ANDREW PELLER
LIMITED

MANAGEMENT'S DISCUSSION & ANALYSIS
For the three and six months ended September 30, 2022

The following management's discussion and analysis ("MD&A") provides a review of corporate developments, results of operations, and financial position for the three and six months ended September 30, 2022, in comparison with those for the three and six months ended September 30, 2021, for Andrew Peller Limited (the "Company" or "APL"). This discussion is prepared as of November 9, 2022 and should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes contained therein for the period ended September 30, 2022 and 2021. Additional information relating to the Company, including the audited annual consolidated financial statements and Annual Information Form for the years ended March 31, 2022, and March 31, 2021, is available on www.sedar.com. The financial years ending March 31, 2023 and March 31, 2022 are referred to as "fiscal 2023 and "fiscal 2022" respectively. All dollar amounts are expressed in Canadian dollars unless otherwise indicated.

FORWARD-LOOKING INFORMATION

Certain statements in this MD&A may contain "forward-looking statements" within the meaning of applicable securities laws including the "safe harbour provisions" of the Securities Act (Ontario) with respect to APL and its subsidiaries. Such statements include, but are not limited to, statements about the growth of the business; its launch of new premium wines and craft beverage alcohol products; sales trends in foreign markets; its supply of domestically grown grapes; and current economic conditions. These statements are subject to certain risks, assumptions, and uncertainties that could cause actual results to differ materially from those included in the forward-looking statements. The words "believe", "plan", "intend", "estimate", "expect", or "anticipate", and similar expressions, as well as future or conditional verbs such as "will", "should", "would", "could", and similar verbs often identify forward-looking statements. We have based these forward-looking statements on our current views with respect to future events and financial performance. With respect to forward-looking statements contained in this MD&A, the Company has made assumptions and applied certain factors regarding, among other things: future grape, glass bottle, and wine and spirit prices; its ability to obtain grapes, imported wine, glass, and other raw materials; fluctuations in foreign currency exchange rates; its ability to market products successfully to its anticipated customers; the trade balance within the domestic Canadian and international wine markets; market trends; reliance on key personnel; protection of its intellectual property rights; the economic environment; the regulatory requirements regarding producing, marketing, advertising, and labelling of its products; the regulation of liquor distribution and retailing in Ontario; the application of federal and provincial environmental laws; and the impact of increasing competition.

These forward-looking statements are also subject to the risks and uncertainties discussed in the "Risks and Uncertainties" section and elsewhere in this MD&A and other risks detailed from time to time in the publicly filed disclosure documents of the Company which are available at www.sedar.com. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties, and assumptions which could cause actual results to differ materially from the conclusions, forecasts, or projections anticipated in these forward-looking statements. Because of these risks, uncertainties, and assumptions, you should not place undue reliance on these forward-looking statements. The Company's forward-looking statements are made only as of the date of this MD&A, and except as required by applicable law, Andrew Peller Limited undertakes no obligation to update or revise these forward-looking statements to reflect new information, future events, or circumstances.

Overview

The Company is a leading producer and marketer of quality wines and craft beverage alcohol products in Canada. With wineries in British Columbia, Ontario, and Nova Scotia, the Company markets wines produced from grapes grown in Ontario's Niagara Peninsula, British Columbia's Okanagan and Similkameen Valleys, and from vineyards around the world. The Company's award-winning premium and ultra-premium Vintners' Quality Alliance ("VQA") brands include *Peller Estates, Trius, Thirty Bench*, *Wayne Gretzky, Sandhill, Red Rooster, Black Hills Estate Winery, Tinhorn Creek Vineyards, Gray Monk Estate Winery, Raven Conspiracy* and *Conviction*. Complementing these premium brands are a number of popularly priced varietal brands including *Peller Family Vineyards*, *Copper Moon, Black Cellar* and *XOXO. Hochtaler, Domaine D'Or*, *Schloss Laderheim, Royal,* and *Sommet* are the Company's key value priced brands. The

Company imports wines from major wine regions around the world to blend with domestic wine to craft these quality and value priced brands. The Company also produces craft beverage alcohol products, including *No Boats on Sunday* ciders and seltzers, and various spirits and cream whisky products under the *Wayne Gretzky No. 99* brand. With a focus on serving the needs of all wine consumers, the Company produces and markets premium personal winemaking products through its wholly-owned subsidiary, Global Vintners Inc. ("GVI"), the recognized leader in personal winemaking products. GVI distributes products through over 200 authorized retailers and more than 400 independent retailers across Canada, with additional distributors in the United States, the United Kingdom, New Zealand, Australia, and China. GVI's award-winning premium and ultra-premium winemaking brands include *Winexpert, Vine Co., Apres, LE, Passport Series, On the House, Wild Grapes, DIY My Wine Co., Island Mist* and *Niagara Mist*. The Company owns and operates 101 well-positioned independent retail locations in Ontario under The Wine Shop, Wine Country Vintners, and Wine Country Merchants store names. The Company also operates Andrew Peller Import Agency and The Small Winemaker's Collection Inc., importers and marketing agents for premium wines from around the world.

The Company's vision is to *Pour Extraordinary into Everyday Life*. The Company believes it achieves this objective by delivering to its customers and consumers the highest quality branded wines, spirits, refreshments, beer and experiences at the best possible value. To meet this goal, the Company invests in improvements in the quality of grapes, wines, and other raw materials, its winemaking and distillation capabilities, sales and marketing initiatives, tourism and hospitality experiences, and its quality management programs.

The Company is focused on initiatives to drive production efficiencies and realize cost savings through a continual review of its operations and cost structure with a view to improving profitability. The Company continues to expand and strengthen its distribution to all customers and consumers through its extensive distribution network, which is supported by enhanced sales, marketing, and promotional programs. From time to time the Company also evaluates the potential for acquisitions and partnerships, both in Canada and internationally, to further complement its product portfolio and market presence.

Recent Events

Agriculture Canada has announced a new support program to provide short-term financial support to licensed Canadian wineries. The program provides non-repayable grants to wine licensees based on production of bulk wine fermented in Canada from domestic and/or imported grapes. The Company has applied for this support program and expects to receive a grant in the third quarter of fiscal 2023.

On September 13, 2022, the Company announced its notice of intention to make a Normal Course Issuer Bid (NCIB) had been approved by the Toronto Stock Exchange. Under the issuer bid the Company can purchase for cancellation up to 1,000,000 of its outstanding Class A non-voting shares, representing 2.86% of the Class A shares outstanding at the time, over the ensuing twelve months. As of November 9, 2022, the Company has not repurchased any Class A non-voting common shares under its current NCIB.

On June 15, 2022, the Company's Board of Directors approved a common share dividend of $0.246 per Class A Share and $0.214 per Class B Share. The Company has consistently paid common share dividends since 1979. APL currently designates all dividends paid as "eligible dividends" for purposes of the Income Tax Act (Canada) unless indicated otherwise.

On June 8, 2022, the Company announced the appointment of Paul Dubkowski as Chief Financial Officer and Executive Vice-President of Information Services effective July 11, 2022. Steve Attridge, former CFO and EVP, IT, has remained with the Company to transition with Paul and continue to lead the Company's digital and business process transformation.

As previously announced in July 2020, the Government of Canada has repealed the federal excise duty exemption of 100% Canadian wine effective June 30, 2022. This agreement was reached due to a World Trade Organization challenge put forward by Australia against Canadian wine measures. As a result of the repeal, excise tax of $0.68 per litre will be payable on any 100% Canadian wine. Any 100% Canadian wine packaged prior to June 30, 2022 can continue to be sold under the previous exemption. Therefore, the Company has estimated that the repeal of the exemption will not have a material impact on revenue for fiscal 2023 and is evaluating the impact on future periods.

Results of Operations

For the six months ended September 30, (in $000, except per share amounts)	2022	2021
Sales	**$ 199,515**	$ 191,621
Gross margin [(1)]	**77,543**	79,669
Gross margin (% of sales)	**38.9%**	41.6%
Selling and administrative expenses	**53,914**	51,935
EBITA [(1)]	**23,629**	27,734
Interest	**8,629**	4,751
Net unrealized gain on derivative financial instruments	**380**	1,425
Gain on sale of assets held for sale	**-**	(7,518)
Other expenses	**610**	367
Net earnings	**2,765**	16,380
Earnings per share – Class A basic	**$0.07**	$0.39
Earnings per share – Class B basic	**$0.06**	$0.34
Dividend per share – Class A (annual)	**$0.246**	$0.246
Dividend per share – Class B (annual)	**$0.214**	$0.214

(1) See "Non-IFRS Measures" section of this MD&A

Sales for the six months ended September 30, 2022 increased 4.1% to $199.5 million. Sales have increased in the majority of the Company's well-established trade channels with solid growth generated in markets closed for a portion of the prior year due to the pandemic, including at the Company's ten estate wineries, sales to restaurants and hospitality locations, and through its export business. The growth in these channels was partially offset by a decrease in personal winemaking revenue, which has been impacted by softer post-pandemic demand and distribution. Additionally, the Company implemented price increases in the first quarter of fiscal 2023 to partially offset inflationary pressures, further contributing to an increase in sales compared to the prior year. Despite the strong sales performance, the Company is continuing to experience challenges with supply, including wine, glass bottles and other key raw materials.

Gross margin as a percentage of sales was 38.9% for the six months ended September 30, 2022, a decrease from 41.6% for the six months ended September 30, 2021. Although gross margin has decreased compared to the same period of fiscal 2022, gross margin has continued to improve when compared to the third and fourth quarters of fiscal 2022. The cost of raw materials such as imported wine, glass bottles and other packaging materials have increased due to inflationary pressures while international freight and shipping charges remain well above historical levels. In response to these margin pressures, the Company implemented price increases in the first quarter of fiscal 2023 and focused on generating increased sales of higher margin VQA products. In addition, the Company is executing numerous production efficiency and cost savings programs aimed at enhancing operating margins including optimizing certain warehouses and distribution, rationalizing stock keeping units (SKUs) and evaluating alternate sourcing for imported wine and glass bottles, while also capitalizing on the new Enterprise Resource Planning (ERP) system to improve inventory utilization, production scheduling and logistics.

As a percentage of sales, selling and administrative expenses was 27.0%, consistent with the prior year. Selling and administration expenses in fiscal 2023 include the increase in Ontario's minimum wage when compared to prior year and a return to full operations at the Company.

Earnings before interest, amortization, gain on sale of assets held for sale, net unrealized gains and losses on derivative financial instruments, other (income) expenses, and income taxes ("EBITA") (see "Non-IFRS Measures" section of this MD&A) was $23.6 million for the six months ended September 30, 2022 compared to $27.7 million in the prior year. The decrease in EBITA is largely due to the decrease in gross margin and an increase in selling and administrative in fiscal 2023, partially offset by higher sales.

Interest expense for the six months ended September 30, 2022 has increased compared to prior year due to higher debt levels compared to September 30, 2021 and increases in interest rates.

The Company recorded a net unrealized non-cash gain in the first six months of fiscal 2023 of $0.4 million related to mark-to-market adjustments on interest rate swaps and foreign exchange contracts compared to a gain of $1.4 million in the prior year. The change is largely due to a decrease in the unrealized non-cash gain on the interest rate swap which expired in September 2022. The Company has elected not to apply hedge accounting and accordingly the change in fair value of these financial instruments is reflected in the Company's consolidated statement of earnings each reporting period. These instruments are considered to be effective economic hedges and are expected to mitigate the short-term volatility of changing foreign exchange and interest rates.

In the second quarter of fiscal 2022 the Company completed the sale of its Port Coquitlam, British Columbia property and related assets for total proceeds of approximately $8.8 million, net of transaction costs, generating a realized gain on sale of $7.5 million or $0.21 per Class A share.

Net earnings for the six months ended September 30, 2022 were $2.8 million or $0.07 per Class A Share compared to $16.4 million or $0.39 per Class A Share in the prior year.

Quarterly Performance

The following table outlines key quarterly highlights.

(in $000, except per share amounts)	Q2 23	Q1 23	Q4 22	Q3 22	Q2 22	Q1 22	Q4 21	Q3 21
Sales	101,816	97,699	78,838	103,485	99,224	92,397	79,126	111,060
Gross margin [(1)]	39,480	38,063	23,029	36,294	42,408	37,261	28,089	41,537
Gross margin (% of sales)	38.8%	39.0%	29.2%	35.1%	42.7%	40.3%	35.5%	37.4%
EBITA [(1)]	11,658	11,971	(630)	12,084	15,821	11,913	1,815	16,223
Interest	6,016	2,613	2,162	2,424	2,478	2,273	2,619	1,637
Gain on debt modification and financing fees	-	-	-	-	-	-	-	(2,312)
Net unrealized (gain) loss on financial instruments	112	(492)	(485)	(359)	(1,037)	(388)	(495)	170
Gain on sale of assets held for sale	-	-	-	-	(7,518)	-	-	-
Other expenses (income)	213	397	946	(103)	26	341	742	148
Net earnings (loss)	(98)	2,863	(7,019)	3,107	13,090	3,290	(6,328)	10,236
E.P.S. – Class A basic	$(0.00)	$0.07	$(0.17)	$0.07	$0.31	$0.08	$(0.15)	$0.24
E.P.S. – Class B basic	$(0.00)	$0.06	$(0.14)	$0.06	$0.27	$0.07	$(0.13)	$0.21

(1) See "Non-IFRS Measures" section of this MD&A

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.

Sales for the three months ended September 30, 2022 increased 2.6% compared to the prior year's second quarter due to increases in the majority of the Company's well-established trade channels including at the Company's ten estate wineries, sales to restaurants and hospitality locations, and through its export business. Additionally, the Company implemented price increases in the first quarter of fiscal 2023. The growth in these channels was partially offset by a decrease in personal winemaking revenue, which has been impacted by softer post-pandemic demand and distribution. Gross margin reduced to 38.8% of sales in the second quarter of fiscal 2023 from 42.7% in the prior year's second quarter due to continuing inflationary cost pressures and increased international freight and shipping charges. The Company has also experienced higher costs in the second quarter of fiscal 2023 to secure materials from alternative vendors to mitigate against customer stock-outs. Selling and administrative expenses increased for the three months ended September 30, 2022 compared to the prior year's second quarter as the Company returned to full operations and included an increase in Ontario's minimum wage implemented in 2022 when compared to prior year.

In the second quarter of fiscal 2022, the Company recorded a realized gain of $7.5 million on the sale of its Port Coquitlam, British Columbia property and related assets.

Net loss for the three months ended September 30, 2022 was $0.1 million or $0.00 per Class A Share compared to net earnings of $13.1 million or $0.31 per Class A Share in the second quarter of the prior year, as a result of increased inflationary cost pressures and rising interest rates in fiscal 2023 as well as the non-recurring gain on sale of assets held for sale reported in fiscal 2022.

Liquidity and Capital Resources

As at **(in $000)**	**September 30, 2022**	**March 31, 2022**
Current assets	**$ 228,046**	$ 236,213
Property, plant, and equipment	**208,065**	209,015
Right-of-use assets	**13,762**	15,215
Intangible assets	**43,694**	43,990
Goodwill	**53,638**	53,638
Total assets	**$ 547,205**	$ 558,071
Current liabilities	**$ 50,880**	$ 54,381
Long-term debt	**187,697**	192,065
Lease obligations	**10,888**	12,193
Post-employment benefit obligations	**1,983**	1,605
Deferred income taxes	**31,897**	32,426
Shareholders' equity	**263,860**	265,401
Total liabilities and shareholders' equity	**$ 547,205**	$ 558,071

The change in current assets as at September 30, 2022 compared to March 31, 2022 is primarily due to a decrease in inventory due to the timing of sales and bulk wine receipts. Inventory is dependent on domestically grown grapes that are used in the sale of premium and ultra-premium wines that are held for a longer period than imported wine. These wines are typically aged for one to three years before they are sold. The cost of producing wine from domestically grown grapes is also higher than wine purchased on international markets.

Accounts receivable are predominantly with provincial liquor boards and, to a lesser extent, licensed establishments and independent retailers of personal winemaking products. The Company had $14.4 million of accounts receivable with provincial liquor boards at September 30, 2022, all of which is expected to be collectible. The balance represents amounts due from licensees, export customers, and independent retailers of personal winemaking products. Against these amounts, an expected credit loss of $0.3 million has been provided which the Company has determined based on a reasonable estimate of lifetime expected credit losses for trade receivables. The amount of accounts receivable that was 30 days past due was $0.3 million at September 30, 2022.

Long-lived assets at September 30, 2022, which includes property, plant and equipment and right-of-use assets, decreased by $2.4 million compared to March 31, 2022. This is primarily attributed to additions offset by depreciation in the first six months of fiscal 2023. Additions to property, plant and equipment relate to investments made in the Company's production facilities and vineyard management programs.

Current liabilities were $50.9 million at September 30, 2022 compared to $54.4 million at March 31, 2022. The decrease is primarily due to a decrease in accounts payable and accrued liabilities as a result of the timing of payments offset by an increase in bank indebtedness.

Long-term debt decreased to $187.7 million at September 30, 2022 from $192.1 million at March 31, 2022 due to scheduled debt repayments during the period. The Company's debt to equity ratio was 0.71:1 at September 30, 2022 down slightly from 0.72:1 at March 31, 2022. At September 30, 2022, the Company had unutilized debt capacity in the amount of $162.3 million on its credit facility.

Management expects to generate sufficient cash flow from operations to meet its debt servicing and working capital requirements over the short-term through strong management of working capital and prioritization of capital expenditures. The Company regularly reviews all of its assets to ensure appropriate returns on investment are being achieved and that they fit with the Company's long-term strategic objectives.

For the six months ended September 30, 2022, the Company generated cash from operating activities, after changes in non-cash working capital items, of $19.3 million compared to $30.3 million in the prior year. The decrease in cash from operating activities is due to an increase in interest paid due to higher debt levels and increasing interest rates, as well as a decrease in the change in non-cash working capital items based on the timing of sales and payments.

Cash used in investing activities for the six months ended September 30, 2022 was $9.8 million compared to $3.2 million used in the prior fiscal year. In fiscal 2022, cash used in investing activities was offset by $8.8 million in proceeds from the sale of the Company's Port Coquitlam, British Columbia property and related assets.

Cash used in financing activities for the six months ended September 30, 2022 of $10.8 million included the repayment of long-term debt, payment of dividends, and principal repayment of lease obligations. The prior year's financing activities of $17.2 million included $5.2 million related to the purchase of Class A shares under the Company's approved issuer bid which expired on March 4, 2022.

Working capital at September 30, 2022 was $177.2 million compared to $181.8 million at March 31, 2022. Shareholders' equity at September 30, 2022 was $263.9 million or $6.11 per common share compared to $265.4 million or $6.15 per common share at March 31, 2022.

Common Shares Outstanding

The Company is authorized to issue an unlimited number of Class A and Class B Shares. 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. On September 13, 2022, the Company announced its notice of intention to make a normal course issuer bid had been approved by the Toronto Stock Exchange. Under the issuer bid the Company can purchase for cancellation up to 1,000,000 of its outstanding Class A non-voting shares, representing 2.86% of the Class A shares outstanding at the time, over the ensuing twelve months. As of November 9, 2022, the Company has not purchased any Class A non-voting common shares under its current NCIB.

Shares outstanding	**September 30, 2022**	**March 31, 2022**
Class A Shares	**35,035,679**	34,978,011
Class B Shares	**8,144,183**	8,144,183
Total	**43,179,862**	43,122,194

Strategic Outlook and Direction

Andrew Peller Limited is committed to a strategy of growth that focuses on the expansion of its core business as a producer and marketer of quality wines and wine related products through concentrating on and developing leading brands that meet the needs of consumers and customers. Over the long term the Company believes higher-priced premium wine and spirits sales will continue to grow in Canada, generating higher margins and increased profitability compared to its lower-priced products. The Company entered the spirits and craft beverage alcohol categories, through its strategic alliance with Wayne Gretzky, and has introduced ciders and seltzers through its own brand labels.

The Company has focused its product development and sales and marketing initiatives by capitalizing on alcohol consumption trends and expects to see continuing sales growth as markets continue to normalize after COVID-19. The Company will continue to closely monitor its costs and will react to changes to opportunities and risks in the marketplace.

The Company will continue to expand product offerings outside the traditional table wine segment into other alcoholic beverages where it is able to leverage its detailed knowledge of growth opportunities and operational advantages in the Canadian market. The Company will also make packaging design changes that are more appealing to its target markets and are consistent with its initiative to be more environmentally friendly. Increased focus will be made on coordination between the Company's business-to-consumer trade channels to provide customers with a more intimate awareness of its broad product portfolio. New product launches and key brands through all of the Company's distribution channels will continue to receive increased marketing and sales support.

From time to time the Company evaluates investment opportunities, including acquisitions, which support its strategic direction.

The Company believes that sales will grow over the long term due to strong positioning of key brands, the continued launch of new and innovative products in both its core wine business and in new product categories, as well as overall growth in the Canadian beverage alcohol market. The Company expects to continue to invest in capital expenditures to improve efficiencies, increase capacity, support its ongoing commitment to producing the highest-quality wines and spirits, and improve productivity.

Risks and Uncertainties

The Company's sales of wine and craft beverage alcohol products are affected by general economic conditions and social trends such as changes in discretionary consumer spending and consumer confidence, future economic conditions, changes to inter-provincial trade laws, tax laws, the prices of its products and health trends. The Company is experiencing uncertainty with respect to raw materials and import wine costs due to inflation, and component shortages because of the global supply chain crisis. The impact on the financial results of the Company will depend on management's continued ability to successfully mitigate against these risks.

The Government of Ontario has announced its intention to modernize the rules for selling beverage alcohol in Ontario by expanding retail distribution in the province. This could represent a significant change to the retail landscape in Ontario with the goal of providing more convenience and choice to consumers. While there has not been a proposal by the Government of Ontario regarding implementation, the Company is working closely with its industry partners to mitigate the risks that this transition may have on its financial results.

The Canadian wine market continues to be the target of low-priced imported wines from regions and countries that subsidize wine production and grape growing as well as providing sizeable export incentives on subsidies. Many of these countries and regions prohibit or restrict the sale of imported wine in their own domestic markets. The Company, along with other members of the Canadian wine industry, are working with the Canadian government to improve support for the domestic industry.

The Company operates in a highly competitive industry and the dollar amount and unit volume of sales could be negatively impacted by its inability to maintain or increase prices, changes in geographic or product mix, a general decline in beverage alcohol consumption, or the decision of retailers or consumers to purchase competitor's products. Retailer and consumer purchasing decisions are influenced by, among other things, the perceived absolute or relative overall value of the Company's products including their quality or pricing compared to competitive products. Unit volume and dollar sales could also be affected by purchasing, financing, operational, advertising, or promotional decisions made by provincial agencies and retailers which could affect supply of or consumer demand for the Company's products. APL could also experience higher than expected selling and administrative expenses if it finds it necessary to increase the number of its personnel, advertising, or promotional expenditures to maintain its competitive position.

APL expects to increase sales in Canada principally through the sale of VQA wines, and as a result, is dependent on the quality and supply of domestically grown premium quality grapes. If any of the Company's vineyards or the vineyards of our grape suppliers experience adverse weather variations, natural disasters, pestilence, other severe environmental problems, or other occurrences, APL may not be able to secure a sufficient supply of grapes, a situation which could result in a decrease in production of certain products from those regions and/or result in an increase in costs. The inability to secure premium quality grapes could impair the ability of the Company to supply certain wines to its customers. When environmental risks such as wildfires occur, the Company's viticultural teams have internal processes to ensure the Company's vineyards are protected. This may include the use of technology and fire suppression activities. The Company's winemaking teams are also able to monitor the quality of the grapes and use enhanced processing technology to minimize the risk of smoke taint. APL has also developed programs to maintain access to a consistent supply of premium quality grapes and wine. The price of grapes is determined through negotiations with the Ontario Grape Growers Marketing Board in Ontario and with independent growers in British Columbia.

The Company is exposed to interest rate risk as a result of cash balances and floating rate debt. 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's interest rate swap expired in September 2022, and therefore, all borrowings are currently funded using a floating interest rate and as such, are sensitive to interest rate movements. As at September 30, 2022, with other variables unchanged, a 100 basis point change in interest rates would impact the Company's net earnings by approximately $1.4 million.

Foreign exchange risk exists on the purchases of bulk wine and concentrate that are primarily made in United States dollars, Euros, and Australian dollars. Fluctuating foreign currencies may have a positive or negative impact on gross margins (see "Non-IFRS Measures" section of this MD&A), however, the Company believes the impact on gross margin will be largely offset by its continued ability to leverage scale and successful cost control initiatives to reduce other cost of goods sold. The Company's strategy is to hedge approximately 50% - 80% of its foreign exchange requirements throughout the fiscal year and to regularly review its on-going requirements. The Company does not enter into foreign exchange contracts for trading or speculative purposes and contracts are reviewed periodically. As at September 30, 2022, the Company has forward foreign currency contracts to buy $6.0 million USD at a rate of 1.3219 and EUR 0.5 million at a rate of $1.37. These contracts matured at various dates in October 2022. Based on the Company's forecasts for foreign currency purchases and the amount of foreign exchange forward contracts outstanding at September 30, 2022, each one percent change in the respective foreign currency exchange rates would not result in a material impact on the Company's net earnings.

The Company purchases glass, bag in box, tetra paks, and other components used for bottling and packaging. The largest component of packaging is glass, of which there are few domestic or international suppliers. There is currently only one commercial supplier of glass in Canada that is able to supply glass to APL's specifications. Any interruption in supply could have an adverse impact on the Company's ability to supply its markets. APL has taken steps to reduce its dependence on domestic suppliers through the development of relationships with several international producers of glass and through carrying increased inventory of selected bottles.

The Company operates in a highly regulated industry with requirements regarding the production, distribution, marketing, advertising, and labelling of wine and spirits. These regulatory requirements may inhibit or restrict the Company's ability to maintain or increase strong consumer support for and recognition of its brands and may adversely affect APL's business strategies and results of operations. Privatization of liquor distribution and retailing has been implemented in varying degrees across the country. The recent regulatory changes relating to privatization in Ontario and sales through grocery outlets remains a risk to the Company through its impact on the Company's retail operations.

The wine industry and the domestic and international markets in which the Company operates are consolidating. This has resulted in fewer, but larger, competitors who have increased their resources and scale. The increased competition from these larger market participants may affect the Company's pricing strategies and create margin pressures resulting in potentially lower revenues. Competition also exerts pressure on existing customer relationships which may affect APL's ability to retain existing customers and increase the number of new customers. The Company has worked to improve production efficiencies, selectively increase pricing to increase gross margin (see "Non-IFRS Measures" section of this MD&A) and implement a higher level of promotion and advertising activity to remain competitive. APL and other wine industry participants also generally compete with other alcoholic beverages for consumer acceptance, loyalty, and shelf space. No assurance can be given that consumer demand for wine and premium wine products will continue at current levels in the future.

Federal and provincial governments impose excise, other taxes, and mark-ups on beverage alcohol products which have been subject to change. Significant increases in excise and other taxes on beverage alcohol products could materially and adversely affect the Company's financial condition or results of operations. Federal and provincial governmental agencies extensively regulate the beverage alcohol products industry concerning such matters as licensing, trade practices, permitted and required labelling, advertising, and relations with consumers and retailers. Certain federal and provincial regulations also require warning labels and signage. New or revised regulations, increased licensing fees, requirements, taxes, or mark-ups could also have a material adverse effect on the Company's financial condition or results of operations.

The Company uses information technology and the internet, including online banking, to streamline business operations and to improve customer experience. The Company's information systems, and those of its third-party service providers, creditors, and vendors, are vulnerable to an increasing threat of continually evolving cybersecurity risks. These risks may take the form of malware, computer viruses, cyber threats, extortion, employee error, malfeasance, system errors or other types of risks, and may occur from inside or outside of the organization. Cybersecurity risk is increasingly difficult to identify and quantify and cannot be fully mitigated because of the rapidly evolving nature of the threats, targets, and consequences. Additionally, unauthorized parties may attempt to gain access to these systems or the Company's information through fraud or other means of deceiving the Company's third-party service providers, employees, creditors or vendors. As the threat landscape is ever-changing, the Company must make continuous mitigation efforts. The Company employs third-party information technology services and continually monitors and improves its internal controls to protect against known and emerging threats. However, there can be no assurance that the Company's ability to monitor for or mitigate cybersecurity risks will be fully effective, and it may fail to identify cybersecurity breaches or discover them in a timely manner.

The Company's future operating results also depend on the ability of its officers and other key employees to continue to implement and improve its operating and financial systems and manage the Company's significant relationships with its suppliers and customers. The Company is also dependent upon the performance of its key senior management personnel. The Company's success is linked to its ability to identify, hire, train, motivate, promote, and retain highly qualified management. Competition for such employees is intense and there can be no assurances that the Company will be able to retain current key employees or attract new key employees.

The Company has certain defined benefit pension plans. 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 assets set aside to pay these benefits. The Company's Pension Committee reviews the performance of plan assets on a regular basis and has a policy to hold diversified investments. Nevertheless, 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.

The competitive nature of the wine industry internationally has resulted in the discounting of retail prices of wine in key markets such as the United States and the United Kingdom. Although significant price discounting may occur in Canada beyond current levels, the Company believes that its product quality, advertising, and promotional support along with its competitive pricing strategies will effectively mitigate the impact on the Company.

The Company considers its trademarks, particularly certain brand names and product packaging, advertising and promotion design, and artwork to be of significant importance to its business and ascribes a significant value to these intangible assets. APL relies on trademark laws and other arrangements to protect its proprietary rights. There can be no assurance that the steps taken by APL to protect its intellectual property rights will preclude competitors from developing confusingly similar brand names or promotional materials. The Company believes that its proprietary rights do not infringe upon the proprietary rights of fourth parties, but there can be no assurance in this regard.

As an owner and lessee of property the Company is subject to various federal and provincial laws relating to environmental matters. Such laws provide that the Company could be held liable for the cost of removal and remediation of hazardous substances on its properties. The failure to remedy any situation that might arise could lead to claims against the Company. A perceived failure to maintain high ethical, social, and environmental standards could have an adverse effect on the Company's reputation.

The success of the Company's brands depends upon the positive image that consumers have of those brands. Contamination of APL's products, whether arising accidentally or through deliberate fourth-party action, or other events that harm the integrity or consumer support for those brands could adversely affect their sales. Contaminants in raw materials purchased from fourth parties and used in the production of the Company's products or defects in the fermentation process could lead to low product quality as well as illness among, or injury to, consumers of the products and may result in reduced sales of the affected brand or all of the Company's brands.

Non-IFRS Measures

The Company utilizes EBITA (defined as earnings before interest, amortization, gain on sale of assets held for sale, net unrealized gains and losses on derivative financial instruments, other (income) expenses, gain on debt modification net of financing fees, and income taxes) to measure its financial performance. EBITA is not a recognized measure under IFRS; however, management believes that EBITA is a useful supplemental measure to net earnings as it provides readers with an indication of earnings available for investment prior to debt service, capital expenditures, and income taxes, as well as providing an indication of recurring earnings compared to prior periods.

The Company calculates EBITA as follows.

For the three and six months ended September 30,	Three Months		Six Months	
(in $000)	**2022**	2021	**2022**	2021
Net earnings (loss)	**$ (98)**	$ 13,090	**$ 2,765**	$ 16,380
Add: Interest	**6,016**	2,478	**8,629**	4,751
Income taxes	**(266)**	3,509	**783**	4,792
Amortization of plant and equipment used in production	**2,472**	2,411	**4,791**	4,516
Amortization of equipment and intangibles used in selling and administration	**3,209**	2,862	**6,431**	5,871
Net unrealized (gain) loss on derivative financial instruments	**112**	(1,037)	**(380)**	(1,425)
Gain on sale of assets held for sale	**-**	(7,518)	**-**	(7,518)
Other expenses	**213**	26	**610**	367
EBITA	**$11,658**	$15,821	**$ 23,629**	$ 27,734

Readers are cautioned that EBITA should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of the Company's performance or to cash flows from operating, investing, and financing activities as a measure of liquidity and cash flows.

The Company utilizes gross margin (defined as sales less cost of goods sold, excluding amortization) as calculated below.

For the three and six months ended September 30,	Three Months		Six Months	
(in $000)	**2022**	2021	**2022**	2021
Sales	**$ 101,816**	$ 99,224	**$ 199,515**	**$ 191,621**
Less: Cost of goods sold, excluding amortization	**62,336**	56,816	**121,972**	**111,952**
Gross margin	**$ 39,480**	$ 42,408	**$ 77,543**	**$ 79,669**
Gross margin (% of sales)	**38.8%**	42.7%	**38.9%**	**41.6%**

The Company's method of calculating EBITA and gross margin may differ from the methods used by other companies and accordingly, may not be comparable to the corresponding measures used by other companies.

Financial Statements and Accounting Policies

The Company's condensed interim consolidated financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 – Interim Financial Reporting.

Critical Accounting Estimates

During the year, management is required to make estimates and assumptions that are inherently uncertain. These estimates can vary with respect to the level of judgment involved and ultimately the impact that these estimates may have on the Company's financial statements. Estimates are deemed to be critical when a different estimate could reasonably be used or where changes are reasonably likely to occur which could materially affect the Company's financial position or financial performance. The Company's critical accounting estimates remain unchanged from those disclosed in the notes to the audited consolidated financial statements for the years ended March 31, 2022 and 2021.

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.

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.

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 January 1, 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.

Evaluation of Disclosure Controls and Procedures and Internal Control over Financial Reporting

To comply with National Instrument 52-109, the Company's management, under the supervision of, and with participation of the CEO and CFO, have designed and maintained the Company's disclosure controls and procedures as required in Canada by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings. For the six months ended September 30, 2022, there have been no material changes in the Company's internal controls over financial reporting or changes to disclosure controls and procedures that materially affect or were likely to affect, the Company's internal control systems.