

June 1st, 2000

Ontario's beverage alcohol market continues to evolve and change. Recognizing the need to respond to these changes, the Liquor Control Board of Ontario (LCBO) and Brewers Retail Inc. (BRI) are both making capital investments to modernize our respective systems.

We both agree that the effectiveness of these investments in serving Ontario's beer consumers can be improved through increased cooperation and planning between the LCBO and BRI.

The attached document, "Serving Ontario Beer Consumers: A Framework for Improved Cooperation and Planning Between the LCBO and BRI", outlines our agreed approach to accomplishing this important goal. Both the LCBO and BRI intend to govern themselves in accordance with the spirit of the framework. However, the relationship between the LCBO and BRI continues to be governed by the applicable legislation, which will, at all times, take precedence over the attached document.

We understand that the government intends to transfer some of the LCBO's regulatory powers to the Alcohol and Gaming Commission of Ontario (AGCO), including the power to authorize BRI to operate stores. In this regard, we confirm our agreement to recommend that AGCO apply the criteria included in the attached framework (relating to the opening of Beer Stores in combination store communities) following such transfer.

We are confident that by working together in the spirit of this framework, the Ontario beer consumer will benefit.

Dave Perkins
Chairman BRI

A.S. Brant
Chair and C.E.O., LCBO

Copied to: Board Members
Larry Gee
Mary Fitzpatrick
Gerry Ker
Barry O'Brien
Sandra Lang, Deputy Minister, MCCR

SERVING ONTARIO BEER CONSUMERS:

A FRAMEWORK FOR IMPROVED CO-OPERATION & PLANNING BETWEEN THE LCBO & BRI

A. Introduction

This document sets out general framework to facilitate co-operation and planning between the LCBO and BRI in the sale and distribution of beer in Ontario. Both the LCBO and BRI intend to govern themselves in accordance with the spirit of the framework. However, the relationship between the LCBO and BRI continues to be governed by the Liquor Control Act and Regulations, which will at all times take precedence over this document.

The framework will be in effect for a minimum of five (5) years commencing the 1st day of June 2000 and may at any time after the 31st day of May, 2005 be terminated by either party by giving six (6) months prior written notice. Such written notice is to be given by BRI to the Chair and C.E.O., LCBO, and by LCBO to the Chairman, BRI.

B. Agency Stores

Commercial Contracts

- Agency stores are established by the LCBO under powers granted by the LCA.
- BRI and LCBO to have separate commercial contracts with the operation of agency Stores
 - LCBO on wine, spirits and non-Ontario beer
 - BRI on all Ontario beer sold in the BRI system
- BRI to enter into agreements to sell Ontario beer to new operations of agency stores.
- BRI to enter into agreements to sell Ontario beer to existing agency store operators when their existing agency store contracts are renewed.
- The provisions of all commercial contracts are to be reviewed by the BRI/LCBO Retail Planning Committee, and approved by the LCBO, acting reasonably.
- Unless legal limitations preclude it, the BRI and the LCBO contracts will address similar terms and conditions.

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In-Store Cost of Service:

- The current financial terms for existing northern agency store communities will remain unchanged.

Community Selection Criteria:

- Northern and southern community selection criteria (e.g. drive times, km limits, minimum community size) as per **Appendix 1**.
- Existing agency store communities in north and south to be grand-fathered – do not have to meet criteria.

Exception Process:

Both the LCBO and BRI acknowledge the important role that community selection criteria play in ensuring the continued viability of the existing BRI and LCBO corporate stores. The LCBO and BRI also acknowledge that such criteria are necessary to rationalize decisions to either create or reject the creation of new agents. However, both the LCBO and BRI recognize that from time to time exceptional circumstances may warrant the replacement of an agent in a location that does not satisfy the established criteria. In such circumstances the Retail Planning Committee will review the proposal and make a recommendation to the Steering Committee.

Agent Selection Criteria:

- Agent selection administered by LCBO as per **Appendix 1**

Northern Agency Geographical Boundary:

- The northern agency store program is limited to all northern Ontario, specifically north of the southern boundaries of the districts of Manitoulin and Parry Sound, Algonquin Provincial Park and the Chalk River.

C. Combination Stores

As of May 2000 there are 177 communities across Ontario in which the LCBO operates a store that effectively serves as the local beer store, carrying a broad range of beer products and package sizes (including those containing 12 and 24 containers).

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Conversion:

- BRI may immediately open Beer Stores in 4 combination store communities with domestic beer sales greater than 4000 hl in the twelve-month period ending February 29, 2000.
- Effective April 1, 2001, BRI may, in any twelve-month period commencing April 1, open a maximum of 5 Beer Stores in combination store communities where the LCBO combination store has sold more than 4000 hl of domestic beer in the previous calendar year, giving the LCBO reasonable notice.

LCBO Conversion:

- Once a new Beer Store has been opened in a combination store community, the existing LCBO store is to revert to a non-combination 6-pack store and will carry package sizes no greater than 6 containers.

D. Beer Selling Roles

- Consistent with historical practice, LCBO will not sell beer in a non-combination stores in packages containing more than 6 containers and will not promote beer at price points greater than 6 containers.
- The LCBO will continue to sell the following 8 & 9 pack SKU's in any of its stores:
8 packs: Famous Ales of England (CSPC #354985), Guinness (CSPC# 554469), Creemore (CSPC #915504 – 500 ml bottles x 8);
9 packs: Cameron's Auburn Ale (CSPC #516195) and Cream Ale (CSPC #497495).
- BRI will continue to sell to licensees all beer SKU's sold in Beer Stores; the LCBO will continue to sell to licensees beer SKU's sold exclusively by LCBO.

E. Additional Brand Listings

- BRI will make available 3 additional 6 pack SKU's of popular best selling brands per brewer (bottles only) per LCBO non-combination store.
- BRI and LCBO to continue to practice of exploring through the planning committees specific stores that due to unique market circumstances merit the sale of SKU's of beer in cans rather than bottles.

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F. **Planning Communities**

- BRI/LCBO Retail Planning Committee and BRI/LCBO Distribution Planning Committee, described in **Appendix 2** and **Appendix 3**, will be established.
- A senior level Steering Committee composed of the LCBO Chair and EVP and the Presidents of BRI's two majority shareholders will be established to handle broader policy issues and to address any issues or disputes that arise during implementation of the Agreement.

G. **Dispute Resolution**

- Issues that cannot be resolved at either the Retail or Distribution Planning Committees will be referred to the LCBO/BRI Steering Committee.
- All decisions of the Steering Committee shall be consensus,
- The Steering Committee can by mutual agreement elect to appoint a mediator to assist in resolving disputes.
- No matter concerning this framework will be referred by either party to any court, tribunal or other similar third party.

H. **Reasonable Notice**

- LCBO and BRI to provide each other reasonable notice on store openings and closings. Reasonable notice is to be defined by the Retail Planning Committee.

I. **Communication between LCBO/BRI/BOO**

- Committee structures proposed (including the Steering Committee) should address this issue.
- Steering Committee could meet twice per year
 - Prior to annual planning cycle
 - Fall – post summer/pre Xmas

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Agency Stores
Community and Agent Selection Criteria

The LCBO will manage the selection process for new and re-tendered northern and southern agency stores in consultation with the Retail Planning Committee and in accordance with the process and criteria set out below.

Community Selection

- The LCBO will select new communities in which to locate agency stores based on the following criteria, and taking into account the availability of suitable host retailers in the community.

New northern agency store communities will be selected based on the community being a minimum of 20 minutes drive time from the nearest BRI store and a minimum of 10 kilometers from the nearest LCBO.

New southern agency store communities will be selected based on the community having a minimum population of 2,000 and being a minimum 15 minutes drive time from the nearest BRI store or LCBO combination store and a minimum of 10 kilometers from the nearest LCBO non-combo store.

- The LCBO will notify BRI of a new community which it has identified prior to notifying the public or tendering for an operation in the community;

Agency Store Operator Selection

- The LCBO will consider applications for an agency store operation on the basis of existing criteria that may be modified from time to time in consultation with the Retail Planning Committee. Such modification may include, among other considerations, the need to reflect supplementary services, such as beer bottle return, that are desired in particular communities.
- Once the LCBO has identified a prospective candidate, it will consult with BRI concerning the candidate prior to making the final decision.

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Terms of Reference**BRI/LCBO Retail Planning Committee**

The primary goal of the Retail Planning Committee (the Committee) is to improve commercial cooperation between the LCBO and BRI on issues impacting the future operation of their respective retail networks. The Committee is expected to contribute the improved synergies between the two organizations, enhanced customer convenience and improved operating efficiency.

Scope

The committee is responsible for the following:

- Reviewing together both retailers' long-term store network plans as well as plans for the current fiscal year in the following areas:
- Corporate Co-located Stores: opportunities to co-locate BRI and LCBO stores together, on the same lot or within the same building. These opportunities will be evaluated for their potential to improve customer service and enhance the efficiencies of both organizations;
- Combination Stores: plans for the opening of new Beer Stores in combination store communities;
- Agency Stores: plans for any store expansion or reduction. The Committee is responsible for reviewing and recommending any changes, as required, to the section criteria;

Other retail formats: as identified.

- Joint Promotions: plans for any promotions designed to grow the beer category (i.e. Beers of Ontario) including LCBO merchandising, BRI merchandising, and out-of-store consumer activities and events;
- Reviewing and making recommendations for changes, as required, to retail sales rules/roles;
- Reporting on the activities of the committee to the senior executives of BRI and the LCBO;

The Committee will attempt to achieve consensus on all issues. Any issues that cannot be resolved by the committee will be referred to the LCBO/BRI steering committee.

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Composition

The committee will be comprised of senior Retail Division staff of both The Beer Store and LCBO and will be co-chaired by the Vice President, LCBO Retail Division and the Vice President, Retail Operations, The Beer Store, Finance, Merchandising, Distribution, Human Resources and other staff will assist the committee as required.

Process

The Committee will meet at least on a quarterly basis as required.

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Terms of Reference

BRI/LCBO Distribution Planning Committee

The primary goal of the **Distribution Planning Committee** is to improve commercial cooperation between the Liquor Control Board of Ontario (LCBO) and Brewers Retail Inc. (BRI) on issues impacting the future operation of the parties' respective warehousing and distribution networks. The Distribution Planning Committee (the committee) is expected to contribute to improve synergies between the two organizations, enhanced store and customer service and improved operating efficiencies.

Scope

The Committee is responsible for the following:

- Reviewing jointly both retailers' long-term distribution plans and seek input on any changes that may affect the other party;
- Addressing any operational issues associated with the importation and distribution of imported beer, the servicing of corporate stores, agency stores and combination stores, licensee distribution and other distribution and logistics matters;
- Reviewing and making recommendations, as required, for changes to the rules and processes associated with beer distribution and logistics operations, including consultation on any supply chain reviews undertaken by either party;
- Reporting on activities of the committee to the senior executives of BRI and the LCBO

The Committee will attempt to achieve consensus on all issues. Any issues that cannot be resolved by the Committee will be referred to the LCBO/BRI Steering Committee

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Composition

The Committee will comprised of senior distribution/logistics staff of both. The Beer Store and the LCBO and will be co-chaired by the Vice Presidents of the respective distribution divisions at the LCBO and The Beer Store. Finance, Merchandising, Distribution, Human Resources and other staff will assist the Committee as required.

Process

The Committee will meet at least on a quarterly basis and as required.

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