

Andrew Peller Limited

Condensed Interim Consolidated Financial Statements

June 30, 2022

ANDREW PELLER LIMITED
Condensed Consolidated Balance Sheets
Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)	June 30 2022 \$	March 31 2022 \$
Assets		
Current Assets		
Cash	1,355	1,297
Accounts receivable	26,900	27,376
Inventory	185,428	197,042
Biological assets	5,120	2,045
Prepaid expenses and other assets	4,698	5,893
Income taxes receivable	2,045	2,560
Current portion of derivative financial instruments (note 7)	143	-
	225,689	236,213
Property, plant, and equipment	207,508	209,015
Right-of-use assets	14,568	15,215
Intangible assets	44,310	43,990
Goodwill	53,638	53,638
	545,713	558,071
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	34,391	47,375
Dividends payable	2,587	2,587
Current portion of lease obligations	3,894	4,070
Current portion of derivative financial instruments (note 7)	-	349
	40,872	54,381
Long-term debt	192,892	192,065
Lease obligations	11,702	12,193
Post-employment benefit obligations	1,592	1,605
Deferred income taxes	32,350	32,426
	279,408	292,670
Shareholders' Equity		
Capital stock	27,290	27,290
Contributed surplus (note 8)	6,335	5,756
Retained earnings	233,986	233,710
Accumulated other comprehensive loss	(1,306)	(1,355)
	266,305	265,401
	545,713	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

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(in thousands of Canadian dollars, except per share amounts)	For the three months ended June 30, 2022 \$	For the three months ended June 30, 2021 \$
Sales	97,699	92,397
Cost of goods sold (note 4)	59,636	55,136
Amortization of plant and equipment used in production	2,319	2,199
Gross profit	35,744	35,062
Selling and administration (note 4)	26,092	25,348
Amortization of plant, equipment, and intangibles used in selling and administration	3,222	2,915
Interest	2,613	2,273
Net unrealized gain on derivative financial instruments (note 7)	(492)	(388)
Other expense	397	341
Earnings before income taxes	3,912	4,573
Income taxes		
Current	1,142	1,700
Deferred	(93)	(417)
	1,049	1,283
Net earnings for the period	2,863	3,290
Net earnings per share		
Basic		
Class A shares	0.07	0.08
Class B shares	0.06	0.07
Diluted		
Class A shares	0.07	0.08
Class B shares	0.06	0.07

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ANDREW PELLER LIMITED

Condensed Consolidated Statements of Comprehensive Income

Unaudited

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	For the three months ended June 30, 2022	For the three months ended June 30, 2021
(in thousands of Canadian dollars)	\$	\$
Net earnings for the period	2,863	3,290
Items that are never reclassified to net earnings		
Net actuarial gains on post-employment benefit plans	66	442
Deferred income taxes	(17)	(115)
Other comprehensive income for the year	<u>49</u>	<u>327</u>
Net comprehensive income for the period	<u>2,912</u>	<u>3,617</u>

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ANDREW PELLER LIMITED
Condensed Consolidated Statements of Changes in Equity
For the three months ended June 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
	\$	\$	\$	\$	\$
Balance at April 1, 2021	27,020	4,950	236,773	(3,169)	265,574
Net earnings for the period	-	-	3,290	-	3,290
Net actuarial gains (net of deferred taxes)	-	-	-	327	327
Net comprehensive income for the period	-	-	3,290	327	3,617
Repurchase and cancellation of class A non-voting shares	(75)	-	(883)	-	(958)
Exercise of share awards and issuance of class A non-voting shares	719	(719)	-	-	-
Share-based compensation	-	538	-	-	538
Dividends (Class A \$0.0615 per share, Class B \$0.0535 per share)	-	-	(2,622)	-	(2,622)
Balance at June 30, 2021	27,664	4,769	236,558	(2,842)	266,149
Balance at April 1, 2022	27,290	5,756	233,710	(1,355)	265,401
Net earnings for the period	-	-	2,863	-	2,863
Net actuarial gains (net of deferred taxes)	-	-	-	49	49
Net comprehensive income for the period	-	-	2,863	49	2,912
Share-based compensation (note 8)	-	579	-	-	579
Dividends (Class A \$0.0615 per share, Class B \$0.0535 per share)	-	-	(2,587)	-	(2,587)
Balance at June 30, 2022	27,290	6,335	233,986	(1,306)	266,305

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 three months ended June 30, 2022 \$	For the three months ended June 30, 2021 \$
Cash provided by (used in)		
Operating activities		
Net earnings for the period	2,863	3,290
Adjustments for:		
Amortization of plant, equipment, and intangible assets	5,541	5,114
Amortization of deferred financing costs	7	7
Interest expense	2,606	2,273
Provision for income taxes	1,049	1,283
Post-employment benefits	53	52
Net unrealized gain on derivative financial instruments	(492)	(388)
Share-based compensation	445	412
Interest paid	(4,088)	(1,511)
Income taxes paid	(627)	(2,577)
	<u>7,357</u>	<u>7,955</u>
Changes in non-cash working capital items related to operations (note 5)	(26)	(5,957)
	<u>7,331</u>	<u>1,998</u>
Investing activities		
Purchase of property, plant and equipment	(4,302)	(2,991)
Purchase of intangibles	(1,287)	(2,455)
	<u>(5,589)</u>	<u>(5,446)</u>
Financing activities		
Increase in bank indebtedness	-	2,084
Principal payments on lease obligations	(1,097)	(1,011)
Repayment of long-term debt	(5,000)	(3,000)
Drawings on long-term debt	7,000	6,000
Repurchase and cancellation of class A non-voting shares	-	(958)
Dividends paid	(2,587)	(2,404)
	<u>(1,684)</u>	<u>711</u>
Increase (decrease) in cash during the period	58	(2,737)
Cash, beginning of period	1,297	2,737
Cash, end of period	<u>1,355</u>	<u>-</u>

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

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 August 2, 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.

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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 Company has not yet assessed the impact of the amendment 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:

	For the three months ended June 30, 2022	For the three months ended June 30, 2021
Raw materials and consumables	\$ 45,428	\$ 41,769
Employee compensation and benefits	21,790	20,329
Advertising, promotion and distribution	8,077	7,914
Occupancy	2,544	1,904
Repairs and maintenance	1,815	1,944
Other external charges	6,074	6,624
	<hr/> \$ 85,728	<hr/> \$ 80,484

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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:

	For the three months ended June 30, 2022	For the three months ended June 30, 2021
Accounts receivable	\$ 476	\$ 4,421
Inventory	11,614	3,829
Biological assets	(3,075)	(2,552)
Prepaid expenses and other assets	1,195	1,045
Accounts payable and accrued liabilities	(10,236)	(12,700)
	<u>\$ (26)</u>	<u>\$ (5,957)</u>

6 Related parties and management compensation

The compensation expense recorded for directors and members of the Executive Management Team of the Company was \$1,759 (2021 - \$1,634) for the three months ended June 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.

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.

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

	For the three months ended June 30, 2022	For the three months ended June 30, 2021
Unrealized gain on interest rate swaps	\$ 340	\$ 496
Unrealized gains (losses) on foreign exchange forward contracts	152	(108)
	<u>\$ 492</u>	<u>\$ 388</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.

	June 30, 2022		
	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	\$ -	\$ 77	\$ -
Foreign exchange forward contracts asset	-	66	-
	March 31, 2022		
	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	\$ -	\$ 263	\$ -
Foreign exchange forward contracts liability	-	86	-

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

8 Share based compensation

The Company has 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 three months ended June 30, 2022 and 2021 is summarized as follows:

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June 30, 2022 and June 30, 2021
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	For the three months ended June 30, 2022	For the three months ended June 30, 2021
1,313,600 stock options (March 31, 2022 – 1,303,367) (a)	\$ 176	\$ 243
262,006 performance share units (March 31, 2022 – 292,731) (b)	186	169
63,470 restricted share units (March 31, 2022 – 62,750) (c)	83	-
76,059 deferred share units (March 31, 2022 – 57,799) (d)	-	-
	<u>\$ 445</u>	<u>\$ 412</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 may not exceed 10% of the total number of Class A non-voting common shares issued and outstanding from time to time. As at June 30, 2022, the Company had 3,216,678 Class A non-voting common shares reserved for issuance under the share based compensation arrangements.

Subsequent to March 31, 2022, the Board of Directors were offered director fees in the form of DSUs which resulted in a reclassification of \$134 from accounts payable and accrued liabilities to contributed surplus in the quarter.

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>June 30, 2022</u>		<u>June 30, 2021</u>	
	Number of Options	Weighted average exercise price per share \$	Number of Options	Weighted average exercise price per share \$
Balance – Beginning of year	1,303,367	11.19	1,041,800	11.89
Issued	10,233	6.68	-	-
Forfeited	-	-	(8,466)	(10.81)
Balance – End of year	<u>1,313,600</u>	<u>11.16</u>	<u>1,033,344</u>	<u>11.89</u>
Exercisable	<u>619,986</u>	<u>12.95</u>	<u>338,254</u>	<u>13.85</u>

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For options granted during the three months ended June 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	\$1.77
Expected volatility ⁽¹⁾	25.00%
Dividend yield	2.63%
Risk-free interest rate	3.48%
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 are exchanged for Class A non-voting common shares may be higher or lower than the number of units originally granted to a participant.

	June 30, 2022		June 30, 2021	
	Number of	Weighted	Number of	Weighted
	Units	average exercise	Units	average exercise
		price per share		price per share
		\$		\$
Balance – Beginning of year	292,731	10.13	218,562	12.44
Issued	1,440	6.86	-	-
Exercised	-	-	(28,416)	(17.16)
Forfeited	(32,165)	(14.14)	(20,465)	(16.50)
Balance – End of year	262,006	9.62	169,681	11.16
Exercisable	32,165	14.14	-	-

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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>June 30, 2022</u>		<u>June 30, 2021</u>	
	Number of	Weighted	Number of	Weighted
	Units	average exercise	Units	average exercise
		price per share		price per share
		\$		\$
Balance – Beginning of year	62,750	8.75	-	-
Issued	720	6.86	-	-
Balance – End of year	<u>63,470</u>	<u>8.73</u>	<u>-</u>	<u>-</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.

	<u>June 30, 2022</u>		<u>June 30, 2021</u>	
	Number of	Weighted	Number of	Weighted
	Units	average exercise	Units	average exercise
		price per share		price per share
		\$		\$
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>