Andrew Peller Limited

Consolidated Financial Statements
March 31, 2020 and 2019
(in thousands of Canadian dollars)

Independent auditor's report

To the Shareholders of Andrew Peller Limited

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Andrew Peller Limited and its subsidiaries (together, the Company) as at March 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at March 31, 2020 and 2019;
- the consolidated statements of earnings for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report, and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is John Donnelly.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
June 10, 2020

Andrew Peller Limited

Consolidated Balance Sheets

As at March 31, 2020 and 2019

(in thousands of Canadian dollars)

	2020 $	2019 $
Assets		
Current assets		
Accounts receivable (note 20)	34,096	29,801
Inventories (note 4)	170,779	160,537
Biological assets (note 6)	1,951	1,736
Prepaid expenses and other assets	3,998	4,626
Income taxes receivable	1,232	-
Derivative financial instruments (note 20)	783	-
Assets held for sale (note 5)	1,275	-
	214,114	196,700
Property, plant and equipment (notes 2 and 5)	221,100	199,749
Intangible assets (note 7)	25,067	16,932
Goodwill (note 8)	53,638	53,638
	513,919	467,019
Liabilities		
Current liabilities		
Bank indebtedness (note 9)	58,114	38,175
Accounts payable and accrued liabilities (note 10)	53,821	47,451
Dividends payable	2,288	2,212
Income taxes payable	-	1,477
Lease obligation (note 2)	3,018	-
Derivative financial instruments (note 20)	1,604	339
Long-term debt (note 11)	11,615	9,741
	130,460	99,395
Long-term debt (note 11)	95,515	106,879
Long-term derivative financial instruments (note 20)	1,932	1,008
Lease obligations (note 2)	14,802	-
Post-employment benefit obligations (note 12)	3,649	4,657
Deferred income taxes (note 13)	22,038	20,329
	268,396	232,268
Shareholders' Equity		
Capital stock (note 14)	26,014	26,330
Contributed surplus (note 15)	4,834	2,737
Retained earnings	218,263	209,825
Accumulated other comprehensive loss	(3,588)	(4,141)
	245,523	234,751
	513,919 `	467,019

Contingent liabilities and unrecognized contractual commitments (note 18)

Events afer the reporting period (note 24)

Approved by

(signed) John E. Peller
Director

(signed) Francois Vimard
Director

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

Andrew Peller Limited

Consolidated Statements of Earnings

For the years ended March 31, 2020 and 2019

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

	2020 $	2019 $
Sales	382,306	381,796
Cost of goods sold, excluding amortization (note 16)	216,056	222,788
Amortization of plant and equipment used in production	10,057	7,749
Gross profit	156,193	151,259
Selling and administration (note 16)	104,749	106,133
Amortization of equipment and intangible assets used in selling and administration	7,697	5,021
Interest	8,107	6,872
Net unrealized loss on derivative financial instruments (note 20)	1,406	1,679
Other expense (note 16)	1,769	1,063
	123,728	120,768
Earnings before income taxes	32,465	30,491
Provision for (recovery of) income taxes (note 13)		
Current	7,456	10,778
Deferred	1,515	(2,245)
	8,971	8,533
Net earnings for the year	23,494	21,958
Net earnings per share (note 17)		
Basic and diluted		
Class A shares	0.55	0.51
Class B shares	0.48	0.44

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

Andrew Peller Limited

Consolidated Statements of Comprehensive Income

For the years ended March 31, 2020 and 2019

(in thousands of Canadian dollars)

	2020 $	2019 $
Net earnings for the year	23,494	21,958
Items that are never reclassified to net earnings		
Net actuarial gains on post-employment benefit plans (note 12)	822	130
Deferred income taxes (note 13)	(214)	(34)
Other comprehensive income for the year	608	96
Net comprehensive income for the year	24,102	22,054

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

Andrew Peller Limited

Consolidated Statements of Changes in Equity

For the years ended March 31, 2020 and 2019

(in thousands of Canadian dollars)

	Capital stock $	Contributed surplus $	Retained earnings $	Accumulated other comprehensive loss $	Total shareholders' equity $
Balance at April 1, 2018	26,097	1,673	196,713	(4,237)	220,246
Net comprehensive income for the year	-	-	21,958	96	22,054
Issuance of Class A non-voting shares (note 15)	233	(162)	-	-	71
Share-based compensation (note 15)	-	1,226	-	-	1,226
Dividends (Class A $0.205 per share, Class B $0.178 per share)	-	-	(8,846)	-	(8,846)
Balance at March 31, 2019	26,330	2,737	209,825	(4,141)	234,751
Net comprehensive income for the year	-	-	23,494	608	24,102
Exercise of DSUs and issuance of Class A non-voting shares (notes 14 and 15)	115	(115)	-	-	-
Cancellation of post-retirement benefit arrangement (note 12)	-	75	-	(55)	20
Repurchase and cancellation of Class A non-voting shares (note 14)	(431)	-	(5,810)	-	(6,241)
Share-based compensation (note 15)	-	2,137	-	-	2,137
Dividends (Class A $0.215 per share, Class B $0.187 per share)	-	-	(9,246)	-	(9,246)
Balance at March 31, 2020	26,014	4,834	218,263	(3,588)	245,523

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

Andrew Peller Limited

Consolidated Statements of Cash Flows

For the years ended March 31, 2020 and 2019

(in thousands of Canadian dollars)

	2020 $	2019 $
Cash provided by (used in)		
Operating activities		
Net earnings for the year	23,494	21,958
Adjustments for non-cash items		
Loss (gain) on disposal of property, plant and equipment and intangible assets	729	(7)
Amortization of plant, equipment and intangible assets	17,754	12,770
Amortization of deferred financing fees	251	257
Interest expense	7,856	6,615
Provision for income taxes	8,971	8,533
Net unrealized loss on derivative financial instruments	1,406	1,679
Share-based compensation expense	1,876	1,226
Post-employment benefits	(186)	(353)
Interest paid	(8,208)	(6,689)
Income taxes paid	(10,165)	(12,076)
	43,778	33,913
Change in non-cash working capital items related to operations (note 19)	(12,235)	15,131
	31,543	49,044
Investing activities		
Proceeds from disposal of property, plant and equipment	-	18
Purchase of property, plant and equipment	(17,699)	(22,516)
Purchase of intangible assets	(5,609)	(870)
	(23,308)	(23,368)
Financing activities		
Increase (decrease) in bank indebtedness	19,939	(9,149)
Issuance of Class A non-voting shares	-	71
Principle payments on lease obligations	(3,022)	-
Repurchase of Class A shares	(6,241)	-
Repayment of long-term debt	(9,741)	(8,029)
Dividends paid	(9,170)	(8,569)
	(8,235)	(25,676)
Cash – Beginning and end of year	-	-
Supplementary information		
Property, plant and equipment acquired that were unpaid in cash and included in accounts payable and accrued liabilities	1,360	536
Intangible assets acquired that were unpaid in cash and included in accounts payable and accrued liabilities	4,270	-

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

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

1 Nature of operations

Andrew Peller Limited (the Company) produces and markets wine, spirits, 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.

In March 2020, the World Health Organization characterized the outbreak of the novel strain of coronavirus, specifically identified as COVID-19, as a global pandemic. This has resulted in the governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to business, resulting in a global economic slowdown. Equity markets have experienced significant volatility and weakness and the governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. While the Company is deemed an essential service, there is significant uncertainty as to the likely effects this outbreak will have on the business, which may, among other things, negatively impact customers and their demand for the Company's products, its supply chain, lease agreements as well as covenants and banking agreements.

The outbreak may also have an effect on the future collectibility of certain receivables, recoverability of property, plant and equipment, goodwill and intangible assets, as well as fair value of derivatives. As the duration and impact of the COVID-19 outbreak or the efficacy of the government and Bank of Canada interventions are not known at this time, it is not possible to reliably estimate the length and severity of these developments or quantify the impact this pandemic may have on the financial results and condition of the Company in future periods. In response to COVID-19, the Company has implemented working practices to address potential impacts to its operations, employees and customers and will take further measures in the future, if required.

2 Summary of significant accounting policies

Basis of presentation

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

These consolidated financial statements were approved by the Board of Directors for issue on June 10, 2020.

Basis of measurement

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

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

Basis of consolidation

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

Business combinations

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

Foreign currency translation

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

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

Revenue

Revenue is derived from the sale of goods and is recognized at a point in time when the performance obligation is fulfilled. For sales to consumers through retail stores, winery restaurants and estate wineries, the performance obligation is deemed fulfilled when the product is purchased. For sales transactions with provincial liquor boards, licensee retail stores and wine kit retailers, the Company's performance obligation is fulfilled when the product is shipped from the Company's distribution facilities.

Excise taxes collected on behalf of the federal government, licensing fees and levies paid on wine sold through the Company's independent retail stores in Ontario, product returns, breakage, promotional and advertising allowances and discounts provided to customers are deducted from the selling price to determine the transaction price at which revenue is recognized. Expected product returns and breakage are estimated based on historical actuals as a percentage of sales.

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

Deferred revenue represents amounts paid by customers in advance of the purchase of products which typically takes the form of pre-loaded gift cards. The amounts received are recorded as deferred revenue within accounts payable and accrued liabilities on the condensed consolidated balance sheets. Once a gift card is redeemed to make a purchase, the liability is relieved and revenue is recognized.

The Company also enters into arrangements with third parties for the sale of products to customers. When the terms of the arrangement are such that the Company is acting as an agent of the third party, revenue is recognized in the amount of the commission to which the Company is entitled in exchange for arranging for the third party to provide its goods to customers.

Cost of goods sold

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

Inventories

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

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

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

Property, plant and equipment

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

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

Land is carried at cost and is not amortized.

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

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

Biological assets

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

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

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

Intangible assets

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

	Amortization method	Useful life	Remaining useful life
Brands – indefinite life	n/a	indefinite	indefinite
Brands – finite life	straight-line	2 years	none
Customer contracts and lists	straight-line	10 – 20 years	3 – 15 years
Contract packaging	straight-line	10 years	none
Software	straight-line	5 years	3 – 5 years

Certain of the Company's brands have been assessed as having an indefinite life because the expected usage, period of control and other factors do not limit the life of these assets. Intangible assets with an indefinite life are not amortized but are tested for impairment at least annually or more frequently if events or circumstances indicate the asset might be impaired. To test for impairment, the Company primarily compares the amount of royalty the Company would have had to pay in an arm's length licensing arrangement to secure access to the same rights to its carrying value. If necessary, the fair value is also considered. An impairment charge is recorded to the extent the carrying value exceeds the fair value. Management has determined there was no impairment in intangible assets for the years ended March 31, 2020 and 2019.

During the year ended March 31, 2019, it was determined that certain of the Company's brands, which were previously recorded as indefinite life, have a finite life based on the remaining expected usage. Therefore, amortization for these brands is being recorded on a straight-line basis over the remaining period of expected usage.

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

Goodwill

Goodwill represents the cost of a business combination in excess of the fair values of the net tangible and identifiable intangible assets acquired. Goodwill is not amortized but is tested for impairment on an annual basis, or more frequently if circumstances indicate goodwill may be impaired. The Company assigns goodwill combined with other assets to a cash generating unit (CGU) based on certain regions and product lines, which is the lowest level at which the combined assets generate independent cash inflows. To test for impairment, the Company primarily compares a CGU's value in use, determined based on expected future discounted cash flows, to its carrying value. If necessary, a CGU's fair value is also considered. An impairment charge is recorded to the extent the carrying value of a CGU exceeds the greater of the CGU's fair value and its value in use. An impairment loss in respect of goodwill cannot be reversed. Management has determined there is no impairment in goodwill for the years ended March 31, 2020 and 2019.

Post-employment benefits

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

Financial instruments and hedge accounting

Financial assets and liabilities are initially recorded at fair value including, where permitted by IFRS 9, any directly attributable transaction costs. For those financial assets that are not subsequently held at fair value, the Company assesses whether there is evidence of impairment at each consolidated balance sheet date.

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

Expected credit losses on financial assets carried at amortized cost are assessed on a forward-looking basis. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on past history, existing market conditions as well as forward-looking estimates at the end of each reporting period.

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

The Company recognizes financial instruments when it becomes a party to the terms of the instrument and has elected to use "trade date" accounting for regular way purchases and sales of financial assets.

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

Leases

For the year ended March 31, 2019, the Company classified leases in which a significant portion of the risks and rewards of ownership are retained by the lessor as operating leases. Payments made under operating leases are charged to the consolidated statements of earnings on a straight-line basis over the period the asset is used under the lease. Leases under which the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Payments on finance leases are allocated to the liability and expense so as to recognize a constant rate of interest on the remaining balance of the liability. Assets acquired under finance leases are amortized over their useful lives.

Effective April 1, 2019, the Company adopted IFRS 16, Leases using modified retrospective method. Leases are recognized as a right-of-use asset within property, plant and equipment and a corresponding lease liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the repayment of the principle portion of lease liability and the interest portion. The interest expense is charged to the consolidated statement of earnings over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payment of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Payments associated with variable lease payments not based on an index or a rate, short-term leases and leases of low value assets are recognized on a straight-line basis as an expense in the consolidated statement of earnings.

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

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date, less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Right-of-use assets are subject to impairment. Amortization of right-of-use vineyard land, buildings and machinery and equipment is as follows:

Vineyard land	2 – 29 years
Buildings	3 – 10 years
Machinery and equipment	2 – 6 years

Impairment of non-financial assets

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

Net earnings per share

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

Dividends

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

Segmented information

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

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

Income taxes

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

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

Contingencies

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

Comprehensive income

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

Equity

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

Share-based compensation

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

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

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

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

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

Recently adopted accounting pronouncements

IFRS 16, Leases

The International Accounting Standards Board issued IFRS 16, Leases which replaces International Accounting Standard (IAS) 17, Leases and Related Interpretations. On April 1, 2019, the Company adopted the new accounting standard using the modified retrospective method, and therefore comparative figures have not been restated, as permitted under the specific transitional provisions in the standard. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized in operating retained earnings at April 1, 2019.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessment on whether leases are onerous;
- The accounting for operating leases with a remaining lease term of less than 12 months as at April 1, 2019 as short-term leases;
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

The Company has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Company relied on its assessment made applying IAS 17 and IFRIC 4, Determining whether an Arrangement Contains a Lease.

The Company leases various vineyards, retail stores, offices, warehouses, equipment and vehicles. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Where the Company is a lessee, IFRS 16 resulted in recognition of most of its leases that were considered operating leases under IAS 17. This resulted in recognition of a right-of-use asset and a lease liability for the present value of the remaining future lease payments, discounted using the incremental borrowing rate at the date of initial application. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on April 1, 2019 was 5.01%.

Depreciation expense on the right-of-use asset and interest expense on the lease liability replaced the previously recognized operating lease expense. The impact of adopting this standard on the consolidated statement of cash flows is to present the principle repayment on lease obligations in financing activities under IFRS 16, whereas previously payments for operating leases were presented in operating activities.

The adoption of this standard resulted in the recognition of right-of-use assets in property, plant and equipment and lease liabilities amounting to $17,658 as of April 1, 2019. The difference between the undiscounted operating lease commitments of the Company as of March 31, 2019 and the discounted lease obligation of the Company as of April 1, 2019 is as follows:

	2019 **$**
Operating lease and royalty commitments disclosed as at March 31, 2019	37,072
Less: Royalties	(9,615)
Less: Leases with variable consideration	(4,181)
Less: Short-term leases	(62)
Less: Low value leases	(189)
Undiscounted lease liability	23,025
Discounted using the lessee's incremental borrowing rate	17,658
Lease liability recognized as at April 1, 2019	17,658

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

Leases are included as follows in the consolidated balance sheet as at March 31, 2020:

	Vineyard land $	Buildings $	Machinery and equipment $	Total $
At April 1, 2019	7,176	9,009	1,473	17,658
Additions	-	3,103	198	3,301
Disposal	-	(116)	-	(116)
Amortization	(517)	(2,327)	(448)	(3,292)
Closing net carrying amount	6,659	9,669	1,223	17,551

The lease obligation transactions during the year were as follows:

Lease obligation	**2020** **$**
As at April 1, 2019	17,658
Additions	3,301
Disposal	(117)
Repayments	(3,859)
Interest	837
As at March 31, 2020	17,820
Less: Current portion of lease obligation	3,018
Lease obligation	14,802

The expense related to leases with variable consideration, short-term leases and low value leases amounted to $2,354 for year ended March 31, 2020 and was recorded within selling and administration expenses. The total cash outflows relating to leases during the year were $6,213.

Some property leases contain variable payment terms that are linked to sales generated from a store. For individual stores, up to 100% of lease payments are on the basis of variable payment terms. Variable lease payments are recognized in the consolidated statement of earnings in the period in which the condition that triggers those payments occurs. A 5% increase in sales across all stores with such variable lease contracts would not result in a material change to the total lease payments.

IAS 19, Employee Benefits

The International Accounting Standards Board issued an amended IAS 19, Employee Benefits, to modify the guidance in connection with defined benefit plans and accounting for plan amendments, settlements or curtailments. The Amendments are effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments did not have a material impact on the consolidated financial statements.

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

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments, has been amended to enable companies to measure at amortized cost some prepayable financial assets with negative compensation. The amendment to IFRS 9 also clarifies how to account for the modification of a financial liability. Most modifications of financial liabilities will result in immediate recognition of a gain or loss. The amendment is effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments did not have a material impact on the consolidated financial statements.

IFRIC Interpretation 23, Uncertainty over Income Tax Treatments

IFRIC Interpretation 23, Uncertainty over Income Tax Treatments, has been issued to clarify how to apply the recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty over income tax treatments. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2019. The adoption of these amendments did not have a material impact on the consolidated financial statements.

Recently issued accounting pronouncements

IAS 1, Presentation of Financial Statements, and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

These standards have been amended to use a consistent definition of materiality throughout all accounting standards, clarify the explanation of the definition of material and incorporate some of the guidance in IAS 1 about immaterial information. The amendments are effective for annual periods beginning on or after January 1, 2020. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

IFRS 3, Business Combinations

This standard has been amended to improve the definition of a business. The amendments will help companies determine whether an acquisition made is of a business or a group of assets. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contributions to the ability to create outputs. The amendments are effective for annual periods beginning on or after January 1, 2020. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

IAS 1, Presentation of Financial Statements, and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

This standard has been amended to clarify the classification of liabilities as current or non-current. The amendments are effective for annual periods beginning on or after January 1, 2022. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

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

3 Critical accounting estimates and judgements

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

Impairment of goodwill and indefinite life intangible assets

Testing goodwill for impairment at least annually involves estimating the recoverable amount of the cash generating units (CGUs) to which goodwill is allocated. This requires making assumptions about future cash flows, growth rates and discount rates. Testing indefinite life intangible assets for impairment at least annually involves estimating the fair value using the relief of royalty method. This requires making assumptions about royalty rates, growth rates and discount rates. These assumptions are inherently uncertain and as such, actual amounts may vary from these assumptions and cause significant adjustments. Refer to note 8 for further information.

Post-employment benefits

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

Fair value of grapes at the point of harvest

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

Leases

Critical accounting estimates were made in determining the lease term and incremental borrowing rate. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

In determining the carrying amount of right-of-use assets and lease liabilities, the Company is required to estimate the incremental borrowing rate specific to each leased asset or portfolio of leased assets if the interest rate implicit in the lease is not readily determined. Management determines the incremental borrowing rate of each leased asset or portfolio of leased assets by using the companies specific risk portfolio, the security, term

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

and value of the underlying leased asset, and the economic environment in which the leased asset operates in. The incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment.

4 Inventories

	2020 $	2019 $
Packaging materials and supplies	11,513	10,172
Bulk wine and spirits	88,921	83,979
Finished goods	70,345	66,386
	170,779	160,537
Interest included in the cost of inventories	1,697	1,399

Inventory writedowns recognized as an expense amounted to $2,033 (2019 – $1,088).

The cost of inventories recognized as an expense and included in cost of goods sold, excluding amortization, was $214,023 (2019 – $221,700).

5 Property, plant and equipment

	Land $	Vines, vineyard land and infrastructure $	Buildings $	Machinery and equipment $	Total $
At March 31, 2018					
Cost	35,804	47,373	79,596	139,285	302,058
Accumulated amortization	-	(11,196)	(21,131)	(81,540)	(113,867)
Net carrying amount	35,804	36,177	58,465	57,745	188,191
Year ended March 31, 2019					
Additions	-	674	9,189	12,823	22,686
Disposals	(3)	-	-	(8)	(11)
Amortization	-	(1,719)	(2,073)	(7,325)	(11,117)
Closing net carrying amount	35,801	35,132	65,581	63,235	199,749
At March 31, 2019					
Cost	35,801	48,047	88,785	151,289	323,922
Accumulated amortization	-	(12,915)	(23,204)	(88,054)	(124,173)
Net carrying amount	35,801	35,132	65,581	63,235	199,749

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

	Land $	Vines, vineyard land and infrastructure $	Buildings $	Machinery and equipment $	Total $
Year ended March 31, 2020					
Right-of-use assets capitalized on adoption of IFRS 16 (note 2)	-	7,176	9,009	1,473	17,658
Additions	-	956	11,083	9,785	21,824
Assets held for sale	(275)	-	(1,000)	-	(1,275)
Disposals	-	-	(116)	(515)	(631)
Amortization	-	(3,895)	(4,759)	(7,571)	(16,225)
Closing net carrying amount	35,526	39,369	79,798	66,407	221,100
At March 31, 2020					
Cost	35,526	56,179	107,161	156,823	355,689
Accumulated amortization	-	(16,810)	(27,363)	(90,416)	(134,589)
Net carrying amount	35,526	39,369	79,798	66,407	221,100

Included in buildings and machinery and equipment are assets amounting to $8,678 (2019 – $1,465) that are under development and are not being amortized.

Contractual commitments to purchase property, plant and equipment were $1,235 as at March 31, 2020 (2019 – $6,583).

During the year, the Company has listed for sale plant assets in Port Coquitlam, British Columbia, as a result of the consolidation of production assets. The assets listed for sale have a net book value of $1,275 and the Company intends to close the transaction during the fiscal year ending March 31, 2021.

6 Biological assets

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

During the year ended March 31, 2020, the Company harvested grapes valued at $9,402 (2019 – $9,087).

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

	2020 $	2019 $
Carrying amount – Beginning of year	1,736	1,901
Net increase in fair value less costs to sell due to biological transformation	9,617	8,922
Transferred to inventory on harvest	(9,402)	(9,087)
Net gain (loss)	215	(165)
Biological assets	1,951	1,736

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

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

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

7 Intangible assets

	Brands – indefinite life $	Brands – finite life $	Customer contracts and lists $	Contract packaging $	Software $	Other $	Total $
At March 31, 2018							
Cost	10,614	-	12,827	1,100	3,350	1,917	29,808
Accumulated amortization and impairment	(200)	-	(7,202)	(1,083)	(1,774)	(1,816)	(12,075)
Net carrying amount	10,414	-	5,625	17	1,576	101	17,733
Year ended March 31, 2019							
Additions	-	-	-	-	852	-	852
Transfer	(375)	375	-	-	-	-	-
Amortization	-	(125)	(834)	(17)	(677)	-	(1,653)
Closing net carrying amount	10,039	250	4,791	-	1,751	101	16,932
At March 31, 2019							
Cost	10,239	375	12,827	1,100	4,202	1,917	30,660
Accumulated amortization and impairment	(200)	(125)	(8,036)	(1,100)	(2,451)	(1,816)	(13,728)
Net carrying amount	10,039	250	4,791	-	1,751	101	16,932
Year ended March 31, 2020							
Additions	-	-	-	-	9,879	-	9,879
Disposal	-	-	-	-	(215)	-	(215)
Amortization	-	(250)	(820)	-	(459)	-	(1,529)
Closing net carrying amount	10,039	-	3,971	-	10,956	101	25,067
At March 31, 2020							
Cost	10,239	375	12,827	1,100	13,832	1,917	40,290
Accumulated amortization and impairment	(200)	(375)	(8,856)	(1,100)	(2,876)	(1,816)	(15,223)
Net carrying amount	10,039	-	3,971	-	10,956	101	25,067

Included in software are assets amounting to $9,351 (2019 – $nil) that are under development and are not being amortized.

Contractual commitments to purchase software were $3,805 as at March 31, 2020 (2019 – $nil).

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

8 Goodwill

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

	2020 $	2019 $
Ontario and Eastern Canadian wine	3,134	3,134
Western Canadian wine	26,695	26,695
Personal winemaking products	23,809	23,809
	53,638	53,638

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

	2020	2019
Discount rate	9.1%	8.4%
Period of projected cash flows	5 years	5 years
Gross profit percentage, excluding amortization	44.0%	40.0%
Growth rate beyond period of projected cash flows	3.3%	4.0%

The Company uses past experience and current expectations about future performance in projecting cash flows, including the impact of COVID-19, which are based on financial budgets for five years. For the period after five years, the Company projects cash flows using an assumed growth rate, which is based on expectations about long-term economic growth in Canada and any known industry specific factors that may influence long-term growth in the Canadian wine industry. The discount rate is estimated by referring to external sources of information about the cost of capital and the leverage of companies that operate in a similar industry to the Company and that are of similar size.

The recoverable amount of each CGU is sensitive to changes in market conditions and could result in changes in the carrying value of goodwill in the future. Sensitivity analysis was performed for each CGU by changing the following key assumptions: discount rate, gross profit percentage and the growth rate beyond the period of projected cash flows. To determine the impact on the recoverable amounts, the discount rates were increased by 8.8% – 11.7% (a 100 basis point increase), the gross profit percentages were decreased by 2.0% – 3.0% (a 100 basis point decrease) and the growth rates beyond the period of projected cash flows were decreased by 20.0% – 29.4% (a 100 basis point decrease). Each key assumption was changed independently while holding all other assumptions constant. These sensitivities help to determine the theoretical impairment losses that would be recorded.

An increase of the discount rate of 11.7%, a decrease in the gross profit percentage of 2.0% or a decrease in the growth rate beyond the period of projected cash flows of 21.0% would not result in an impairment of the Ontario and Eastern Canadian wine CGU. An increase of the discount rate of 11.3% would result in an impairment of the Western Canadian wine CGU in the amount of $2,046. A decrease of 2.6% in the gross profit

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

percentage or a decrease in the growth rate beyond the period of projected cash flows of 29.4% would not result in an impairment of the Western Canadian wine CGU. An increase of the discount rate of 8.8%, a decrease in the gross profit percentage of 3.0% or a decrease in the growth rate beyond the period of projected cash flows of 20% would not result in an impairment of the personal winemaking products CGU. As each key assumption was changed independently, the results of the sensitivity analyses do not contemplate management's ability to mitigate against any adverse effects that may arise in the future.

To cause an impairment of the Ontario and Eastern Canadian wine CGU, the discount rate would need to increase by 21.9% (188 basis points), the gross margin percentage would need to decrease by 4.5% (225 basis points) or the growth rate beyond the period of projected cash flows would need to decrease by 47.2% (225 basis points). To cause an impairment of the Western Canadian wine CGU, the discount rate would need to increase by 10.5% (93 basis points), the gross margin percentage would need to decrease by 4.8% (183 basis points) or the growth rate beyond the period of projected cash flows would need to decrease by 33.5% (114 basis points). To cause an impairment of the personal winemaking products CGU, the discount rate would need to increase by 14.1% (160 basis points), the gross margin percentage would need to decrease by 5.8% (195 basis points) and the growth rate beyond the period of projected cash flows would need to decrease by 63.0% (315 basis points).

9 Bank indebtedness

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

	2020 $	2019 $
Bank indebtedness	58,114	38,175
Significant terms		
Committed until	September 29, 2022	September 29, 2022
Borrowing limit	$90,000	$90,000
Interest rate	CDOR + 1.90%	CDOR + 1.90%
Unused amount	$31,886	$51,825

10 Accounts payable and accrued liabilities

	2020 $	2019 $
Trade payables	34,250	35,392
Accrued liabilities	18,608	11,194
Deferred revenue – gift cards	963	865
	53,821	47,451

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

11 Long-term debt

	2020 $	2019 $
Revolving, amortizing loan – investment facility	107,591	117,226
Other	106	212
	107,697	117,438
Less: Financing costs	567	818
	107,130	116,620
Less: Current portion of revolving, amortizing loan	11,509	9,635
Less: Current portion of other loan	106	106
	95,515	106,879

The Company's credit agreement matures on September 29, 2022 and has a total borrowing limit of $310,000, separated into two facilities: a revolving, non-amortizing facility with a borrowing limit of $90,000 to be used for day-to-day operations, distributions and capital expenditures and a revolving, amortizing investment facility with a borrowing limit of $220,000 to be used for acquisitions or capital expenditures. Each draw on the investment facility is subject to a new amortization schedule and required annual repayments increase over the term of the loan. Monthly principal repayments of $803 are required on the revolving, amortizing facility until September 29, 2020. Thereafter, monthly principal repayments will increase to $1,071. As at March 31, 2020 and 2019, the applicable margin was 1.90%.

Financing costs of $1,222 were incurred to amend the debt facilities during the year ended March 31, 2019 and these costs are being amortized over the term of the loan.

The Company has entered into interest rate swap agreements to fix the interest rate on the balance outstanding on the investment facility. Until September 29, 2022, the interest rate is fixed at 2.25%, plus the applicable margin.

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

Interest expense on long-term debt during the year was $4,695 (2019 – $4,828).

12 Post-employment benefits

Defined contribution plans

The total expenses for the defined contribution savings plans were $2,028 (2019 – $1,888).

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

Defined benefit plans

The Company has funded defined benefit pension plans. The Company also has an unfunded post-retirement medical benefits plan for certain employees and provides a monthly wine allowance to retired employees, which are collectively referred to as other post-employment benefits. On June 1, 2019, the Company ratified a new collective bargaining agreement with its unionized employees. Under this agreement, one of the post-retirement benefit agreements was cancelled with no further amounts payable to employees. As a result, the balance of this post-employment benefit obligation of $107 was recorded as a credit against current service cost and the accumulated actuarial gain of $75 was released to contributed surplus during the fiscal year ended March 31, 2020.

Nature

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

Regulatory information

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

Risks

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

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

Amounts pertaining to defined benefit plans are as follows:

			2020
	Pension benefits $	**Other post-employment benefits $**	**Total $**
Plan assets			
Fair value – Beginning of year	23,953	-	23,953
Return on plan assets excluding amounts in interest income	(1,075)	-	(1,075)
Interest income	784	-	784
Company's contributions	776	95	871
Benefits paid	(1,164)	(95)	(1,259)
Fair value – End of year	23,274	-	23,274
Plan obligations			
Accrued benefit obligations – Beginning of year	25,900	2,710	28,610
Total current service cost	529	(37)	492
Interest cost	853	87	940
Benefits paid	(1,164)	(95)	(1,259)
Past service cost	-	37	37
Remeasurements			
Experience loss (gain)	123	(339)	(216)
Gain from change in financial assumptions	(1,555)	(126)	(1,681)
Accrued benefit obligations – End of year	24,686	2,237	26,923
Post-employment benefit obligations	1,412	2,237	3,649

			2020
	Pension benefits $	**Other post-employment benefits $**	**Total $**
Benefit plan expense			
Current service cost	529	(37)	492
Net interest cost on defined benefit liability	69	87	156
Past service cost	-	37	37
Net benefit plan expense	598	87	685
Amount recognized in other comprehensive income			
Net actuarial gain	357	465	822
Expected contributions for the year ending March 31, 2021	488	85	573
Weighted average duration of the defined benefit obligations in years	12.1	11.3	12.1

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

			2019
	Pension benefits $	**Other post-employment benefits $**	**Total $**
Plan assets			
Fair value – Beginning of year	22,527	-	22,527
Return on plan assets excluding amounts in interest income	702	-	702
Interest income	787	-	787
Company's contributions	987	115	1,102
Benefits paid	(1,050)	(115)	(1,165)
Fair value – End of year	23,953	-	23,953
Plan obligations			
Accrued benefit obligations – Beginning of year	24,933	2,734	27,667
Total current service cost	494	74	568
Interest cost	872	96	968
Benefits paid	(1,050)	(115)	(1,165)
Remeasurements			
Experience gain	50	(139)	(89)
Loss from change in financial assumptions	601	60	661
Accrued benefit obligations – End of year	25,900	2,710	28,610
Post-employment benefit obligations	1,947	2,710	4,657

			2019
	Pension benefits $	**Other post-employment benefits $**	**Total $**
Benefit plan expense			
Current service cost	494	74	568
Net interest cost on defined benefit liability	85	96	181
Net benefit plan expense	579	170	749
Amount recognized in other comprehensive income			
Net actuarial gain	51	79	130
Expected contributions for the year ending March 31, 2020	709	107	816
Weighted average duration of the defined benefit obligations in years	12.9	11.9	12.8

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

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

	2020	2019
Discount rate for expenses	3.3%	3.5%
Discount rate for obligations	3.8%	3.3%
Rate of compensation increase	2.5%	2.5%
Rate of medical cost increases	5.0%	5.0%
Retirement age	60 – 65 years	60 – 65 years
Inflation rate	2.0%	2.0%
Mortality tables	MI-2017	MI-2017

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

	2020		2019	
	Pension benefits $	Other post-employment benefits $	Pension benefits $	Other post-employment benefits $
Increase (decrease) in the post-employment benefit obligations				
1% increase in the discount rate	(2,705)	(238)	(3,014)	(302)
1% decrease in the discount rate	3,279	269	3,688	341
1% increase in the rate of compensation increase	742	-	761	5
1% decrease in the rate of compensation increase	(671)	-	(687)	(5)
1% increase in the inflation rate	74	-	359	-
1% decrease in the inflation rate	(73)	-	(325)	-

At March 31, 2020, the accumulated actuarial losses, net of deferred taxes, recognized in other comprehensive income (loss) were $3,588 (2019 – $4,141).

Plan assets

The plan assets consist of the following:

	2020		2019	
	$		$	
Mutual funds				
Fixed income	17,107	74%	17,565	73%
Equity	6,167	26%	6,388	27%
	23,274	100%	23,953	100%

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

13 Income taxes

	2020 $	2019 $
Provision for current income taxes	7,456	10,778
Change in temporary differences	1,875	(2,445)
Impact of change in tax rate	(360)	200
Provision for (recovery of) deferred income taxes	1,515	(2,245)
Total provision for income taxes	8,971	8,533

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

	2020 $	2019 $
Provision for income taxes at blended statutory rate of 25.81% (2019 – 26.18%)	8,378	7,983
Permanent differences and non-deductible items	648	485
Future income tax rate changes	(360)	200
Other	305	(135)
	8,971	8,533

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

	2020 $	2019 $
At beginning of year	20,329	22,540
Provision for (recovery of) deferred income taxes in net earnings	1,515	(2,245)
Provision for deferred income taxes in other comprehensive income	214	34
Deferred tax liability reversed for cancelled post retirement benefit arrangement	(20)	-
At end of year	22,038	20,329

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

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

Deferred income tax liability

	Accelerated tax depreciation and deductions on property, plant and equipment $	Accelerated tax deductions on intangible assets $	Tax deductions on inventory $	Tax deductions on goodwill $	Total $
March 31, 2018	16,364	1,947	2,019	3,778	24,108
Provision (recovery) in net earnings	1,459	(1,481)	(1,503)	(66)	(1,591)
March 31, 2019	17,823	466	516	3,712	22,517
Provision (recovery) in net earnings	4,096	(45)	(436)	(2,854)	761
March 31, 2020	21,919	421	80	858	23,278

Deferred income tax asset

	Fair value change on derivatives $	Post-employment benefits $	Other $	Total $
March 31, 2018	87	(1,345)	(310)	(1,568)
Provision (recovery) in net earnings	(443)	81	(292)	(654)
Provision in other comprehensive income	-	34	-	34
March 31, 2019	(356)	(1,230)	(602)	(2,188)
Provision in net earnings	356	92	306	754
Provision in other comprehensive income	-	214	-	214
Deferred tax liability reversed for cancelled post retirement benefit arrangement	-	(20)	-	(20)
March 31, 2020	-	(944)	(296)	(1,240)
Net deferred income tax liability				22,038

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

The income tax effects relating to components of accumulated other comprehensive loss are as follows:

	2020			2019		
	Before income tax amount $	Deferred tax expense $	Net of income tax expense $	Before income tax amount $	Deferred tax expense	Net of income tax expense $
Accumulated actuarial losses	4,848	1,260	3,588	5,595	1,454	4,141

14 Capital stock

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

Issued

	2020		2019	
	Number of shares $	Amount $	Number of shares $	Amount $
Class A shares, non-voting	35,403,767	25,650	35,988,148	25,966
Class B shares, voting	8,191,883	364	8,198,994	364
	43,595,650	26,014	44,187,142	26,330

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

Class A shares are non-voting and are entitled to a dividend in an amount equal to 115% of any dividend paid or declared on Class B shares. Class B shares are voting and convertible into Class A shares on a one-for-one basis. During the year ended March 31, 2020, 7,111 Class B shares were converted into Class A shares on a one-for-one basis.

On November 8, 2019, the Company announced its normal course issuer bid (NCIB) to repurchase for cancellation up to 1,799,733 Class A non-voting common shares, representing 5% of Class A non-voting common shares issued and outstanding as at the close of markets on November 7, 2019, during the 12-month period from November 12, 2019 to November 12, 2020. The total number of Class A non-voting common shares repurchased for cancellation under the NCIB during the fiscal year ended March 31, 2020 amounted to 597,900 common shares, at a weighted average price of $10.44 per Class A non-voting common share, for total cash consideration of $6,241. The Company’s share capital was reduced by $431 and the remaining $5,810 was accounted for as a decrease to retained earnings.

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

The Company also issued 88 Class A shares on the exercise of deferred share units as described in note 15, Share-based compensation, as the holders of deferred share units earn dividends in the form of additional units.

Annual dividends of $0.215 (2019 – $0.205) per Class A share and $0.187 (2019 – $0.178) per Class B share were approved by the Board of Directors on June 12, 2019 and are formally declared in each quarter.

The authorized share capital of the Company also consists of an unlimited number of preference shares, issuable in one or more series, of which 33,315 are designated as preference shares, Series A. As at March 31, 2020 and 2019, there were no preference shares issued or outstanding.

Stock purchase plan

The Company's full-time salaried and certain hourly employees participate in a Company sponsored stock purchase plan. Under the terms of the plan, employees can purchase a certain number of Class A shares on an annual basis. Employees are required to pay 67% of the market price per Class A share. The Company is responsible for the remainder of the cost and, during 2020, expensed $258 (2019 – $325) related to the employee program.

15 Share-based compensation

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

	2020 $	2019 $
765,200 stock options (2019 – 436,467) (a)	1,028	742
219,876 performance share units (2019 – 137,546) (b)	848	484
72,459 deferred share units (2019 – 61,819) (c)	-	-
	1,876	1,226

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

The maximum number of shares that may be issued under all share based compensation arrangements implemented by the Company, including the stock option plan, the PSU plan and the DSU plan, may not exceed 10% of the total number of Class A non-voting common shares issued and outstanding from time to time. As at March 31, 2020, the Company had 3,338,023 Class A non-voting common shares reserved for issuance under the share-based compensation arrangements.

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

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.

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

	Number of options	**Weighted average exercise price per share $**
Balance – March 31, 2019	436,467	14.25
Granted	354,800	14.14
Forfeited	(26,067)	(14.45)
	765,200	14.19
Exercisable	211,788	13.18

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

	2020	**2019**
Weighted average fair value per share option	$3.97	$5.52
Expected volatility (1)	23.34%	28.61%
Dividend yield	1.34%	1.36%
Risk-free interest rate	2.25%	2.00%
Weighted average expected life in years	10	10

(1) Expected volatility was determined using historical volatility.

Information relating to stock options outstanding and exercisable as at March 31, 2020 is as follows:

	Share options outstanding			**Share options exercisable**		
Range of exercise prices	**Weighted average remaining life (in months)**	**Number of share options**	**Weighted average exercise price $**	**Weighted average remaining life (in months)**	**Number of share options**	**Weighted average exercise price $**
10.01 to 15.00	104	581,700	13.24	90	150,629	11.81
15.01 to 20.00	101	183,500	17.21	101	61,159	17.21
	104	765,200	14.19	93	211,788	13.18

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

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.

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

	Number of units	Grant date fair value per unit $
Balance – March 31, 2019	137,546	14.29
Granted	87,980	14.14
Forfeited	(5,650)	(14.45)
	219,876	14.20
Exercisable	44,444	11.74

Awards granted September 21, 2017 and November 13, 2017 vested March 31, 2020 and, based on the achievement of the performance condition, 44,444 shares vested.

c) DSU plan

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

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

	Number of units	Grant date fair value per unit $
Balance – March 31, 2019	61,819	18.26
Issued	16,960	13.75
Exercised	(6,320)	(18.22)
	72,459	17.19

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

16 Nature of expenses

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

	2020 $	2019 $
Raw materials and consumables	172,430	177,655
Employee compensation and benefits	77,379	75,642
Advertising, promotion and distribution	28,169	33,277
Occupancy	10,048	12,817
Repairs and maintenance	8,302	7,200
Other external charges	24,477	22,330
	320,805	328,921

Other expenses (income) are as follows:

	2020 $	2019 $
Ongoing maintenance costs related to Port Moody winery facility, net of income (a)	421	625
Restructuring (b)	1,703	727
Other	(355)	(289)
	1,769	1,063

a) During fiscal 2006, the Company closed its Port Moody winery facility and transferred production to its winery operations in Kelowna, British Columbia. The costs of maintaining this idle facility are recorded in other expenses (income).

b) Restructuring costs of $1,703 (2019 – $727) were recorded during the year ended March 31, 2020. These costs relate to restructuring of certain production facilities within the Company's personal winemaking product division and a one-time early retirement incentive program resulting from recent plant operations succession planning.

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

17 Net earnings per share

			2020
	Class A **$**	**Class B** **$**	**Total** **$**
Net earnings attributed for the year – basic and diluted	19,597	3,897	23,494
Weighted average number of shares outstanding – basic and diluted	35,835,372	8,195,401	
Net earnings per share – basic and diluted	0.55	0.48	

			2019
	Class A **$**	**Class B** **$**	**Total** **$**
Net earnings attributed for the year – basic and diluted	18,326	3,632	21,958
Weighted average number of shares outstanding – basic and diluted	35,979,473	8,200,864	
Net earnings per share – basic and diluted	0.51	0.44	

18 Contingent liabilities and unrecognized contractual commitments

The Company is subject to various claims by third parties arising out of the normal course and conduct of its business, including, but not limited to, labour and employment, regulatory and environmental claims. In addition, the Company is potentially subject to regular audits from federal and provincial tax authorities relating to income, commodity and capital taxes and as a result of these audits, may receive assessments and reassessments. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to these consolidated financial statements.

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

19 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:

	2020 $	2019 $
Accounts receivable	(4,015)	1,605
Inventories and current portion of biological assets	(10,457)	(218)
Prepaid expenses and other assets	628	(225)
Accounts payable and accrued liabilities	1,609	13,969
	(12,235)	15,131

20 Financial instruments

Classification of financial instruments

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

			2020	
Assets/liabilities	**Category**	**Measurement**	**Carrying amount $**	**Fair value $**
Accounts receivable	Financial assets	Amortized cost	34,096	34,096
Bank indebtedness	Financial liabilities	Amortized cost	58,114	58,114
Accounts payable and accrued liabilities	Financial liabilities	Amortized cost	53,821	53,821
Dividends payable	Financial liabilities	Amortized cost	2,288	2,288
Long-term debt	Financial liabilities	Amortized cost	107,130	107,697
Interest rate swap liability	Derivatives	Fair value through profit or loss	3,536	3,536
Foreign exchange forward contracts asset	Derivatives	Fair value through profit or loss	783	783

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

			2019	
Assets/liabilities	**Category**	**Measurement**	**Carrying amount $**	**Fair value $**
Accounts receivable	Loans and receivables	Amortized cost	29,801	29,801
Bank indebtedness	Financial liabilities	Amortized cost	38,175	38,175
Accounts payable and accrued liabilities	Financial liabilities	Amortized cost	47,451	47,451
Dividends payable	Financial liabilities	Amortized cost	2,212	2,212
Long-term debt	Financial liabilities	Amortized cost	116,620	117,438
Interest rate swap liability	Derivatives	Fair value through profit or loss	1,351	1,351
Foreign exchange forward contracts asset	Derivatives	Fair value through profit or loss	4	4

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

Fair value

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

The fair value of bank indebtedness and long-term debt is equivalent to its carrying value because the variable interest rate is comparable to market rates. The fair value of the interest rate swaps used to fix the interest rate on long-term debt is included in the current and long-term derivative financial instruments in the consolidated balance sheets.

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

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

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

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

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

	2020 $	2019 $
Unrealized (gain) loss on foreign exchange forward contracts	(779)	148
Unrealized loss on interest rate swaps	2,185	1,531
	1,406	1,679

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.

			2020
Asset/liability	**Quoted prices in active markets for identical assets (Level 1) $**	**Significant observable inputs other than quoted prices (Level 2) $**	**Significant unobservable inputs (Level 3) $**
Interest rate swap liability	-	3,536	-
Foreign exchange forward contracts asset	-	783	-

			2019
Asset/liability	**Quoted prices in active markets for identical assets (Level 1) $**	**Significant observable inputs other than quoted prices (Level 2) $**	**Significant unobservable inputs (Level 3) $**
Interest rate swap liability	-	1,351	-
Foreign exchange forward contracts asset	-	4	-

Objectives and policy relating to financial risk management

- **Interest rate risk**

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

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

The Company has effectively fixed its interest rate on its long-term debt until September 2022 by entering into interest rate swaps. The interest rate swaps are measured at fair value.

An unrealized loss of $2,185 (2019 –$1,531) was recognized on the interest rate swaps, which are classified as a component of the net unrealized loss on derivative financial instruments in the consolidated statements of earnings.

The Company's short-term borrowings are funded using a floating interest rate and as such are sensitive to interest rate movements. As at March 31, 2020, with other variables unchanged, a 100 basis point change in interest rates would impact the Company's net earnings by approximately $430 (2019 – $283), exclusive of the mark-to-market adjustments on the interest rate swaps.

- **Credit risk**

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

Credit risk for trade receivables is monitored through established credit monitoring activities. Over 65% of the Company's accounts receivable balance relates to amounts owing from Canadian provincial liquor boards. Excluding accounts receivable from Canadian provincial liquor boards, the Company does not have a significant concentration of credit risk with any single counterparty or group of counterparties. Amounts owing from Canadian provincial liquor boards represent $20,807 (2019 – $14,869) of the total accounts receivable for which no allowance has been provided. Of the remaining non-provincial liquor board balances, $1,512 (2019 – $1,618) was over thirty days past due as at March 31, 2020. An allowance for doubtful accounts of $875 (2019 – $128) has been provided against these accounts receivable amounts, which the Company has determined represents a reasonable estimate of amounts that may be uncollectible.

Sales to its largest customer, a provincial Crown corporation, were $69,181 (2019 – $64,155) during the year ended March 31, 2020. Sales to its second largest customer, a branch of a provincial government, were $41,553 (2019 – $45,091) during the year.

An analysis of accounts receivable is as follows:

	2020 $	2019 $
Liquor boards	20,807	14,869
Non-liquor boards		
Current	10,872	10,991
Past due 0 – 30 days	1,798	2,451
Past due 31 – 60 days	206	609
Past due > 60 days	1,288	1,009
Allowance for doubtful accounts	(875)	(128)
	34,096	29,801

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

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

	2020 $	2019 $
Balance – Beginning of year	128	162
Provision for current year	795	132
Bad debts	(48)	(166)
Balance – End of year	875	128

- **Liquidity risk**

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

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

The following table outlines the Company's contractual undiscounted obligations. The Company analyzes contractual obligations for financial liabilities in conjunction with other commitments in managing liquidity risk. Contractual obligations include long-term debt, the expected payments under swap agreements that fix the Company's interest rate on long-term debt, leases, service agreements and commitments on short-term forward foreign exchange contracts used to mitigate the currency risk on purchases denominated in foreign currencies as at March 31, 2020.

	< 1 year $	2 – 3 years $	4 – 5 years $	> 5 years $	Total $
Long-term debt	11,615	96,082	-	-	107,697
Leases and royalties	4,957	8,737	5,645	16,961	36,300
Service agreements	483	3,958	1,496	-	5,937
Pension obligations	221	379	40	69	709
Grape and bulk wine purchase contracts	62,816	78,433	58,647	98,491	298,387
Packaging purchase contracts	31,299	21,472	2,271	-	55,042
	111,391	209,061	68,099	115,521	504,072
Interest rate swap	2,309	2,934	-	-	5,243
Foreign exchange forwards	10,070	-	-	-	10,070
Total contractual obligations	123,770	211,995	68,099	115,521	519,385

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

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

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

Although the Company expects sales to return to pre-COVID 19 levels once the outbreak has been contained, there is uncertainty as to the length and extent of the current outbreak. Beyond that, as a result of the measures being taken that are designed to contain the spread of the virus, the Company's suppliers may not have the materials, capacity or capability to supply components according to its schedule and specifications if the outbreak continues. This could delay the release or delivery of the Company's products or require management to make unexpected changes to such products, which may materially affect the business, operating results and future compliance with the Company's financial covenants.

- **Foreign exchange risk**

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

The Company's foreign exchange risk arises on the purchase of bulk wine and concentrate, which are priced in US dollars, euro and Australian dollars. The Company's strategy is to hedge approximately 50% to 80% of its annual foreign exchange requirements prior to or during the beginning of each fiscal quarter. As at March 31, 2020, the Company has forward foreign currency contracts to buy US$7,713 at rates ranging between $1.30 and $1.31. These contracts mature at various dates to September 2020. After considering the offsetting impact of these forward contracts, a 1% increase or decrease to the exchange rate of the US dollar, the euro or the Australian dollar would impact the Company's net earnings by approximately $234 (2019 – $240), $50 (2019 – $86) or $39 (2019 – $45), respectively. The Company has elected to not use hedge accounting and as a result, has recognized unrealized foreign exchange gains of $779 (2019 – unrealized foreign exchange losses of $148) in the consolidated statements of earnings as a component of the net unrealized loss (gain) on derivative financial instruments and has recorded the fair value of $783 (2019 – $4) in the current portion of derivative financial instruments in the consolidated balance sheets.

21 Capital disclosures

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

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

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

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

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

Compliance with these covenants is monitored by management on a quarterly basis. As at March 31, 2020 and March 31, 2019, the Company was in compliance with these covenants.

Management projects future operations and compliance with the financial covenants included in the Company's credit agreement as disclosed in notes 9 and 11. Assumptions are necessary to project these cash flows and covenant calculations specifically related to EBITA, as well as anticipated debt levels. For example, a reduction in EBITA could result in the breach of a covenant relative to its impact on the trailing 12-month results used in calculating covenant compliance. The Company is actively managing its administrative costs, inventory, bank indebtedness and long-term debt balances accordingly in order to comply with lender's covenants.

22 Related parties and management compensation

The Company is controlled by Peller Family Enterprises Inc., which owns 61.0% (2019 – 60.9%) of the Company's Class B voting shares. No individual has sole voting power or control in respect of the shares of the Company owned by Peller Family Enterprises Inc.

Compensation of directors and executives

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

	2020 $	2019 $
Compensation and short-term benefits	4,374	4,336
Post-employment benefits	266	295
Share based compensation expense	1,613	1,097
	6,253	5,728

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

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

23 Segmented information

During the year, export sales were $12,871 (2019 – $12,227), primarily in the United States. The remainder of sales occurred in Canada. All of the Company's assets are located in Canada.

24 Events after the reporting period

On June 10, 2020, the Company's Board of Directors approved the annual dividend for holders of its Class A and Class B shares in the amount of $0.215 per Class A share and $0.187 per Class B share to be paid quarterly to shareholders, subject to management's review of projected cash flows and compliance with financial covenants as a result of the duration and impact of COVID-19.