 and allowed for enhancement to be made for a future roll-out.

The Beer Store continues to strengthen its community involvement through partnerships with arrive alive DRIVE SOBER, Leukemia and Lymphoma Society of Canada, Roger's House, Habitat for Humanity and many more. The importance of community is integral to the operation of the company and a source of pride for our many employees. In 2017, The Beer Store experienced a record breaking $1,804,912.24 raised for the Returns for Leukemia Bottle Drive, directly benefiting blood cancer research, and contributing to an overall total of $14,725,072 raised by The Beer Store since the bottle drive's conception in 2006.

The Beer Store has an open system where any brewer can apply for listing in any number of stores.

N°. Of
BRANDS LISTED
In 2017
870

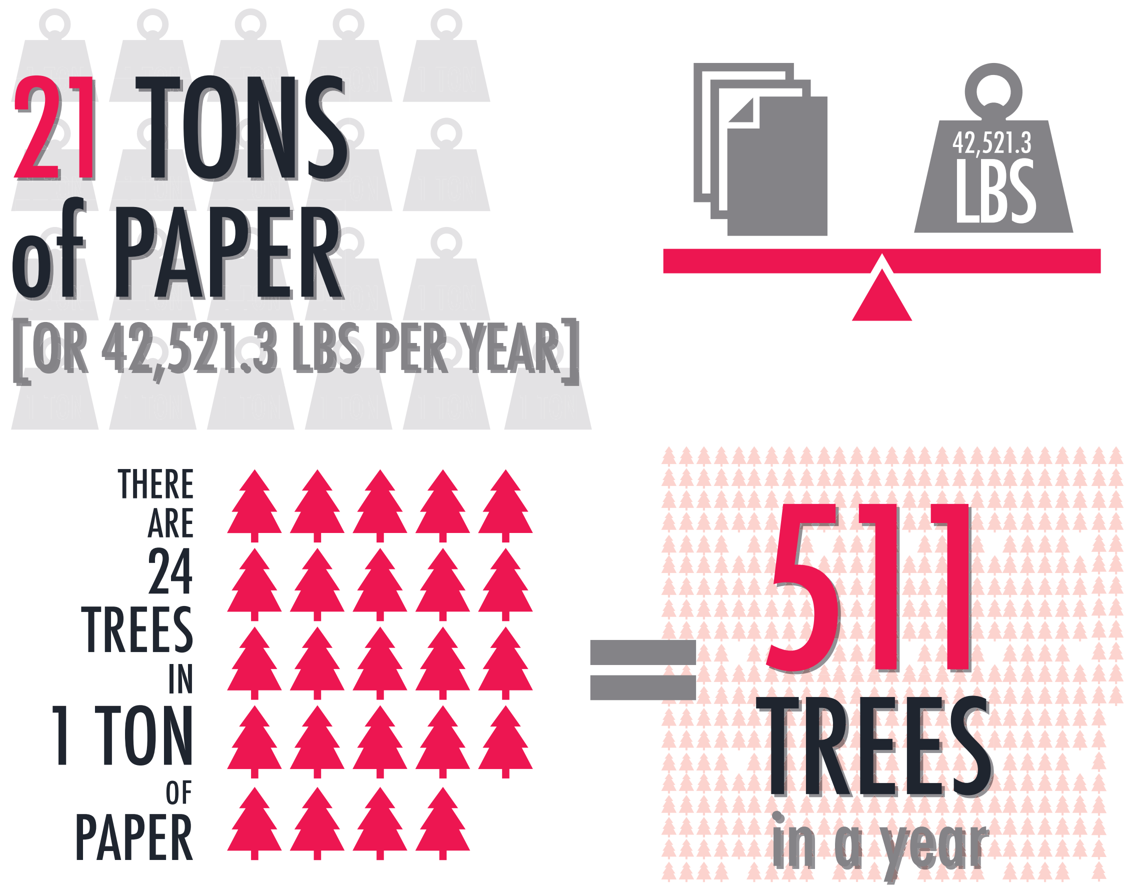
N°. Of
BREWERS LISTED
In 2017
191

N°. Of
STORES LISTED
In 2017
452

ADVANCING **E-COMMERCE**

Beer Xpress 2017

E-commerce continues to be a strategic focus for The Beer Store as consumers continue to demand the ability to shop for beer online. In response to customer feedback we implemented many enhancements to our BeerXpress "click and collect" service in 2017, and will continue to make improvements each year.



IN-STORE **EXPERIENCE**

Digital Price Tickets 2017

After over 30 years of displaying prices on shelves using paper price tickets, The Beer Store initiated a transformation towards a digital solution in all its stores.
Along with in-store touchscreens, digital price tickets offer an automatic and instantaneous update of all prices on shelves, racks and coolers in TBS stores.
This initiative is another way TBS is working to improve the in-store shopping experience for customers without compromising the shopping experience for customers in TBS's commitment to environmental leadership. By transitioning to digital, TBS will be saving the equivalent of 511 trees, 21 tons of paper and avoid 17,000 kg of CO2 and 52Kw of energy annually. It is estimated that over the next 20 years, over 10,000 trees will be saved by moving away from paper price tickets (which were distributed to stores across the province on a weekly basis).

RESPONSIBLE SALES POLICY

- Request ID from anyone who appears to be 25 years old or under
- Refuse service to anyone who appears to be intoxicated
- Mandatory training on responsible service for all sales staff
- Ensure compliance through a Mystery Shopper program
- Measure results and incorporate into store manager performance reviews.

Photo

"As part of our commitment to the responsible sale of alcohol, we ID 25".

RESPONSIBLE **SERVICE**

Our Ongoing Commitment to Responsible Sale in 2017

The Beer Store prides itself on the responsible sale of alcohol. Strict policies are in place to ensure that minors and intoxicants do not have access to alcohol.

RETAIL BEER CHALLENGES AND REFUSALS

	CY17 | Jan, 2017 – Dec, 2017
# Minors Challenged	3,388,975
# Minors Refused	31,983
# Intoxicants Challenged	13,583
# Intoxicants Refused	10,390

TBS supported arrive alive DRIVE SOBER in a number of different initiatives in 2017:

- Shut Out Impaired Driving
- Posters in Beer Store locations throughout the winter months
- Holiday Sober Driving Awareness Events
- Super Bowl event 2017
- Coasters
- Holiday Home Hosting PSA
- Printed Materials promoting safe and sober driving
- August Bottle Drive in Ottawa
- 23rd Annual Drive Straight Golf tournament

"

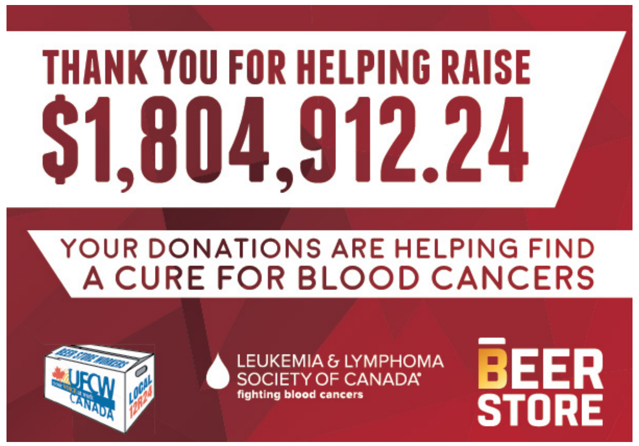
The Beer Store was incredibly supportive of arrive alive DRIVE SOBER in 2017. In addition to being a primary supporter of the annual arrive alive DRIVE SOBER campaign, TBS also supported our printed materials that help educate Ontarians about safe and sober driving practices, our Drive Straight Golf Tournament and our Shut Out Impaired Driving winter campaign. Thanks to local TBS locations in the GTA, we were able to host two alcohol awareness events ahead of the holiday season — sharing strategies for planning ahead with TBS customers. Additionally, six Beer Store locations in Ottawa hosted a bottle drive for our charity in August to help raise funds for our programs and initiatives. Lastly, re-launched our Holiday Home Hosting Spot with TBS in November and that continued to see a tremendous amount of donated airtime throughout the holiday season. Thanks to the consistent & incredible support we receive from The Beer Store; we have been able to build a strong & long-lasting campaign and help keep Ontario's roads one of the safest in North America. arrive alive DRIVE SOBER remains the #1 recognized road safety slogan in Ontario and has been for many years thanks to TBS' support. Thank you again, we look forward to continuing to work together to eliminate impaired driving.

MICHAEL STEWART, ***Program Director, arrive alive DRIVE SOBER***

COMMUNITY **INVOLVEMENT**

Giving Back in 2017

The Beer Store is dedicated to giving back to the communities we operate in and are pleased to support a number of local and provincial organizations. Some of the charities and programs we support include:



RETURNS FOR LEUKEMIA BOTTLE DRIVE

Returns For Leukemia is a fundraiser held each May by United Food & Commercial Workers Local 12R24 in partnership with The Beer Store to raise funds for The Leukemia & Lymphoma Society of Canada at over 450 Beer Store locations. Last year we raised $1,804,900 which will go towards help find a cure for blood cancers.

ROGERS HOUSE BOTTLE DRIVE

Beer Store locations in the Eastern Ontario Region raise money each year to support the families of sick children and youth. Our stores, along with our great volunteers, helped raise $??? for Rogers House in 2017.

Photo top

Final tally for the 2017 Returns for Leukemia Bottle Drive.

Photo bottom

Logo for Roger's House, an organization that enriches the lives of children, youth and their families facing progressive life limiting illnesses.

TBS volunteers at Habitat for Humanity building site.

HABITAT FOR HUMANITY

On September 9th, 180 stores across six districts (7004, 7012, 7013, 7014, 7016, 7034) participated in a bottle drive for Habitat for Humanity. It was a great success with a total of $54,328.75 collected for the cause. Employees at the participating stores also volunteered their time at three build-sites including Pinery Trail on November 28th, Caledon on November 29th and Barrie on December 1st.

ENVIRONMENTAL **PERFORMANCE**

Environmental Stewardship in 2017

At The Beer Store, we are serious about our commitment to the environment. We work hard every day to protect the environment by facilitating the reuse and recycling of beer containers and the packaging they are sold in.

As in previous years, The Beer Store recovered more beer containers than it sold in 2016 thanks to the expansive network of empty return locations. The Beer Store continues to collect beer containers and secondary packaging on behalf of over 150 producers that sell through The Beer Store retail and wholesale systems.

THE BEER STORE CONTAINER SALES AND RECOVERY BY CONTAINER TYPE [1]

January 1, 2017 – December 31, 2017

Container Type	Beer Store Sales (units)	LCBO Sales (units)	Returns (units)	System Recovery Rate (2017)	System Recovery Rate (2016)
All Glass Bottles (Refillable & Non-Refillable)	747,023,149	116,475,207	812,091,959	94%	95.4%
Refillable Bottles (Industry Standard Bottle (ISB) & Non-Standard	628,660,512	66,918,598	668,651,149	96.1%	96.8%
Non-Refillable Bottles	118,362,637	49,556,609	143,440,810	85.4%	89.0%
Metal Cans	567,084,200	307,651,487	695,165,925	79.5%	79.6%
Kegs	1,260,895	-	1,271,949	100.9%	102.1%
Total (by units)	**1,315,368,244**	**424,126,694**	**1,508,529,833**	**86.7%**	**88.1%**

ODRP CONTAINERS: SALES & RECOVERY

January 1, 2017 – December 31, 2017

	Sales in Units		Returns in Units		Recovery Rate					
Container Type	**Small Containers**	**Large Containers**	**Small Containers**	**Large Containers**	**Small Containers (2017)**	**Small Containers (2016)**	**Large Containers (2017)**	**Large Containers (2016)**	**Combined (2017)**	**Combined (2016)**
GLASS	67,853,050	210,109,675	54,572,850	182,610,308	80%	73%	87%	86%	85%	82%
PET	16,635,226	9,898,891	7,621,251	7,007,487	46%	44%	71%	71%	55%	53%
TETRA/BIB	1,235,501	10,665,483	92,758	2,969,085	8%	7%	28%	28%	26%	25%
SUBTOTAL	**85,723,777**	**230,674,049**	**62,286,859**	**192,586,880**	**73%**	**66%**	**83%**	**83%**	**81%**	**78%**
CANS	145,109,972		115,321,130						79%	79%
GRAND TOTAL	**461,507,798**		**370,194,869**						**80.2%**	**78.0%**

BEER STORE AND ODRP DISPOSAL DIVERSION ESTIMATED AVOIDED GHG EMISSIONS & AVOIDED ENERGY CONSUMPTION (2017)* [1]

January 1, 2017 – December 31, 2017

	Glass Reuse	Clear Glass Bottle	Coloured Glass Bottle	Aluminum Recycling	Steel Recycling	PET Recycling	Mixed Plastic Recycling**	Total Diversion
Beer Store Tonnes Diverted	163,581	15,434	29,068	10,913	225	-	1,070	220,291
ODRP Tonnes Diverted	-	40,031	70,201	1,810	-	976	-	113,018
TOTAL Tonnes Diverted	163,581	55,465	99,269	12,723	225	976	1,070	333,309
Avoided GHG Emissions (MTCO2E)	62,161	6,101	5,460	122,904	268	3,551	3,896	204,341
Avoided Energy Consumption (GJ)	1,112,350	93,182	108,203	1,111,477	2,841	83,225	91,317	2,602,596

** Figures in table may not add to the total due to rounding*
*** "Avoided GHG" and "Avoided Energy" coefficients for PET Recycling used for Mixed Plastic Figures*

Source for avoided energy and emissions multipliers: Determination of the Impact of Waste Management activities on Greenhouse Gas Emissions: 2005 Update Final Report, ICF Consulting for Environment Canada & Natural Resources Canada, October 2005 and GHG Calculator for Waste Management, Update Oct 2009, ICF Consulting for Environment Canada. Multipliers for avoided GHG Emissions (eCO2/tonne) used were 0.38 for glass reuse and 9.66 for aluminum recycling. Avoided GHGs from glass bottle reuse (0.38) is not presented in the Determination of the Impact of Waste Management activities on Greenhouse Gas Emissions: 2005 Update Final Report. This multiplier was provided in the previous version of the report from 2004.

[1] Pollutant reductions associated with recycled versus virgin aluminum production and glass production from Weitz, Keith A. et al. 2003. Life-Cycle Inventory Data Sets for Materials Production of Aluminum, Glass, Paper, Plastic and Steel in North America. Report prepared by RTI International for the U.S. EPA, Office of Research and Development. EPA-600/Q-03-001. Research Triangle Park, NC.

ENVIRONMENTAL **SPONSORSHIPS**

Supporting Environmental Initiatives in 2017

The Beer Store is dedicated to giving back to the communities we operate in and are pleased to support a number of local and provincial organizations. Some of the charities and programs we support include:

RECYCLING COUNCIL OF ONTARIO

The Recycling Council of Ontario (RCO) believes in minimizing the impact on our environment by eliminating waste. They aim to inform and educate all members of society about the generation and avoidance of waste, more efficient uses of resources and the benefits and/or consequences of these activities. The Beer Store sponsors then RCO's efforts on an annual basis and contributed to and participated in their Waste Reduction Week activities.

ZERO WASTE ONTARIO CONFERENCE

The Zero Waste Ontario conference pursues educating and activating participants to create a society with zero waste and a circular economy. Members of The Beer Store's Stewardship team attended the conference on June 15 & 16 where our president Ted Moroz participated on a panel to share The Beer Store's efforts that create and maintain a circular economy for beer containers and packaging.

COMMERCE & ENGINEERING ENVIRONMENTAL CONFERENCE (CEEC)

The Beer Store contributes sponsorship funds to the Commerce & Engineering Environmental Conference (CEEC) at Queen's University in Kingston, Ontario. The conference hosts delegates from 12 Ontario universities and is aimed at undergraduate students in business, engineering, arts, and sciences to expose them to the green industry and explore business opportunities and technology that will lead to renewable energy and other green innovations. The three-day event usually includes a negotiation competition as well a case study exercise, all of which centre around sustainability.

CONFERENCE ON CANADIAN STEWARDSHIP

The Beer Store sponsored the 2017 Conference on Canadian Stewardship in Montreal held September 27–29. The conference brings together leading stewardship organizations and trade associations from within Canada and further afield to share best practices and highlight environmental trends on on-going stewardship issues, new approaches and concerns around sustainability and recycling, as well as measurement techniques to track our progress in these areas.

EDUCATIONAL **ACTIVITIES**

Taking an Active Role in Environmental Responsibility in 2017

PARTNERS IN PROJECT GREEN

The Beer Store participated in the People Power Challenge in 2017 – a program developed by the Greater Toronto Airports Authority and Toronto and Region Conservation with the goal of creating the biggest eco-business zone in the world. This sustainability initiative involves a friendly competition between leading organizations. Participants were encouraged to share green ideas and pledge to take environmental action through an on-line app, with efforts evaluated based on outcomes as well as employee engagement at member sites. The Beer Store competed against 16 other organizations to show that we are not only a true sustainability leader but we were green before green was cool!
Some of the activities we participated in include:

- Corporate Office worked with the Toronto Zoo to collect cell phones for recycling through the Phone Apes program. Recycling cell phones can reduce the demand for coltan, a mineral used in the making of cell phones which is mined in Central Africa and is affecting gorilla and other species habitat.
- The Beer Store Employees attended an Annual Tree Planting event hosted by Credit Valley Conservation and Toronto and Region Conservation. Employees, family and friends were invited to lend a hand to restore the Humber watershed on May 13th.
- Corporate Office employees collected pop can tabs for The Robert Hampson Tabs for Kids Fund. The pop can tabs enable the charity to purchase wheelchairs and other adaptive equipment for children who need it.
- The Beer Store's Stewardship team conducted a lunch and learn session at the GTAA's office outlining how the recycling program works and shared ideas on stewardship. The team also took a tour of the GTAA's Toronto Pearson International Airport storm water management system.

ONTARIO CRAFT BREWERS CONFERENCE

President Ted Moroz spoke at the conference about doing business with The Beer Store and how environmental stewardship plays an integral role in our retail and distribution chains.

HUMAN RESOURCES STUDENT ASSOCIATION'S ORGANIZATIONAL BEHAVIOUR CASE COMPETITION

The competition is a gathering of aspiring HR and OB professionals across Canada and held at Ryerson University. President Ted Moroz was the keynote speaker at the event where he talked about The Beer Store's operations including the environmental stewardship program.

ROTARY CLUB OF WELLINGTON

Corporate office employees presented a seminar at the Rotary Club describing The Beer Store's recycling program and educating members on the deposit-return system and the resulting positive outcomes for recycling streams.

OPEN DOORS SESSIONS

Open Door Sessions are held at The Beer Store's DCs for Licensee customers (bars and restaurants that we service). They are provided with information about operating with TBS including how the stewardship program works and the opportunity to view the recycling streams firsthand. In 2017, nine sessions were held province-wide with positive feedback from participants and generated so much interest that we will be hosting similar events in the future.

ENHANCING **ENGAGEMENT & AWARENESS**

Core Values at Work in 2017

JOINT HEALTH & SAFETY

Communication and engagement are essential aspects of health and safety. To foster greater interchange of ideas, all retail locations have established joint health and safety committees. The implementation of these committees is designed to enhance our safety program. Input and suggestions from everyone keeps safety a priority, proving that it is a fundamental aspect at TBS.

MENTAL HEALTH AWARENESS

Over the past few years TBS has successfully implemented a significant portion of the CSA Psychological Health and Safety program. It is a voluntary standard intended to provide systematic guidelines for Canadian employers that will help enable them to develop and continuously improve psychologically safe and healthy work environments for their employees. One key component of the objective is creating awareness surrounding mental health, and encouraging everyone to share ideas as we work toward ending the stigma associated with this topic.

This is an important component of a healthy workplace for all employees. We recognize the importance of our employees' well-being. Paying attention to the needs of our employees strengthens the organization. This undertaking will continue to be promoted in the years to come. Our goal is to proactively seek methods of continuous improvement in health and safety.

A WORKFORCE **FOR THE FUTURE**

Leadership Enrichment & Development in 2017

The development of our people is key to the long-term success of The Beer Store. For 2017, we focused on this objective through our in-depth hiring process, self-guided programs and succession planning initiatives to launch our workforce into the future of the business.

NEW HIRE PROCESS

We have streamlined our new hire process, providing a simple and user-friendly interface that allows applicants to apply to various locations across the province. Our system is designed to filter though high-quality applicants to ensure the right job fit. In 2017, this has allowed us to reach an overall retention rate of over 80%.

Our on-boarding process provides new employees with an in-depth package, ensuring the required paperwork has been delivered and reviewed. These materials consist of:

- Employee Package: Welcome Letter, Union information, LMS training information
- Manager Package: New Hire Paperwork, Interview paperwork, Scheduling information
- Payroll Package: Tax Forms, Payroll Deduction

RETAIL UNIONIZED DEVELOPMENT

Our retail development programs help identify high potential candidates looking towards the future to a Store Manager role. The following programs are aligned to guide learners on their path to success.

The High Potential Program provides candidates with a self-guided package to learn about their current skills and reflect on how they can apply their knowledge into a Store Manager role. Since the programs existence in 2012, over 150 candidates have completed the program, with a third moving on to become successful Store Managers.

Our Store Manager Training provides candidates with a 6-week program consisting of classroom led and in-store training sessions. These sessions focus on both presentations from subject matter experts as well as leadership development focusing on communication, coaching and personal development skills.

LOGISTICS UNIONIZED DEVELOPMENT

Our self-guided Logistics Supervisor program supports new supervisors though a workbook road map of the day-to-day operations of warehouse operations. A training supervisor is paired up with the candidate throughout the program to oversee and assist in their development.

SALARIED DEVELOPMENT

From a salaried perspective, our Mentorship Program identifies key people (protégé) in various roles to focus on shaping a succession strategy for our future. This one-year program dives deeper into a candidate's core development, reflecting on various metrics to advance their personal growth and skills as they move forward in their careers. These candidates are paired with senior leaders (mentors) to guide and coach along their developmental path.

THE YEAR IN **BEER SALES**

Beer Sales in 2017

BEER STORE BREWER FACTS

Fig. 1

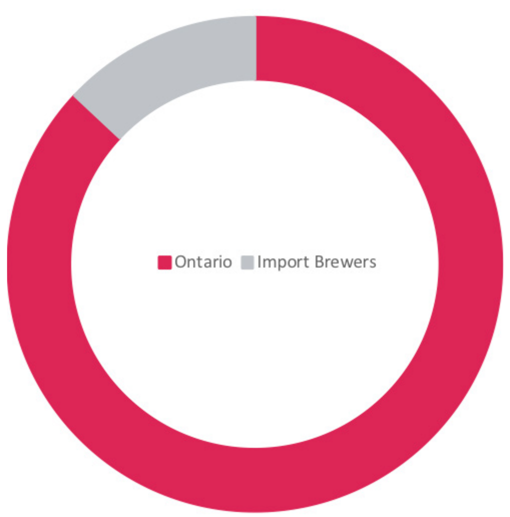
	2017	% Of Sales
Ontario Based Brewers	101	87%
Out of Province Brewers	4	13%
Import Brewers	86	
Total Brewers	***191***	

Small Ontario Brewers	95	
Brewery Countries of Origin	24	

I. PRODUCT SELECTION
The Beer Store has an open policy meaning that any brewer in the world wanting to sell product approved by the LCBO in the retail and distribution chain can do so. At the end of 2017, The Beer Store stocked brands from 191 brewers from across the globe.

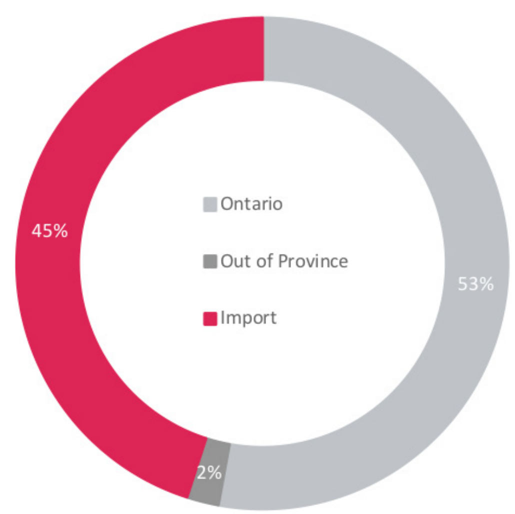
2017 SALES BY BREWER

Fig. 2



2017 BREWER SEGMENTS

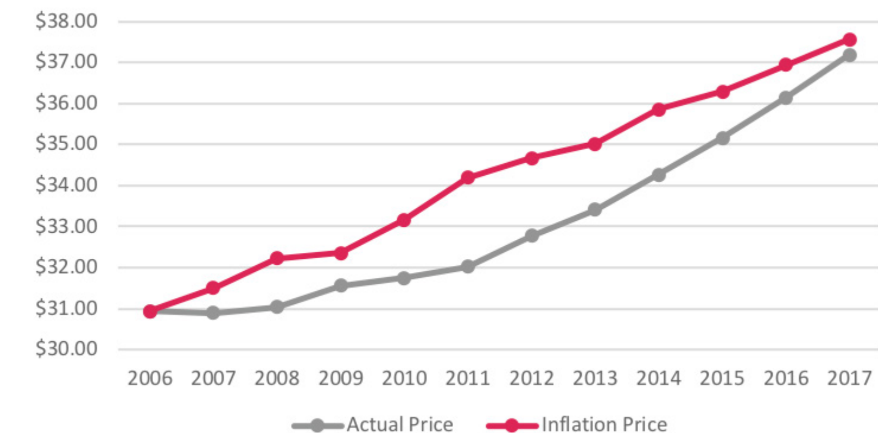
Fig. 3



II. SALES BY VALUE & BEER PRICES

AVERAGE BEER STORE CONSUMER PRICE CONVERTED TO CASE EQUIVALENT

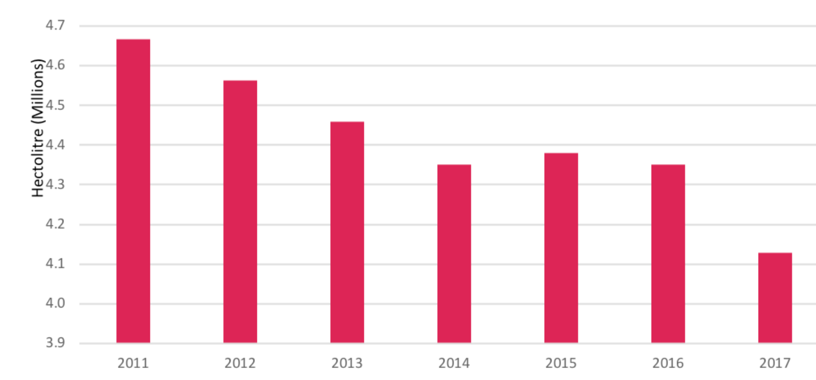
Fig. 1



III. BEER STORE SALES BY CHANNEL
The Beer Store is both a retail and wholesale business. TBS operates 452 stores (as of December 2017) in an Ontario beverage alcohol system that includes over 1,300 outlets where beer can be purchased.

BEER STORE HOME CONSUMER SALES BY VOLUME (hl)

Fig. 1



ONTARIO RETAIL BEER OUTLETS

	2013	2014	2015	2016	2017
Beer Stores	*447*	*445*	*450*	*451*	*452*
TBS Mobile Trailers	*2*	*2*	*2*	*2*	*2*
LCBO Stores	*634*	*639*	*651*	*654*	*660*
LCBO Agency and TBS Retail Partners	*219*	*217*	*212*	*212*	*212*
On-Site Brewery Stores	*52*	*73*	*113*	*156*	*150*
Grocery Stores				*130*	*232*
TOTAL	*1,327*	*1,374*	*1,426*	*1,659*	*1,708*

Store numbers for LCBO stores, on-site brewery stores and Agency and Beer Store Retail Partners are provided by the LCBO Annual Reports. Beer Store numbers for all years are from Beer Store data as of December 31st for that year.

BEER STORE SALES BY VOLUME (%)

	2013	2014	2015	2016	2017
Home Consumer	*63.93%*	*63.89%*	*64.04%*	*64.17%*	*63.19%*
Licensee	*18.20%*	*17.84%*	*17.32%*	*17.02%*	*17.06%*
LCBO	*12.54%*	*12.85%*	*13.24%*	*13.28%*	*13.67%*
Retail Partner/ Agency	*4.60%*	*4.69%*	*4.76%*	*4.74%*	*4.80%*
Grocery Stores				*0.13%*	*0.65%*
Other	*0.73%*	*0.73%*	*0.64%*	*0.66%*	*0.64%*

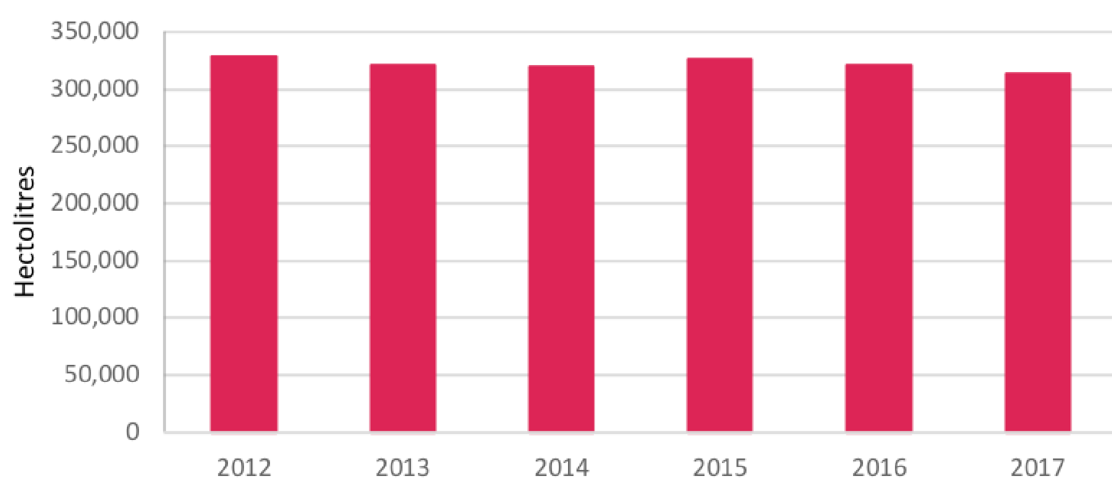
Volume reflects [60] stores authorized by the LCBO/AGCO in 2016. Up to 450 grocery stores, in aggregate, may be issued after May 1st, 2017.

BEER STORE WHOLESALE SALES

In addition to selling beer to the public through its retail stores, The Beer Store also distributes and sells beer to LCBO stores, agency stores, and Beer Store Retail Partner stores, as well as 20,723 licensed bars and restaurants.

BEER STORE RETAIL PARTNER/AGENCY SALES

Fig. 1



BEER STORE WHOLESALE VOLUME SALES TRENDS

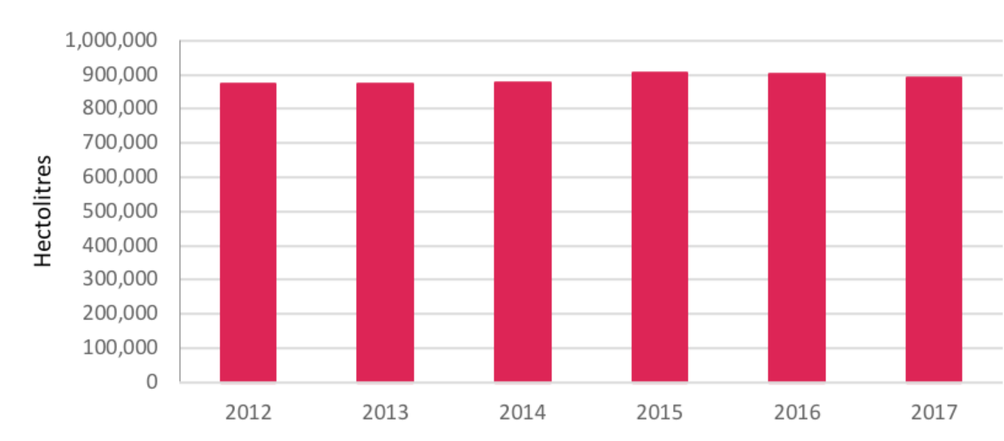
- **Overall Wholesale Sales in 2017 decreased by 31,624 hl or 1.3%**
- **Licensee Sales Declined by 48,370 hl or 4.2%**
- **Licensee Packaged Beer Sales declined by 26,307 hl or 5.0%**
- **Licensee Draught Beer Sales declined by 21,010 hl or 3.3%**
- **LCBO Sales Decreased by 7,716 hl or 0.9%**
- **Agency Store/Retail Partner Sales decreased by 7,638 hl or 2.4%**

BEER STORE LICENSEE SALES

Fig. 2

BEER STORE LCBO SALES

Fig. 3



BEER STORE GROCERY SALES*

Fig. 4

** Recorded based on shipments only.*

BEER TAX
CONTRIBUTIONS

Beer Tax in 2017

TAX EXAMPLES BY PRICE POINT 2017

	Retail Price	Federal Tax	Provincial Tax	Total Tax
24 – 341 ml Bottles – Domestic Specialty	$44.22	10.3%	26.7%	37.0%
24 – 341 ml Bottles – Premium	$34.95	11.9%	31.9%	43.8%
24 – 341 ml Bottles – Value	$32.24	12.5%	34.0%	46.5%
24 – 341 ml Bottles – Ontario Craft	$47.56	6.6%	16.7%	23.3%
24 – 330 ml Bottles – Import	$48.81	9.6%	28.7%	38.2%
24 – 355 ml Cans (Average across categories)	$43.18	10.7%	32.9%	43.7%

FEDERAL AND PROVINCIAL BEER TAX CONTRIBUTIONS 2017

Federal Excise Tax	$0.3184/litre	
	Provincial Taxes / LCBO Mark-ups	
	Ontario Beer Manufacturer ($/L)	***Ontario Microbrewer***
Draught Basic Tax	$0.7131	$0.3482
Packaged Basic Tax	$0.8833	$0.3834
Volume Levy	$0.176/litre	
Environmental Levy	$0.893/non-refillable container	
HST	13%	

ONTARIO TAXES COLLECTED ON BEER SALES 2017

Estimated Government Revenues Associated with TBS Beer Sales (Millions)	2017
Provincial Commodity Taxes	$617.7
Federal Excise Taxes	$173.9
Goods and Service Tax (Federal portion of HST)	$114.5
Provincial Sales Tax (Provincial portion of HST)	$183.2
Total Government Beer Taxes Associated with TBS Sales	$1,089.2

SCHEDULE C
BRI RATE SHEET

Effective January 1st, 2018

BASIC SERVICES

	Packaged	Draught
Lower Tier Fees per hl *	$47.71	$39.27
Basic Service Fees per hl	$50.71	$42.27

ELECTED SERVICES

LISTING ADMINISTRATION FEE	Base Fee +	Per store, Per SKU, First 233 stores	All other stores above 233	All "D" Stores
Packaged	$3,088.90	$247.12	$58.08	$580.74
Draught	$6,177.79	$494.21		
ACCOUNTS RECEIVABLE RECOVERY			$0.55	Per licensee hl only
TRANSFERS				
Emergency			$20.76	Per hl
Regular			$17.18	Per hl
DELIVERY SERVICE TO LCBO			$17.18	Per hl
DELIVERY SERVICE TO RETAIL PARTNERS			$17.18	Per hl
DELIVERY SERVICE TO GROCERY			$17.18	Per hl
EMPTY CONTAINER DISPOSAL				
Cans			$4.44	Per hl
ONE-WAY KEG RECYCLING FEE This charge applies to recyclable kegs such as the Eco-Keg.			$7.52	Per unit
VOUCHER ADMINISTRATION			5%	Of retail value
EMPTY CONTAINER PURCHASE This charge applies to Industry Standard Bottles only that are sold through the LCBO and Grocery where the empty container is redeemed by BRI.			$9.49	Per hl
NON-STANDARD CONTAINERS Industry Standard Bottles and Kegs which do not require sorting or special handling are exempt from this charge.				
Bottles			$0.0628	Per unit
Draught			$1.56	Per unit
KEG REPAIR SURCHARGE **DIRECT DELIVERY KEG FEE**			$0.64 $ 4.87	Per usage Per hl
GROCERY ADMIN FEE This charge applies where TBS is vendor of record and brewer delivers to grocery.			$2.10	Per hl

NOTE: HST OR EQUIVALENT WILL BE ADDED TO ALL FEES WHERE APPLICABLE

OTHER FEES

Other fees include (but are not limited to) Liability Insurance required by the government and special services which the Brewer may engage BRI to perform from time to time. Deposits for the use of BRI pooled assets (e.g. kegs and pallets) will be levied as appropriate. Deposits will be refunded as the assets are returned.

** Applicable to Brewers (inclusive of Affiliates) with worldwide production of less than 1,000,000 hls per year on first 50,000 hls of volume sold.*

Brewers Retail Inc.

Financial Statements
December 31, 2017
(in thousands of Canadian dollars)

March 29, 2018

Independent Auditor's Report

To the Shareholders of
Brewers Retail Inc.

We have audited the accompanying financial statements of Brewers Retail Inc., which comprise the balance sheet as at December 31, 2017 and the statements of operations and comprehensive (loss) income, changes in shareholders' equity (deficiency) and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

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Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Brewers Retail Inc. as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Brewers Retail Inc.
Balance Sheet
As at December 31, 2017

(in thousands of Canadian dollars)

	2017 $	2016 $
Assets		
Current assets		
Cash and cash equivalents	47,985	43,455
Trade receivables (notes 7 and 19)	54,420	49,737
Empties deposits	4,540	4,909
Inventories (note 8)	149,772	156,457
Other current assets	3,804	3,141
	260,521	257,699
Property, plant and equipment (note 9)	130,450	130,941
Intangible assets (note 10)	39,045	23,800
Future income tax assets (note 14)	51,350	58,840
Total assets	481,366	471,280
Liabilities		
Current liabilities		
Bank indebtedness (note 11)	51,000	42,000
Trade and other payables and provisions (notes 12 and 19)	294,140	292,702
	345,140	334,702
Pension benefit (note 13)	58,277	86,713
Post-retirement employee benefits (note 13)	52,594	54,931
Total liabilities	456,011	476,346
Shareholders' Equity (Deficiency)		
Share capital (note 16)	200,345	200,345
Deficit	(40,760)	(57,133)
Accumulated other comprehensive loss	(134,230)	(148,278)
Total shareholder's equity (deficiency)	25,355	(5,066)
Total liabilities and equity	481,366	471,280

Approved by the Board of Directors

_______________________ Director _______________________ Director

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

Brewers Retail Inc.

Statement of Operations and Comprehensive (Loss) Income

For the year ended December 31, 2017

(in thousands of Canadian dollars)

	2017 $	2016 $
Revenue		
Service charges (note 19)	331,535	317,030
Other	87,913	83,712
	419,448	400,742
Expenses		
Operating (note 19)	66,034	62,190
Salary and wages	195,185	193,928
Benefits	57,490	57,120
Occupancy	69,710	67,050
Administration	5,924	5,680
Finance costs	10,201	9,830
Depreciation and amortization (notes 9 and 10)	20,611	20,294
	425,155	416,092
Operating loss	(5,707)	(15,350)
Gain on sale of real property (note 9)	24,454	24,117
Income before income taxes	18,747	8,767
Income tax expense (note 15)	2,374	1,585
Net income for the year	16,373	7,182
Other comprehensive (loss) income (net of tax)		
Actuarial (losses) gains recognized through OCI - pension (notes 13 and 14)	14,891	(16,370)
Actuarial (losses) gains recognized through OCI - pension recognized through OCI - PRB (notes 13 and 14)	(843)	(814)
Actuarial (losses) gains recognized through OCI - pension recognized through OCI - LTD (notes 13 and 14)	-	(56)
Total comprehensive (loss) income	14,048	(17,240)
Net income and comprehensive (loss) income for the year	30,421	(10,058)

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

Brewers Retail Inc.

Statement of Changes in Shareholders' Equity (Deficiency)

For the year ended December 31, 2017

(in thousands of Canadian dollars)

	Share capital $	Deficit $	Accumulated other comprehensive income (loss)	Total equity (deficiency) $
Balance - January 1, 2017	200,345	(57,133)	(148,278)	(5,066)
Net income for the year	-	16,373	-	16,373
Other comprehensive income - actuarial gain	-	-	14,048	14,048
Balance - December 31, 2017	200,345	(40,760)	(134,230)	25,355
Balance - January 1, 2016	200,342	(64,315)	(131,038)	4,989
Net income for the year	-	7,182	-	7,182
Conversion of A,B,C,D and common shares into Second Equity Shares (note 16)	(200,342)	-	-	(200,342)
Second Equity Shares (note 16)	200,342	-	-	200,342
Issuance of First Equity Shares (note 16)	3	-	-	3
Other comprehensive loss - actuarial losses	-	-	(17,240)	(17,240)
Balance - December 31, 2016	200,345	(57,133)	(148,278)	(5,066)

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

(in thousands of Canadian dollars)

	2017 $	2016 $
Cash provided by (used in)		
Operating activities		
Net income for the year	16,373	7,182
Add (deduct): Non-cash items		
Depreciation and amortization	20,611	20,294
Deferred income taxes	2,420	1,373
Gain on disposal of property, plant and equipment	(24,021)	(23,690)
Other employee benefits expenses	472	6,983
Defined benefit plan expenses	17,735	13,832
Other employee benefits contributions	(3,952)	(4,197)
Defined benefit plan contributions (note 13)	(25,910)	(24,206)
Change in non-cash operating working capital items (note 17)	1,068	23,667
	4,796	21,238
Investing activities		
Purchase of property, plant and equipment and intangible assets	(37,747)	(31,318)
Proceeds from sale of property, plant and equipment (note 9)	28,481	26,745
	(9,266)	(4,573)
Financing activities		
Bank indebtedness	9,000	(9,000)
Issuance of shares	-	3
	9,000	(8,997)
Increase in cash and cash equivalents during the year	4,530	7,668
Cash and cash equivalents - Beginning of year	43,455	35,787
Cash and cash equivalents - End of year	47,985	43,455

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

(in thousands of Canadian dollars)

1 Description of business

As at December 31, 2017, Brewers Retail Inc. (the “Company”) was owned by thirty-four brewers and, pursuant to a services agreement, 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. The Company’s head office is located at 5900 Explorer Drive, Mississauga, Ontario, Canada.

The Company is party to a Master Framework Agreement (the “MFA”) with the Government of Ontario and an effective date of January 1, 2016. Under the terms of the Company’s Shareholders Agreement entered into pursuant to the MFA, the Company operates as a self-funding corporation on a break-even cash flow basis. Any excess or shortfall of the Company’s revenue versus costs is refunded or charged to each brewer that sells product through the Company pro rata based on its qualifying sales. The MFA has an initial term of ten years and is subject to renewal for successive five-year terms unless terminated in accordance with the terms of the MFA. Changes to ownership and the share capital structure were implemented in 2016 (note 16).

The Board of Directors of the Company, pursuant to the terms of the MFA, provides representation for other brewers in addition to Molson Canada 2005, Labatt Brewing Company Limited, and Sleeman Breweries Ltd. (the “Original Owners”) and maintains a role for independent directors who do not have an affiliation with industry participants or with the Government of Ontario. The size of the Board is fifteen members, eleven of whom are representatives of holders of First Equity Shares and four of whom are independent directors.

2 Basis of preparation

These annual financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as set out in Part I of the Chartered Professional Accountants of Canada Handbook. They were approved by the Board of Directors on March 29, 2018.

3 Summary of significant 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 under the historical cost convention, unless otherwise indicated.

Foreign currency translation

- Functional and presentation currency

  Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the functional currency). These financial statements are presented in Canadian dollars, which is the Company’s functional and presentation currency.

(in thousands of Canadian dollars)

- Transactions and balances

  Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation when the items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and monetary liabilities denominated in foreign currencies are recognized in financial income or financial expense in the statement of operations and comprehensive (loss) income.

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 (loss) income.

After initial recognition, financial assets are measured at their fair values except for items classified as loans and receivables, which are measured at amortized cost. After initial recognition, financial liabilities are measured at amortized cost, except for financial liabilities at fair value through profit or loss, which are measured at fair value.

Financial assets are derecognized if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. Financial liabilities are derecognized if the Company's obligations specified in the contract expire or are discharged or cancelled.

Financial assets are classified on initial recognition as fair value through profit or loss, or loans and receivables. 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.

- Financial assets and financial liabilities at fair value through profit or loss

  Financial assets and financial liabilities in this category are either designated as fair value through profit or loss or classified as held-for-trading. Other financial assets and financial liabilities may be designated at fair value through profit or loss when they are managed on a fair value basis.

(in thousands of Canadian dollars)

- Loans and receivables

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than twelve months after the end of the reporting period, which are classified as non-current assets. Trade receivables and empties deposits are classified as loans and receivables.

- Financial liabilities measured at amortized cost

  Financial liabilities measured at amortized cost are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. Trade and other payables and borrowings are classified as financial liabilities measured at amortized cost.

Impairment of financial assets

The Company assesses, at the end of each reporting period, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is 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 has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the statement of operations and comprehensive (loss) income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment is recognized in the statement of operations and comprehensive (loss) income.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash balances with major financial institutions and highly liquid deposits with original maturities of three months or less that are readily convertible into a known amount of cash and are subject to an insignificant risk of change in value.

Trade receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

(in thousands of Canadian dollars)

Trade receivables are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment. The expense relating to impaired accounts is included within operating expenses in the statement of operations and comprehensive (loss) income. Revenue is recorded net of returns, discounts and allowances.

Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. If the carrying value exceeds the net realizable amount, a writedown is recognized. The writedown may be reversed in a subsequent period if the circumstances that caused it no longer exist.

Other assets

Included in other assets are prepaid expenses.

Empties deposits

Empties deposits represent the deposit value of empty containers collected and received.

Property, plant and equipment

- Owned assets

  Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes an expenditure that is 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 charged to the statement of operations and comprehensive (loss) income during the year in which they are incurred.

- Leased assets

  Assets under finance leases, to which substantially all of the risks and benefits inherent in ownership are transferred to the Company, are recognized as part of property, plant and equipment. These assets are initially measured at their fair value or, if lower, at the present value of the minimum lease payments. A corresponding liability is established and each lease payment is allocated between the liability and interest expense using the effective interest rate method. The assets recognized are depreciated on the same basis as equivalent property, plant and equipment. When there is no reasonable certainty the Company will exercise its buyout option, the asset is depreciated over the life of the lease if it is shorter than the asset's useful life.

Brewers Retail Inc.
Notes to Financial Statements
December 31, 2017

(in thousands of Canadian dollars)

  Leases that are not finance leases are classified as operating leases and the assets are not recognized on the Company's balance sheet. Operating lease payments are recognized as an expense on a straight-line basis over the period of the lease.

- Depreciation

  Land and construction-in-process 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
Machinery, equipment and computer software	3 - 20 years
Leasehold improvements	over term of lease
Single aperture kegs	20 years
Pallets	4 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

- Computer software

  Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized straight-line over an estimated useful life of three to ten years.

  Costs associated with maintaining computer software programs are recognized as an expense when incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Company, and that will generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Such costs include the employee costs incurred as a result of developing the software products and an appropriate portion of relevant overheads.

  Computer software development costs recognized as assets are amortized straight-line over their estimated useful life.

Impairment of non-financial assets

Property, plant and equipment and intangible assets with definite useful lives are assessed annually for indications of impairment.

(in thousands of Canadian dollars)

Intangible assets that have indefinite useful lives and 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 (loss) 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 suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Bank indebtedness

The Company employs a revolving credit facility to manage its cash flow requirements.

Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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 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 at the end of the reporting period and are discounted.

Income taxes

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

- Current income taxes

  Current income tax expense is based on the results of the period and is adjusted for items that are not taxable or not deductible. Current income taxes are calculated using income tax rates and laws that were 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.

(in thousands of Canadian dollars)

- 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 by the balance sheet 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 and when the deferred income tax assets and deferred income tax liabilities relate to income taxes levied by the same taxation authority and when 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 amount of future benefit that employees have earned in the current and prior periods, discounting that amount 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. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

(in thousands of Canadian dollars)

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 OCI. 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 then-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.

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 long-term employee benefits

The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine 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 profit attributable to the Company after certain adjustments in addition to other performance measures. 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 before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either: (i) terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal; or (ii) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after the end of the reporting period are discounted to their present value.

Share capital

First and Second Equity Shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(in thousands of Canadian dollars)

Revenue recognition

Service charges revenue is primarily earned based on the volume of products distributed at rates determined annually.

Other revenues consist of empty containers fee, recycling fee, product sale, promotional revenue, and dispensing services. The revenue is recorded at the point the service has been performed or the products have been delivered.

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.

Finance income and expense

Finance income and expense include:

- interest income;
- interest expense;
- foreign currency gain and loss on financial assets and financial liabilities; and
- impairment losses recognized on financial assets (other than trade receivables).

Interest income or expense is recognized using the effective interest method.

Standards issued to be adopted at a later date

The following standards have been issued by the International Accounting Standards Board (IASB) and are being assessed as to their effect on the Company in the future:

- In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers (IFRS 15), which provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company will not be early adopting IFRS 15, but will transition next year using the modified retrospective approach. Management has assessed the potential impact of IFRS 15 and does not expect material changes to the amount and timing of revenue recognition due to the nature of the contracts it has in place. The Company expects to apply the standard by its mandatory effective date.

- In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments (IFRS 9), which replaces IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classification and measurement, hedge accounting and new impairment requirements that are based on a

(in thousands of Canadian dollars)

forward-looking expected credit loss model. IFRS 9 is mandatorily effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company will not be early adopting this standard. The potential impact of adopting IFRS 9 has been assessed by the Company and is not expected to be material.

- In January 2016, the IASB issued the final publication of IFRS 16, Leases (IFRS 16), which is to replace the current IAS 17 lease accounting standard and related interpretations. IFRS 16 is required to be adopted either retrospectively or by recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all contracts conveying the right to control use of an identified asset for a period of time, unless the lease term is twelve months or less, or the underlying asset has a low value. The asset is treated similarly to other non-financial assets and depreciated accordingly. The liability is initially measured at the present value of the lease payments payable over the lease term and accrues interest. Under IFRS 16, lessors continue to classify leases as operating or finance, with the approach under IFRS 16 substantially unchanged from the current IAS 17 lease accounting standard and related interpretations. IFRS 16 is effective for fiscal years beginning on or after January 1, 2019 with earlier adoption permitted if IFRS 15 has also been adopted. Although the Company is still in the process of assessing the potential impact of IFRS 16, it expects this standard will have a significant impact on its balance sheet, along with a change to the recognition, measurement and presentation of lease related expenses in the statement of operations and other comprehensive (loss) income.

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, revenues 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 other non-financial assets when there is any indication the asset might be impaired.

Employee future benefits

The present value of the retirement benefit obligation depends on a number of 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. 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

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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 benefit obligation.

Other key assumptions for the employee future benefits obligation are based on current market conditions.

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 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 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 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 Financial risk management

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

The Company's financial assets and liabilities are classified into the following categories:

- cash and cash equivalents as held-for-trading, which are measured at amortized cost;
- accounts receivable and empties deposits are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's accounts receivable comprise trade

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receivables and are included in current assets due to their short-term nature. Accounts receivable are initially recognized at the amount expected to be received, less, when material, a discount to reduce the accounts receivable and notes receivable to fair value. Subsequently, accounts receivable are measured at amortized cost using the effective interest method less a provision for doubtful accounts; and

- accounts payable and accrued liabilities as other financial liabilities, which are measured at amortized cost. Financial liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. These financial liabilities are classified as current liabilities if payment is due within 12 months.

Credit risk

In the normal course of business, the Company is exposed to credit risk from its accounts receivable from customers. The carrying values of accounts receivable are net of applicable revenue provisions and allowances for doubtful accounts. Allowances for doubtful accounts are estimated based on past experience, specific risks associated with the customer and other relevant information.

Interest rate risk

Interest rate risk is the risk 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. In addition, pension and post-retirement employee benefits liabilities are also sensitive to market interest rates. The Company does not hold any significant interest bearing assets.

Foreign currency risk

The Company is exposed to currency risk as a result of exchange rate fluctuations and the volatility of these rates. In the normal course of business, the Company has financial assets and liabilities that are denominated in US dollars. The Company transacts in US dollars for income and expense transactions and carries US dollars in the bank account for this purpose. The risk in this area is assessed by the Company to be insignificant.

Liquidity risk

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

6 Capital risk management

The Company's capital consists of share capital 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.

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The Company's primary uses of capital are to finance non-cash working capital along with capital expenditures for new stores additions, existing store renovation projects, information technology software and hardware purchases and equipment purchases. The Company currently funds these requirements out of its internally generated cash flows.

The Company is not subject to any externally imposed capital requirements, apart from what is described in notes 11 and 18 below. There has been no change with respect to the overall capital risk management strategy during the year.

7 Trade and other receivables

	2017 $	2016 $
Trade and other receivables	50,681	45,863
Owner brewers	4,615	4,181
Provision for impairment	(876)	(307)
	54,420	49,737

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

	2017 $	2016 $
Opening balance	307	359
Provision for impairment	742	-
Utilization of the impairment provision	(173)	(52)
Closing balance	876	307

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.

The addition and utilization of the provision for impaired trade receivables has been included in operating expenses in the statement of operations and comprehensive (loss) income. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional amounts.

As at December 31, 2017, trade receivables of $8,406 (2016 - $3,890) were past due. The aging analysis of these trade receivables is as follows:

	2017 $	2016 $
Current	46,890	46,154
0 days to 30 days past due	1,722	1,194
31 days to 60 days past due	2,963	1,563
Over 60 days past due	3,721	1,133
	55,296	50,044

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The maximum exposure to credit risk at the reporting date is the carrying value of each class of trade receivables.

The carrying amounts of the Company's trade receivables are primarily denominated in Canadian currency.

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

8 Inventories

	2017 $	2016 $
Beer	144,819	151,986
Dispensing equipment	4,372	4,045
Other	581	426
	149,772	156,457

An inventory provision of $26 (2016 - $38) has been recorded, with the corresponding recovery of $12 (2016 - $5) included in the statement of operations and comprehensive (loss) income.

9 Property, plant and equipment

	2017			2016
	Cost $	Accumulated amortization $	Net $	Net $
Land	5,076	-	5,076	5,772
Buildings	91,837	45,830	46,007	50,624
Leasehold improvements	63,409	30,539	32,870	34,173
Machinery, equipment and operating system	59,015	27,997	31,018	32,263
Single aperture kegs	3,798	1,148	2,650	1,790
Pallets	11,858	6,351	5,507	5,102
Construction-in-process	7,322	-	7,322	1,217
	242,315	111,865	130,450	130,941

The Company disposed of assets with a net carrying value of $4,460 (2016 - $3,051) for net proceeds of $28,481 (2016 - $26,745) and recognized a gain on sale of $24,021 (2016 - $23,690). Included in the disposed assets were real estate properties the Company sold to support its capital expenditures as required by the MFA. See note 18 for additional information.

An amortization expense of $19,836 (2016 - $19,845) has been charged in amortization expense.

(in thousands of Canadian dollars)

Continuity of property, plant and equipment for the year ended December 31, 2017:

								2017
	Land $	Buildings $	Leasehold improvements $	Machinery and equipment $	Single aperture kegs $	Pallets $	Construction-in-progress $	Total $
Cost								
Balance - January 1, 2017	5,772	96,368	61,624	56,591	2,789	8,893	1,217	233,254
Additions	-	1,099	1,244	4,164	25	2,965	14,308	23,805
Disposals	(696)	(5,977)	(3,376)	(4,695)	-	-	-	(14,744)
Transfers among categories	-	347	3,917	2,955	984	-	(8,203)	-
Balance - December 31, 2017	5,076	91,837	63,409	59,015	3,798	11,858	7,322	242,315
Less: Accumulated amortization								
Balance - January 1, 2017	-	45,744	27,451	24,328	999	3,791	-	102,313
Depreciation for the year	-	2,698	6,312	8,117	149	2,560	-	19,836
Transfers among categories	-	-	-	-	-	-	-	-
Disposals	-	(2,612)	(3,224)	(4,448)	-	-	-	(10,284)
Balance - December 31, 2017	-	45,830	30,539	27,997	1,148	6,351	-	111,865
Net book value	5,076	46,007	32,870	31,018	2,650	5,507	7,322	130,450

(in thousands of Canadian dollars)

Continuity of property, plant and equipment for the year ended December 31, 2016:

								2016
	Land $	**Buildings $**	**Leasehold improvements $**	**Machinery and equipment $**	**Single aperture kegs $**	**Pallets $**	**Construction-in-progress $**	**Total $**
Cost								
Balance - January 1, 2016	6,111	97,751	60,870	61,250	1,865	7,891	4,929	240,667
Additions	-	1,077	2,266	5,562	745	3,335	8,773	21,758
Disposals	(339)	(4,462)	(5,004)	(17,033)	-	(2,333)	-	(29,171)
Transfers among categories	-	2,002	3,492	6,812	179	-	(12,485)	-
Balance - December 31, 2016	5,772	96,368	61,624	56,591	2,789	8,893	1,217	233,254
Less: Accumulated depreciation								
Balance - January 1, 2016	-	45,076	25,754	32,840	894	4,024	-	108,588
Depreciation for the year	-	2,782	6,542	8,316	105	2,100	-	19,845
Transfers among categories	-	-	-	-	-	-	-	-
Disposals	-	(2,114)	(4,845)	(16,828)	-	(2,333)	-	(26,120)
Balance - December 31, 2016	-	45,744	27,451	24,328	999	3,791	-	102,313
Net book value	5,772	50,624	34,173	32,263	1,790	5,102	1,217	130,941

(in thousands of Canadian dollars)

10 Intangible assets

	2017			2016
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**	**Net** **$**
Software	4,985	1,614	3,371	3,241
Software - construction-in-progress	35,674	-	35,674	20,559
	40,659	1,614	39,045	23,800

An amortization expense of $775 (2016 - $449) has been charged in amortization expense.

Continuity of intangible assets for the year ended December 31, 2017:

			2017
	Software **$**	**Software construction-in-progress** **$**	**Total** **$**
Cost			
Balance - January 1, 2017	4,579	20,559	25,138
Additions	264	15,756	16,020
Disposals	(499)	-	(499)
Transfers among categories	641	(641)	-
Balance - December 31, 2017	4,985	35,674	40,659
Less: Accumulated amortization			
Balance - January 1, 2017	1,338	-	1,338
Amortization for the year	775	-	775
Transfers among categories	-	-	-
Disposals	(499)	-	(499)
Balance - December 31, 2017	1,614	-	1,614
Net book value	3,371	35,674	39,045

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Continuity of intangible assets for the year ended December 31, 2016:

			2016
	Software $	Software construction-in-progress $	Total $
Cost			
Balance - January 1, 2016	1,795	11,979	13,774
Additions	36	11,861	11,897
Disposals	(533)	-	(533)
Transfers among categories	3,281	(3,281)	-
Balance - December 31, 2016	4,579	20,559	25,138
Less: Accumulated amortization			
Balance - January 1, 2016	1,419	-	1,419
Amortization for the year	449	-	449
Transfer among categories	-	-	-
Disposals	(530)	-	(530)
Balance - December 31, 2016	1,338	-	1,338
Net book value	3,241	20,559	23,800

11 Bank indebtedness

The Company has a $150 million revolving credit facility with a major Canadian financial institution, collateralized by general security agreements and support letters from Molson Canada 2005, Labatt Brewing Company Limited and Sleeman Breweries Ltd.

The credit facility is used to fund the Company's operating cash requirements and bears interest at Canadian prime rates plus 0.90%, or CDOR plus 0.90%, dependent on the type of borrowing employed. The Company may also choose to issue letters of credit which bear interest at 0.90%. The unused residual of the $150 million credit facility is subject to a standby charge of 0.22%. The Company has provided a $nil (2016 - $1,015) letter of credit in favour of certain defined benefit pension plans in relation to required solvency amortization payment on those plans.

The Company is subject to covenants on the credit facility related to market share and certain balance sheet items. The Company was compliant with these covenants during the year.

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12 Trade and other payables and provisions

a) Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

	2017 $	2016 $
Owner brewers	160,298	181,195
Other brewers	31,610	34,825
Other payables	66,821	46,998
Accrued liabilities	35,411	29,684
	294,140	292,702

b) Provisions include two categories of costs: future employee termination charges related to involuntary and voluntary workforce reduction activities; and certain litigation and claims costs that arise from time to time in the normal course of business. Provisions are included in other payables and accrued liabilities as described in note 12(a). The continuity of the Company's provisions is as follows:

	Total $
Balance - January 31, 2016	801
Additional provision	262
Unused amount reversed	(765)
Utilization of provision	(202)
Balance - December 31, 2016	96
Additional provision	451
Unused amount reversed	-
Utilization of provision	(535)
Balance - December 31, 2017	12

13 Employee future benefits

The Company maintains various defined contribution and defined benefit pension plans for both salaried and hourly paid employees. Costs for post-employment benefits are accrued over the periods in which employees earn the benefits. The Company also maintains certain post-employment medical benefit plans.

Actuarial valuations for the defined benefit pension plans were completed as at January 1, 2017, and the next valuation is not required until January 1, 2020.

(in thousands of Canadian dollars)

A summary of the balance sheet's position and statement of operations and comprehensive (loss) income charges is as follows:

a) Balance sheet

The amounts recognized in the balance sheet are determined as follows:

	2017		2016	
	Defined benefit pension plans $	Other benefit plans $	Defined benefit pension plans $	Other benefit plans $
Present value of obligations	(923,068)	(52,594)	(903,174)	(54,931)
Fair value of plan assets	864,791	-	816,461	-
	(58,277)	(52,594)	(86,713)	(54,931)

b) Statement of operations and comprehensive income (loss)

	2017 $	2016 $
Defined benefit pension plans	2,526	(39,819)
Defined contribution pension plans	(4,366)	(4,025)
Other benefit plans	(1,615)	(8,167)
	(3,455)	(52,011)

The amounts recognized in benefit expense on the statement of operations and comprehensive (loss) income are as follows:

	2017		2016	
	Defined benefit pension plans $	Other benefit plans $	Defined benefit pension plans $	Other benefit plans $
Service cost	11,628	5,533	10,997	5,002
Administrative cost	636	-	654	-
Finance cost	3,125	2,027	2,232	1,981
Settlements	-	-	-	-
Past service costs - plan amendments	2,346	-	(50)	-
Immediate recognition of actuarial (gains)/losses	-	(7,088)	-	-
	17,735	472	13,833	6,983

(in thousands of Canadian dollars)

The amounts recognized in actuarial (losses) gains on the statement of operations and comprehensive (loss) income are as follows:

	2017		2016	
	Defined benefit pension plans $	Other benefit plans $	Defined benefit pension plans $	Other benefit plans $
Actuarial gains and losses	9,188	1,143	26,703	1,184
Return on plan assets (greater) less than discount rate	(29,449)	-	(717)	-
	(20,261)	1,143	25,986	1,184

c) The movement in the benefit obligations over the year is as follows:

	2017		2016	
	Defined benefit pension plans $	Other benefit plans $	Defined benefit pension plans $	Other benefit plans $
As at January 1	903,174	54,931	868,010	50,961
Current service cost	11,628	5,533	10,997	5,002
Interest cost	35,148	2,027	35,840	1,981
Actuarial losses (gains)	9,188	1,143	26,703	1,184
Benefits paid	(38,416)	(3,952)	(38,326)	(4,197)
Settlements	-	-	-	-
Past service costs - plan amendments	2,346	-	(50)	-
Immediate recognition of actuarial (gains) losses	-	(7,088)	-	-
As at December 31	923,068	52,594	903,174	54,931

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d) The movement in the fair value of the plan assets over each year is as follows:

	2017		2016	
	Defined benefit pension plans $	Other benefit plans $	Defined benefit pension plans $	Other benefit plans $
As at January 1	816,461	-	796,910	-
Actual return on plan assets	60,836	-	33,671	-
Employer contributions	25,910	3,952	24,206	4,197
Benefits paid	(38,416)	(3,952)	(38,326)	(4,197)
As at December 31	864,791	-	816,461	-

The following table shows the allocation of post-employment benefit plan assets as at December 31, 2017 and 2016:

	2017		2016	
	Salary %	Bargaining unit %	Salary %	Bargaining unit %
Equity instruments	38	38	44	44
Debt instruments	62	62	56	56
	100	100	100	100

e) Significant assumptions:

	2017 %	2016 %
Discount rate		
Salary Pension Plan	3.61	3.88
Bargaining Unit Pension Plan	3.69	3.98
Post-retirement benefits	3.64	3.90
Long-term disability	3.02	2.89
Future salary increases	2.00	2.00
Medical trend rate	5.00	5.00

f) Estimated contributions to future benefit plans in 2018:

	$
Defined benefit plans	30,466
Defined contribution plans	4,886
Other benefit plans	4,658

(in thousands of Canadian dollars)

g) Sensitivity analysis

The table below shows the impact on the present value of the obligation as at December 31, 2017 for changes in the key assumptions.

	Defined benefit pension plans		Other benefit plans	
Change in assumption	Increase $	Decrease $	Increase $	Decrease $
Discount rate (1%)	(114,739)	144,263	(4,813)	5,797
Mortality rate (increase of 1 year in life expectancy)	25,147		795	
Trend rate (1%)			3,021	(2,674)

14 Deferred income taxes

Deferred income tax assets and liabilities

	2017			
	Balance - Beginning of year $	Recognized in net income $	Recognized in other comprehensive income $	Balance - End of year $
Employee benefits	37,536	(3,085)	(5,070)	29,381
Property, plant and equipment	12,355	(779)	-	11,576
Non-capital losses	5,139	694	-	5,833
Corporate minimum tax	1,641	(33)	-	1,608
Reserves and deferred income	2,162	788	-	2,950
Other	7	(5)	-	2
Net deferred tax asset (liability)	58,840	(2,420)	(5,070)	51,350

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	2016			
	Balance - Beginning of year $	**Recognized in net income $**	**Recognized in other comprehensive income $**	**Balance - End of year $**
Employee benefits	32,346	(4,740)	9,930	37,536
Property, plant and equipment	14,559	(2,204)	-	12,355
Non-capital losses	-	5,139	-	5,139
Corporate minimum tax	1,411	230	-	1,641
Reserves and deferred income	1,902	260	-	2,162
Other	65	(58)	-	7
Net deferred tax asset (liability)	50,283	(1,373)	9,930	58,840

15 Income tax expense

	2017 $	**2016 $**
Current income tax expense (recovery)		
Current year	793	230
Adjustment from prior year	(839)	(18)
	(46)	212
Deferred income tax expense		
Origination and reversal of temporary differences	2,420	1,373
Income tax expense	2,374	1,585

Reconciliation of income tax expense

	2017 $	**2016 $**
Income before income taxes based on tax rate of 26.5%	4,968	2,261
Adjustments resulting from		
Permanent differences	(3,325)	(2,971)
Other	731	2,295
	2,374	1,585

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16 Capital stock

Authorized
Unlimited First Equity Shares, with each series consisting of one hundred (100) shares
Up to ten thousand (10,000) Second Equity Shares

Issued and outstanding

	2017 $	**2016 $**
3,400 (2016 - 3,000) First Equity Shares	3	3
10,000 (2016 - 10,000) Second Equity Shares	200,342	200,342
	200,345	200,345

As required by the terms of the MFA, the Company amended its share capital structure by filing Articles of Amendment effective January 1, 2016 to cause the exchange of all of the issued and outstanding shares in the capital of the Company held by the Original Owners for 10,000 Second Equity Shares and to create a new class of First Equity Shares.

The First Equity Shares, which are reserved for issuance to any qualifying Ontario brewer that wishes to subscribe for shares, will carry the right to vote and to receive dividends. Holders of First Equity Shares 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 holders of First Equity Shares 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 for an aggregate subscription price of one hundred dollars. In 2017, the Company issued a total of 400 First Equity Shares (2016 - 3000 First Equity Shares) to four qualifying Ontario brewers (2016 - 30 qualifying Ontario brewers).

The Second Equity Shares, which have been allocated among the Original Owners (Labatt Company Limited - 4,492, Molson Canada 2005 - 5,088 and Sleeman Breweries Ltd. - 420), do not have the right to vote or to receive dividends but will entitle the holders to receive any residual value on liquidation of the Company, after payment of the liquidation amount owed to the holders of the First Equity Shares.

(in thousands of Canadian dollars)

17 Statement of cash flows

The net change in non-cash working capital items related to operations comprises the following:

	2017 $	2016 $
(Increase) decrease in trade receivables	(4,683)	(5,168)
Decrease (increase) in empties deposits	369	(144)
Decrease (increase) in inventories	6,685	1,199
(Increase) decrease in other current assets	(663)	(355)
Increase (decrease) in trade and other payables and provisions	1,438	30,472
(Increase) decrease in unpaid property, plant and equipment and intangible assets included under trade and other payables and provisions	(2,078)	(2,337)
	1,068	23,667

18 Contingencies and commitments

The Company enters into operating leases in the ordinary course of business, primarily for real estate property and equipment. Payments for these leases are contractual obligations as scheduled per each agreement. Commitments for minimum lease payments in relation to non-cancellable operating leases at the balance sheet dates are as follows:

	2017 $	2016 $
No later than 1 year	61,039	38,457
Later than 1 year and no later than 5 years	173,187	111,289
Later than 5 years	170,784	101,807
	405,010	251,553

In addition to the above, and as per the MFA, the Company is committed to spending $100,000 on capital expenditures during the years 2015 through 2018, not less than $80,000 of which shall be in respect of retail stores. Between 2015 and 2017, total capital spending (including amounts in trade and other payables and provisions) amounted to $101,737, of which $75,962 relates to retail stores.

Lawsuits and legal claims

The Company is involved in certain litigation and claims, which arise from time to time in the normal course of business. The Company records provisions that reflect management's best estimate of any potential liability relating to these claims. In the opinion of management, the Company has reasonable and meritorious arguments to defend against these claims. However, the Company cannot predict with certainty the final outcome of these matters.

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December 31, 2017

(in thousands of Canadian dollars)

On December 12, 2014, a notice of action captioned David Hughes and 631992 Ontario Inc. v. Liquor Control Board of Ontario, Brewers Retail Inc., Labatt Breweries of Canada LP, Molson Coors Canada and Sleeman Breweries Ltd. No. CV-14-518059-00CP was filed in Ontario, Canada. The Company and its shareholders, as well as the Liquor Control Board of Ontario ("LCBO"), were named as defendants in the action. The plaintiffs allege the Company and the LCBO improperly entered into an agreement to fix prices and market allocation within the Ontario beer market to the detriment of licensees and consumers. The plaintiffs seek to have the claim certified as a class action on behalf of all Ontario beer consumers and licensees and, among other things, damages in the amount of $1.4 billion. The Company operates according to the rules established by the Government of Ontario for regulation, sale and distribution of beer in the province. Additionally, prices are independently set by each brewer and are approved by the LCBO on a weekly basis. As such, management believes the claim has been made without merit and the Company will vigorously assert and defend its rights in this lawsuit. There is no provision recorded in the financial statements for this claim. On March 15, 2018, the Justice dismissed the plaintiffs' action against the Company in its entirety. The plaintiffs have the option to appeal the decision within a period of thirty days. Such appeal would then result in the dismissal being stayed pending the outcome of the appeal.

19 Related party transactions and balances

The Company carried out the following transactions in accordance with the terms of its Shareholders Agreement during the year and had balances at the end of the year with these entities as follows:

	2017 $	2016 $
Service charges and other revenue		
Shareholders	274,868	257,406
Operating costs charged to Brewers' Distributor Ltd.	6,233	6,627
Trade receivables		
Shareholders	4,615	4,181
Accounts receivable - Brewers' Distributor Ltd.	2,386	2,094
Trade and other payables		
Shareholders	160,282	181,214

Related parties in 2017 include 34 brewers holding first equity shares (2.94% each), and in 2016 included 30 brewers holding first equity shares (3.33% each).

Brewers' Distributor Ltd. ("BDL") is an affiliated company, controlled by Labatt Brewing Company Limited and Molson Canada 2005.

The above transactions were in the normal course of operations and were recorded at the amount of consideration established and agreed to by the related parties, similar to arm's length transactions. All transactions with related parties are unsecured with no impairment provision or bad debt expense.

(in thousands of Canadian dollars)

In addition to these amounts, the Company has transactions in the normal course of business with a number of other breweries having relationships with shareholders. These amounts are included in trade receivables and trade and other payables and provisions.

Key management personnel are those individuals who have authority and responsibility for planning, directing and controlling the activities of TBS (shared by BDL). Key management personnel ("KMP") include the President and four Vice Presidents as at December 31, 2017.

Key management personnel compensation comprises: salaries and short-term benefits; post-employment benefits; other long-term benefits; and termination benefits. TBS has elected to present key management personnel compensation as an aggregate due to the small number of KMP. KMP compensation for 2017 is $1,839 (2016 - $1,218).

The Board of Directors comprise those individuals who have significant influence over the Company. Total compensation for 2017 is $240 (2016 - $240).

20 Subsequent events

In January 2018, the Company commenced implementing plans approved by the Board of Directors in December 2017 for the sale of additional real estate properties to third parties expected to close in 2018. Proceeds from the sale of these assets will be used primarily to support the Company's capital expenditures.

21 Comparative figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

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