Andrew Peller Limited

Consolidated Financial Statements
March 31, 2018 and 2017
(in thousands of Canadian dollars)

June 6, 2018

Independent Auditor's Report

To the Shareholders of
Andrew Peller Limited

We have audited the accompanying consolidated financial statements of Andrew Peller Limited and its subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained in our audits 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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Andrew Peller Limited and its subsidiaries as at March 31, 2018 and 2017 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Andrew Peller Limited

Consolidated Balance Sheets

As at March 31, 2018 and 2017

(in thousands of Canadian dollars)

	2018	2017
Assets		
Current assets		
Accounts receivable (note 21)	$ 31,406	$ 26,973
Inventories (note 5)	160,154	129,088
Biological assets (note 7)	1,901	1,400
Prepaid expenses and other assets	4,401	3,106
Current portion of derivative financial instruments (note 21)	152	-
	198,014	160,567
Property, plant and equipment (note 6)	188,191	118,838
Intangible assets (note 8)	17,733	10,600
Goodwill (note 9)	53,638	37,473
Derivative financial instruments (note 21)	204	-
	$ 457,780	$ 327,478
Liabilities		
Current liabilities		
Bank indebtedness (note 10)	$ 47,324	$ 36,620
Accounts payable and accrued liabilities (note 11)	33,404	36,260
Dividends payable	1,935	1,690
Income taxes payable (note 14)	2,775	2,348
Current portion of derivative financial instruments (note 21)	24	418
Current portion of long-term debt (note 12)	8,135	4,406
	93,597	81,742
Long-term debt (note 12)	116,257	46,678
Long-term derivative financial instruments (note 21)	-	642
Post-employment benefit obligations (note 13)	5,140	5,279
Deferred income taxes (note 14)	22,540	15,820
	237,534	150,161
Shareholders' Equity		
Capital stock (note 15)	26,097	6,967
Contributed surplus (note 16)	1,673	-
Retained earnings	196,713	174,193
Accumulated other comprehensive loss	(4,237)	(3,843)
	220,246	177,317
	$ 457,780	$ 327,478

Approved by

Director

Director

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

Andrew Peller Limited

Consolidated Statements of Earnings

For the years ended March 31, 2018 and 2017

(in thousands of Canadian dollars, except per share amounts)

		2018		2017
Sales	$	363,897	$	342,606
Cost of goods sold, excluding amortization (note 17)		213,572		211,451
Amortization of plant and equipment used in production		6,891		6,549
Gross profit		143,434		124,606
Selling and administration (note 17)		97,465		86,018
Amortization of equipment and intangible assets used in selling and administration		4,812		3,377
Interest		5,345		3,078
Net unrealized gain on derivative financial instruments (note 21)		(1,400)		(2,232)
Other (income) expense (note 17)		(3,842)		120
Earnings before income taxes		41,054		34,245
Provision for (recovery of) income taxes (note 14)				
Current		11,797		7,664
Deferred		(860)		231
		10,937		7,895
Net earnings for the year	$	30,117	$	26,350
Net earnings per share (notes 15 and 18)				
Basic and diluted				
Class A shares	$	0.71	$	0.64
Class B shares	$	0.62	$	0.55

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

Andrew Peller Limited

Consolidated Statements of Comprehensive Income

For the years ended March 31, 2018 and 2017

(in thousands of Canadian dollars)

	2018	2017
Net earnings for the year	$ 30,117	$ 26,350
Items that are never reclassified to net earnings		
Net actuarial losses on post-employment benefit plans (note 13)	(533)	(9)
Deferred income taxes (note 14)	139	2
Other comprehensive loss for the year	(394)	(7)
Net comprehensive income for the year	$ 29,723	$ 26,343

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

Andrew Peller Limited

Consolidated Statements of Changes in Equity

For the years ended March 31, 2018 and 2017

(in thousands of Canadian dollars)

	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance at April 1, 2016	$ 6,967	$ -	$ 154,605	$ (3,836)	$ 157,736
Net earnings for the year	-	-	26,350	-	26,350
Net actuarial losses (net of $2 deferred tax recovery) (note 13)	-	-	-	(7)	(7)
Net comprehensive income for the year	-	-	26,350	(7)	26,343
Dividends (Class A $0.163 per share, Class B $0.142 per share)	-	-	(6,762)	-	(6,762)
Balance at March 31, 2017	$ 6,967	$ -	$ 174,193	$ (3,843)	$ 177,317
Balance at April 1, 2017	$ 6,967	$ -	$ 174,193	$ (3,843)	$ 177,317
Net earnings for the year	-	-	30,117	-	30,117
Net actuarial losses (net of $139 deferred tax recovery) (note 13)	-	-	-	(394)	(394)
Net comprehensive income for the year	-	-	30,117	(394)	29,723
Issuance of Class A non-voting shares (note 4)	19,130	-	-	-	19,130
Share based compensation (note 16)	-	1,673	-	-	1,673
Dividends (Class A $0.180 per share, Class B $0.156 per share)	-	-	(7,597)	-	(7,597)
Balance at March 31, 2018	$ 26,097	$ 1,673	$ 196,713	$ (4,237)	$ 220,246

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

Andrew Peller Limited

Consolidated Statements of Cash Flows

For the years ended March 31, 2018 and 2017

(in thousands of Canadian dollars)

	2018	2017
Cash provided by (used in)		
Operating activities		
Net earnings for the year	$ 30,117	$ 26,350
Adjustments for non-cash items		
Gain on acquisition of subsidiary	(4,164)	-
Loss (gain) on disposal of property, plant and equipment	181	(174)
Amortization of plant, equipment and intangible assets	11,703	9,926
Interest expense	5,345	3,078
Provision for income taxes	10,937	7,895
Net unrealized gain on derivative financial instruments	(1,400)	(2,232)
Share based compensation expense	1,673	-
Post-employment benefits	(672)	(677)
Deferred income	-	(102)
Interest paid	(4,600)	(3,101)
Income taxes paid	(11,484)	(7,741)
	37,636	33,222
Change in non-cash working capital items related to operations (note 20)	(15,889)	(7,658)
	21,747	25,564
Investing activities		
Acquisition of subsidiaries, net of cash acquired	(77,438)	-
Proceeds from disposal of property, plant and equipment	-	175
Purchase of property, plant and equipment	(19,996)	(19,836)
Purchase of intangible assets	(378)	(822)
	(97,812)	(20,483)
Financing activities		
Increase in bank indebtedness	10,642	2,919
Drawings of long-term debt	79,000	3,000
Repayment of long-term debt	(5,003)	(4,181)
Deferred financing costs	(1,222)	(194)
Dividends paid	(7,352)	(6,625)
	76,065	(5,081)
Cash - Beginning and end of year	$ -	$ -
Supplementary information		
Property, plant and equipment and intangible assets acquired that were unpaid in cash and included in accounts payable and accrued liabilities	$ 384	$ 1,196

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

(in thousands of Canadian dollars, except per share amounts)

1 Nature of operations

Andrew Peller Limited (the Company) produces and markets wine, spirits and wine related products. The Company's products are produced and sold predominantly in Canada. The Company is incorporated under the Canada Business Corporations Act and is domiciled in Canada. The address of its head office is 697 South Service Road, Grimsby, Ontario, L3M 4E8.

2 Summary of significant accounting policies

Basis of presentation

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These consolidated financial statements were approved by the Board of Directors for issue on June 6, 2018.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for derivatives, which are measured at fair value, and biological assets, which are measured at fair value less costs to sell.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and all subsidiary companies. Subsidiaries are those entities the Company controls by having the power to govern their financial and operating policies. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are de-consolidated from the date control ceases. Intercompany transactions, balances, income and expenses, and profits and losses are eliminated.

Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred by the Company is measured as the fair value of assets transferred and equity instruments issued at the date of completion of the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at fair value at the acquisition date. The excess of the consideration transferred over the fair value of the net assets acquired is recorded as goodwill. If the consideration transferred is less than the net assets acquired, the difference is recognized directly in the consolidated statements of earnings as a gain on acquisition. Results of operations of a business acquired are included in the Company's consolidated financial statements from the date of the business acquisition. Acquisition costs incurred are expensed and included in selling and administrative expenses.

(in thousands of Canadian dollars, except per share amounts)

Foreign currency translation

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than the Company's functional currency are recognized in the consolidated statements of earnings.

Revenue

The Company records a sale when: it has transferred the risks and rewards of ownership of the goods to the buyer; the Company has no continuing managerial involvement over the goods; it is probable the consideration will be received by the Company; and the amount of revenue and costs related to the transaction can be measured reliably. For transactions with provincial liquor boards, licensee retail stores and wine kit retailers, the Company's terms are primarily "FOB shipping point." Accordingly, sales are recorded when the product is shipped from the Company's distribution facilities. Sales to consumers through retail stores, winery restaurants, and estate wineries are recorded when the product is purchased.

Excise taxes collected on behalf of the federal government, licensing fees, and levies paid on wine sold through the Company's independent retail stores in Ontario, product returns, breakage, promotional and advertising allowances, and discounts provided to customers are deducted from gross revenue to arrive at sales.

Cost of goods sold

Cost of goods sold includes the cost of finished goods inventories sold during the year, inventory writedowns and revaluations of agricultural produce to fair value less costs to sell at the point of harvest.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on an average cost basis. The Company utilizes a weighted average cost calculation to determine the value of ending inventory (bulk wine and finished goods). Average cost is determined separately for import wine and domestic wine and is calculated by varietal and vintage year.

Grapes produced from vineyards controlled by the Company that are part of inventories are measured at their fair value less costs to sell at the point of harvest.

The Company includes borrowing costs in the cost of certain wine inventories that require a substantial period of time to become ready for sale.

(in thousands of Canadian dollars, except per share amounts)

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated amortization. Cost includes borrowing costs for assets that require a substantial period of time to become ready for use. Amortization of buildings, vines and vineyard infrastructure and machinery and equipment is calculated on the straight-line basis in amounts sufficient to amortize the cost of buildings, vines and vineyard infrastructure and machinery and equipment over their estimated useful lives as follows:

Buildings	40 years
Vines and vineyard infrastructure	20 years
Machinery and equipment	5 to 20 years

Land is carried at cost and is not amortized.

Vines and vineyard infrastructure amortization commences in the year the vineyard yields a crop that approximates 50% of expected annual production.

Biological assets

The Company measures biological assets, consisting of grapes grown on vineyards controlled by the Company, at cost, which approximates fair value as there has been minimal biological transformation since the initial cost incurred. The initial costs incurred are comprised of direct expenditures required to enable the biological transformation of agricultural produce.

At the point of harvest, the fair value of biological assets is determined by reference to local market prices for grapes of a similar quality and the same varietal. At this point, agricultural produce is measured at fair value less cost to sell, which becomes the basis for the cost of inventories after harvest.

Gains or losses arising from a change in fair value less costs to sell are included in the consolidated statements of earnings in the period in which they arise.

Intangible assets

Intangible assets include brands, customer contracts, customer lists, contract co-packaging arrangements, software and customer-based relationships. These intangible assets are recorded at their estimated fair value on the date of acquisition or at cost for regular way purchases.

	Amortization method	Useful life	Remaining useful life
Brands	n/a	indefinite	indefinite
Customers	straight-line	10 - 20 years	3 - 16 years
Contract packaging	straight-line	10 years	1 year
Software	straight-line	5 years	3 - 5 years
Other	straight-line	5 years	1 year

(in thousands of Canadian dollars, except per share amounts)

Brands have been assessed as having an indefinite life because the expected usage, period of control and other factors do not limit the life of these assets. Intangible assets with an indefinite life are not amortized but are tested for impairment at least annually or more frequently if events or circumstances indicate the asset might be impaired. To test for impairment the Company primarily compares the amount of royalty the Company would have to pay in an arm's length licensing arrangement to secure access to the same rights to its carrying value. If necessary, the fair value is also considered. An impairment charge is recorded to the extent the carrying value exceeds the fair value. Management has determined there was no impairment in intangible assets for the years ended March 31, 2018 and 2017.

Goodwill

Goodwill represents the cost of a business combination in excess of the fair values of the net tangible and identifiable intangible assets acquired. Goodwill is not amortized but is tested for impairment on an annual basis, or more frequently if circumstances indicate goodwill may be impaired. The Company assigns goodwill combined with other assets to a cash generating unit (CGU) based on certain regions and product lines, which is the lowest level at which the combined assets generate independent cash inflows. To test for impairment the Company primarily compares a CGU's value in use, determined based on expected future discounted cash flows, to its carrying value. If necessary, a CGU's fair value is also considered. An impairment charge is recorded to the extent the carrying value of a CGU exceeds the greater of the CGU's fair value and its value in use. An impairment loss in respect of goodwill cannot be reversed. Management has determined there is no impairment in goodwill for the years ended March 31, 2018 and 2017.

Post-employment benefits

The Company sponsors defined contribution pension plans, defined benefit pension plans, post-employment medical benefit plans, and other post-employment benefit plans for certain employees. Contributions to the defined contribution pension plans are recognized as an expense as services are rendered by employees. The costs of the defined benefit plans, the post-employment medical benefit plans, and other post-employment benefit plans are actuarially determined and include management's best estimate of expected plan investment performance, the interest rate on the plan obligation, salary escalation, expected retirement ages, and medical cost escalation. The liability recognized in the consolidated balance sheets in respect of these plans is the present value of the defined benefit obligation at the end of the reporting period as determined by the Company's actuary less the fair value of plan assets adjusted for the unamortized portion of negative past service credits. The current service cost, amortization of past service credits, and the interest cost net of the expected return on plan assets are recognized in earnings in the period they arise. Adjustments arising from actuarially determined gains or losses are recognized in other comprehensive loss in the period in which they arise. The corresponding change in shareholders' equity is adjusted to retained earnings for the year.

Deferred income

Advance payments received for use of the Company's assets are initially recorded in deferred income. The income is recognized on a straight-line basis in net earnings over the period of use.

(in thousands of Canadian dollars, except per share amounts)

Financial instruments and hedge accounting

The Company classifies its financial instruments into the following categories: loans and receivables, liabilities at amortized cost, and financial assets and liabilities at fair value through profit or loss.

The Company has chosen to not apply hedge accounting to any of its derivative financial instruments. As a result of this policy choice, these derivative instruments are recorded initially and subsequently at fair value and the change in the fair value is recorded directly in the consolidated statements of earnings.

The Company classifies accounts payable and accrued liabilities, dividends payable, bank indebtedness, and long-term debt as liabilities at amortized cost. Accounts payable and accrued liabilities and dividends payable are initially measured at the amount to be paid, which approximates fair value because of the short-term nature of these liabilities. Subsequently, they are measured at amortized cost. Bank indebtedness and long-term debt are measured initially at fair value, net of transaction costs incurred and subsequently at amortized cost using the effective interest method.

Accounts receivable are classified as loans and receivables. Accounts receivable are primarily amounts due from customers from the sale of goods or the rendering of services. The Company maintains an allowance for doubtful accounts to record an estimate of credit losses. When no recovery of an amount owing is possible, the account receivable is reduced directly.

Transaction costs related to long-term debt are netted against the carrying value of the liability and are then amortized over the expected life of the instrument using the effective interest method. The Company recognizes financial instruments when it becomes a party to the terms of the instrument and has elected to use “trade date” accounting for regular way purchases and sales of financial assets.

Embedded derivatives (elements of contracts whose cash flows move independently from the host contract similar to a stand-alone derivative) are required to be separated and measured at fair value if certain criteria are met. Management reviewed its contracts and determined the Company does not currently have any embedded derivatives in these contracts that require separate accounting and disclosure.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statements of earnings on a straight-line basis over the period the asset is used under the lease. Leases under which the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Payments on finance leases are allocated to the liability and expense so as to recognize a constant rate of interest on the remaining balance of the liability. Assets acquired under finance leases are amortized over their useful lives.

(in thousands of Canadian dollars, except per share amounts)

Impairment of non-financial assets

The Company reviews long-lived assets and definite life intangible assets for impairment when events or circumstances indicate an asset may be impaired. Assets are assigned to a CGU based on the lowest level at which they generate independent cash inflows. When there is an indication of impairment, an impairment charge is recorded to the extent the carrying value of a CGU exceeds the greater of the CGU's fair value less costs to dispose and its value in use, determined by discounting expected cash flows (recoverable amount). An impairment loss is reversed if a CGU's recoverable amount increases to the extent that the related assets' carrying amounts are no larger than the amount that would have been determined, net of amortization, had no impairment loss been recorded.

Net earnings per share

Basic net earnings per share have been calculated using the weighted average number of Class A and Class B shares outstanding during the year. Diluted net earnings per share have been calculated by considering the impact of any potential ordinary shares that are dilutive on the two classes of shares when considered together.

Dividends

Dividends on Class A and Class B shares are recognized in the period in which they are formally declared by the Board of Directors.

Segmented information

The Company produces and markets wine and spirits products in Canada. A significant portion of the Company's sales are made to the liquor control boards in each province in which the Company transacts business. Management has concluded that the chief operating decision maker allocates resources and assesses performance of the Company on a consolidated basis. Furthermore, based on the type of products sold and the fact that its customers are similar in nature, the Company operates in a single operating segment. In addition, substantially all of the Company's sales are made in Canada. As a result, management has concluded the Company operates in one geographic segment.

Income taxes

Current income tax is the expected amount of tax payable or recoverable on taxable income or loss during the period. Current income tax may also include adjustments to taxes payable or recoverable in respect of previous periods.

The Company accounts for deferred income taxes based on temporary differences, which are the differences between the carrying amount of an asset or liability and its tax base. Deferred income taxes are provided for all temporary differences between the carrying amount and tax bases of assets and liabilities, except for those arising from the initial recognition of goodwill or for those arising from the initial recognition of an asset or liability in a transaction that is not a business combination and has no impact on earnings or taxable income or loss. Deferred income tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be

(in thousands of Canadian dollars, except per share amounts)

recovered or settled. The deferred income tax provision recorded in net earnings and other comprehensive loss represents the change during the year in deferred income tax assets and deferred income tax liabilities.

Contingencies

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims. Management believes adequate provisions have been recorded in the accounts where required. Although it is not possible to accurately estimate the extent of potential claims, if any, management believes the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Company.

Comprehensive income

Comprehensive income is comprised of net earnings and other comprehensive loss. Other comprehensive loss represents the change in equity for a period that arises from transactions that are required to be or are elected to be recognized outside of net earnings. The Company has chosen to record actuarial gains and losses on defined benefit pension plans and other post-employment benefit plans in other comprehensive loss in the period incurred.

Equity

The Company separately presents changes in equity related to capital stock, contributed surplus, retained earnings and accumulated other comprehensive loss in the consolidated statements of changes in equity.

Share based compensation

The Company grants stock options, performance share units (PSUs) and deferred share units (DSUs) to employees and directors under its share based compensation plan. All share based compensation arrangements are equity-settled in Class A non-voting common shares.

Equity-settled share based payments to employees are measured at the fair value of the equity instrument granted. An option valuation model (Black-Scholes) is used to fair value stock options issued to employees on the date of grant.

The grant date fair value of equity-settled share based awards is recognized as compensation expense with a corresponding increase in equity reserves over the related service period provided to the Company. The total amount of expense recognized in profit or loss is determined by reference to the fair value of the options granted or share awards, which factors in the number of options expected to vest. Equity-settled share based payment transactions are not remeasured once the grant date fair value has been determined, except in cases where the share based payment is linked to non-market performance conditions. Stock options vest in tranches (graded vesting) and accordingly, the expense is recognized in vesting tranches. PSUs vest in full at the end of the third fiscal year after the date of grant and accordingly, the expense is recognized evenly over the vesting period. DSUs vest immediately and accordingly, the expense is recognized in full at the date of grant.

(in thousands of Canadian dollars, except per share amounts)

Compensation expense is recognized over the applicable vesting period by increasing contributed surplus based on the number of awards expected to vest. At the end of each reporting period, the Company revises its estimates of the number of awards that are expected to vest based on the non-market performance vesting conditions. The Company recognizes the impact of the revision to original estimates, if any, in the consolidated statements of earnings, with a corresponding adjustment to contributed surplus.

Recently adopted accounting pronouncements

In January 2016, the IASB issued an amendment to IAS 7, Statement of Cash Flows, introducing additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017. The adoption of these amendments did not have a material impact on the consolidated financial statements.

In January 2016, the IASB issued amendments to IAS 12, Income Taxes, to clarify the requirements for recognizing deferred tax assets on unrealized losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. The amendments are effective for annual periods beginning on or after January 1, 2017. The adoption of these amendments did not have a material impact on the consolidated financial statements.

Recently issued accounting pronouncements

During July 2014, the IASB issued the complete version of IFRS 9, Financial Instruments - Classification and Measurement of Financial Assets and Financial Liabilities. IFRS 9 will replace IAS 39, Financial Instruments - Recognition and Measurement. In addition, IFRS 7, Financial Instruments - Disclosures, was amended to include additional disclosure requirements on transition to IFRS 9. The mandatory effective date of applying these standards is for annual periods beginning on or after January 1, 2018. The standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used. The standard requires that for financial liabilities measured at fair value, any changes in an entity's own credit risk are generally to be presented in other comprehensive income instead of net earnings. A new hedge accounting model is included in the standard, as well as increased disclosure requirements about risk management activities for entities that apply hedge accounting. The adoption of these amendments is not expected to have a material impact on the consolidated financial statements.

During May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which supersedes IAS 18, Revenue, and IAS 11, Construction Contracts. The standard details a revised model for the recognition of revenue from contracts with customers. In April 2016, the IASB amended IFRS 15 to clarify the guidance on identifying performance obligations, licences of intellectual property and principal versus agent. The amendments also provide additional practical expedients on transition. The standard is effective for first interim periods within annual periods beginning on or after January 1, 2018. During the year, the Company carried out a detailed review of the current recognition criteria for revenue against the requirements of IFRS 15. This review closely examined its agency wine businesses, presentation of certain customer related trade spending and timing of recognition of certain promotional discounts. Based on preliminary work completed,

(in thousands of Canadian dollars, except per share amounts)

the adoption of this standard is not expected to have a material impact on the consolidated financial statements.

In January 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases and related interpretations. The new standard will be effective for fiscal years beginning on or after January 1, 2019, with early adoption permitted provided the Company has adopted IFRS 15, Revenue from Contracts with Customers. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all leases contracts, and record it on the consolidated statement of financial position, except with respect to lease contracts that meet limited exception criteria. Given that the Company has significant contractual obligations in the form of operating leases under IAS 17, there will be a material increase to both assets and liabilities on adoption of IFRS 16, and material changes to the timing of recognition of expenses associated with the lease arrangements. The Company is analyzing the new standard to determine the impact of adopting this standard.

3 Critical accounting estimates and judgments

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the consolidated financial statements, the reported amounts of revenues and expenses during the reporting periods and the extent of and the reported amounts in disclosures. Actual results may vary from current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the period in which they change. Specific areas of uncertainty include but are not limited to:

Business combinations

For each business combination, the Company measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values. The determination of fair value requires the Company to make assumptions, estimates and judgments regarding future events. The allocation process is inherently subjective and impacts the amounts assigned to individual identifiable assets and liabilities, including the fair value of finished goods inventory, long-lived assets, the recognition and measurement of any identified intangible assets and the final determination of the amount of goodwill or gain on acquisition. The inputs to the exercise of judgments include legal, contractual, business and economic factors. As a result, the purchase price allocation impacts the Company's reported assets and liabilities and future net earnings due to the impact on future cost of goods sold, amortization and impairment tests.

Impairment of goodwill and indefinite life intangible assets

Testing goodwill for impairment at least annually involves estimating the recoverable amount of the CGUs to which goodwill is allocated. This requires making assumptions about future cash flows, growth rates and discount rates. Testing indefinite life intangible assets for impairment at least annually involves estimating the fair value using the relief of royalty method. This requires making assumptions about royalty rates, growth rates and discount rates. These assumptions are inherently uncertain and as such, actual amounts may vary from these assumptions and cause significant adjustments. Management has concluded that a 10% change in any key assumption in the impairment tests would not result in an impairment of goodwill or indefinite life intangible assets as at March 31, 2018 and 2017.

(in thousands of Canadian dollars, except per share amounts)

Post-employment benefits

Measuring the liability for post-employment benefits uses assumptions for the discount rates, increases in compensation, increases in medical costs and the timing of the payment of benefits. Actual amounts may vary from these assumptions and cause significant adjustments.

Fair value of grapes at the point of harvest

Where possible, the fair value of grapes at the point of harvest is determined by reference to local market prices for grapes of a similar quality and same varietal. For grapes for which local market prices are not readily available, the average price of similar grapes is used. Actual amounts may vary from these assumptions and cause significant adjustments.

4 Acquisitions

During the year, the Company made the following acquisitions:

- On October 1, 2017, the Company acquired 100% of the common shares of Gray Monk Cellars Ltd. (Gray Monk) and certain operating assets held by related parties for consideration of $36,384, of which $17,254 was funded in cash and $19,130 was funded by the issuance of 1,579,670 Class A non-voting common shares. Gray Monk generates annual revenue of approximately $11,000 and employs approximately 50 people. The results of operations from October 1, 2017 have been included in these consolidated financial statements. Since the date of acquisition, Gray Monk has generated revenue of $4,951 and net income of $1,069.

- On October 1, 2017, the Company acquired 100% of the common and preferred shares of Tinhorn Creek Vineyards Ltd. (Tinhorn) for cash consideration of $28,880. Tinhorn generates annual revenue of approximately $7,000 and employs approximately 50 people. The results of operations from October 1, 2017 have been included in these consolidated financial statements. Since the date of acquisition, Tinhorn has generated revenue of $3,191 and has incurred a net loss of $376.

- On October 10, 2017, the Company acquired 100% of the operating assets of Black Hills Estate Winery (Black Hills) for cash consideration of $31,328. Black Hills generates annual revenue of approximately $6,000 and employs approximately 20 people. The results of operations from October 10, 2017 have been included in these consolidated financial statements. Since the date of acquisition, Black Hills has generated revenue of $544 and has incurred a net loss of $266.

These acquisitions have been accounted for as business combinations.

(in thousands of Canadian dollars, except per share amounts)

The following table summarizes the amounts paid or payable at the dates of the acquisitions and the allocation of the purchase prices to the identifiable assets acquired and liabilities assumed based on management's estimate of the fair values:

	Gray Monk Cellars	Tinhorn Creek Vineyards Ltd.	Black Hills Estate Winery	Total
Assets acquired				
Cash	$ 24	$ -	$ -	$ 24
Receivables	934	468	-	1,402
Inventories	11,882	7,977	3,619	23,478
Current portion of biological assets	312	-	-	312
Prepaid expenses and other assets	71	107	12	190
	13,223	8,552	3,631	25,406
Property, plant and equipment	20,356	27,459	13,036	60,851
Intangible assets - brand	2,440	1,439	2,560	6,439
Intangible assets - customer lists	-	-	1,680	1,680
Goodwill	5,190	-	10,975	16,165
	41,209	37,450	31,882	110,541
Liabilities assumed				
Debt	-	62	-	62
Accounts payable and accrued liabilities	1,358	532	-	1,890
Income taxes payable	114	-	-	114
Deferred income taxes	3,353	3,812	554	7,719
	4,825	4,406	554	9,785
Net assets acquired	36,384	33,044	31,328	100,756
Total purchase consideration	36,384	28,880	31,328	96,592
Gain on acquisition	$ -	$ 4,164	$ -	$ 4,164

Recognized goodwill reflects the value assigned to expected future synergies and an assembled workforce within the companies. The gain on acquisition relating to the purchase of Tinhorn was a result of the limited number of market participants with the resources to acquire the assets and business of this scale. The gain on acquisition has been recorded as other income (expense) in the consolidated statements of earnings.

(in thousands of Canadian dollars, except per share amounts)

5 Inventories

	2018	2017
Packaging materials and supplies	$ 8,177	$ 9,627
Bulk wine and spirits	85,780	70,806
Finished goods	66,197	48,655
	$ 160,154	$ 129,088
Interest included in the cost of inventories	$ 644	$ 566

Inventory writedowns recognized as an expense amounted to $1,306 (2017 - $1,906).

The cost of inventories recognized as an expense and included in cost of goods sold, excluding amortization, was $212,266 (2017 - $209,545).

6 Property, plant and equipment

	Land	Vines, vineyard land and infrastructure	Buildings	Machinery and equipment	Total
At March 31, 2016					
Cost	$ 4,816	$ 40,374	$ 45,343	$ 116,585	$ 207,118
Accumulated amortization	-	(8,069)	(18,066)	(72,054)	(98,189)
Net carrying amount	4,816	32,305	27,277	44,531	108,929
Year ended March 31, 2017					
Additions	-	573	9,777	8,213	18,563
Disposals	-	-	-	(1)	(1)
Amortization	-	(1,329)	(1,227)	(6,097)	(8,653)
Closing net carrying amount	$ 4,816	$ 31,549	$ 35,827	$ 46,646	$ 118,838
At March 31, 2017					
Cost	$ 4,816	$ 40,947	$ 55,120	$ 122,325	$ 223,208
Accumulated amortization	-	(9,398)	(19,293)	(75,679)	(104,370)
Net carrying amount	4,816	31,549	35,827	46,646	118,838
Year ended March 31, 2018					
Additions	-	395	2,771	16,012	19,178
Additions from acquisition (note 4)	30,988	6,119	21,705	2,039	60,851
Disposals	-	(72)	-	(109)	(181)
Amortization	-	(1,814)	(1,838)	(6,843)	(10,495)
Closing net carrying amount	$ 35,804	$ 36,177	$ 58,465	$ 57,745	$ 188,191
At March 31, 2018					
Cost	$ 35,804	$ 47,373	$ 79,596	$ 139,285	$ 302,058
Accumulated amortization	-	(11,196)	(21,131)	(81,540)	(113,867)
Net carrying amount	$ 35,804	$ 36,177	$ 58,465	$ 57,745	$ 188,191

(in thousands of Canadian dollars, except per share amounts)

Included in buildings and machinery and equipment are assets amounting to $1,562 (2017 - $12,378) that are under development and are not being amortized.

Contractual commitments to purchase property, plant and equipment were $12,272 as at March 31, 2018 (2017 - $2,890).

7 Biological assets

Biological assets consist of grapes prior to harvest that are controlled by the Company. The Company owns and leases land in Ontario and British Columbia to grow grapes in order to secure a supply of quality grapes for the making of wine.

During the year ended March 31, 2018, the Company harvested grapes valued at $7,150 (2017 - $6,238).

The changes in the carrying amount of biological assets are as follows:

	2018	2017
Carrying amount - Beginning of year	$ 1,400	$ 1,196
Acquisitions (note 4)	312	-
Net increase in fair value less costs to sell due to biological transformation	7,339	6,442
Transferred to inventory on harvest	(7,150)	(6,238)
Net gain	501	204
Biological assets	$ 1,901	$ 1,400

The Company is exposed to financial risk because of the long period of time between the cash outflow required to plant grape vines, cultivate vineyards, and harvest grapes and the cash inflow from selling wine and related products from the harvested grapes.

Substantially all of the grapes from owned and leased vineyards are used in the Company's winemaking processes. Owned and leased vineyards, in combination with supply contracts with grape growers, are used to secure a supply of domestic grapes. These strategies reduce the financial risks associated with changes in grape prices.

(in thousands of Canadian dollars, except per share amounts)

8 Intangible assets

	Brands - indefinite life	Customers	Contract packaging	Software	Other	Total
At March 31, 2016						
Cost	$ 4,175	$ 11,147	$ 1,100	$ 2,133	$ 1,917	$ 20,472
Accumulated amortization and impairment	(200)	(5,821)	(863)	(897)	(1,651)	(9,432)
Net carrying amount	3,975	5,326	237	1,236	266	11,040
Year ended March 31, 2017						
Additions	-	-	-	833	-	833
Amortization	-	(647)	(110)	(384)	(132)	(1,273)
Closing net carrying amount	$ 3,975	$ 4,679	$ 127	$ 1,685	$ 134	$ 10,600
At March 31, 2017						
Cost	$ 4,175	$ 11,147	$ 1,100	$ 2,966	$ 1,917	$ 21,305
Accumulated amortization and impairment	(200)	(6,468)	(973)	(1,281)	(1,783)	(10,705)
Net carrying amount	3,975	4,679	127	1,685	134	10,600
Year ended March 31, 2018						
Additions	-	-	-	384	-	384
Additions from acquisitions (note 4)	6,439	1,680	-	-	-	8,119
Amortization	-	(734)	(110)	(493)	(33)	(1,370)
Closing net carrying amount	$ 10,414	$ 5,625	$ 17	$ 1,576	$ 101	$ 17,733
At March 31, 2018						
Cost	$ 10,614	$ 12,827	$ 1,100	$ 3,350	$ 1,917	$ 29,808
Accumulated amortization and impairment	(200)	(7,202)	(1,083)	(1,774)	(1,816)	(12,075)
Net carrying amount	$ 10,414	$ 5,625	$ 17	$ 1,576	$ 101	$ 17,733

9 Goodwill

In order to test goodwill for impairment, the Company allocates the carrying value of goodwill to CGUs based on the lowest level that goodwill is monitored for internal management purposes. The aggregate carrying amount of goodwill allocated to each unit is as follows:

	2018	2017
Ontario and eastern Canadian wine	$ 3,134	$ 3,134
Western Canadian wine	26,695	10,530
Personal winemaking products	23,809	23,809
	$ 53,638	$ 37,473

(in thousands of Canadian dollars, except per share amounts)

The Company determined the recoverable amount of the related CGUs by estimating their value in use. Key assumptions used are:

	2018	2017
Pre-tax discount rate	12%	11%
Period of projected cash flows	5 years	5 years
Growth rate beyond period of projected cash flows	3%	3%

The Company uses past experience and current expectations about future performance in projecting cash flows, which are based on financial budgets for five years. For the period after five years, the Company projects cash flows using an assumed growth rate, which is based on expectations about long-term economic growth in Canada and any known industry specific factors that may influence long-term growth in the Canadian wine industry. The discount rate is estimated by referring to external sources of information about the cost of capital and the leverage of companies that operate in a similar industry to the Company and that are of similar size. The rate determined is then adjusted to a pre-tax basis.

10 Bank indebtedness

Significant terms of the Company's operating loan facility are summarized below. The floating rates are stated in relation to the one to six-month Canadian Dealer Offered Rate (CDOR).

	2018	2017
Bank indebtedness	$ 47,324	$ 36,620
Significant terms		
Committed until	September 29, 2022	July 31, 2021
Borrowing limit	$90,000	$90,000
Interest rate	CDOR + 1.90%	CDOR + 1.25%
Unused amount	$42,676	$53,380

11 Accounts payable and accrued liabilities

	2018	2017
Trade payables	$ 22,211	$ 23,725
Accrued liabilities	10,796	12,045
Deferred revenue - gift cards	397	380
Foreign exchange forward contracts liability (note 21)	-	8
Deferred income	-	102
	$ 33,404	$ 36,260

(in thousands of Canadian dollars, except per share amounts)

12 Long-term debt

	2018	2017
Revolving, amortizing loan - Investment facility	$ 125,255	$ -
Term loan - Operating facility	-	48,333
Term loan - Capital facility	-	2,925
Other	212	319
	125,467	51,577
Less: Financing costs	1,075	493
	124,392	51,084
Less: Current portion	8,135	4,406
	$ 116,257	$ 46,678

On September 29, 2017, the Company amended and restated its debt facilities. Amendments include a revised maturity date of September 29, 2022, revised financial covenants and updated applicable margins based on the Company's leverage. Additionally, the total borrowing limit was increased to $310,000 and separated into two facilities: a revolving, non-amortizing facility with a borrowing limit of $90,000 to be used for day-to-day operations, distributions and capital expenditures and a revolving, amortizing investment facility with a borrowing limit of $220,000 to be used for acquisitions or capital expenditures. Each draw on the investment facility is subject to a new amortization schedule and required annual repayments increase over the term of the loan. The initial draw on the investment facility was used to refinance the previous operating and capital term loans and to fund acquisitions. Monthly principal repayments of $535 are required on the revolving, amortizing investment facility based on the initial draw until September 30, 2018. Thereafter, monthly principal repayments of $803 are required. As at March 31, 2018, the applicable margin was 1.90% (2017 - 1.25%).

Unamortized financing costs relating to the refinanced facilities of $435 as at September 29, 2017 were expensed to interest expense in the consolidated statements of earnings. Financing costs of $1,222 were incurred to amend the debt facilities and these costs will be amortized over the new term of the loan.

On October 31, 2017, the Company terminated its existing swap agreements and entered into a new swap agreement to fix the interest rate on the balance outstanding on the investment facility. Until September 29, 2022, the interest rate is fixed at 2.25%, plus the applicable margin.

The Company and its subsidiaries have provided their assets as security for these loans.

Interest expense on long-term debt during the year was $3,227 (2017 - $1,858).

(in thousands of Canadian dollars, except per share amounts)

13 Post-employment benefits

Defined contribution plans

The total expenses for the defined contribution savings plans were $1,630 (2017 - $1,519).

Defined benefit plans

The Company has funded defined benefit pension plans. The Company also has an unfunded post-retirement medical benefits plan for certain employees and provides a monthly wine allowance to retired employees, which are collectively referred to as other post-employment benefits.

Nature

The Company's defined benefit pension plans pay benefits based on a percentage of final average salary. There are two defined benefit pension plans in British Columbia with members who continue to accrue benefits. New employees are no longer entitled to accrue benefits under these defined benefit pension plans. There is one defined benefit pension plan in Ontario and no further benefits accrue to the members of this plan. All members of the defined benefit pension plan in Ontario have retired. The Company is responsible for administering these pension plans and determining investment policies. A committee of the Company's Board of Directors is responsible for overseeing the Company's defined benefit pension plans.

Regulatory information

The defined benefit pension plans are governed by the Pension Benefits Standards Act in British Columbia and the Pension Benefits Act in Ontario. An appointed actuary prepares a valuation at least every three years for each of the plans. These valuations determine the Company's minimum contributions. The minimum contributions are primarily based on the normal going concern cost, the funding deficit amortized over 15 years, and the solvency deficit amortized over five years. The solvency deficit is calculated assuming the plan is wound up on the effective date of the valuation. Contributions could be reduced in certain instances via a funding holiday if requirements of the relevant regulations are met, which normally requires the plan to have a surplus above certain threshold levels.

Risks

The defined benefit plan's assets are invested in mutual funds. The investment mix for each plan is chosen with the objective that sufficient assets will be available to pay benefits as they come due and to achieve a reasonable return at an acceptable level of risk to stakeholders. The defined benefit plans subject the Company to market, interest rate, currency, price, credit, liquidity and longevity risks, which are typical of such plans. The most significant of these risks is that the expense and cash contributions related to these plans depend on the discount rate used to measure the liability to pay future benefits and the market performance of the plan's assets set aside to pay these benefits. A decline in long-term interest rates or in asset values could increase the Company's costs related to funding the deficit in these plans.

(in thousands of Canadian dollars, except per share amounts)

Amounts pertaining to defined benefit plans are as follows:

			2018
	Pension benefits	**Other post-employment benefits**	**Total**
Plan assets			
Fair value - Beginning of year	$ 22,320	$ -	$ 22,320
Return on plan assets excluding amounts in interest income	(650)	-	(650)
Interest income	805	-	805
Company's contributions	1,398	91	1,489
Benefits paid	(1,346)	(91)	(1,437)
Fair value - End of year	$ 22,527	$ -	$ 22,527
Plan obligations			
Accrued benefit obligations - Beginning of year	$ 24,889	$ 2,710	$ 27,599
Total current service cost	559	72	631
Interest cost	892	99	991
Benefits paid	(1,346)	(91)	(1,437)
Remeasurements			
Experience gain	(566)	(33)	(599)
Loss from change in demographic assumptions	147	9	156
Loss (gain) from change in financial assumptions	358	(32)	326
Accrued benefit obligations - End of year	$ 24,933	$ 2,734	$ 27,667
Post-employment benefit obligations	$ 2,406	$ 2,734	$ 5,140

			2018
	Pension benefits	**Other post-employment benefits**	**Total**
Benefit plan expense			
Current service cost	$ 559	$ 72	$ 631
Net interest cost on defined benefit liability	87	99	186
Net benefit plan expense	$ 646	171	$ 817
Amount recognized in other comprehensive loss			
Net actuarial (loss) gain	$ (589)	$ 56	$ (533)
Expected contributions for the year ending March 31, 2019	$ 1,362	$ 128	$ 1,490
Weighted average duration of the defined benefit obligations in years	13.1	10.4	12.8

(in thousands of Canadian dollars, except per share amounts)

						2017
		Pension benefits		**Other post-employment benefits**		**Total**
Plan assets						
Fair value - Beginning of year	$	20,966	$	-	$	20,966
Return on plan assets excluding amounts in interest income		177		-		177
Interest income		804		-		804
Company's contributions		1,397		109		1,506
Benefits paid		(1,024)		(109)		(1,133)
Fair value - End of year	$	22,320	$	-	$	22,320
Plan obligations						
Accrued benefit obligations - Beginning of year	$	24,084	$	2,829	$	26,913
Total current service cost		520		88		608
Interest cost		916		109		1,025
Benefits paid		(1,024)		(109)		(1,133)
Remeasurements						
Experience loss (gain)		76		(231)		(155)
Loss from change in financial assumptions		317		24		341
Accrued benefit obligations - End of year	$	24,889	$	2,710	$	27,599
Post-employment benefit obligations	$	2,569	$	2,710	$	5,279

						2017
		Pension benefits		**Other post-employment benefits**		**Total**
Benefit plan expense						
Current service cost	$	520	$	88	$	608
Net interest cost on defined benefit liability		112		109		221
Net benefit plan expense	$	632	$	197	$	829
Amount recognized in other comprehensive loss						
Net actuarial (loss) gain	$	(216)	$	207	$	(9)
Expected contributions for the year ending March 31, 2018	$	1,357	$	122	$	1,479
Weighted average duration of the defined benefit obligations in years		14.7		11.1		12.7

(in thousands of Canadian dollars, except per share amounts)

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations and benefits costs are as follows:

	2018	2017
Discount rate for expenses	3.6%	3.8%
Discount rate for obligations	3.5%	3.6%
Rate of compensation increase	2.5%	2.5%
Rate of medical cost increases	5.0%	5.0%
Retirement age	60 - 65 years	60 - 65 years
Inflation rate	2.0%	2.0%
Mortality tables	MI-2017	CPM-B 2014 Private table

The following table outlines the impact of a reasonable change in significant assumptions assuming all other assumptions are held constant. Changes in numerous assumptions may occur at the same time, which could increase or decrease the impact. With respect to a 1% increase or decrease in the inflation rate, the analysis excludes any impact this would have on the discount rate, medical cost trend rates and the rate of compensation increase.

	2018		2017	
	Pension benefits	Other post-employment benefits	Pension benefits	Other post-employment benefits
Increase (decrease) in the post-employment benefit obligations				
1% increase in the discount rate	$ (2,928)	$ (267)	$ (3,301)	$ (263)
1% decrease in the discount rate	3,583	301	4,023	339
1% increase in the rate of compensation increase	667	5	952	10
1% decrease in the rate of compensation increase	(604)	(5)	(840)	(9)
1% increase in the inflation rate	360	-	365	-
1% decrease in the inflation rate	(326)	-	(329)	-

At March 31, 2018, the accumulated actuarial losses recognized in other comprehensive loss were $5,725 (2017 - $5,192).

Plan assets

The plan assets consist of the following:

	2018		2017	
Mutual funds				
Fixed income	$ 16,177	72%	$ 16,094	72%
Equity	6,350	28	6,226	28
	$ 22,527	100%	$ 22,320	100%

(in thousands of Canadian dollars, except per share amounts)

14 Income taxes

	2018	2017
Current tax on earnings for the year	$ 11,797	$ 9,220
Adjustments in respect of prior years	-	(1,556)
Provision for current income taxes	11,797	7,664
Change in temporary differences	(714)	72
Impact of change in tax rate	(1)	14
Other	(145)	145
Provision for (recovery of) deferred income taxes	(860)	231
Total provision for income taxes	$ 10,937	$ 7,895

The Company's income tax expense consists of the following:

	2018	2017
Provision for income taxes at blended statutory rate of 26.05% (2017 - 25.98%)	$ 10,696	$ 8,897
Permanent differences and non-deductible items	(741)	346
Deferred tax liability required for purchased assets	228	-
Future tax rate differential	185	-
Future income tax rate changes	(1)	14
Refunds relating to prior years	-	(1,357)
Other	570	(5)
	$ 10,937	$ 7,895

The movement of the deferred income tax account is as follows:

	2018	2017
At beginning of year	$ 15,820	$ 15,591
Deferred tax liability recognized on acquired assets (note 4)	7,719	-
Provision for (recovery of) deferred income taxes in net earnings	(860)	231
Recovery of deferred income taxes in other comprehensive loss	(139)	(2)
At end of year	$ 22,540	$ 15,820

(in thousands of Canadian dollars, except per share amounts)

The significant temporary differences giving rise to the deferred income tax liability are comprised of the following:

Deferred income tax liability

	Accelerated tax depreciation and deductions on property, plant and equipment	Accelerated tax deductions on intangible assets	Tax deductions on inventory	Tax deductions on goodwill	Total
March 31, 2016	$ 12,681	$ 2,287	$ -	$ 3,171	$ 18,139
(Recovery) provision in net earnings	(27)	(375)	-	-	(402)
March 31, 2017	12,654	1,912	-	3,171	17,737
Deferred tax liability recognized on acquisition of assets	1,826	2,054	3,891	(52)	7,719
(Recovery) provision in net earnings	1,884	(2,019)	(1,872)	659	(1,348)
March 31, 2018	$ 16,364	$ 1,947	$ 2,019	$ 3,778	$ 24,108

Deferred income tax asset

	Fair value change on derivatives	Post-employment benefits	Other	Total
March 31, 2016	$ (862)	$ (1,554)	$ (132)	$ (2,548)
(Recovery) provision in net earnings	583	175	(125)	633
Recovery in other comprehensive loss	-	(2)	-	(2)
March 31, 2017	(279)	(1,381)	(257)	(1,917)
(Recovery) provision in net earnings	366	175	(53)	488
Recovery in other comprehensive loss	-	(139)	-	(139)
March 31, 2018	$ 87	$ (1,345)	$ (310)	$ (1,568)

(in thousands of Canadian dollars, except per share amounts)

15 Capital stock

Authorized
Unlimited preference shares
Unlimited Class A shares, non-voting
Unlimited Class B shares, voting

Issued

	2018			2017		
	Number of shares		Amount	Number of shares		Amount
Class A shares, non-voting	35,471,185	$	25,711	33,581,487	$	6,567
Class B shares, voting	8,702,095		386	9,012,123		400
	44,173,280	$	26,097	42,593,610	$	6,967

All of the issued Class A and Class B shares are fully paid and have no par value.

Class A shares are non-voting and are entitled to a dividend in an amount equal to 115% of any dividend paid or declared on Class B shares. Class B shares are voting and convertible into Class A shares on a one-for-one basis. In March 2018, 310,028 Class B shares were converted into Class A shares on a one-for-one basis.

Quarterly dividends of $0.0450 (previously $0.0408) per Class A share and $0.0391 (previously $0.0355) per Class B share were approved by the Board of Directors on June 7, 2017 and are formally declared in each quarter.

The authorized share capital of the Company also consists of an unlimited number of preference shares, issuable in one or more series, of which 33,315 are designated as preference shares, Series A. As at March 31, 2018 and 2017, there were no preference shares issued or outstanding.

Stock purchase plan

The Company's full-time salaried and certain hourly employees participate in a Company sponsored stock purchase plan. Under the terms of the plan, employees can purchase a certain number of Class A shares on an annual basis. Employees are required to pay 67% of the market price per Class A share. The Company is responsible for the remainder of the cost and, during 2018, expensed $197 (2017 - $268) related to the employee program. In fiscal 2017, officers of the Company participated in an Equity Incentive Program, where Class A shares of the Company were purchased on their behalf from the open market. During 2018, this program was replaced by the share based compensation program as described in note 16.

(in thousands of Canadian dollars, except per share amounts)

16 Share based compensation

On September 13, 2017, the Company established a new share based compensation plan comprised of stock options, PSUs and DSUs. The impact of the share based compensation expense is summarized as follows:

		2018
241,600 stock options (2017 - nil) (a)	$	259
72,750 performance share units (2017 - nil) (b)		146
69,559 deferred share units (2017 - nil) (c)		1,268
	$	1,673

The stock options, PSUs and DSUs are equity settled and as such, the expense associated with these instruments is recorded as a share based compensation expense through the consolidated statements of earnings and comprehensive income with a corresponding entry made to contributed surplus on the consolidated balance sheets.

The maximum number of shares that may be issued under all share based compensation arrangements implemented by the Company, including the stock option plan, the PSU plan and the DSU plan, may not exceed 10% of the total number of Class A non-voting common shares issued and outstanding from time to time. As at March 31, 2018, the Company had 3,358,149 Class A non-voting common shares reserved for issuance under the share based compensation arrangements.

a) Stock options

The Company has a stock option plan under which options to purchase Class A non-voting common shares may be granted to officers and employees of the Company. Options granted under the plan have an exercise price of not less than the volume weighted average trading price of the Class A non-voting common shares where they are listed for the five trading days prior to the date of the grant. Options granted vest in tranches, equally over a three-year period on each anniversary of the grant date, commencing on the first anniversary of the grant date.

(in thousands of Canadian dollars, except per share amounts)

The Company's stock option transactions during the year were as follows:

	Number of options		Weighted average exercise price per share
Balance - March 31, 2017	-	$	-
Granted on September 21, 2017	252,300		11.66
Granted on November 13, 2017	17,600		12.80
Forfeited on November 17, 2017	(1,900)		(11.66)
Forfeited on February 9, 2018	(1,700)		(11.66)
Forfeited on February 28, 2018	(6,300)		(11.66)
Forfeited on March 16, 2018	(18,400)		(11.66)
	241,600	$	11.74

The stock options granted on September 21, 2017 expire on September 21, 2027. The stock options granted November 13, 2017 expire on November 13, 2027.

For options granted during the year, the fair value was estimated on the grant date using the Black-Scholes fair value option pricing model using the following weighted average assumptions:

Weighted average fair value per share option	$3.41
Expected volatility (1)	30.43%
Dividend yield	1.75%
Risk-free interest rate	1.00%
Weighted average expected life in years	10

(1) Expected volatility was determined using historical volatility.

No stock options granted under the share based compensation plan have vested or been exercised as at March 31,2018.

b) PSU plan

The Company has established a PSU plan for employees and officers of the Company. PSUs represent the right to receive Class A non-voting common shares settled by the issuance of treasury shares or shares purchased on the open market. PSUs vest in full at the end of the third fiscal year after the grant date. The number of units that will vest is determined based on the achievement of certain performance conditions (i.e., financial targets) established by the Board of Directors and are adjusted by a factor, which ranges from 0.5 to 2.0, depending on the achievement of the targets established. Therefore, the number of units that will vest and are exchanged for Class A non-voting common shares may be higher or lower than the number of units originally granted to a participant.

(in thousands of Canadian dollars, except per share amounts)

The Company's PSU transactions during the year were as follows:

	Number of units		Grant date fair value per unit
Balance - March 31, 2017	-	$	-
Granted on September 21, 2017	76,280		11.66
Granted on November 13, 2017	4,690		12.80
Forfeited on November 17, 2017	(560)		(11.66)
Forfeited on February 9, 2018	(510)		(11.66)
Forfeited on February 28, 2018	(1,570)		(11.66)
Forfeited on March 16, 2018	(5,580)		(11.66)
	72,750	$	11.74

No PSUs granted under the share based compensation plan have vested or been exercised as at March 31, 2018.

c) DSU plan

The Company has established a DSU plan for employees, officers and Directors of the Company. DSUs represent the right to receive Class A non-voting common shares settled by the issuance of treasury shares or shares purchased on the open market. DSUs vest immediately, but are only exercisable when the participant's employment with the Company ceases, or when the participant is no longer a director of the Company.

The Company's DSU transactions during the year were as follows:

	Number of units		Grant date fair value per unit
Balance - March 31, 2017	-	$	-
Granted on March 13, 2018	9,780		18.41
Granted on March 31, 2018	59,779		18.22
	69,559	$	18.25

No DSUs granted under the share based compensation plan have been exercised as at March 31, 2018.

(in thousands of Canadian dollars, except per share amounts)

17 Nature of expenses

The nature of expenses included in selling and administration and cost of goods sold, excluding amortization, are as follows:

		2018		2017
Raw materials and consumables	$	174,825	$	173,225
Employee compensation and benefits		67,712		63,412
Advertising, promotion and distribution		28,504		24,025
Occupancy		11,885		11,169
Repairs and maintenance		6,708		6,803
Other external charges		21,403		18,835
	$	311,037	$	297,469

Other (income) expenses are as follows:

		2018		2017
Gain on acquisition (note 4)	$	(4,164)	$	-
Ongoing maintenance costs related to Port Moody winery facility (a)		572		524
Income related to Port Moody winery facility (b)		(101)		(404)
Other		(149)		-
	$	(3,842)	$	120

a) During fiscal 2006, the Company closed its Port Moody winery facility and transferred production to its winery operations in Kelowna, British Columbia. Effective July 1, 2012, the property was expropriated for a five-year period. The cost of maintaining this idle facility and costs associated with its expropriation amounted to $572 in 2018 (2017 - $524).

b) Income amounting to $101 (2017 - $404) was recorded related to the Company's idle Port Moody property related to expropriation notices received by the Company.

18 Net earnings per share

						2018
		Class A		Class B		Total
Net earnings attributed for the year - basic and diluted	$	24,545	$	5,572	$	30,117
Weighted average number of shares outstanding - basic and diluted		34,539,843		8,986,571		
Net earnings per share - basic and diluted	$	0.71	$	0.62		

(in thousands of Canadian dollars, except per share amounts)

				2017
		Class A	Class B	Total
Net earnings attributed for the year - basic and diluted	$	21,363	$ 4,987	$ 26,350
Weighted average number of shares outstanding - basic and diluted		33,581,487	9,012,123	
Net earnings per share - basic and diluted	$	0.64	$ 0.55	

19 Commitments

In certain instances, the Company leases land for the purpose of operating vineyards. The terms of the land leases are 30 and 32 years, which expire in 2036 and 2029, respectively. Under the terms of one land lease, the Company has the option to agree in advance to purchase any grapes grown on the property at fair value for five or more years after the termination of the lease. The Company also has a right of first refusal to purchase the land under both land leases. The terms of such a purchase would be negotiated based on market conditions existing at the time of the purchase.

The Company leases various storage facilities, offices, and retail locations. The remaining terms of these leases range between one and ten years. The Company also leases various equipment and vehicles with remaining lease terms between one and five years. In many cases, the Company has renewal options for fair market rental prices at the time of renewal.

The Company's minimum lease payments as at March 31, 2018 under long-term non-cancellable leases are outlined in note 21 along with its other contractual obligations.

In 2018, minimum lease payments of $6,249 (2017 - $5,289) were recognized as an expense.

20 Non-cash working capital items

The change in non-cash working capital items related to operations is comprised of the change in the following items:

	2018	2017
Accounts receivable	$ (3,031)	$ 1,250
Inventories and current portion of biological assets	(7,615)	(9,626)
Prepaid expenses and other assets	(1,105)	(1,324)
Accounts payable and accrued liabilities	(4,138)	2,042
	$ (15,889)	$ (7,658)

(in thousands of Canadian dollars, except per share amounts)

21 Financial instruments

Classification of financial instruments

The classification and measurement of the financial assets and liabilities, as well as their carrying amounts and fair values are as follows:

Assets/liabilities	Category	Measurement		2018 Carrying amount		2018 Fair value
Accounts receivable	Loans and receivables	Amortized cost	$	31,406		31,406
Bank indebtedness	Other liabilities	Amortized cost		47,324		47,324
Accounts payable and accrued liabilities	Other liabilities	Amortized cost		33,404		33,404
Dividends payable	Other liabilities	Amortized cost		1,935		1,935
Long-term debt	Other liabilities	Amortized cost		124,392		124,392
Interest rate swap asset	Derivatives	Fair value		180		180
Foreign exchange forward contracts asset	Derivatives	Fair value		152		152

Assets/liabilities	Category	Measurement		2017 Carrying amount		2017 Fair value
Accounts receivable	Loans and receivables	Amortized cost	$	26,973	$	26,973
Bank indebtedness	Other liabilities	Amortized cost		36,620		36,620
Accounts payable and accrued liabilities	Other liabilities	Amortized cost		36,252		36,252
Dividends payable	Other liabilities	Amortized cost		1,690		1,690
Long-term debt	Other liabilities	Amortized cost		51,084		51,084
Interest rate swap liability	Derivatives	Fair value		1,060		1,060
Foreign exchange forward contracts liability	Derivatives	Fair value		8		8

The Company’s interest rate swaps and foreign exchange contracts are derivatives and are recorded at fair value. As a result, unrealized gains and losses are included each period through earnings, which reflect changes in fair value.

Fair value

The fair value of accounts receivable, accounts payable and accrued liabilities and dividends payable approximates their carrying value because of the short-term maturity of these instruments.

The fair value of bank indebtedness and long-term debt is equivalent to its carrying value because the variable interest rate is comparable to market rates. The fair value of the interest rate swaps used to fix the interest rate

(in thousands of Canadian dollars, except per share amounts)

on long-term debt is included in the current and long-term derivative financial instruments in the consolidated balance sheets.

The fair value of foreign exchange forward contracts is determined based on the difference between the contract rate and the forward rate at the date of the valuation.

The fair value of the interest rate swaps is determined based on the difference between the fixed interest rate in the contract that will be paid by the Company and the forward curve of the floating interest rates that are expected to be paid by the counterparty. The fair value of foreign exchange forward contracts and the interest rate swaps are adjusted to reflect any changes in the Company's or the counterparty's credit risk.

Fair value estimates are made at a specific point in time, using available information about the instrument. These estimates are subjective in nature and often cannot be determined with precision.

The net unrealized gain on derivative financial instruments is comprised of:

	2018	2017
Unrealized gains on foreign exchange forward contracts	$ 160	$ 1,118
Unrealized gains on interest rate swaps	1,240	1,114
	$ 1,400	$ 2,232

The fair value measurements of the Company's financial instruments are classified in the hierarchy below according to the significance of the inputs used in making the fair value measurements.

			2018
Asset/liability	**Quoted prices in active markets for identical assets (Level 1)**	**Significant observable inputs other than quoted prices (Level 2)**	**Significant unobservable inputs (Level 3)**
Interest rate swap asset	$ -	$ 180	$ -
Foreign exchange forward contracts asset	-	152	-

			2017
Asset/liability	**Quoted prices in active markets for identical assets (Level 1)**	**Significant observable inputs other than quoted prices (Level 2)**	**Significant unobservable inputs (Level 3)**
Interest rate swap liability	$ -	$ 1,060	$ -
Foreign exchange forward contracts liability	-	8	-

(in thousands of Canadian dollars, except per share amounts)

Objectives and policy relating to financial risk management

Interest rate risk

The Company is exposed to interest rate risk as a result of cash balances, floating rate debt, and interest rate swaps. Of these risks, the Company's principal exposure is that increases in the floating interest rates on its debt, if unmitigated, could lead to decreases in cash flow and earnings. The Company's objective in managing interest rate risk is to achieve a balance between minimizing borrowing costs over the long term, ensuring it meets borrowing covenants, and ensuring it meets other expectations and requirements of investors. To meet these objectives, the Company's policy is to effectively fix the rates on long-term debt to match the duration of investments in long-lived assets and to use floating rate funding for short-term borrowing.

The Company has effectively fixed its interest rate on its long-term debt until September 2022 by entering into interest rate swaps. The interest rate swaps are measured at fair value. An unrealized gain of $1,240 (2017 - $1,114) was recognized on the interest rate swaps, which are classified as a component of the net unrealized gain on derivative financial instruments in the consolidated statements of earnings.

The Company's short-term borrowings are funded using a floating interest rate and as such are sensitive to interest rate movements. As at March 31, 2018, with other variables unchanged, a 100 basis point change in interest rates would impact the Company's net earnings by approximately $350 (2017 - $271), exclusive of the mark-to-market adjustments on the interest rate swaps.

Credit risk

Credit risk arises from cash, derivative financial instruments and accounts receivable. The Company places its cash and cash equivalents with major Canadian financial institutions. Counterparties to derivative contracts are also major financial institutions.

Credit risk for trade receivables is monitored through established credit monitoring activities. Over 50% of the Company's accounts receivable balance relates to amounts owing from Canadian provincial liquor boards. Excluding accounts receivable from Canadian provincial liquor boards, the Company does not have a significant concentration of credit risk with any single counterparty or group of counterparties. Amounts owing from Canadian provincial liquor boards represent $16,509 (2017 - $14,115) of the total accounts receivable for which no allowance has been provided. Of the remaining non-provincial liquor board balances, $1,483 (2017 - $948) was over thirty days past due as at March 31, 2018. An allowance for doubtful accounts of $162 (2017 - $127) has been provided against these accounts receivable amounts, which the Company has determined represents a reasonable estimate of amounts that may be uncollectible.

Sales to its largest customer, a provincial Crown corporation, were $64,215 (2017 - $60,415) during the year ended March 31, 2018. Sales to its second largest customer, a branch of a provincial government, were $42,622 (2017 - $41,304) during the year.

(in thousands of Canadian dollars, except per share amounts)

An analysis of accounts receivable is as follows:

	2018	2017
Liquor boards	$ 16,509	$ 14,115
Non-liquor boards		
Current	11,110	10,709
Past due 0 - 30 days, due on delivery accounts	913	534
Past due 0 - 30 days	1,553	794
Past due 31 - 60 days	786	332
Past due > 60 days	697	616
Allowance for doubtful accounts	(162)	(127)
	$ 31,406	$ 26,973

The change in the allowance for doubtful accounts was as follows:

	2018	2017
Balance - Beginning of year	$ 127	$ 124
Provision for current year	110	141
Bad debts	(75)	(138)
Balance - End of year	$ 162	$ 127

Liquidity risk

The Company incurs obligations to deliver cash or other financial assets on future dates. Liquidity risk inherently arises from these obligations, which include requirements to repay debt, purchase grape inventory and make operating lease payments.

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances and by appropriately utilizing its operating line of credit. Company management continuously monitors and reviews both actual and forecasted cash flows and matches the maturity profile of financial assets and financial liabilities. Accounts payable and accrued liabilities are generally due within 30 days.

The following table outlines the Company's contractual undiscounted obligations. The Company analyzes contractual obligations for financial liabilities in conjunction with other commitments in managing liquidity risk. Contractual obligations include long-term debt, the expected payments under swap agreements that fix the Company's interest rate on long-term debt, operating leases and commitments on short-term forward foreign exchange contracts used to mitigate the currency risk on purchases denominated in foreign currencies as at March 31, 2018.

(in thousands of Canadian dollars, except per share amounts)

	< 1 year	2 - 3 years	4 - 5 years	> 5 years	Total
Long-term debt	$ 8,135	$ 20,982	$ 96,350	$ -	$ 125,467
Leases and royalties	5,092	6,419	4,373	8,176	24,060
Pension obligations	514	734	576	888	2,712
Grape and bulk wine purchase contracts	79,100	77,282	56,850	144,276	357,508
Packaging purchase contracts	30,392	1,457	-	-	31,849
Bulk whiskey purchase contracts	525	80	-	-	605
	123,758	106,954	158,149	153,340	542,201
Interest rate swap	2,740	4,828	2,934	-	10,502
Foreign exchange forwards	8,720	-	-	-	8,720
Total contractual obligations	$ 135,218	$ 111,782	$ 161,083	$ 153,340	$ 561,423

The Company's obligations under its interest rate swaps and foreign exchange forward contracts are stated above on a gross basis rather than net of the corresponding contractual benefits.

The Company has entered into grape purchase contracts with certain suppliers to purchase their crops at the time of harvest for prices set by the market. The amount of the commitment will change based on the total tonnes harvested or the prices set by the market for specific grapes and the amount included in the table above represents management's best estimate of the Company's commitment over the periods noted.

Foreign exchange risk

Certain of the Company's purchases are denominated in US dollars (US$), euro (EUR) or Australian dollars (AU$). Any increases or decreases to the foreign exchange rates could increase or decrease the Company's earnings. To mitigate the exposure to foreign exchange risk, the Company has entered into forward foreign currency contracts.

The Company's foreign exchange risk arises on the purchase of bulk wine and concentrate, which are priced in US dollars, euro and Australian dollars. The Company's strategy is to hedge approximately 50% to 80% of its annual foreign exchange requirements prior to or during the beginning of each fiscal quarter. As at March 31, 2018, the Company has forward foreign currency contracts to buy US$4,700 at rates ranging between $1.23 and $1.27, EUR900 at rates averaging 1.55 and AU$1,400 at rates averaging $1.00. These contracts mature at various dates to June 2018. After considering the offsetting impact of these forward contracts, a 1% increase or decrease to the exchange rate of the US dollar, the euro or the Australian dollar would impact the Company's net earnings by approximately $197 (2017 - $162), $68 (2017 - $27) or $111 (2017 - $98), respectively. The Company has elected to not use hedge accounting and as a result, has recognized unrealized foreign exchange gains of $160 (2017 - $1,118) in the consolidated statements of earnings as a component of the net unrealized gain on derivative financial instruments and has recorded the fair value of $152 in the current portion of derivative financial instruments (2017 - $8 liability recorded in accounts payable and accrued liabilities) in the consolidated balance sheets.

(in thousands of Canadian dollars, except per share amounts)

22 Capital disclosures

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, to provide an adequate return to shareholders and to meet external capital requirements on debt and credit facilities.

The Company's capital consists of cash, bank indebtedness, long-term debt and shareholders' equity. The primary uses of capital are to make increases to non-cash working capital, fund maintenance and growth-related capital expenditures, pay dividends and finance acquisitions. In order to meet the Company's objectives in managing capital, the Company prepares annual budgets of cash, earnings and capital expenditures that are updated during the year as necessary. The annual budget is approved by the Board of Directors.

As part of the existing debt agreement, the Company is subject to financial covenants, which consist of the following:

- funded debt to a rolling twelve-month EBITDA, which is defined as consolidated earnings before interest, amortization and taxes excluding unusual and non-recurring items that are agreed to by the Company and the lender; and

- fixed charge coverage ratio.

Compliance with these covenants is monitored by management on a quarterly basis. As at March 31, 2018 and March 31, 2017, the Company was in compliance with these covenants.

23 Related parties and management compensation

The Company is controlled by Jalger Limited, which owns 57.4% of the Company's Class B voting shares. No individual has sole voting power or control in respect of the shares of the Company owned by Jalger Limited.

Compensation of directors and executives

The compensation expense recorded for directors and members of the Executive Management Team of the Company is shown below:

	2018	2017
Compensation and short-term benefits	$ 3,848	$ 6,951
Post-employment benefits	296	302
Share based compensation expense	1,422	-
Payments to a share purchase plan	-	381
	$ 5,566	$ 7,634

The compensation and short-term benefits expense consists of amounts that will primarily be settled within twelve months.

(in thousands of Canadian dollars, except per share amounts)

24 Segmented information

During the year, export sales were $12,247 (2017 - $12,177), primarily in the United States. The remainder of sales occurred in Canada. All of the Company's assets are located in Canada.

25 Events after the reporting period

On June 6, 2018, the Company's Board of Directors approved a 14% increase in the quarterly dividend for holders of its Class A and Class B shares, from $0.0450 per Class A share and $0.0391 per Class B share to $0.0513 per Class A share and $0.0446 per Class B share. This increased quarterly dividend will be paid on July 6, 2018 to shareholders of record at the close of business on June 29, 2018.