ANDREW PELLER LIMITED

MANAGEMENT'S DISCUSSION & ANALYSIS
For the Year Ended March 31, 2007

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 year ended March 31, 2007 ('2007') in comparison with those for the years ended March 31, 2006 ('2006') and March 31, 2005 ('2005'). This discussion is prepared as of June 21, 2007 and should be read in conjunction with the consolidated financial statements for the years ended March 31, 2007 and 2006 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, Croc Crossing, XOXO, 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 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 January 25, 2005, the Company acquired all of the outstanding shares of Wine Not Inc. ("Wine Not"). Wine Not was a network of independently-owned franchise retailers operating wine-on-premise locations in Ontario. The acquisition has helped to increase the brand presence, distribution and market share of both Winexpert and Vineco International Products in Ontario.

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 nearby 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 enhanced 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 Cascadia's Kelowna facility. Costs related to the integration and the 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 approximately $6.0 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 April 1, 2007 the Company further amalgamated a number of subsidiary companies to again simplify the corporate structure and reduce compliance costs. In addition, a wholly owned subsidiary was formed to amalgamate Winexpert Inc., Vineco International Products Ltd. and Wine Not Inc.

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. Subsequent to the year-end, on June 8, 2007 the Company increased its annual common share dividends by a further 19%. See "Subsequent Events" for more details.

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.

The Canadian Wine Market

The market for wine in Canada continues to grow, driven primarily by an aging population favouring the more sophisticated experience that wine offers, as well as the widely reported health benefits of moderate wine consumption. However, imports from major wine-producing countries, particularly Italy and Australia, continue to expand their share of the Canadian market, in many cases supported by extensive government subsidy programs that are unmatched in Canada. Canada remains one of the world's largest importers of wine, resulting in significant growth in foreign wine sales in Canada over the past five years. To ensure that fair and open trade practices exist in the domestic Canadian wine market, the Company is working closely with other Canadian wine producers and the Canadian government to address this important issue.

For the years ended March 31, 2007 and March 31, 2006, consumption of wine in Canada (excluding Quebec, where the Company does not participate, and excluding the refreshment wine category) rose annually at approximately 6.6%. Imported wines represented the majority of this growth, accounting for 64.6% of total volume in 2007. Canadian-made wines experienced a slight decline in market share, falling to 35.4% of total Canadian wine sales from 36.9% in 2006. The Company's share of the total Canadian market in 2007 was 12.1% compared to 12.6% in 2006. The Company's share of the Canadian domestic market decreased from 34.0% in 2006 to 33.6% in 2007 primarily due to production supply issues in Western Canada.

The Vintners Quality Alliance ('VQA'), established in 1989, has become recognized throughout the world as the appellation system for Canadian wines that meet strict standards of excellence. The Company's sales of VQA designated wines declined by 1.6% in 2007 compared to a 5.9% increase in 2006. Sales of VQA wines were lower in 2007 due to the lack of available grape supply in the Ontario market caused by severe winter weather during 2006.

Red table wines continued to grow in popularity, with total Canadian volume sales rising 8.8% in 2007 compared to 7.6% in 2006. Volume sales of the Company's red wine portfolio increased 5.8% in 2007 after an 8.3% increase in 2006. Volume sales of white table wines in Canada rose 5.2% in 2007 and 4.4% in 2006, while the Company's sales of white table wines were up 1.4% in 2007 compared to 1.5% in 2006.

The Company believes that sales for wine kits in Canada declined by approximately 3.0% in 2007 and in 2006. Despite the overall decline in the consumer-made wine market in Canada, sales of the Company's wine kits increased in 2007 and 2006 due to the acquisition of Wine Not Inc. and an increase in sales at Winexpert Inc. Sales at Vineco International Products Ltd. declined slightly in 2007.

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, 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 accounts receivable 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. An impairment test was conducted at year end and, based on the results of the test, the Company determined that Goodwill had not been impaired.

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 50% - 80% of its foreign exchange requirements prior to the beginning of each year. The Company does not enter into foreign exchange contracts for trading or speculative purposes. Contracts are matched against forecasted purchases of inventory which will be valued at the rate of the foreign exchange contract. Management has designated these contracts 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 YEAR ENDED MARCH 31,	2007	2006	2005
in thousands of dollars, except per share amounts	$	$	(Restated)
Sales	228,192	211,775	$167,634
Gross profit	95,108	85,584	$72,032
Gross margin (% of sales)	41.7%	40.4%	43.0%
Selling general and administrative expenses	67,443	62,682	$50,245
Earnings before interest, unusual items, amortization and taxes	27,665	$22,902	$21,787
Unusual items	(206)	(1,960)	(1,173)
Net earnings	9,472	6,054	$8,467
Earnings per share – basic & diluted- Class A	$ 0.65	$ 0.42	$0.59
Earnings per share – basic & diluted - Class B	$ 0.57	$ 0.36	$0.51
Dividend per share – Class A (annual)	$0.253	$0.215	$0.215
Dividend per share – Class B (annual)	$0.220	$0.186	$0.186
Class A shares outstanding (weighted average)	11,867,668	11,867,517	11,852,475
Class B shares outstanding (weighted average)	3,004,772	3,004,923	3,005,466

Increased sales of the Company's key blended, premium and ultra-premium wines sold through all of the Company's trade channels, and the full year's contribution of Cascadia, Thirty Bench and Red Rooster resulted in sales increasing 7.8% for the year ended March 31, 2007. The acquisitions contributed approximately $37.8 million in sales for the year compared to $34.0 million in 2006. During the second and third quarters of 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 most trade channels in 2007 compared with 2006. Sales of VQA wine in 2007 were negatively impacted by the short crop in Ontario. The Company continued 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 to 41.7% in 2007 compared to 40.4% in 2006 due to the higher sales volume of premium and ultra-premium wines and improvements in value of the Canadian dollar which reduced the cost of wine purchased on international markets. Gross margins in 2006 were impacted by accounting adjustments required to value purchased inventory from Cascadia at fair market value. Gross margins in 2007 and 2006 were slightly lower than the 43.0% in 2005 due primarily to increases in the cost of grapes and raw materials in 2007 and 2006.

Selling and administrative expenses increased in 2007 and 2006 due primarily to the acquisitions of Thirty Bench, Cascadia and Red Rooster and as a result of increased costs associated with the product launches of French Cross Tetra, Croc Crossing and XOXO. Selling and administrative expenses amounted to 29.6% of sales for the year ended March 31, 2007 and March 31, 2006. The Company continues to incur costs related to the acquired businesses as stand alone companies, and expects to realize additional synergies in 2008.

As a result of the contributions made by recent acquisitions and new products launched during 2007, partially offset by higher costs for grapes and raw materials, EBITA increased 20.8% to $27.7 million in 2007 compared to 2006.

Amortization expenses increased by $0.7 million or 9.2% in 2007 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 19.8% to $5.4 million in 2007 due to higher debt levels resulting from the acquisitions, increased investment in inventory as the grape crop in Ontario returned to normal levels and the impact of higher interest rates on short-term borrowings.

During the second quarter of 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. Unusual charges to earnings of $0.2 million for the year related to costs incurred to integrate Cascadia and to closure costs of the Port Moody winery which were partially offset by a net recovery on an insurance claim and assets recovered from the misappropriation of funds by a former non-executive employee. Additional expenses will continue to be incurred on the Port Moody winery in 2008. Management expects to sell the Port Moody winery during 2009.

Net earnings increased for the year ended March 31, 2007 due to higher sales levels for the year 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. Additional synergies relating to the acquisitions will be fully realized in 2008. Including the impact of the unusual items, net earnings for the year ended March 31, 2007 were $9.5 million or $0.65 per Class A share compared to $6.1 million or $0.42 per Class A share last year.

Quarterly Performance

($000) except per share amounts	Q1 07	Q2 07	Q3 07	Q4 07	Q1 06	Q2 06	Q3 06	Q4 06
	$	$	$	$	$	$	$	$
Sales	55,135	59,413	63,225	50,419	46,831	57,056	59,453	48,435
Gross profit	22,830	25,044	26,340	20,894	19,535	23,545	24,799	17,705
Gross profit (% of sales)	41.4%	42.2%	41.7%	41.4%	41.7%	41.3%	41.7%	36.6%
EBITA	6,802	7,328	9,286	4,249	5,679	6,572	9,001	1,650
Unusual items	(34)	(164)	(15)	7	-	(635)	(355)	(970)
Net earnings	2,376	2,556	4,142	398	2,012	1,815	3,453	(1,226)
EPS – Class A basic & diluted	0.16	0.18	0.29	0.02	0.14	0.12	0.24	(0.09)
EPS – Class B basic & diluted	0.14	0.16	0.25	0.02	0.12	0.11	0.21	(0.07)

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 key blended, premium and ultra-premium brands. In addition, 2007 has included a full year contribution from the acquisitions 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. Gross profit as a percentage of sales was higher in 2007 compared to the prior year due primarily to the higher sales volumes of premium and ultra-premium wines, partially offset by higher grape and raw material costs and because of the requirement in 2006 to record inventory acquired through acquisitions at fair market value. Sales and marketing expenses have increased year-over-year due primarily to the impact of the acquisitions and costs associated with the launch of new products in the second and third quarters of 2007. Unusual charges in 2007 and 2006 primarily relate to costs incurred in the rationalization of the Company's British Columbia operations and a net recovery of assets and insurance proceeds that were offset by costs incurred during the year from the 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.

Liquidity and Capital Resources

As at ($000)	March 31, 2007 $	March 31, 2006 $
Current Assets	107,657	92,330
Property Plant & Equipment	87,143	85,597
Goodwill	36,171	35,862
Other Assets	7,985	8,298
Total Assets	238,956	222,087
Current Liabilities	82,341	65,574
Long-Term Debt	44,423	50,328
Employee Future Benefits	4,007	4,224
Future Income Taxes	12,663	12,381
Shareholders' Equity	95,522	89,580
Total Liabilities & Shareholders' Equity	238,956	222,087

The changes to the Company's balance sheet at March 31, 2007 compared to the prior year-end are primarily due to the increase in inventories as a result of the crop levels in Ontario returning to normal levels in 2007 after experiencing the unusually low levels in 2006 due to the severe winter weather, an increase in accounts receivable due to the impact of increases in sales and the impact of excise tax changes.

During 2007, the Company generated cash from operating activities after changes in non-cash working capital items of $4.5 million compared to $19.0 million in 2006. Cash flow from operating activities declined due primarily to the increased investments in inventory and accounts receivable. Inventories increased by $12.5 million for the year ended March 31, 2007 and accounts receivable increased by $2.9 million.

The Company's purchases of domestically grown grapes increased $11.2 million to $18.5 million over the prior year. The cost of domestically grown grapes is significantly higher than wine purchased on international markets. In the prior year, purchases of international wines were increased temporarily to supplement the domestic grape shortage. Inventory levels are also dependent on domestically grown grapes that are used in premium and ultra-premium wines. Typically these wines are aged between one to three years before they are sold. This aging process increased the amount of inventory held by the Company.

Investments of approximately $9.3 million were made in 2007, primarily related to the purchase of production equipment, compared to $45.5 million in 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 $0.5 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.

In 2007, approximately $7.3 million (2006 – $5.7 million) was invested in new and updated wine production equipment, including aging barrels, technology investments and other wine production equipment, to increase production capacity and enhance productivity. The Company invested $0.2 million (2006 - $0.6 million) in the development of new systems and enhancements to its information technology infrastructure. Approximately $1.3 million (2006-$0.4 million) was spent at the Company's estate wineries, including enhancements to its fine dining facilities, on-site wine shops and other tourism related investments. An additional $0.5 million (2006 - $0.8 million) was spent on Vineyards Estate wines for store upgrades and renovations.

Total bank indebtedness has increased in 2007 to $101.8 million compared to $93.5 million at the end of 2006 due primarily to the increased investments in inventories during 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.

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%.

On April 12, 2007 the Company obtained additional financing from the Bank of Montreal in the form of a seven year term bank loan in the amount of $10.0 million. The term loan is for the purpose of developing a vineyard on 300 acres of land in the Okanagan Valley in British Columbia. The land has been leased for a 30 year period which expires on October 31, 2037. As at June 21, 2007, this facility has not been utilized.

The ratio of debt to equity increased to 1.07:1 at March 31, 2007 compared to 1.04:1 at March 31, 2006. At March 31, 2007, the Company had unused debt available in the amount of $8.4 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. 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. Subsequent to the year-end, on June 8, 2007 the Company increased annual common share dividends by a further 19%. See "Subsequent Events" for more details.

Working capital as at March 31, 2007 was $25.3 million compared to $26.8 million at March 31, 2006. Shareholders' equity as at March 31, 2007 rose to $95.5 million or $6.41 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 2007.

Contractual Obligations

The Company's major contractual obligations as at March 31, 2007 were as follows:

($000)	**Total**	2008	2009	2010	2011	2012	Thereafter
Long-Term Bank Loan	**50,329**	5,906	5,830	14,079	3,516	3,516	17,482
Operating Leases	**9,779**	4,111	2,769	1,849	674	184	192
Pension Obligations	**4,517**	847	847	847	847	847	282
Long-Term Grape Contracts	**385,276**	24,997	26,051	25,778	26,268	26,887	255,295
Total Contractual Obligations	**449,901**	35,861	35,497	42,553	31,305	31,434	273,251

Included in operating leases are payments for leases on the Company's Vineyards Estate Wines stores in Ontario.

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	June 21, 2007	March 31, 2007	March 31, 2006
Class A shares	11,888,241	11,888,241	11,887,641
Class B shares	3,004,041	3,004,041	3,004,641
Total	14,892,282	14,892,282	14,892,282

Related Party Transactions

As at March 31, 2007, 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.

Subsequent Event

As a result of continued strong performance, the Company announced on June 8, 2007 that it would increase annual common share dividends effective for shareholders of record on June 30, 2007. The dividend on Class A shares increased 19% from $0.253 per share to $0.300 per share. The dividend on Class B shares increased 19% from $0.220 per share to $0.261 per share. This was the second dividend increase in the last two years.

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 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.

The Company expects to continue to launch new premium and ultra-premium brands in 2008. The acquisitions of Thirty Bench, Cascadia and Red Rooster are expected to contribute to increased sales in 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 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 2008.

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

Risks and Uncertainties

The Company's sales of wine are affected by general economic conditions such as changes in discretionary consumer spending and consumer confidence in future economic conditions, tax laws and the prices of its products. A steep and sustained decline in economic growth may cause a lower demand for the Company's products. Such general economic conditions could impact the Company's sales through the Company's estate wineries and restaurants, direct sales through licensed establishments and export sales through duty free shops. The Company believes that these effects would likely be temporary and would not have a significant impact on financial performance.

The Canadian wine market continues to be the target of low-priced imported wines from regions and countries that subsidize wine production and grape growing as well as providing sizeable export subsidies. In addition, many of these countries and regions prohibit or restrict the sale of imported wine in their own domestic markets. The

Company, along with other members of the Canadian wine industry, is working with the Canadian government to rectify these unfair trade balances.

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

The Company expects to increase its share of the premium wine business in Canada, principally through the sale of VQA wines, and as a result is more dependent on the quality and supply of domestically grown premium quality grapes. If any of our vineyards experience certain weather variations, natural disasters, pestilence, other severe environmental problems or other occurrences, APL may not be able to secure a sufficient supply of grapes and there could be decrease in our production of certain products from those regions and/or an increase in costs. As a result of extremely cold temperatures in February 2005, grape supply was significantly reduced which impacted sales and margins earned on VQA wines sold during 2006 and 2007. The short supply also had the impact of increasing the price paid for domestically grown grapes. The Government of Ontario, in conjunction with the Wine Council of Ontario and the Ontario Grape Growers Marketing Board, agreed to temporarily increase the blending of imported wines, which enabled the Company to continue to supply the market. The inability to secure premium quality grapes could impair the ability of the Company to supply wines to our customers. The Company has initiated programs to ensure a consistent access to domestically grown premium quality grapes through the development of additional vineyards, the contracting of additional sources of supply and the holding of additional levels of inventory. APL's arrangements with independent growers are based on long-term contracts up to thirty years. The price of grapes is determined through negotiations with the Ontario Grape Growers Marketing Board in Ontario and with independent growers in British Columbia.

The competitive nature of the wine industry internationally has resulted in the discounting of retail prices of wine in key markets such as the United States and the United Kingdom, in part due to an international grape surplus. This international grape surplus, principally in Australia, Chile and Argentina and high inventories of French wine, could serve to continue the discounting of wine in international markets. The Company has responded by increased promotional and advertising spending to strengthen the performance of our brands. The Company does not believe that significant price discounting will occur in Canada beyond current levels.

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

The wine industry and markets in which the Company operates, are consolidating. This has resulted in fewer, but larger competitors, which increase their resources and scale. The increased competition from these larger parties may affect the Company's pricing strategies and create margin pressures, resulting in potentially lower revenues. Competition also exerts pressure on existing customer relationships, which may affect our ability to retain existing customers and increase the number of new customers.

The Company has worked to improve production efficiencies and selectively increased pricing to increase gross profit and implemented a higher level of promotion and advertising activity to combat these initiatives. APL and other wine industry participants also generally compete with other alcoholic beverages like beer and spirits for consumer acceptance, loyalty and shelf space. No assurance can be given that consumer demand for wine, and premium wine products, will continue at current levels in the future.

APL has identified that a foreign exchange risk exists on the purchases of bulk wine and concentrate which are made in United States dollars. The Company does not enter into foreign exchange contracts for trading or speculative purposes. The Company's strategy is to hedge approximately 50% - 80% of its foreign exchange requirements prior to the beginning of each fiscal year. The Company has entered into a series of foreign exchange contracts as a hedge against movements in U.S. dollar exchange rates. These contracts are reviewed periodically. Each one cent change in the value of the U.S. dollar has a $120,000 impact on the Company's net earnings.

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

The Company operates in a highly regulated industry, with requirements regarding the production, distribution, marketing, advertising and labelling of wine. These regulatory requirements may inhibit or restrict the Company's ability to maintain or increase strong consumer support for and recognition of its brands and may adversely affect APL's business strategies and results of operations. Privatization of liquor distribution and retailing has been implemented in varying degrees across the country. The possibility of privatization in Ontario remains a risk to the Company through its impact on the Company's retail operations. The provincial government has stated that, should it consider privatization, it would engage in a consultation process and would acknowledge the special role of Ontario's wine industry.

As an owner and lessor of property, the Company is subject to various federal and provincial laws relating to environmental matters. Such laws provide that the Company could be held liable for the cost of removal and remediation of hazardous substances on its properties. The failure to remedy any situation that might arise could lead to claims against the Company. These risks are believed to be limited.

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

The Company has experienced significant increases in energy costs, and energy costs could continue to rise, which would result in higher transportation, freight and other operating costs. The Company's future operating expenses and margins will be dependent on its ability to manage the impact of cost increases. The Company cannot guarantee that it will be able to pass along increased energy costs to its customers through increased prices.

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

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

Internal Controls over Financial Reporting
Internal controls over financial reporting are procedures designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to reliability of financial reporting and financial statement preparation.

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

Disclosure Controls and Procedures
Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information relating to the operation of the Company and its consolidated subsidiaries is gathered and provided to senior management, including the President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), on a timely basis so that decisions can be made regarding the Company's disclosure to the public. As at June 8, 2007, the CEO and the CFO of the Company have evaluated the system of disclosure controls and procedures in the Company and its consolidated subsidiaries as set out by Canadian Securities Laws. Based on that evaluation, the CEO and CFO have concluded that the disclosure controls and procedures were effective in providing reasonable assurance that information required to be disclosed in the Company's annual and interim filings and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time frames specified by those laws and that material information is accumulated and communicated to management of the Company, including the CEO and CFO, as appropriate to ensure the timely disclosure of that information.

Internal Controls over Financial Reporting
The Company's CEO and CFO have concluded that internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with Canadian generally accepted accounting principles as of March 31, 2007.

During the year ending March 31, 2007, there have been no material changes in the Company's internal control over financial reporting that materially affected or were likely to affect, the Company's internal control systems.

Recent Accounting Changes
In January 2005 the Accounting Standards Board of the Canadian Institute of Chartered Accountants ("CICA") issued CICA 3855, Financial Instruments – Recognition and Measurement ("CICA 3855"), CICA 3865, Hedges ("CICA 3865"), and CICA 1530, Comprehensive Income ("CICA 1530"). These new standards will be adopted by the Company on April 1, 2007. CICA 3855 prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and the measurement of such amount. It also specifies how financial instrument gains and losses are to be presented. CICA 3865 is applicable for designated hedging relationships and builds on existing Canadian GAAP guidance by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. CICA 1530 introduces new standards for the presentation and disclosure of components of comprehensive income. Comprehensive income is defined as the change in net assets of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in net assets during a period except those resulting from investments by owners and distributions to owners. As a result of adopting these new standards other assets will decrease by $0.3 million long-term debt will decrease by $0.6 million accumulated other comprehensive income (a new component of shareholders' equity) will increase by $0.3 million.

In July 2006, the CICA revised CICA 1506, Accounting Changes ("CICA 1506") which requires that voluntary changes in accounting policy are made if they result in the financial statements providing reliable and more relevant information; changes in accounting policies will generally be applied retrospectively; and prior period errors are corrected retrospectively. CICA 1506 is effective for fiscal years beginning on or after January 1, 2007 and will be adopted by the Company effective April 1, 2007. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.