

# **Andrew Peller Limited**

## **Condensed Interim Consolidated Financial Statements**

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**September 30, 2022**

**ANDREW PELLER LIMITED**  
**Condensed Consolidated Balance Sheets**  
**Unaudited**

These financial statements have not been reviewed by our auditors

<b>(in thousands of Canadian dollars)</b>	<b>September 30 2022 \$</b>	<b>March 31 2022 \$</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	-	1,297
Accounts receivable	27,893	27,376
Inventory	186,264	197,042
Biological assets	6,522	2,045
Prepaid expenses and other assets	5,599	5,893
Income taxes receivable	1,768	2,560
	<b>228,046</b>	236,213
<b>Property, plant, and equipment</b>	<b>208,065</b>	209,015
<b>Right-of-use assets</b>	<b>13,762</b>	15,215
<b>Intangible assets</b>	<b>43,694</b>	43,990
<b>Goodwill</b>	<b>53,638</b>	53,638
	<b>547,205</b>	558,071
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Bank indebtedness	1,537	-
Accounts payable and accrued liabilities	42,813	47,375
Dividends payable	2,590	2,587
Current portion of lease obligations	3,894	4,070
Current portion of derivative financial instruments (note 7)	46	349
	<b>50,880</b>	54,381
<b>Long-term debt</b>	<b>187,697</b>	192,065
<b>Lease obligations</b>	<b>10,888</b>	12,193
<b>Post-employment benefit obligations</b>	<b>1,983</b>	1,605
<b>Deferred income taxes</b>	<b>31,897</b>	32,426
	<b>283,345</b>	292,670
<b>Shareholders' Equity</b>		
<b>Capital stock</b>	<b>27,950</b>	27,290
<b>Contributed surplus (note 8)</b>	<b>6,135</b>	5,756
<b>Retained earnings</b>	<b>231,298</b>	233,710
<b>Accumulated other comprehensive loss</b>	<b>(1,523)</b>	(1,355)
	<b>263,860</b>	265,401
	<b>547,205</b>	558,071

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

# ANDREW PELLER LIMITED

## Condensed Consolidated Statements of Earnings Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars, except per share amounts)	For the three months ended September 30, 2022 \$	For the three months ended September 30, 2021 \$	For the six months ended September 30, 2022 \$	For the six months ended September 30, 2021 \$
<b>Sales</b>	<b>101,816</b>	99,224	<b>199,515</b>	191,621
Cost of goods sold (note 4)	<b>62,336</b>	56,816	<b>121,972</b>	111,952
Amortization of plant and equipment used in production	<u>2,472</u>	<u>2,411</u>	<u>4,791</u>	<u>4,516</u>
<b>Gross profit</b>	<b>37,008</b>	39,997	<b>72,752</b>	75,153
Selling and administration (note 4)	<b>27,822</b>	26,587	<b>53,914</b>	51,935
Amortization of plant, equipment, and intangibles used in selling and administration	<b>3,209</b>	2,862	<b>6,431</b>	5,871
Interest	<b>6,016</b>	2,478	<b>8,629</b>	4,751
Net unrealized (gain) loss on derivative financial instruments (note 7)	<b>112</b>	(1,037)	<b>(380)</b>	(1,425)
Gain on sale of assets held for sale	-	(7,518)	-	(7,518)
Other expense	<u>213</u>	<u>26</u>	<u>610</u>	<u>367</u>
<b>Earnings (loss) before income taxes</b>	<b>(364)</b>	16,599	<b>3,548</b>	21,172
<b>Income tax expense (recovery)</b>				
Current	<b>65</b>	3,059	<b>1,207</b>	4,155
Deferred	<u>(331)</u>	<u>450</u>	<u>(424)</u>	<u>637</u>
	<b>(266)</b>	3,509	<b>783</b>	4,792
<b>Net earnings (loss) for the period</b>	<b>(98)</b>	13,090	<b>2,765</b>	16,380
<b>Net earnings (loss) per share</b>				
Basic				
Class A shares	<u>(0.00)</u>	0.31	<u>0.07</u>	0.39
Class B shares	<u>(0.00)</u>	0.27	<u>0.06</u>	0.34
Diluted				
Class A shares	<u>(0.00)</u>	0.31	<u>0.06</u>	0.38
Class B shares	<u>(0.00)</u>	0.27	<u>0.06</u>	0.33

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

# ANDREW PELLER LIMITED

## Condensed Consolidated Statements of Comprehensive Income

Unaudited

These financial statements have not been reviewed by our auditors

	For the three months ended September 30, 2022	For the three months ended September 30, 2021	For the six months ended September 30, 2022	For the six months ended September 30, 2021
(in thousands of Canadian dollars)	\$	\$	\$	\$
Net earnings (loss) for the period	(98)	13,090	2,765	16,380
<b>Items that are never reclassified to net earnings</b>				
Net actuarial gains (losses) on post-employment benefit plans	(339)	(37)	(273)	406
Deferred income taxes	122	10	105	(105)
<b>Other comprehensive income (loss) for the period</b>	<b>(217)</b>	<b>(27)</b>	<b>(168)</b>	<b>301</b>
<b>Net comprehensive income (loss) for the period</b>	<b>(315)</b>	<b>13,063</b>	<b>2,597</b>	<b>16,681</b>

**ANDREW PELLER LIMITED**  
**Condensed Consolidated Statements of Changes in Equity**  
**For the six months ended September 30, 2022 and 2021**

Unaudited

These financial statements have not been reviewed by our auditors

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

	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
	\$	\$	\$	\$	\$
<b>Balance at April 1, 2021</b>	27,020	4,950	236,773	(3,169)	265,574
Net earnings for the period	-	-	16,380	-	16,380
Net actuarial gains (net of deferred taxes)	-	-	-	301	301
Net comprehensive income for the period	-	-	16,380	301	16,681
Repurchase and cancellation of class A non-voting shares	(449)	-	(4,761)	-	(5,210)
Exercise of share awards and issuance of class A non-voting shares	719	(719)	-	-	-
Share-based compensation	-	935	-	-	935
Dividends (Class A \$0.123 per share, Class B \$0.107 per share)	-	-	(5,209)	-	(5,209)
<b>Balance at September 30, 2021</b>	27,290	5,166	243,183	(2,868)	272,771
<b>Balance at April 1, 2022</b>	27,290	5,756	233,710	(1,355)	265,401
Net earnings for the period	-	-	2,765	-	2,765
Net actuarial losses (net of deferred taxes)	-	-	-	(168)	(168)
Net comprehensive income for the period	-	-	2,765	(168)	2,597
Exercise of share options and issuance of Class A non-voting shares	660	(660)	-	-	-
Share-based compensation (note 8)	-	1,039	-	-	1,039
Dividends (Class A \$0.123 per share, Class B \$0.107 per share)	-	-	(5,177)	-	(5,177)
<b>Balance at September 30, 2022</b>	27,950	6,135	231,298	(1,523)	263,860

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

**ANDREW PELLER LIMITED**  
**Condensed Consolidated Statements of Cash Flows**

Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)	For the six months ended September 30, 2022 \$	For the six months ended September 30, 2021 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net earnings for the period	2,765	16,380
Adjustments for:		
Gain on disposal of PP&E and intangibles	-	(7,518)
Amortization of plant, equipment, and intangible assets	11,222	10,387
Amortization of deferred financing costs	14	15
Interest expense	8,615	4,751
Income tax expense	783	4,792
Post-employment benefits	105	105
Net unrealized gain on derivative financial instruments	(380)	(1,425)
Share-based compensation	908	809
Interest paid	(8,284)	(3,665)
Income taxes paid	(415)	(3,618)
	<u>15,333</u>	<u>21,013</u>
Changes in non-cash working capital items related to operations (note 5)	<u>3,982</u>	<u>9,243</u>
	<u>19,315</u>	<u>30,256</u>
<b>Investing activities</b>		
Proceeds from disposal of property, plant and equipment	-	8,793
Purchase of property, plant and equipment	(8,131)	(8,510)
Purchase of intangibles	(1,667)	(3,442)
	<u>(9,798)</u>	<u>(3,159)</u>
<b>Financing activities</b>		
Increase in bank indebtedness	1,537	-
Principal payments on lease obligations	(2,177)	(1,985)
Repayment of long-term debt	(18,000)	(17,000)
Drawings on long-term debt	13,000	12,000
Repurchase and cancellation of class A non-voting shares	-	(5,210)
Dividends paid	(5,174)	(5,026)
	<u>(10,814)</u>	<u>(17,221)</u>
<b>Increase (decrease) in cash during the period</b>	<b>(1,297)</b>	<b>9,876</b>
<b>Cash, beginning of period</b>	<b>1,297</b>	<b>2,737</b>
<b>Cash, end of period</b>	<b>-</b>	<b>12,613</b>

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

**Andrew Peller Limited**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**Unaudited**  
**September 30, 2022 and September 30, 2021**  
**(in thousands of Canadian dollars, except per share amounts)**

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**1 Nature of operations**

Andrew Peller Limited (the “Company”) produces and markets wine, spirits, craft beer 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 Significant accounting policies**

**(A) Basis of presentation**

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of condensed interim financial statements, including International Accounting Standard (“IAS”) 34 – Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the years ended March 31, 2022 and 2021, which have been prepared in accordance with IFRS as issued by the IASB.

The note disclosures for these condensed interim consolidated financial statements only present material changes to the disclosure found in the Company’s audited consolidated financial statements for the years ended March 31, 2022 and 2021. Changes to the Company’s accounting policies from those disclosed in its consolidated financial statements for the years ended March 31, 2022 and 2021 are described in note 2 (B), recently adopted accounting pronouncements.

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency and dollar amounts have been rounded to the nearest thousand, except per share amounts.

These condensed interim consolidated financial statements were approved by the Board of Directors on November 9, 2022.

**(B) Recently adopted accounting pronouncements**

*IAS 16, Property, Plant and Equipment*

This standard has been amended to prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use, clarify that an entity is “testing whether the asset is functioning properly” when it assesses the technical and physical performance of the asset and require certain related disclosures. The amendments are effective for annual periods beginning on or after January 1, 2022. The adoption of the amendment did not have a significant impact on the condensed consolidated financial statements.

*IAS 37, Provisions*

This standard has been amended to clarify that, before a separate provision for an onerous contract is established, an entity recognizes an impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract and to clarify the meaning of costs to fulfil a contract. The amendments are effective for annual periods beginning on or after January 1, 2022. The adoption of the amendment did not have a significant impact on the condensed consolidated financial statements.

**Andrew Peller Limited**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
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*IFRS 9, Financial Instruments*

This standard has been amended to address which fees should be included in the 10% test for derecognition of financial liabilities. This amendment is effective for annual periods beginning on or after January 1, 2022. The adoption of the amendment did not have a significant impact on the condensed consolidated financial statements.

**(C) Recently issued accounting pronouncements**

*IAS 1, Presentation of Financial Statements*

This standard has been amended to clarify the classification of liabilities as current or non-current depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. The amendment also clarifies the meaning of settlement of a liability. This amendment is effective for annual periods beginning on or after January 1, 2023. The standard has also been amended to specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Instead, the amendments require a company to disclose information about these covenants in the notes to the financial statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with early adoption permitted. The Company has not yet assessed the impact of the amendments on the condensed consolidated financial statements.

*IAS 12, Income Taxes*

This standard has been amended to require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company has not yet assessed the impact of the amendment on the condensed consolidated financial statements.

**3 Seasonality**

The second and third quarters of the Company's fiscal year are historically the largest due to increased activity at the Company's estate properties and increased consumer purchasing of the Company's products during the holiday season.

**4 Expenses**

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

	<b>For the three months ended September 30, 2022</b>	<b>For the three months ended September 30, 2021</b>	<b>For the six months ended September 30, 2022</b>	<b>For the six months ended September 30, 2021</b>
Raw materials and consumables	\$ 45,769	\$ 42,933	\$ 91,197	\$ 84,702
Employee compensation and benefits	24,225	21,639	46,015	41,968
Advertising, promotion and distribution	9,162	8,449	17,239	16,363
Occupancy	2,648	2,161	5,192	4,065
Repairs and maintenance	2,250	2,091	4,065	4,035
Other external charges	6,104	6,130	12,178	12,754
	<b>\$ 90,158</b>	<b>\$ 83,403</b>	<b>\$ 175,886</b>	<b>\$ 163,887</b>



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**Notes to the Condensed Interim Consolidated Financial Statements**  
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**5 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:

	<b>For the six months ended September 30, 2022</b>	<b>For the six months ended September 30, 2021</b>
Accounts receivable	\$ (517)	\$ (1,933)
Inventory	10,778	(1,386)
Biological assets	(4,477)	(1,591)
Prepaid expenses and other assets	294	(1,632)
Accounts payable and accrued liabilities	(2,096)	15,785
	<hr/> \$ 3,982	<hr/> \$ 9,243 <hr/>

**6 Related parties and management compensation**

The compensation expense recorded for directors and members of the Executive Management Team of the Company was \$2,140 (2021 - \$1,733) for the three months ended September 30, 2022 and \$3,899 (2021 - \$3,367) for the six months ended September 30, 2022. The compensation expense consists of amounts that will primarily be settled within twelve months of being earned.

**7 Financial instruments**

**Fair value**

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

The fair value of long-term debt is equivalent to the 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 on long-term debt is included in the current portion of derivative financial instruments in the condensed 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 valuation and is included in the current portion of derivative financial instruments in the condensed consolidated balance sheets.

The fair value of 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 values 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.

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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 (loss) on derivative financial instruments is comprised of:

	<b>For the three months ended September 30, 2022</b>	<b>For the three months ended September 30, 2021</b>	<b>For the six months ended September 30, 2022</b>	<b>For the six months ended September 30, 2021</b>
Unrealized gains on interest rate swaps	\$ -	\$ 403	\$ 340	\$ 899
Unrealized gains (losses) on foreign exchange forward contracts	(112)	634	40	526
	<u>\$ (112)</u>	<u>\$ 1,037</u>	<u>\$ 380</u>	<u>\$ 1,425</u>

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.

	<b>September 30, 2022</b>		
	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant observable inputs other than quoted prices (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
Interest rate swap liability	\$ -	\$ -	\$ -
Foreign exchange forward contracts liability	-	46	-
	<b>March 31, 2022</b>		
	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant observable inputs other than quoted prices (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
Interest rate swap liability	\$ -	\$ 263	\$ -
Foreign exchange forward contracts liability	-	86	-

There were no transfers of financial instruments between levels during the quarter.

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**8 Share based compensation**

On September 13, 2017, the Company established a share based compensation plan comprised of stock options, performance share units (PSUs), restricted share units (RSUs) and deferred share units (DSUs). The impact of the share based compensation expense recorded for the six months ended September 30, 2022 and 2021 is summarized as follows:

	<b>For the six months ended September 30, 2022</b>	<b>For the six months ended September 30, 2021</b>
1,742,066 stock options (March 31, 2022 – 1,303,367) (a)	\$ 343	\$ 445
436,731 performance share units (March 31, 2022 – 292,731) (b)	386	343
155,471 restricted share units (March 31, 2022 – 62,750) (c)	179	21
76,059 deferred share units (March 31, 2022 – 57,799) (d)	-	-
	<u>\$ 908</u>	<u>\$ 809</u>

The stock options, PSUs, RSUs, and DSUs are equity settled and as such, the expense associated with these instruments is recorded as share based compensation expense through the condensed consolidated statements of earnings with a corresponding entry made to contributed surplus on the condensed 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, the RSU 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 September 30, 2022, the Company had 3,163,597 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.

	<u>September 30, 2022</u>		<u>September 30, 2021</u>	
	<b>Number of Options</b>	<b>Weighted average exercise price per share \$</b>	<b>Number of Options</b>	<b>Weighted average exercise price per share \$</b>
Balance – Beginning of year	1,303,367	11.19	1,041,800	11.89
Issued	447,133	5.70	290,700	8.75
Forfeited	(8,434)	(7.20)	(16,001)	(11.12)
Balance – End of year	<u>1,742,066</u>	<u>9.80</u>	<u>1,316,499</u>	<u>11.20</u>
Exercisable	<u>954,268</u>	<u>12.01</u>	<u>622,717</u>	<u>12.95</u>

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For options granted during the three and six months ended September 30, 2022, 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	\$1.38
Expected volatility <sup>(1)</sup>	25.50%
Dividend yield	2.85%
Risk-free interest rate	3.14%
Weighted average expected life in years	10

(1) Expected volatility was determined using historical volatility

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 be exchanged for Class A non-voting common shares may be higher or lower than the number of units originally granted to a participant.

	<u>September 30, 2022</u>		<u>September 30, 2021</u>	
	<b>Number of</b>	<b>Weighted</b>	<b>Number of</b>	<b>Weighted</b>
	<b>Options</b>	<b>average exercise</b>	<b>Options</b>	<b>average exercise</b>
		<b>price per share</b>		<b>price per share</b>
		<b>\$</b>		<b>\$</b>
Balance – Beginning of year	292,731	10.13	218,562	12.44
Issued	213,020	5.70	125,320	8.75
Exercised	(32,165)	(14.14)	(28,416)	(17.16)
Forfeited	(36,855)	(13.29)	(22,735)	(15.97)
Balance – End of year	<u>436,731</u>	<u>7.41</u>	<u>292,731</u>	<u>10.13</u>
Exercisable	-	-	-	-

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**September 30, 2022 and September 30, 2021**  
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c) RSU plan

The Company has established a RSU plan for employees and officers of the Company. RSUs 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. RSUs will vest ratably over the Restriction Period, as to one-third of the RSUs on each anniversary of the grant date, commencing on the first anniversary of the grant date.

	<u>September 30, 2022</u>		<u>September 30, 2021</u>	
	<b>Number of</b>	<b>Weighted</b>	<b>Number of</b>	<b>Weighted</b>
	<b>Options</b>	<b>average exercise</b>	<b>Options</b>	<b>average exercise</b>
		<b>price per share</b>		<b>price per share</b>
		<b>\$</b>		<b>\$</b>
Balance – Beginning of year	62,750	8.75	-	-
Issued	115,180	5.70	62,750	8.75
Exercised	(20,916)	(8.75)	-	-
Forfeited	(1,543)	(6.55)	-	-
Balance – End of year	<u>155,471</u>	<u>6.52</u>	<u>62,750</u>	<u>8.75</u>

d) 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.

Subsequent to year end, the Board of Directors were offered director fees in the form of DSUs which resulted in a reclassification from accounts payable to contributed surplus in the year.

	<u>September 30, 2022</u>		<u>September 30, 2021</u>	
	<b>Number of</b>	<b>Weighted</b>	<b>Number of</b>	<b>Weighted</b>
	<b>Options</b>	<b>average exercise</b>	<b>Options</b>	<b>average exercise</b>
		<b>price per share</b>		<b>price per share</b>
		<b>\$</b>		<b>\$</b>
Balance – Beginning of year	57,799	14.43	65,669	14.40
Issued	19,500	6.77	12,770	9.35
Exercised	(1,240)	(18.22)	(20,640)	(11.19)
Balance – End of year	<u>76,059</u>	<u>12.40</u>	<u>57,799</u>	<u>14.43</u>