



ANDREW PELLER

— LIMITED —

MANAGEMENT'S REPORT AND INTERIM CONSOLIDATED FINANCIAL STATEMENT FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2006

MANAGEMENT'S DISCUSSION & ANALYSIS

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 nine months ended December 31, 2006 and December 31, 2005. This discussion is prepared as of February 8, 2007 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 from vineyards around the world.

The Company's award-winning premium and ultra-premium brands include Peller Estates, Trius, Hillebrand, 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") in fiscal 2006, 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 is being expensed as incurred.

On November 10, 2005, the Company sold the assets and brands related to the Cascadia spirits division for proceeds of \$5.8 million. There was no gain or loss on the sale.

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 \$7.4 million. On November 16, 2006, the Company received a judgment from the Ontario Superior Court of Justice, with the consent of the employee, ordering payment of \$7.4 million plus pre-judgment interest of \$2.0 million. The Company expects to receive a nominal amount against this judgment. The Company has received, through its insurance coverage, \$0.5 million related to the loss incurred. The Company has determined that the alleged misappropriation of funds had no material impact on the Company's financial position or results for the nine months ended December 31, 2006 or for the year ended March 31, 2006. Payments from restitution will be included in net earnings when received.

As a result of continued strong performance, the Company increased annual common share dividends 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.

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. Accordingly, the Company has retroactively adjusted share capital and per share amounts to reflect the impact of the share split. 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, income 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

Inventories are valued at the lower of cost and net realizable value. Cost is determined on an average cost basis.

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 indicates 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 NINE MONTHS ENDED DECEMBER 31,	2006	2005	2004
in thousands of dollars, except per share amounts	\$	\$	\$
Sales	177,773	163,340	130,739
Gross profit	74,214	67,879	56,264
Gross margin (% of sales)	41.7%	41.6%	43.0%
Selling general and administrative expenses	50,798	46,627	38,069
Earnings before interest, unusual items, amortization and taxes	23,416	21,252	18,195
Unusual items	(213)	(990)	-
Net earnings	9,074	7,280	8,140
Earnings per share – basic & diluted- Class A	\$0.63	\$0.50	\$0.56
Earnings per share – basic & diluted - Class B	\$0.54	\$0.44	\$0.49
Dividend per share – Class A (annual)	\$0.253	\$0.215	\$0.215
Dividend per share – Class B (annual)	\$0.220	\$0.187	\$0.187
Class A shares outstanding (weighted average)	11,888	11,863	11,838
Class B shares outstanding (weighted average)	3,005	3,005	3,006

Due to increased sales of the Company's premium and ultra-premium wines through all of the Company's trade channels, and the contribution of Cascadia, Thirty Bench and Red Rooster, sales increased 8.8% for the nine months ended December 31, 2006. The acquisitions contributed approximately \$30.2 million in sales for the first nine months of the year compared to \$25.9 million last year. During the second and third quarters of fiscal 2007 the Company launched a number of new products through provincial liquor stores and its network of retail stores, including four distinct varietal blends under the new XOXO brand, Croc Crossing which is a blend of Australian and domestic varietal wines, while Peller Estates' French Cross became Canada's first domestic wine available in the popular tetra pak format. Sales increased through every trade channel during the period despite the fact that sales were negatively impacted by the 2005 short crop in Ontario which served to limit the sales of VQA wines. The Company continues to invest in its sales and marketing efforts with the aim to grow sales volumes of its products, through new and increased advertising and promotional initiatives in all trade channels, increased sales staff focused on the licensee channel, investments in new upscale retail store concepts and layouts, training of retail staff, and investments to increase tourism at its estate wineries.

Gross margin as a percentage of sales improved marginally to 41.7% for the nine months ended December 31, 2006 compared to 41.6% for the same period last year, although lower than the 43.0% in fiscal 2005 due primarily to increases in the cost of grapes and raw materials in fiscal 2006 and 2007. Gross margins were impacted in fiscal 2007 and 2006 by the fact that the Company earned less margin on inventory acquired from Cascadia as a result of the requirement to record the purchased inventory at fair market value.

Selling and administrative expenses increased in fiscal 2006 and 2007 due primarily to the acquisitions of Thirty Bench, Cascadia and Red Rooster. In addition, selling and administrative expenses were higher in fiscal 2007 due to increased costs associated with the new product launches implemented in the period. As a result, selling and administrative expenses increased to 28.6% of sales for the nine months ended December 31, 2006 compared to 28.5% of sales in the prior year. The Company continues to incur many of the costs related to the acquired businesses as stand alone companies, and expects to begin realizing synergies in fiscal 2008.

As a result of the contributions made by recent acquisitions and new products launched during fiscal 2007, partially offset by higher costs for grapes and raw materials, EBITA increased 10.2% to \$23.4 million for the nine months ended December 31, 2006 compared to the same period in the prior year.

Amortization expenses increased by 7.5% for the nine months and were flat for the three months ended December 31, 2006 compared to the prior year 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 by 21.9% and 8.8% for the nine and three months ended December 31, 2006 respectively due to higher debt levels resulting from the acquisitions, increased investment in accounts receivable and inventory 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 Cascadia operation. The Company announced the closure of its Port Moody B.C. winery effective December 31, 2006. Costs related to the integration and closure of the Company's existing facility are being expensed as incurred, and resulted in unusual charges to earnings of \$0.2 million through the first nine months of fiscal 2007 compared to \$1.0 million for the same period last year. Management expects this initiative to be completed by March 31, 2007. The Port Moody winery is being held for resale and the Company expects to dispose of the land and buildings during fiscal 2009.

Net earnings increased for the nine months ended December 31, 2006 due to higher sales levels for year, a reduction in corporate income tax rates and a significant reduction in unusual charges related to the closure of its Port Moody, B.C. facility and integration of this operation into its facility in Kelowna, B.C. The majority of the synergies relating to acquisition will not be realized until fiscal 2008. Including the impact of the unusual items, net income for the nine months ended December 31, 2006 was \$9.1 million or \$0.63 per Class A share compared to \$7.3 million or \$0.50 per Class A share for the comparable period last year.

Quarterly Performance

(\$000) except per share amounts	Q1 07	Q2 07	Q3 07	Q1 06	Q2 06	Q3 06	Q4 06	Q4 05 *
	\$	\$	\$	\$	\$	\$	\$	\$
Sales	55,135	59,413	63,225	46,831	57,056	59,453	48,435	36,895
Gross profit	22,830	25,044	26,340	19,535	23,545	24,799	17,705	15,768
Gross profit (%) of sales)	41.4%	42.2%	41.7%	41.7%	41.3%	41.7%	36.6%	42.7%
EBITA	6,802	7,328	9,286	5,679	6,572	9,001	1,650	3,592
Unusual items	(34)	(164)	(15)	-	(635)	(355)	(970)	(1,173)
Net earnings	2,376	2,556	4,142	2,012	1,815	3,453	(1,226)	327
EPS – Class A basic & diluted	0.16	0.18	0.29	0.13	0.13	0.24	(0.09)	0.02
EPS – Class B basic & diluted	0.14	0.15	0.25	0.12	0.11	0.21	(0.07)	0.02

* Restated

The Company has generated consistent year-over-year growth in sales and gross profit due primarily to the Company's successful initiatives to increase sales of its premium and ultra-premium wines. The 2007 fiscal year has included contributions from the acquisition of Thirty Bench on May 2, 2005, Cascadia on May 25, 2005, and Red Rooster on November 1, 2005, as well as new products launched during the year as noted above. On November 10, 2005 the Company sold the assets and brands related to Cascadia's spirits division for approximately \$5.8 million. There was no gain or loss on the transaction. Gross profit as a percentage of sales was relatively stable in fiscal 2007 compared to the prior year due to higher grape and raw material costs and because of the requirement to record inventory purchased from Cascadia at fair market value. Sales and marketing expenses have increased on a year-over-year comparison due primarily to the impact of the acquisitions and costs associated with the launch of new products in the second and third quarters of fiscal 2007. The unusual charges to income in fiscal 2006 and 2007 relate to costs incurred in the rationalization of the Company's British Columbia operations.

Included in the unusual charge to net earnings in the fourth quarter of fiscal 2005 is the impact of the misappropriation of funds by a former non-executive employee.

The third quarter of each fiscal 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.

Liquidity and Capital Resources

As at (\$000)	December 31, 2006	March 31, 2006	December 31, 2005
	\$	\$	\$
Current Assets	112,476	92,330	102,657
Property Plant & Equipment	85,352	85,597	83,458
Goodwill	36,171	35,862	30,265
Other Assets	8,082	8,298	10,912
Total Assets	242,081	222,087	227,292
Current Liabilities	83,594	65,574	60,445
Long Term Debt	45,915	50,328	61,566
Employee Future Benefits	3,945	4,224	1,631
Future Income Taxes	12,586	12,381	11,533
Shareholders' Equity	96,041	89,580	92,117
Total Liabilities & Shareholders' Equity	242,081	222,087	227,292

The changes to the Company's balance sheet at December 31, 2006 compared to the prior year-end and the third quarter of fiscal 2006 are primarily due to the acquisitions of Thirty Bench on May 2, 2005, Cascadia on May 25, 2005 and Red Rooster on November 1, 2005, the increase in inventories is a result of the crop levels in Ontario returning to normal levels in fiscal 2007 and accounts receivable due to impact of increases in sales, the impact of excise tax changes and extended terms given to purchasers related to a new product launch.

During the first nine months of fiscal 2007, the Company had a cash outflow from operating activities after changes in non-cash working capital items of 2.3 million compared to generating \$11.8 million in cash flow in fiscal 2006. The cash flow from operating activities declined due to the increased investments in inventory and accounts receivable. Inventories increased by \$10.2 million through the nine months ended December 31, 2006 and accounts receivable increased by \$9.6 million.

Investments of approximately \$5.5 million were made in fiscal 2007, primarily related to the purchase of production equipment, compared to \$41.5 million in fiscal 2006. The decrease is due primarily to last year's acquisitions of Thirty Bench, Cascadia and Red Rooster in the period, offset by a small increase in the purchases of capital assets compared to the prior year. Approximately \$1.6 million of the estimated purchase cost related to the acquisition of Cascadia has yet to be paid and is included in accounts payable and accrued liabilities.

Total bank indebtedness has increased in fiscal 2007 to \$103.9 million compared \$93.5 million at the end of fiscal 2006 due primarily to the increased demands on working capital partially offset by net earnings for the period and scheduled debt repayments of \$4.4 million during the first nine months of the year.

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 is fully due and payable on May 31, 2007. This facility will incur interest, payable each month, at a Banker's Acceptance rate plus 1.5% for the first year ending May 31, 2006.

Proceeds in the amount of \$5.0 million from the sale of assets and brands related to Cascadia's spirits business were used to repay part of the \$15.0 million bank loan with the Bank of Montreal.

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 1.08:1 December 31, 2006 compared to 1.04:1 and March 31, 2006 and December 31, 2005. At December 31, 2006, the Company had unused debt available in the amount of \$7.9 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.

Common share dividends were increased effective September 30, 2006 as noted above.

Working capital as at December 31, 2006 was \$28.9 million compared to \$26.8 million at March 31, 2006. Shareholders' equity as at December 31, 2006 rose to \$96.0 million or \$6.45 per share compared to \$89.6 million or \$6.02 per share as at March 31, 2006. The increase is due primarily to the strong earnings performance in the first nine months of fiscal 2007.

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.

Shares outstanding as at	December 31, 2006	March 31, 2006	December 31, 2005
Class A shares	11,888,241	11,887,641	11,866,581
Class B shares	3,004,041	3,004,641	3,001,641
Total	14,892,282	14,892,282	14,868,222

Related Party Transactions

As at December 31, 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 in fiscal 2006 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 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. Andrew Peller Limited has increased its product development and sales and marketing initiatives aimed at capitalizing on this growing trend.

Andrew Peller Limited expects to continue to launch new premium and ultra-premium brands in fiscal 2008. The acquisitions of Thirty Bench, Cascadia and Red Rooster are expected to contribute to increased sales in fiscal 2008 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 sales and marketing expenses for fiscal 2008 to rise moderately. The Company expects to invest in capital expenditures to support its ongoing commitment to producing the highest-quality wines.

Investments made over the past few years are expected to continue to result in increased sales and improved profitability going forward. In addition, recent initiatives have led to an increase in export sales of the Company's premium and ultra-premium wines, particularly icewine.

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 during fiscal 2008.

From time to time the Company evaluates investment opportunities, including acquisitions, which could 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.

ANDREW PELLER LIMITED CONSOLIDATED BALANCE SHEETS

December 31, 2006 statements have not been reviewed by our auditors

(in thousands of dollars, except per share amounts)	Dec 31, 2006 \$	AUDITED Mar 31, 2006 \$
Assets		
Current Assets		
Accounts receivable	28,026	18,444
Inventories	80,693	70,528
Prepaid expenses	3,757	2,447
Income taxes recoverable	-	911
	<u>112,476</u>	<u>92,330</u>
Property, plant and equipment	85,352	85,597
Goodwill	36,171	35,862
Other assets	8,082	8,298
	<u><u>242,081</u></u>	<u><u>222,087</u></u>
Liabilities		
Current Liabilities		
Bank indebtedness	52,102	37,295
Accounts payable and accrued liabilities	23,495	21,613
Dividends payable	917	778
Income taxes payable	1,179	-
Current portion of long - term debt	5,901	5,888
	<u>83,594</u>	<u>65,574</u>
Long-term debt	45,915	50,328
Employee future benefits	3,945	4,224
Future income taxes	12,586	12,381
	<u>146,040</u>	<u>132,507</u>
Shareholders' Equity		
Capital Stock	7,375	7,375
Retained Earnings	88,666	82,205
	<u>96,041</u>	<u>89,580</u>
	<u><u>242,081</u></u>	<u><u>222,087</u></u>

ANDREW PELLER LIMITED

Consolidated Statements of Earnings and Retained Earnings

These financial statements have not been reviewed by our auditors
(in thousands of dollars, except per share amounts)

	For the Three Months Ended		For the Nine Months Ended	
	December 31		December 31	
	2006	2005	2006	2005
	\$	\$	\$	\$
Sales	63,225	59,453	177,773	163,340
Cost of goods sold, excluding amortization	<u>36,885</u>	<u>34,654</u>	<u>103,559</u>	<u>95,461</u>
Gross profit	26,340	24,799	74,214	67,879
Selling and administration	<u>17,054</u>	<u>15,798</u>	<u>50,798</u>	<u>46,627</u>
Earnings before interest and amortization	9,286	9,001	23,416	21,252
Interest	<u>1,335</u>	<u>1,227</u>	<u>3,993</u>	<u>3,275</u>
Amortization of plant, equipment and intangibles	<u>1,866</u>	<u>1,868</u>	<u>5,667</u>	<u>5,274</u>
Earnings before unusual items	6,085	5,906	13,756	12,703
Unusual items	<u>15</u>	<u>355</u>	<u>213</u>	<u>990</u>
Earnings before income taxes	6,070	5,551	13,543	11,713
Provision for income taxes				
Current	<u>1,856</u>	<u>2,153</u>	<u>4,264</u>	<u>4,348</u>
Future	<u>72</u>	<u>(55)</u>	<u>205</u>	<u>85</u>
	<u>1,928</u>	<u>2,098</u>	<u>4,469</u>	<u>4,433</u>
Net earnings for the period	4,142	3,453	9,074	7,280
Retained earnings- Beginning of period	85,442	82,197	82,205	79,924
Dividends:				
Class A and Class B	<u>918</u>	<u>777</u>	<u>2,613</u>	<u>2,331</u>
Retained earnings- End of period	88,666	84,873	88,666	84,873
Net earnings per share				
Basic and Diluted				
Class A shares	<u>0.29</u>	<u>0.24</u>	<u>0.63</u>	<u>0.50</u>
Class B shares	<u>0.25</u>	<u>0.21</u>	<u>0.54</u>	<u>0.44</u>

ANDREW PELLER LIMITED

Consolidated Statements of Cash Flows

These financial statements have not been reviewed by our auditors
(in thousands of dollars, except per share amounts)

	For the Three Months Ended		For the Nine Months Ended	
	December 31		December 31	
	2006	2005	2006	2005
	\$	\$	\$	\$
Cash provided by (used in)				
Operating activities				
Net earnings for the period	4,142	3,453	9,074	7,280
Items not affecting cash:				
Amortization of plant, equipment and intangibles	1,866	1,868	5,667	5,274
Employee future benefits	(93)	(79)	(279)	(150)
Future income taxes	72	(55)	205	85
Amortization of deferred financing costs	36	29	107	78
	<u>6,023</u>	<u>5,216</u>	<u>14,774</u>	<u>12,567</u>
Changes in non-cash working capital items related to operations, net of acquisitions:	<u>(9,312)</u>	<u>(930)</u>	<u>(17,085)</u>	<u>(768)</u>
	<u>(3,289)</u>	<u>4,286</u>	<u>(2,311)</u>	<u>11,799</u>
Investing activities				
Acquisition of Thirty Bench	-	-	-	(4,510)
Acquisition of Cascadia, net of cash acquired	-	(306)	(309)	(33,666)
Acquisition of Red Rooster	-	(5,549)	-	(5,549)
Proceeds from spirit business sale	-	5,782	-	5,782
Purchase of property and equipment	(2,293)	(1,121)	(5,237)	(3,521)
	<u>(2,293)</u>	<u>(1,194)</u>	<u>(5,546)</u>	<u>(41,464)</u>
Financing activities				
Increase in deferred financing costs	(49)	(12)	(76)	(324)
Repayment of long-term debt	(1,472)	(6,356)	(4,400)	(20,407)
Increase in long-term debt	-	6,000	-	56,000
Increase in (repayment of) bank indebtedness	8,021	(1,947)	14,807	(3,273)
Dividends paid	(918)	(777)	(2,474)	(2,331)
	<u>5,582</u>	<u>(3,092)</u>	<u>7,857</u>	<u>29,665</u>
Cash at beginning and end of period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes to the Interim Consolidated Financial Statements (000's)

(in thousands of dollars, except per share amounts)

UNAUDITED

1. Summary of Significant Accounting Policies

The interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The note disclosure for these interim statements only presents material changes to the disclosure found in the Company's annual consolidated financial statements for the year ended March 31, 2006. These interim statements should be read in conjunction with those statements. The interim statements follow the same accounting policies as the annual audited financial statements.

2. Capital Stock

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 the Class A and Class B shares for shareholders of record at October 31, 2006. The Company recorded the effect of the split retroactively to all disclosures of share capital and per share amounts.

As a result, as at December 31, 2006 there were 11,888,241 Class A shares issued and outstanding (2005 – 11,866,581) and 3,004,041 Class B shares issued and outstanding (2005 – 3,001,641). There were 11,887,645 weighted average Class A shares outstanding (2005 – 11,863,380) and 3,004,637 weighted average Class B shares outstanding (2005 – 3,004,842) for the nine months ended December 31, 2006. During the third quarter, 600 Class B shares were converted to Class A shares.

3. Stock Option Plan

The Company has a stock option plan and a stock appreciation rights plan for executives and directors. All options under this plan are for Class A shares only and are for a term of five years from the date of the grant. These options become exercisable with respect to 25% of the total number of shares subject to the option immediately and 25% on each of the three successive anniversaries of the grant. Stock options are subject to certain conditions of service. As at December 31, 2006 there were no stock options outstanding.

The impact of compensation costs for options granted subsequent to April 1, 2002 and before April 1, 2003 is insignificant. Effective April 1, 2003 the Company commenced accounting for all stock options granted on or after April 1, 2003 using a fair value based method that recognizes the compensation cost as an expense in the period. No options have been granted since April 2003.

4. Unusual Items

During fiscal 2006, the Company closed its Port Moody winery facility and transferred production to its winery operations in Kelowna, British Columbia. The resulting restructuring costs incurred during the nine months ended December 31, 2006 amounted to \$213 (2005 - \$990).

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“ Joseph A. Peller”

Joseph A. Peller
Chairman
February 8, 2007