ANDREW PELLER
— LIMITED —

**MANAGEMENT'S DISCUSSION & ANALYSIS**
**FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2006**

The following management's discussion and analysis (MD&A) provides a review of corporate and market developments, results of operations and financial position for the three and six months ended September 30, 2006 and September 30, 2005. This discussion is prepared as of November 2, 2006 and should be read in conjunction with the consolidated financial statements for the years ended March 31, 2006 and 2005 and the accompanying notes contained therein. All dollar amounts are expressed in Canadian dollars unless otherwise indicated.

## FORWARD-LOOKING INFORMATION

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

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

### Overview

Andrew Peller Limited. ("APL" or the 'Company') is a leading producer and marketer of quality wines in Canada. With wineries in British Columbia, Ontario and Nova Scotia, the Company markets wines produced from grapes grown in Ontario's Niagara Peninsula, British Columbia's Okanagan and Similkameen Valleys and vineyards around the world.

The Company's award-winning premium and ultra-premium brands include Peller Estates, Trius, Hillebrand Estates, Thirty Bench, Sandhill, Copper Moon, Calona Vineyards Artist Series VQA wines and Red Rooster. Complementing these premium brands are a number of popular priced products including Hochtaler, Domaine D'Or, Schloss Laderheim, Royal and Sommet. With the acquisition of Cascadia Brands Inc. ("Cascadia"), the Company also markets craft beer under the Granville Island brand. With a focus on serving the needs of all wine consumers, the Company produces and markets consumer-made wine kit products through Winexpert Inc. and Vineco International Products Ltd. In addition, the Company owns and operates Vineyards Estate Wines and WineCountry Vintners, independent wine retailers in Ontario with more than 100 well-positioned retail locations. The Company's products are sold predominantly in Canada.

Over the past ten years, the Company has taken decisive steps to increase its focus on the premium and ultra-premium wines in the Canadian market. Premium wine sales continue to grow in Canada, and these products generate higher sales and increased profitability compared to lower-priced table wines.

The Company's stated mission is to build sales volumes of its premium and ultra-premium brands by delivering to its customers and consumers the highest quality wines at the best possible value. To meet this goal, the Company is investing in improvements in both its winemaking capabilities and in the quality of its grapes and wines.

APL is focused on initiatives to reduce costs and enhance its production efficiencies. The Company continues to expand and strengthen its distribution through provincial liquor boards, the Company's network of more than 100 Vineyards Estate Wines and WineCountry Vintners retail locations, estate wineries, restaurants and other licensed establishments. This distribution network is supported by sophisticated sales, marketing and promotional programs. In addition, the Company from time to time evaluates the potential for acquisitions and partnerships, both in Canada and internationally, to further complement its product portfolio and market presence.

On May 2, 2005, the Company completed the acquisition of Thirty Bench Winery ("Thirty Bench"), an ultra-premium wine producer located in the heart of the Beamsville Bench in Ontario's Niagara wine producing region. The acquisition of the winery, its brands, and 70 acres of vineyards provides APL with a solid presence in one of Canada's most sought after viticulture areas, and adds to the Company's premium estate wineries in near-by Niagara-on-the-Lake.

On May 25, 2005, the Company completed the acquisition of Cascadia, one of Canada's largest producers of premium wines, craft beer and spirits with production facilities in Kelowna and Vancouver, British Columbia. The acquisition significantly enhances the Company's presence in the strong Western Canadian market, and provides the Company with opportunities to capture production and overhead synergies as it combines its two B.C. operations into Cascadia's Kelowna facility.

On November 1, 2005 the Company acquired the Red Rooster Winery ("Red Rooster") located on the Naramata Bench near Penticton, British Columbia. Red Rooster is a well-recognized producer of premium VQA wines situated in the heart of Canada's Okanagan Valley, a region well known for its niche premium brands. The acquisition enhances the Company's presence in the growing British Columbia wine industry, and will add to its sales of premium and ultra-premium wines.

These acquisitions represent a significant investment by the Company. The results of operations of these acquired businesses have been included in operating performance from the respective dates of acquisition. The allocation of the cost to the fair market value of the acquired assets and liabilities is based, in part, on independent advice received on the fair values of certain of the acquired assets and liabilities. With the acquisition of Cascadia, the Company decided to integrate its Port Moody facility into the Cascadia's Kelowna facility. Costs related to the integration and closure of the Company's Port Moody facility are being expensed as incurred.

On November 10, 2005, the Company sold the assets and brands related to the Cascadia spirits division for proceeds of $6.0 million.

On April 1, 2006, the Company amalgamated with Cascadia Brands Inc. and a number of subsidiary companies to simplify the corporate structure and reduce compliance costs.

On June 6, 2006, the Company announced it had filed a Notice of Action in the Superior Court of Ontario against a former non-executive employee for alleged misappropriation of funds. The alleged misappropriation of funds is believed to have occurred over many years and is estimated to be approximately $7.8 million. The Company believes that its insurance policies will cover approximately $0.5 million of the loss incurred. The Company has determined that the alleged misappropriation of funds did not have a material impact on the Company’s financial position or results for the six months ended September 30, 2006 or for the year ended March 31, 2006. Payments from insurance policies and restitution, if any, will be included in net earnings when received.

As a result of continued strong performance, the Company announced an increase in the annual dividend effective for shareholders of record on September 30, 2006. The dividend on Class A shares increased 18% from $0.215 per share to $0.253 per share. The dividend on Class B shares increased 18% from $0.187 per share to $0.220 per share. The Company has retroactively adopted the disclosure of share capital and per share amounts to effect the impact of the share split.

At the Company’s Annual and Special Meeting of Shareholders held on September 20, 2006, Class B shareholders approved a three for one split of each of the Class A and Class B shares effective October 31, 2006. In addition, Class B shareholders approved a change in the Company’s name from Andrés Wines Ltd. to Andrew Peller Limited/Andrew Peller Limitée. The name change is designed to serve as the launch of a new brand identity following the recent acquisitions. The name change will also help to integrate all employees and trade channels of the Company.

**Financial Statements and Accounting Policies**

The Company prepares its financial statements in Canadian dollars in accordance with Canadian generally accepted accounting principles (GAAP). The Company’s significant accounting policies are summarized in Note 1 to the consolidated financial statements. The Company also utilizes EBITA (defined as earnings before interest, incomes taxes, amortization and unusual items) to measure its financial performance.

EBITA is not a recognized measure under GAAP; however, management believes that EBITA is a useful supplemental measure to net earnings, as it provides readers with an indication of earnings available for investment prior to debt service, capital expenditures and income taxes.

Readers are cautioned that EBITA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of the Company’s performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. The Company’s method of calculating EBITA may differ from the methods by which other companies calculate EBITA and, accordingly, EBITA may not be comparable to measures used by other companies.

**Critical Accounting Estimates**

During the year, management is required to make estimates or rely on assumptions that are inherently uncertain. These estimates can vary with respect to the level of judgment involved and ultimately the impact that these estimates may have on the Company's financial statements. Estimates are deemed to be critical when a different estimate could reasonably be used or where changes are reasonably likely to occur which would materially affect the Company’s financial position, changes in financial position or results in operations. The Company’s significant accounting policies are discussed in Note 1 of the Notes to the Consolidated Financial Statements; critical estimates inherent in these accounting policies are set out below.

**Accounts Receivable**
The Company records an allowance for doubtful accounts to reflect management's best estimate of losses that may occur on sales during the year. This allowance was recorded through a charge to the earnings and takes into consideration the financial condition and recent payment patterns of customers and the general state of the economy. Management believes that the allowance is sufficient to cover any risk of potential losses. Credit losses were within management's expectations.

**Inventory Valuation**
All inventories are counted as close as possible to year end without impacting the operations of the Company. Management has provided an allowance for slow moving and obsolete inventory which is considered to be sufficient for potential losses.

**Property, Plant and Equipment**
Property, plant and equipment are carried at cost less accumulated amortization. Amortization is calculated on a straight line basis in amounts that are sufficient to amortize the cost over the estimated useful life of the asset. Details of the amounts classified as property, plant and equipment are set out in the Notes to the Consolidated Financial Statements.

**Goodwill**
Goodwill on the purchase of Hillebrand in 1993, Vineco International Products in 1996, Brew King (now named Winexpert) in 1997, Distrivin and Winexpert in 2004, Wine Not in 2005 and Cascadia, Thirty Bench and Red Rooster in 2006 represents the excess of purchase price of acquired businesses over the fair value of the net assets acquired. Impairment tests comparing the carrying amount of goodwill to the estimated fair market value are conducted annually during the fourth quarter.

**Intangible assets**
Intangible assets primarily relate to customer contracts, brands and customer based relationships that have been acquired through recent acquisitions. Management believes that its brands do not have a fixed or determinable life and consequently brands are not amortized but are subject to annual impairment tests based on a comparison of the carrying amount to the estimated fair market value of the brands. The amortization periods related to those intangible assets with finite lives are based on the expected duration of the contracts and relationships acquired. These intangible assets will be tested for impairment when events or circumstances arise that indicate an impairment may exist.

**Fair Value of Financial Instruments**
Accounts receivable, accounts payable and accrued liabilities and short-term bank indebtedness are reflected in these financial statements at carrying values, which approximate fair value due to the short-term maturity of these instruments. Long-term debt has a floating interest rate and its carrying value, as reflected in the consolidated financial statements, approximates fair value. Interest on long-term debt has been fixed through the use of interest rate swaps. The interest rate swaps qualify for the use of hedge accounting and as a result changes to the fair value of the swap debt are not recorded in the income statement.

The Company purchases wine and other inventory items throughout the year. These purchases are made in United States dollars and the Company uses foreign exchange contracts as a hedge against changes in currency values. The Company's strategy is to hedge approximately 70% of its foreign exchange requirements prior to the beginning of each fiscal year. The Company does not enter into foreign exchange contracts for trading or speculative purposes. These contracts are matched against forecasted purchases of inventory which are valued at the rate of the foreign exchange contract. These contracts are designed as hedges against future inventory purchases and accordingly unrealized gains and losses on foreign exchange contracts outstanding at year end are deferred until the purchase of inventory occurs.

**Results of Operations**

| FOR THE SIX MONTHS ENDED SEPTEMBER 30, | **2006** | 2005 | 2004 |
|---|---|---|---|
| in thousands of dollars except per share amounts | | | |
| Sales | 114,548 | 103,887 | 83,014 |
| Gross profit | 47,874 | 43,080 | 35,606 |
| Gross profit (% of sales) | 41.8% | 41.5% | 42.9% |
| Selling general and administrative expenses | 33,744 | 30,829 | 26,242 |
| Earnings before interest, taxes, amortization and unusual items | 14,130 | 12,251 | 9,364 |
| Unusual items | (198) | (635) | - |
| Net earnings | 4,932 | 3,827 | 3,642 |
| Earnings per share – basic and fully diluted - Class A | $0.34 | $0.26 | $0.25 |
| Earnings per share – basic and fully diluted - Class B | $0.30 | $0.23 | $0.22 |
| Dividend per share – Class A (annual) | $0.253 | $0.215 | $0.215 |
| Dividend per share – Class B (annual) | $0.220 | $0.187 | $0.187 |

Sales increased 10.3% for the six months ended September 30, 2006 compared to the prior year. The increase is due primarily to the contributions made by acquisitions completed last year and to the Company's successful initiatives to grow sales of its premium and ultra-premium wines. The acquisitions contributed approximately $20.4 million for the period compared to $16.0 million last year. Excluding the impact of acquisitions, sales for the six months ended September 30, 2006 increased 7.2% compared to the same period last year. Sales increased through virtually every trade channel during the period despite the fact that sales were negatively impacted by the short crop in Ontario which served to limit sales of VQA wines. Sales increased during the second quarter due to the launch of new brands. Croc Crossing, a blend of Australian and domestic wines was launched through Vineyard Estate Wines, Four French Cross, varietal wines, were launched in a tetra box through both the LCBO and in the Vineyard Estate Wines retail stores. A new lifestyle brand, XOXO appeared on liquor board shelves in British Columbia and Ontario during the second quarter.

Gross profit as a percentage of sales improved to 41.8% for the first half of fiscal 2007 compared to 41.5% for the same period last year. Fiscal 2006 margins were negatively impacted by the Company earning less margin on inventory acquired from Cascadia and Thirty Bench due to the requirement to record the purchased inventory at fair market value.

Selling and administrative expenses increased in fiscal 2007 as a result of the acquisitions completed last year and increased investments in sales and promotional expenses to support the launch of new brands during the period. However, as a percentage of sales, selling and administrative expenses remained stable with prior year periods. The Company continues to incur some of the costs related to the acquired businesses when they were stand alone businesses and expects to begin recognizing operational synergies related to the acquisitions later in fiscal 2007.

As a result of the increased sales and improved gross margins, EBITA for the six months ended September 30, 2006 increased 15.3% to $14.1 million compared to the prior year.

Amortization expenses rose in fiscal 2007 compared to the prior years due to investments made in the Company's estate wineries, vineyards and winemaking equipment, as well as the acquisitions of Thirty Bench, Cascadia and Red Rooster. Interest expense increased due to higher debt levels resulting from the acquisitions, increased investment in working capital and the impact of higher interest rates on short term borrowings.

During the second quarter of fiscal 2006 management began the process of rationalizing and integrating the recently acquired businesses. The Company announced the closure of its Port Moody B.C. winery effective December 31, 2005. The Port Moody winery is being held for resale and the Company expects to dispose of the land and buildings during fiscal 2008. Costs related to the integration and closure of the Company's existing facility are being expensed as incurred and have been recorded as unusual items.

Net earnings increased by 28.9% to $4.9 million in the first half of fiscal 2007 compared to $3.8 million during the prior year due primarily to the increased sales and improved gross margins, partially offset by the increase in interest and amortization expenses arising from the acquisitions completed over the prior twelve months. The weighted average number of shares outstanding for the quarter ended September 30, 2006 increased by approximately 0.16% compared to September 30,2005.

**Quarterly Performance**

| ($000) except per share amounts | **Q2 07** | Q1 07 | Q1 06 | Q2 06 | Q3 06 | Q4 06 | Q3 05 | Q4 05 (Restated) |
|---|---|---|---|---|---|---|---|---|
| Sales | **59,413** | 55,135 | 46,831 | 57,056 | 59,453 | 48,435 | 47,725 | 36,895 |
| Gross profit | **25,044** | 22,830 | 19,535 | 23,545 | 24,799 | 17,705 | 20,658 | 15,768 |
| Gross profit (% of sales) | **42.2%** | 41.4% | 41.7% | 41.3% | 41.7% | 36.6% | 43.3% | 42.7% |
| EBITA | **7,328** | 6,802 | 5,679 | 6,572 | 9,001 | 1,650 | 8,831 | 3,592 |
| Unusual items | **(164)** | (34) | - | (635) | (355) | (970) | - | (1,173) |
| Net earnings | **2,556** | 2,376 | 2,012 | 1,815 | 3,453 | (1,226) | 4,498 | 327 |
| Earnings per share – basic & diluted – Class A | **$0.18** | $0.16 | $0.13 | $0.13 | $0.24 | ($0.09) | $0.31 | $0.02 |
| Earnings per share – basic & diluted – Class B | **$0.15** | $0.14 | $0.12 | $0.11 | $0.21 | ($0.07) | $0.27 | $0.02 |

The Company has generated consistent year-over-year growth in sales and gross profit due primarily to the Company's successful initiatives to increase volume sales of its premium and ultra-premium wines. The 2006 and 2007 fiscal years include contributions from the acquisition of Thirty Bench on May 2, 2005, Cascadia on May 25, 2005, and Red Rooster on November 1, 2005. On November 10, 2005, the Company sold the assets and brands related to Cascadia's spirits division for approximately $6.0 million. There was no gain or loss recorded on the transaction.

Gross profit as a percentage of sales improved to 42.2% in the second quarter of fiscal 2007. Fiscal 2007 margins were positively impacted by the higher value of the Canadian dollar and by production synergies realized in the Kelowna plant. Fiscal 2006 margins were negatively impacted by the Company earning less margin on inventory acquired from Cascadia and Thirty Bench due to the requirement to record purchased inventory at fair market value. Sales and marketing expenses have increased on a year-over-year basis primarily due to the impact of the acquisitions and increased sales and promotional expenses to support the launch of new brands. The unusual charges to earnings in fiscal 2006 and 2007 primarily relate to costs incurred in the rationalization of the Company's British Columbia operations. Included in the unusual charge to earnings in the fourth quarter of 2005 is the impact of the alleged misappropriation of funds by a former non-executive employee.

The third quarter of each year is historically the strongest in terms of sales, gross profit and net earnings due to increased consumer purchasing of the Company's products during the holiday season.

The acquisition of the Company's largest domestic competitor, Vincor International Inc. by Constellation Brands, the largest wine company in the world, was completed on June 6, 2006. The impact of the acquisition on the Company's operations is unclear at this time.

The Company continued to grow its market share in the premium and ultra-premium wine category in fiscal 2007 and 2006 through the launch of new brands, although growth was negatively impacted by the lack of supply of Ontario grown grapes in the period. Significant investments were made to improve production efficiencies and to improve wine quality that should benefit the Company as grape supply becomes more balanced.

The Company successfully completed three acquisitions during fiscal 2006, consistent with its objectives of growing its market share in the premium wine category.

The closure of the Port Moody winery should result in improved operating efficiencies later in fiscal 2007. The closure will not have an impact on production capacity once the integration of the facilities is completed. Included in property, plant and equipment are the land and building in Port Moody, which are being held for resale. These assets have a net book value of approximately $1.7 million.

**Liquidity and Capital Resources**

| As at ($000) | **September 30, 2006** | March 31, 2006 | September 30, 2005 |
|---|---|---|---|
| Current Assets | **104,047** | 92,330 | 102,344 |
| Property Plant & Equipment | **84,863** | 85,597 | 80,912 |
| Goodwill | **36,171** | 35,862 | 28,342 |
| Other Assets | **8,131** | 8,298 | 12,841 |
| Total Assets | **233,212** | 222,087 | 224,439 |
| | | | |
| Current Liabilities | **76,451** | 65,574 | 59,262 |
| Long Term Debt | **47,392** | 50,328 | 62,438 |
| Employee Future Benefits | **4,038** | 4,224 | 1,710 |
| Future Income Taxes | **12,514** | 12,381 | 11,588 |
| Shareholders' Equity | **92,817** | 89,580 | 89,441 |
| Total Liabilities & Shareholders' Equity | **233,212** | 222,087 | 224,439 |

The Company's balance sheet at September 30, 2006 and 2005 and March 31, 2006, reflect the acquisitions of Thirty Bench on May 2, 2005 and Cascadia on May 25, 2005. Red Rooster was acquired on November 1, 2005. On November 10, 2005, the Company sold the assets and brands related to Cascadia's spirits division for approximately $6.0 million.

Through the first six months of fiscal 2007 the Company generated $1.0 million in cash flow from operating activities after changes in non-cash working capital items compared to $7.5 million in the prior year. The change was primarily due to a significant increase in accounts receivable in fiscal 2007 compared to the prior year partially offset by an increase in accounts payable and accrued charges. The increase in accounts receivables are due to the timing of collections and payments caused by price changes related to recent excise tax increases.

Investments of approximately $3.2 million were made in the six months ended September 30, 2006 compared to $40.3 million in the prior year, which included the purchases of Thirty Bench and Cascadia. The purchase of capital assets increased in fiscal 2007 compared to the prior year due to investments made to increase the capacity of the Kelowna winery. Approximately $0.6 million of the estimated purchase cost related to the acquisition of Cascadia is yet to be paid and is included in accounts payable and accrued liabilities.

Total bank indebtedness decreased slightly in fiscal 2007 compared to the prior year due to increased earnings and scheduled debt repayments offset by increases in working capital.

On May 25, 2005, the Company obtained additional financing from Bank of Montreal in the amount of $50.0 million. The additional financing consisted of two separate credit facilities:

i) A seven-year term bank loan of $35.0 million, which requires regular monthly payments of $250,000 plus interest and matures on May 31, 2012. The Company entered into an interest rate swap which effectively fixed the interest rate on this term bank loan at 5.3%.
ii) A bank loan in the amount of $15.0 million, which was repaid during the year by using proceeds in the amount of $6.0 million from the sale of assets and brands related to Cascadia's spirits business and an increase in short-term bank indebtedness in the amount of $9.0 million.

On November 1, 2005, the Company obtained additional financing from the Bank of Montreal in the form of a seven year term bank loan in the amount of $6.0 million. The term loan requires monthly payments of $43,000 plus interest and matures on September 28, 2012. The Company has entered into an interest rate swap which effectively fixed the interest rate on this term bank loan at 5.61%.

The ratio of debt to equity increased to 1.05:1 as at September 30, 2006 compared to 1.04:1 as at March 31, 2006 and decreased from 1.10:1 as at September 30, 2005. On April 1, 2006, the Company increased the debt available on its demand loan facility to $60.0 million, which incurs interest at the Royal Bank of Canada prime rate. At September 30, 2006, the Company had unused debt available in the amount of $15.9 million on its demand loan facility. Management is confident it can generate sufficient cash flow from operations to meet its debt servicing and principal payment requirements over both the short and the long term.

Working capital as at September 30, 2006 was $27.6 million compared to $26.8 million at March 31. 2006 and $43.1 million at September 30, 2005. Shareholders' Equity as at September 30, 2006 rose to $92.8 million or $6.23 per share compared to $89.6 million or $6.02 per share at March 31, 2006 and $89.4 million or $6.02 per share as at September 30, 2005. The increase is due to the earnings performance for 2006, partially offset by the payment of dividends.

### Common Shares Outstanding

The Company is authorized to issue an unlimited number of Class A and Class B common shares. Class A shares are non-voting and are entitled to a dividend in an amount equal to 115% of any dividend paid or declared on Class B shares. Class B shares are voting and convertible into Class A shares on a one-for-one basis.

| | September 30, 2006 | March 31, 2006 | Sept 30, 2005 |
|---|---|---|---|
| Class A shares | 11,887,641 | 11,887,641 | 11,862,906 |
| Class B shares | 3,004,641 | 3,004,641 | 3,005,316 |
| Total | 14,892,282 | 14,892,282 | 14,868,222 |

At the Company's Annual and Special Meeting held on September 20, 2006 shareholders approved a three for one split of each of the Class A and Class B shares to shareholders of record on October 31, 2006. The share amounts above reflect the impact of the share split.

### Related Party Transactions

In the normal course of operations, Andrew Peller Limited enters into transactions with various related parties. As of September 30, 2006, the Company has guaranteed debt of up to $1,750,000 for Rocky Ridge Vineyards Inc., a joint venture in which the Company has a 50% equity interest. The joint venture grows grapes on a vineyard in the Similkameen Valley in British Columbia.

**Strategic Outlook and Direction**

Andrew Peller Limited. is committed to a strategy of growth that focuses on the expansion of its core business as a producer and marketer of quality wines and craft beer through the development of leading brands that meet the needs of our consumers and customers. The acquisitions that were completed over the past year have strengthened our product portfolio and expanded our selling and distribution capabilities in Canada.

The Canadian wine market has grown over the past three years due primarily to positive demographic trends and the shift in consumer preference to premium table wines. However, the share of the market held by domestic producers has declined moderately. Imports of premium and ultra-premium wines have increased as consumers favoured higher-priced varietal wines over lower-priced blended table wines. The Company has increased its product development and sales and marketing initiatives aimed at capitalizing on this growing trend.

Andrew Peller Limited will continue to launch new premium and ultra-premium wines in 2007. The acquisitions of Thirty Bench, Cascadia and Red Rooster are also expected to contribute to increased sales for the remainder of fiscal 2007 as well as an enhanced presence in the sale of ultra-premium wines in Canada. Marketing and sales support will be focused on key brands sold across the country, and management expects that sales and marketing expenses for 2007 will rise moderately. The Company will continue to increase its capital expenditure programs to support its ongoing commitment to producing the highest-quality wines. The Company believes that the investments made over the past few years will continue to result in increased sales and continuing improvement in profitability going forward.

Following the acquisition of Cascadia, management began the process of rationalizing and integrating its two British Columbia facilities to capture production and overhead synergies. Management expects the integration to be completed by March 31, 2007.

The Company will also continue to evaluate investment opportunities, including acquisitions, which support its strategic direction.

**Risks and Uncertainties**

The Company is subject to a number of risks and uncertainties outlined in the Company's 2006 Annual Report and other securities filings.