Andrew Peller Limited

Consolidated Financial Statements
March 31, 2010 and 2009

PRICEWATERHOUSECOOPERS

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June 23, 2010

Auditors' Report

To the Shareholders of
Andrew Peller Limited

We have audited the consolidated balance sheets of **Andrew Peller Limited** as at March 31, 2010 and 2009 and the consolidated statements of earnings (loss) and comprehensive earnings (loss), retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario

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Andrew Peller Limited

Consolidated Balance Sheets

As at March 31, 2010 and 2009

(in thousands of dollars)

	2010	2009
Assets		
Current assets		
Accounts receivable	$ 22,902	$ 21,044
Inventories (note 3)	89,693	100,883
Prepaid expenses and other assets	2,429	2,309
Income taxes recoverable	1,327	6,318
Discontinued operation (note 16)	-	4,264
	116,351	134,818
Property, plant and equipment (notes 2 and 4)	95,728	98,234
Intangibles and other assets (notes 2 and 5)	14,164	14,838
Goodwill (notes 2 and 7)	37,473	35,684
Discontinued operation – long-term assets (note 16)	-	9,933
	$ 263,716	$ 293,507
Liabilities		
Current liabilities		
Bank indebtedness (note 6)	$ 48,877	$ 52,192
Accounts payable and accrued liabilities	28,229	38,512
Dividends payable	1,197	1,197
Current portion of derivative financial instruments (note 14)	1,922	2,719
Current portion of long-term debt (note 6)	6,158	6,158
Discontinued operation (note 16)	-	4,837
	86,383	105,615
Long-term debt (notes 6 and 14)	47,633	71,549
Long-term derivative financial instruments (note 14)	1,667	5,963
Employee future benefits (note 7)	4,530	2,824
Future income taxes (note 8)	9,838	10,428
Discontinued operation – long-term liabilities (note 16)	-	337
	150,051	196,716
Shareholders' Equity		
Capital stock (note 9)	7,375	7,375
Retained earnings	106,290	89,416
	113,665	96,791
	$ 263,716	$ 293,507

Commitments and contingencies (note 11)

Approved by the Board of Directors

(signed) "John E. Peller" — Director

(signed) "Brian J. Short" — Director

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

Andrew Peller Limited

Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss) and Retained Earnings

For the years ended March 31, 2010 and 2009

(in thousands of dollars, except per share amounts)

	2010	2009
Sales	$ 263,151	$ 251,136
Cost of goods sold, excluding amortization	166,827	157,445
Gross profit	96,324	93,691
Selling and administration	68,970	70,332
Earnings before interest and amortization	27,354	23,359
Interest	7,873	6,855
Amortization of plant, equipment and intangible assets	7,991	7,847
Earnings before other items	11,490	8,657
Net unrealized (gains) losses on derivative financial instruments (note 14)	(3,224)	9,496
Other expenses (note 12)	1,627	1,275
Earnings (loss) before income taxes	13,087	(2,114)
Provision for (recovery of) income taxes (note 8)		
Current	3,503	1,935
Future	58	(2,605)
	3,561	(670)
Net and comprehensive earnings (loss) for the year from continuing operations	9,526	(1,444)
Net and comprehensive earnings for the year from a discontinued operation (note 16)	12,135	1,319
Net and comprehensive earnings (loss) for the year	21,661	(125)
Retained earnings - Beginning of year	89,416	95,305
Impact of adoption of accounting pronouncement on April 1, 2008 (note 1)	-	(1,875)
Impact of adoption of accounting pronouncement on January 1, 2009 (note 1)	-	898
Dividends		
Class A and Class B shares	(4,787)	(4,787)
Retained earnings - End of year	$ 106,290	$ 89,416
Net earnings (loss) per share from continuing operations		
Basic and diluted		
Class A shares	$ 0.66	$ (0.10)
Class B shares	$ 0.57	$ (0.09)
Net earnings per share from a discontinued operation		
Basic and diluted		
Class A shares	$ 0.83	$ 0.09
Class B shares	$ 0.73	$ 0.08
Net earnings (loss) per share (notes 1 and 10)		
Basic and diluted		
Class A shares	$ 1.49	$ (0.01)
Class B shares	$ 1.30	$ (0.01)

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

Andrew Peller Limited

Consolidated Statements of Cash Flows

For the years ended March 31, 2010 and 2009

(in thousands of dollars)

	2010	2009
Cash provided by (used in)		
Operating activities		
Net earnings (loss) for the year	$ 9,526	$ (1,444)
Items not affecting cash		
Loss on disposal of property, plant and equipment	175	11
Amortization of plant, equipment and intangible assets	7,991	7,847
Employee future benefits	(866)	(343)
Net unrealized loss (gain) on derivative financial instruments	(3,224)	9,496
Future income taxes	58	(2,605)
Amortization of deferred financing costs	371	75
Write-off of deferred financing costs	267	442
Impairment charges	1,247	148
	15,545	13,627
Change in non-cash working capital items related to operations (note 13)	1,905	(5,420)
	17,450	8,207
Investing activities		
Proceeds from disposal of property, plant and equipment	34	3
Purchase of property and equipment	(5,047)	(10,002)
Acquisition of businesses (note 2)	(825)	(13,665)
Investment in product development	-	(116)
	(5,838)	(23,780)
Financing activities		
Increase in deferred financing costs	(979)	(340)
Decrease in bank indebtedness	(3,315)	(7,217)
Increase in long-term debt	-	27,386
Payment to partially unwind a derivative financial instrument	(1,600)	-
Repayment of long-term debt	(22,750)	(4,748)
Dividends paid	(4,787)	(4,678)
	(33,431)	10,403
Decrease in cash during the year from continuing operations	(21,819)	(5,170)
Increase in cash during the year from discontinued operation (note 16)	21,819	5,170
Change in cash during the year	-	-
Cash - Beginning of year	-	-
Cash - End of year	$ -	$ -
Supplemental disclosure of cash flow information		
Cash paid during the year from continuing operations for		
Interest	$ 7,819	$ 6,990
Income taxes	38	4,808
Cash paid during the year from discontinued operation for		
Income taxes	602	656
Cash paid during the year for		
Interest	7,819	6,990
Income taxes	640	5,464

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

(in thousands of dollars, except per share amounts)

1 Significant accounting policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. Significant accounting policies adopted by the Company are as follows:

(A) Basis of consolidation

These consolidated financial statements include the accounts of the Company and all subsidiary companies. The purchase method has been used to account for all acquisitions. The assets and liabilities of subsidiary companies acquired are included at their fair value on acquisition and the results of operation are included from the date of acquisition.

During fiscal 2010, the Company disposed of its ownership interest in Granville Island Brewing Company Ltd. and Mainland Beverage Distribution Ltd. (collectively referred to as "GIBCO"), and presented this operation as a discontinued operation (note 16).

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

(B) Revenue

The Company records a sale when persuasive evidence of an arrangement exists with a customer; delivery of goods and the transfer of title to the customer has occurred under the terms of the arrangement; the selling price is fixed or determinable; and collectibility is reasonably assured. For transactions with provincial liquor boards, licensee retail stores, licensees and wine kit retailers, the Company's terms are "FOB shipping point". Accordingly, sales are recorded when the product is shipped from the Company's production facility. Sales to consumers through retail stores, winery restaurants and estate wineries are recorded when the product is purchased.

Excise taxes collected on behalf of the federal government, licensing fees paid on wine sold through the Company's independent retail stores in Ontario, product returns, breakage and discounts provided to customers are deducted from gross revenues to arrive at sales.

(C) Inventories

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

The Company utilizes a weighted average cost calculation to determine the value of ending inventory (bulk wine and finished goods). Average cost is determined separately for import wine and domestic wine and is calculated by varietal and vintage year.

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

(in thousands of dollars, except per share amounts)

(D) Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated amortization. Amortization of buildings, vineyards and equipment is calculated on the straight-line basis in amounts sufficient to amortize the cost of buildings, vineyards and equipment over their estimated useful lives as follows:

Buildings	2.5% per year
Vineyards	5% per year
Machinery and equipment	7.5% to 20% per year

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

(E) Goodwill

Goodwill represents the cost of investments in subsidiaries in excess of the fair values of the net tangible and identifiable intangible assets acquired. Goodwill is not amortized but is tested for impairment on an annual basis, or more frequently if circumstances indicate that goodwill may be impaired. The Company determines an impairment of goodwill based on the ability to recover the balance from expected future discounted operating cash flows.

(F) Intangible assets

Intangible assets include brands, customer contracts, contract co-packaging arrangements and customer-based relationships. These intangible assets are recorded at estimated fair value on the date of acquisition. Customer contracts, contract co-packaging arrangements and customer-based intangible assets are amortized on a straight-line basis over 10-20 years. Brands that have been assessed as having an indefinite life are not amortized but are tested for impairment at least annually, or more frequently if events or circumstances indicate that the asset might be impaired.

(G) Impairment of long-lived assets and definite life intangible assets

The Company reviews long-lived assets and definite life intangible assets for impairment when events or circumstances indicate that the asset's carrying amount may not be recoverable. When management determines that an impairment exists, the impairment loss will be determined by comparing the asset's carrying amount to its fair value, which is determined using a discounted cash flow model (note 12).

(H) Net earnings per share

Basic net earnings per share has been calculated using the weighted average number of Class A and Class B shares outstanding during the year; diluted net earnings (loss) per share has been calculated using the treasury stock method (note 10).

(in thousands of dollars, except per share amounts)

(I) Segmented information

The Company produces and markets wine products and other beverages in Canada. A significant portion of the Company's sales are made to the liquor control boards in each province in which the Company transacts business. Management has concluded that based on the type of products sold and the fact that its customers are similar in nature, the Company operates in a single operating segment. In addition, a substantial portion of the Company's sales are made in Canada. As a result, management has concluded that the Company operates in one geographic segment. During the year, the Company did have export sales of $10,181 (2009 - $9,279), which primarily relate to sales in the United States.

(J) Measurement uncertainty

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may vary from current estimates. These estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the year in which they become known.

(K) Income taxes

The Company follows the liability method of accounting for income taxes based on temporary differences. Future income taxes are provided for all temporary differences between the financial reporting and tax bases of assets and liabilities. Future income tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The future income tax expense represents the change during the year in future income tax assets and future income tax liabilities.

(L) Asset retirement obligations

The fair value of a liability for an asset retirement obligation is recorded in the year in which it is incurred. When the liability is initially recorded, the cost is capitalized by increasing the carrying amount of the related long-lived asset. Over time, the liability is increased to reflect an interest element considered in the initial measurement of fair value. The capitalized cost is amortized over the asset's useful life.

(M) Employee future benefits

The Company sponsors defined benefit pension plans providing pension and other post retirement medical benefits to certain employees. The costs of the defined benefit pension plans and other post retirement benefits are actuarially determined and include management's best estimate of expected plan investment performance (where applicable), salary escalation and expected retirement ages. For plans with active employees, adjustments arising from plan amendments or from actuarially determined gains or losses are amortized on a straight-line basis over the average remaining service period of active employees. For plans where the majority of the plan members have retired, adjustments arising from plan amendments or from actuarially determined gains and losses are amortized on a straight-line basis over the average life expectancy of the remaining plan members.

(in thousands of dollars, except per share amounts)

(N) Comprehensive income (loss)

Comprehensive income (loss) is comprised of net earnings or loss and other comprehensive income (loss) (OCI). OCI represents the change in equity for a period that arises from unrealized gains and losses on available-for-sale securities and changes in the fair market value of derivative instruments designated as hedges.

(O) Equity

This section requires separate presentation of changes in equity for the period arising from net income, OCI, contributed surplus, retained earnings, share capital and reserves. Accumulated OCI is included in the consolidated balance sheet as a separate component of shareholders' equity. The Company does not currently have any accumulated OCI.

(P) Transaction costs

Transaction costs related to financial liabilities are netted against the carrying value of the liability and are then amortized over the expected life of the instrument using the effective interest rate method.

(Q) Recently adopted accounting pronouncements

On April 1, 2009, the Company adopted the amendments to CICA Handbook Section 3862, Financial Instruments – Disclosures. In accordance with this section, the Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

Level 1 – fair value measurements that reflect unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – fair value measurements include inputs other than quoted prices included in Level 1 that are observable for identical or similar assets and liabilities, either directly or indirectly.

Level 3 – fair value measurements include inputs for the asset or liability that are not based on observable market data.

The amended standard requires enhanced disclosures about the relative reliability of the data, or inputs, that the Company uses to measure the fair values of its financial instruments (note 14).

(in thousands of dollars, except per share amounts)

Effective April 1, 2008, the Company adopted the following new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"):

a) CICA Handbook Section 3031, "Inventories" replaces CICA Handbook Section 3030, "Inventories" and provides more guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories and is effective for the Company's fiscal years beginning on April 1, 2008. As required, this standard has been adopted prospectively and comparative amounts have not been restated. The change predominately relates to changes in the application of overhead cost allocations to bulk and finished goods inventory. As a result, on adoption of this standard, the Company recorded an adjustment on April 1, 2008 to reduce inventories by $2,725, reduce future income taxes by $850, and reduce opening retained earnings by $1,875.

b) The Company adopted CICA Emerging Issues Committee 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" ("EIC 173") that requires an entity's own credit risk and the risk of the counterparty to be taken into account when determining the fair value of financial assets and financial liabilities, including derivative amounts. As a result, on adoption, the Company recorded an adjustment on January 1, 2009 to increase the fair value of derivative financial instruments by $1,307, increase future income taxes by $409 and increase opening retained earnings by $898.

(R) Recently issued accounting pronouncements

a) Business Combinations, Consolidated Financial Statements and Non-Controlling Interests: CICA Handbook Section 1582, "Business Combinations", CICA Handbook Section 1601, "Consolidated financial statements", and CICA Handbook Section 1602, "Non-controlling interests" replace the former CICA Handbook Section 1581, "Business Combinations" and CICA Handbook Section 1600, "Consolidated Financial Statements" and establishes a new section for accounting for a non-controlling interest in a subsidiary. These sections provide the Canadian equivalent to International Financial Reporting Standards ("IFRS") 3, "Business Combinations" and International Accounting Standard 27, "Consolidated and Separate Financial Statements". CICA Handbook Section 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011. The Company is currently evaluating the impact of adoption of these standards.

b) CICA Emerging Issues Committee 175, "Multiple Deliverable Revenue Arrangements" was released and requires a vendor to allocate arrangement consideration at the inception of an arrangement to all deliverables using the relative selling price method. The new requirements are effective for fiscal years beginning on or after January 1, 2011 with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard.

(in thousands of dollars, except per share amounts)

2 Acquisitions

During fiscal 2009, the Company made the following acquisitions:

On June 13, 2008, the Company acquired 50% of the outstanding shares of Rocky Ridge Vineyards Inc. ("Rocky Ridge") for consideration of $3,927, including acquisition costs. The Company previously owned 50% of the shares of Rocky Ridge and as a result of this transaction Rocky Ridge is now a wholly-owned subsidiary. This transaction was accounted for using the purchase method. The results of operations have been fully consolidated effective June 14, 2008.

On June 30, 2008, the Company acquired 100% of the common shares of World Vintners Inc. for consideration of $9,629, including acquisition costs. This transaction was accounted for using the purchase method. The results of operations have been included in the consolidated financial statements effective July 1, 2008.

On July 31, 2008, the Company acquired 100% of the outstanding shares of Camelot Cellars Ltd. for consideration of $154, including acquisition costs. This transaction was accounted for using the purchase method. The results of operations have been included in the consolidated financial statements effective August 1, 2009.

On October 8, 2008, the Company acquired 100% of the outstanding shares of The Small Winemakers Collection Inc. for consideration of $1,605, including acquisition costs. Pursuant to the purchase agreement, contingent consideration to a maximum of $333, measured on an annual basis, may be payable based on the pre-determined sales levels up to three years beginning March 31, 2009. Future payments under this agreement will be recorded as goodwill when the amount and outcome of the contingent consideration becomes determinable. There was no contingent consideration paid or payable at March 31, 2010. This transaction was accounted for using the purchase method. The results of operations have been included in the consolidated financial statements effective October 9, 2008.

The value assigned to goodwill in all of the acquisitions is not deductible for tax purposes.

Acquired intangible assets include brands in the amount of $1,700 that are not subject to amortization and customer-based relationships and contract packaging agreements in the aggregate amount of $7,790 which are subject to amortization. All acquired intangible assets are not deductible for income tax purposes.

(in thousands of dollars, except per share amounts)

The following table summarizes the amounts paid or payable at the dates of the acquisitions and the allocation of purchase prices based on management's estimates of the fair values of assets and liabilities acquired:

	Rocky Ridge	World Vintners Inc.	Camelot Cellars, Ltd.	The Small Winemakers Collection Inc.	Total
Purchase consideration					
Cash - net of cash acquired	$ 2,277	$ 9,629	$ 154	$ 1,605	$ 13,665
Note payable	1,650	-	-	-	1,650
	$ 3,927	$ 9,629	$ 154	$ 1,605	$ 15,315
Allocation					
Accounts receivable	$ 27	$ 1,144	$ -	$ 632	$ 1,803
Inventories	-	1,404	38	-	1,442
Prepaid expenses and other assets	-	72	3	36	111
Income taxes recoverable	-	2,224	-	-	2,224
	27	4,844	41	668	5,580
Property, plant and equipment	4,503	448	34	34	5,019
Intangible assets and other assets	-	8,681	-	890	9,571
Goodwill	471	2,064	134	544	3,213
	5,001	16,037	209	2,136	23,383
Bank indebtedness	603	1,084	-	-	1,687
Accounts payable and accrued liabilities	-	3,797	55	256	4,108
Income taxes payable	-	-	-	5	5
Future income taxes	471	1,527	-	270	2,268
	1,074	6,408	55	531	8,068
Net assets acquired	$ 3,927	$ 9,629	$ 154	$ 1,605	$ 15,315

(in thousands of dollars, except per share amounts)

3 Inventories

		2010		2009
Packaging materials and supplies	$	8,957	$	9,261
Bulk wine		50,787		56,501
Finished goods		29,949		35,121
	$	89,693	$	100,883

The amount of interest included in the cost of inventories is $941 (2009 - $611).

Inventory write-downs recognized as an expense amounted to $1,743 (2009 - $1,459).

4 Property, plant and equipment

						2010
		Cost		Accumulated amortization		Net
Land	$	4,807	$	-	$	4,807
Vineyards		38,627		5,547		33,080
Buildings		39,193		11,326		27,867
Machinery and equipment		86,654		56,680		29,974
	$	169,281	$	73,553	$	95,728

						2009
		Cost		Accumulated amortization		Net
Land	$	4,807	$	-	$	4,807
Vineyards		37,379		4,850		32,529
Buildings		38,878		10,272		28,606
Machinery and equipment		83,963		51,671		32,292
	$	165,027	$	66,793	$	98,234

Included in vineyards are assets amounting to $11,731 (2009 - $10,498) that are under development and are not being amortized.

On May 25, 2010, the Company sold a portion of a vineyard with a net book value of $419 for proceeds of $833.

(in thousands of dollars, except per share amounts)

5 Intangibles and other assets

	2010	2009
Brands - indefinite lives	$ 3,800	$ 3,800
Customer-based intangible assets, net of accumulated amortization of $1,884 (2009 - $1,293)	8,375	8,966
Contract packaging, net of accumulated amortization of $192 (2009 - $82)	908	1,018
Other assets	1,081	1,054
	$ 14,164	$ 14,838

6 Bank indebtedness and long-term debt

	2010	2009
Term loan	$ 53,611	$ 76,361
Note payable	825	1,650
	54,436	78,011
Less: Financing costs	645	304
	53,791	77,707
Less: Current portion	6,158	6,158
	$ 47,633	$ 71,549

The Company has established the following credit facilities:

On November 10, 2009, the Company modified the terms of its short-term loan facility to increase the borrowing limit to $75,000 (2009 - $65,000). The loan is a one-year committed facility incurring interest at the Royal Bank of Canada prime rate plus 2.75%. As at March 31, 2010, the unused portion of this loan facility was $19,409 (2009 - $12,808).

On January 26, 2010, the Company modified its existing term loan. The term loan will continue to be repayable in monthly principal payments of $444 plus interest and matures on April 30, 2015. The Company maintains an interest rate swap which effectively fixes the interest rate on the term loan at 5.64%. Under terms of the modified loan, the Company currently pays additional interest of 0.95% based on certain leverage ratios and a funding premium, to be negotiated annually, of 1.05%.

For the year ended March 31, 2010, the change in fair value of the interest rate swap, which was calculated using year-end market rates, amounted to an unrealized gain of $3,937 (2009 – unrealized loss $9,022).

The Company and its subsidiaries have provided its assets as general security for these loan facilities.

(in thousands of dollars, except per share amounts)

On October 1, 2009, a payment in the amount of $17,500 was made to reduce the outstanding principal of the term loan and a payment of $6,000 was made to reduce the short-term loan facility as a result of the sale of Granville Island Brewing Company Ltd. and Mainland Beverage Distribution Ltd. (note 16).

As part of the acquisition of Rocky Ridge in fiscal 2009, the Company issued a promissory note to the vendor in the amount of $1,650. The note incurs interest at 6% compounded annually and the fixed annual instalment of principal and interest is due on June 13, 2010 (see also note 2). The outstanding balance of the note was $825 at March 31, 2010.

In 2009, a seven year variable rate term facility existed in the amount of $80,000 repayable in monthly principal payments of $444 plus interest and maturing on April 30, 2015.

Interest expense on long-term debt during the year was $5,272 (2009 - $4,270).

Annual principal repayments for the years ending March 31 are as follows:

2011	$ 6,158
2012	5,333
2013	5,333
2014	5,333
2015	5,333
Thereafter	26,946
	$ 54,436

(in thousands of dollars, except per share amounts)

7 Employee future benefits

The Company has defined benefit pension plans, providing pension and other post employment benefits, and defined contribution savings plans for its employees. The total expense for the defined contribution savings plans was $1,311 (2009 - $1,273). Information about the defined benefit pension plans and other post employment medical benefits are as follows:

		2010		2009
Plan assets				
Fair value - Beginning of year	$	11,910	$	14,149
Actual return on plan assets		2,729		(2,383)
Company's contributions		1,436		1,040
Employees' contributions		3		3
Benefits paid		(1,095)		(899)
Fair value - End of year	$	14,983	$	11,910
Plan obligations				
Accrued benefit obligations - Beginning of year	$	14,361	$	18,696
Post employment medical benefits		1,031		-
Past service cost due to amendment		130		54
Total current service cost		336		563
Interest cost		1,000		1,010
Benefits paid		(1,095)		(899)
Actuarial losses (gains)		3,269		(5,063)
Accrued benefit obligations - End of year	$	19,032	$	14,361
Funded status				
Plan deficits	$	(4,049)	$	(2,451)
Unamortized actuarial losses (gains)		1,060		(373)
Unamortized actuarial gain for post employment medical benefits		(893)		-
Unamortized plan amendment asset for post employment medical benefits		(648)		-
Accrued benefit liabilities	$	(4,530)	$	(2,824)
Benefit plan expense				
Current service cost	$	336	$	563
Interest cost		1,000		1,010
Expected return on plan assets		(846)		(1,058)
Employee contributions		(3)		(3)
Amortization of net actuarial (gain) loss, net of transition asset		(47)		130
Net benefit plan expense	$	440	$	642

(in thousands of dollars, except per share amounts)

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

	2010	**2009**
Discount rate for expenses	7.0%	5.0%
Discount rate for obligation	5.5%	7.0%
Expected long-term rate of return on plan assets	7.0%	7.0%
Rate of compensation increase	4 - 5%	4 - 5%
Retirement age	60 – 65 years	60 – 65 years
Expected average remaining service life	7 – 14 years	7 – 14 years
Expected health care cost inflation rate for post employment medical benefits	10% next year decreasing to 5% after five years	-

On March 31, 2010, the Company recognized an obligation to provide post employment medical benefits to certain employees which arose as a result of the Company's acquisition of Cascadia Brands Inc. ("Cascadia"). The obligation to provide post employment medical benefits was not identified at the time of the Cascadia acquisition and the recognition of the post employment medical benefit obligation has resulted in an increase to the employee future benefit liability of $2,572, an increase to goodwill in the amount of $1,924 and a reduction to future income tax liability in the amount of $648.

Amortization of actuarial gains and losses

All actuarial gains and losses are amortized over the expected average remaining service life which is estimated to be between 7 – 14 years (2009 – 7 – 14 years). Amortization begins in the fiscal year immediately following the year in which the gains or losses are calculated.

Plan assets

The plan's assets consist of the following:

	2010 %	**2009 %**
McLean Budden Balanced Fund	33	33
Trimark Income Growth Fund	33	33
JF Balanced Fund	34	34
	100	100

Actuarial valuation

The most recent actuarial valuations for funding purposes were performed as at December 31, 2007 and December 31, 2008. The next actuarial valuations for funding purposes are scheduled for December 31, 2010 and December 31, 2011. The date at which the Company measures its fair value of plan assets and accrued benefit obligation is as at March 31 of each year.

(in thousands of dollars, except per share amounts)

8 Income taxes

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

		2010		2009
Property, plant and equipment	$	8,761	$	9,819
Intangible assets		2,975		3,537
Goodwill		2,443		2,638
Loss carry forward balances		(2,308)		(2,082)
Derivative financial instruments		(949)		(2,632)
Employee future benefits		(1,155)		(794)
Other		71		(58)
	$	9,838	$	10,428

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

		2010		2009
Provision for (recovery of) income taxes at blended statutory rate of 31.4% (2009 – 31.8%)	$	4,107	$	(672)
Permanent differences and non-deductible items		290		439
Future income tax rate changes		(589)		(5)
Other		(247)		(432)
	$	3,561	$	(670)

As at March 31, 2010, the Company and its subsidiaries have available Canadian net operating losses of $8,566 (2009 – $6,873) for income tax purposes, which expire as follows:

	$
2025	52
2028	93
2029	4,958
2030	3,463

In aggregate, the Company has recognized $2,308 (2009 - $2,082) of the benefit of the net operating losses. The amount of the benefit of these losses ultimately realized is subject to change.

(in thousands of dollars, except per share amounts)

9 Capital stock

		2010		2009	
	Authorized	**Issued**		**Issued**	
		Shares	**Amount**	**Shares**	**Amount**
Class A shares, non-voting	Unlimited	11,888,241	$ 6,975	11,888,241	$ 6,975
Class B shares, voting	Unlimited	3,004,041	400	3,004,041	400
		14,892,282	$ 7,375	14,892,282	$ 7,375

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.

The authorized share capital of the Company also consists of an unlimited number of preference shares, issuable in one or more series, of which 33,315 are designated as preference shares, Series A. As at March 31, 2010 and 2009, there were no preference shares issued or outstanding.

Stock purchase plan

The Company's full time salaried, certain hourly employees and directors participate in a Company-sponsored stock purchase plan. Under the terms of the plan, employees can purchase up to 200 Class A shares and directors can purchase up to 250 Class A shares on an annual basis. Employees are required to pay 67% of an established market price per Class A share, whereas directors are required to pay 50%. The Company is responsible for the remainder of the cost and, during 2010, expensed $215 (2009 - $210) related to this program. Officers of the Company also participate in a long-term incentive program, which is used to purchase Class A shares of the Company from the open market.

(in thousands of dollars, except per share amounts)

10 Net earnings (loss) per share

The following is a reconciliation of the weighted average number of shares outstanding for basic and diluted net earnings (loss) per share computations:

		2010		2009
Net earnings (loss) for the year from continuing operations		$ 9,526		$ (1,444)
Net earnings for the year from a discontinued operation		$ 12,135		$ 1,319
Net earnings (loss) for the year		$ 21,661		$ (125)
	Class A	**Class B**	**Class A**	**Class B**
Weighted average number of shares outstanding – Basic and diluted	11,888,241	3,004,041	11,888,241	3,004,041
Net earnings (loss) per share from continuing operations Basic and diluted	$ 0.66	$ 0.57	$ (0.10)	$ (0.09)
Net earnings per share from a discontinued operation Basis and diluted	$ 0.83	$ 0.73	$ 0.09	$ 0.08
Net earnings (loss) per share Basic and diluted	$ 1.49	$ 1.30	$ (0.01)	$ (0.01)

The dilutive effect of outstanding stock options on net earnings per share is based on the application of the treasury stock method. As at March 31, 2010 and 2009, there were no items outstanding that impact the calculation of diluted earnings per share.

(in thousands of dollars, except per share amounts)

11 Commitments and contingencies

a) Future minimum lease payments as at March 31, 2010 under long-term non-cancellable leases are as follows:

2011	$ 3,878
2012	3,076
2013	2,379
2014	1,966
2015	854
Thereafter	8,502
	$ 20,655

b) As at March 31, 2010, the Company held $16,450 in U.S. dollar-denominated foreign exchange forward contracts at rates ranging between $1.01 and $1.06 expiring at various dates to December 2010. The Company also held EUR 2,550 in Euro-denominated foreign exchange forward contracts at rates ranging between $1.41 and $1.47. Management has not elected to designate these contracts as hedges and as a result have recorded the change in fair value of $713 in the statement of earnings (loss) (see note 14).

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

(in thousands of dollars, except per share amounts)

12 Other expenses

Other expenses are as follows:

		2010		2009
Impairment charges (i)	$	1,247	$	-
Write-off of deferred financing costs (ii)		267		442
Closure and integration costs related to Port Moody winery facility (iii)		113		208
Other (iv)		-		625
	$	1,627	$	1,275

i) During fiscal 2010, management performed an impairment analysis on the deferred costs and equipment related to Artful Winemaker and the long-lived assets and goodwill related to Camelot Cellars and determined that the respective assets were no longer recoverable based on revised forecasts. Accordingly, the Company has recorded a pre-tax impairment charge in the amount of $1,247 (intangibles and other assets - $808, property, plant and equipment - $304 and goodwill - $135).

ii) On January 26, 2010, the Company renegotiated the terms on the operating and long-term credit facilities. As a result, the carrying value of previously deferred financing costs related to the old credit facilities in the amount of $267 was written off. In 2009, the Company wrote off $442 in deferred financing costs related to four previous term loans.

iii) During fiscal 2006, the Company closed its Port Moody winery facility and transferred production to its winery operations in Kelowna, British Columbia. The cost of maintaining this idle facility amounted to $113 in 2010 (2009 – $208).

iv) Other expenses include the costs to close the Quebec wine kit warehouse in the amount of $423, the write-off of an investment in an Ontario wine distributor in the amount of $148 and other costs of $54.

(in thousands of dollars, except per share amounts)

13 Non-cash working capital items

The change in non-cash working capital items related to operations is comprised of the change in the following items:

		2010		2009
Accounts receivable	$	(1,858)	$	665
Inventories		11,190		(11,559)
Prepaid expenses and other assets		(139)		263
Income taxes recoverable		3,465		(2,878)
Accounts payable and accrued liabilities		(10,753)		8,089
	$	1,905	$	(5,420)

(in thousands of dollars, except per share amounts)

14 Financial instruments

Classification of financial instruments

Under Canadian generally accepted accounting principles, financial instruments are classified into one of the following categories: held for trading, held to maturity, available for sale, loans and receivables, other financial liabilities and derivatives.

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

			2010	
Assets/liability	**Category**	**Measurement**	**Carrying amount $**	**Fair value $**
Accounts receivable	Loans and receivables	Amortized cost	22,902	22,902
Bank indebtedness	Other liabilities	Amortized cost	48,877	48,877
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	28,229	28,229
Dividends payable	Other liabilities	Amortized cost	1,197	1,197
Long-term debt – term loans	Other liabilities	Amortized cost	53,791	53,791
Interest rate swap liability	Derivatives	Fair value	3,145	3,145
Foreign exchange forward contracts liability	Derivatives	Fair value	444	444

			2009	
Assets/liability	**Category**	**Measurement**	**Carrying amount $**	**Fair value $**
Accounts receivable	Loans and receivables	Amortized cost	21,044	21,044
Bank indebtedness	Other liabilities	Amortized cost	52,192	52,192
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	38,512	38,512
Dividends payable	Other liabilities	Amortized cost	1,197	1,197
Long-term debt – term loans	Other liabilities	Amortized cost	77,707	77,707
Interest rate swap liability	Derivatives	Fair value	8,682	8,682
Foreign exchange forward contracts asset	Derivatives	Fair value	269	269
Discontinued operation – accounts receivable	Loans and receivables	Amortized cost	1,386	1,386
Discontinued operation – accounts payable and accrued liabilities	Other liabilities	Amortized cost	4,837	4,837

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

(in thousands of dollars, except per share amounts)

Embedded derivatives (elements of contracts whose cash flows move independently from the host contract) are required to be separated and measured at fair values if certain criteria are met. Under an election permitted by CICA Handbook Section 3862 “Financial Instruments – Disclosures”, management reviewed its contracts and determined that the Company does not currently have any embedded derivatives in these contracts that require separate accounting and disclosure.

Hedge accounting is optional. When hedge accounting is not applied, the change in the fair value of the hedging instrument is recorded directly into earnings. The Company has chosen not to designate any of its current hedging instruments as hedges for the purpose of this section and has recorded the fair value adjustments of these instruments through net unrealized gains or losses on derivative financial instruments.

Transaction costs related to long-term debt are netted against the carrying value of the liability and are then amortized over the expected life of the instrument using the effective interest method. The Company has elected to use “trade date” accounting for regular way purchases and sales of financial assets.

Fair value

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

The fair value of long-term debt is equivalent to its carrying value since the interest rates are comparable to market rates.

The fair value of the derivative financial instruments generally reflects the estimates of the amounts the Company would receive by way of settlement of favourable contracts or that the Company would pay to terminate unfavourable contracts at the consolidated balance sheet date. The fair value of the interest rate swap and foreign exchange contracts are calculated using the quotes obtained from major financial institutions. Unrealized gains or losses on derivative financial instruments are recorded in the net unrealized loss on derivative financial instruments in the consolidated statement of earnings (loss).

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

(in thousands of dollars, except per share amounts)

The fair value measurements of the Company's financial instruments are classified in the hierarchy below according to the significance of the inputs used in making the fair value measurements.

			2010
Asset/liability	**Quoted prices in active markets for identical assets (Level 1) $**	**Significant observable inputs other than quoted prices (Level 2) $**	**Significant unobservable inputs (Level 3) $**
Interest rate swap liability	-	-	3,145
Foreign exchange forward contracts liability	-	-	444

			2009
Asset/liability	**Quoted prices in active markets for identical assets (Level 1) $**	**Significant observable inputs other than quoted prices (Level 2) $**	**Significant unobservable inputs (Level 3) $**
Interest rate swap liability	-	-	8,682
Foreign exchange forward contracts asset	-	-	269

A reconciliation from the beginning balances to the ending balances of financial instruments with Level 3 fair value measurements is included below:

		2010
	Interest rate swap asset (liability)	**Foreign exchange forward contracts asset (liability)**
Beginning of year	$ (8,682)	$ 269
Net unrealized gain (loss) on derivative financial instruments	3,937	(713)
Net realized loss included in interest	(2,717)	-
Net realized loss included in selling and administration	-	(3,539)
Net settlements of contracts	2,717	3,539
Net settlement on reduction of term loan (note 6)	1,600	-
End of year	S (3,145)	$ (444)

(in thousands of dollars, except per share amounts)

Objectives and policy relating to financial risk management

Interest rate risk

The Company's principal exposure to interest rate fluctuations is limited to long-term debt (as described in note 6) which bears interest at both fixed and floating interest rates. To mitigate the exposure to interest rate fluctuations, the Company uses interest rate swaps to fix the interest rate on a portion of the Company's variable rate debt. The Company has elected not to use hedge accounting and as a result the interest rate swaps are measured at fair value. The resulting gains or losses are recorded in the statement of earnings (loss) and the fair value of the interest rate swap is recorded on the balance sheet. As a result, the Company recognized an unrealized gain of $3,937 (2009 – loss of $9,022) on the interest rate swap classified as net unrealized losses on derivative financial instruments on the statement of earnings (loss). At March 31, 2010, there is one interest rate swap outstanding for a notional amount of $53,611 with a fixed interest rate of 5.64%. The fair value of the interest rate swap at March 31, 2010 was $3,145.

The Company's interest rate risk arises mainly from the interest rate impact on cash, floating rate debt and interest rate swap. The Company's interest rate management policy is to borrow at fixed rates to match the duration of long lived assets. Floating rate funding is used for short-term borrowing.

The Company has fixed interest on long-term debt at 5.64% until April 2015 by entering into an interest rate swap. The Company currently pays additional interest of 0.95% based on certain leverage ratios and a funding premium, to be negotiated annually of 1.05%. The Company's short-term borrowings are funded using a floating interest rate and as such are sensitive to interest rate movements. As at March 31, 2010, with other variables unchanged, a 1% change in interest rates would impact the Company's net earnings (loss) by approximately $343 (2009 - $335), exclusive of the mark-to-market adjustments on the interest rate swap.

Credit risk

The Company's exposure to concentrations of credit risk is limited. The Company places its cash and cash equivalents with major Canadian financial institutions of high creditworthiness, and the Company's accounts receivable are not subject to high concentrations of credit risk. Maximum credit risk exposure represents the loss that would be incurred if all of the Company's counterparties were to default at the same time.

The Company's exposure to credit risk is very limited. Credit risk for trade receivables is monitored through established credit monitoring activities. Over 55% of the Company's accounts receivable balance relates to amounts owing from Canadian provincial liquor boards. Excluding accounts receivable from Canadian provincial liquor board amounts, the Company does not have a significant concentration of credit risk with any single counterparty or group of counterparties. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

Amounts owing from Canadian provincial liquor boards represents $12,629 of the $22,902 in total accounts receivables for which no allowance has been provided. Of the remaining non-provincial liquor board balances, $947 (2009 - $1,046) had aged over sixty days as of March 31, 2010. An allowance for doubtful accounts of $288 (2009 - $234) has been provided against these accounts receivable amounts which the Company has determined to represent a reasonable estimate of amounts that may be uncollectible.

(in thousands of dollars, except per share amounts)

Liquidity risk

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances and by appropriately utilizing its line of credit. Company management continuously monitors and reviews both actual and forecasted cash flows and matches the maturity profile of financial assets and financial liabilities. Accounts payable are generally due within 30 days and long-term debt payment requirements are disclosed in note 6.

The following table outlines the Company's contractual obligations, including long-term debt repayments, operating leases and commitments on short-term forward foreign exchange contracts used to mitigate the currency risk on U.S. dollar purchases as at March 31, 2010:

	Total	< 1 year	2 – 3 years	4 – 5 years	> 5 years
Long-term debt	$ 54,436	$ 6,158	$ 10,666	$ 10,666	$ 26,946
Swap agreement	15,665	3,911	6,609	5,145	-
Operating leases	20,655	3,878	5,455	2,820	8,502
Foreign exchange contracts	20,655	20,655	-	-	-
Pension obligations	3,841	575	886	658	1,722
Long-term grape purchase contracts	269,919	20,190	42,141	41,342	166,246
Total contractual obligations	$ 385,171	$ 55,367	$ 65,757	$ 60,631	$ 203,416

Foreign exchange risk

Certain of the Company's purchases are denominated in U.S. dollars or Euros. Any increases or decreases to the foreign exchange rates could increase or decrease the Company's earnings. To mitigate the exposure to foreign exchange risk, the Company has entered into forward foreign currency contracts.

As at March 31, 2010, the Company has forward foreign currency contracts to buy U.S. $16,450 at rates ranging between $1.01 and $1.06 and to buy EUR 2,550 at rates ranging between $1.41 and $1.47. The U.S. dollar forward contracts mature at various dates to December 2010 and the Euro forward contracts mature at various dates to September 2010. The Company has elected not to use hedge accounting and as a result, has recognized $713 of unrealized foreign exchange losses (2009 – unrealized losses $474) in the consolidated statement of earnings (loss) as a component of net unrealized losses on derivative financial instruments and has recorded the fair value of $(444) in current portion of derivative financial instruments in the consolidated balance sheet (2009 - $269 in prepaid expenses and other assets).

The Company's foreign exchange risk arises on the purchase of bulk wine and concentrate which are made in U.S. dollars and Euros. The Company's strategy is to hedge approximately 50% - 80% of its foreign exchange requirements prior to or during 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 and Euro exchange rates. These contracts are reviewed regularly. The balance of the Company's foreign exchange requirements are not hedged, accordingly a one percent change in the value of the U.S. dollar and Euro would impact the Company's net earnings (loss) by approximately $96 (2009 - $154) and $43 (2009 - $61), respectively.

(in thousands of dollars, except per share amounts)

15 Capital disclosures

The Company's objective when managing capital is to safeguard the Company's ability as a going concern, to provide an adequate return to shareholders and to meet external capital requirements on debt and credit facilities. Unfunded capital expenditures are limited to $5,000 in fiscal 2010 and $10,000 thereafter. Capital expenditures are reviewed quarterly.

The Company's capital consists of cash, bank indebtedness, long-term debt and shareholders' equity. The Company's primary use of capital is to make increases to non-cash working capital, fund maintenance and growth related capital expenditures, pay dividends and finance acquisitions.

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

- Funded debt to a rolling twelve month EBITDA
- Working capital ratio
- Fixed charge coverage ratio

Compliance with these covenants is monitored by management on a quarterly basis.

In order to facilitate management of its capital requirements, the Company prepares annual budgets that are updated as necessary depending on various factors including general industry conditions. The annual budget is approved by the Board of Directors. As at March 31, 2010, the Company has remained in compliance with all external lending agreement covenants.

16 Discontinued operations

During 2010, the Company entered into an agreement to dispose of Granville Island Brewing Company Ltd. and Mainland Beverage Distribution Ltd. (collectively referred to as "GIBCO") effective October 1, 2009. As a result, the Company has recognized a disposal gain of $11,859 (net of tax) classified with the results from discontinued operations.

In connection with the sale of GIBCO, the Company entered into certain agreements whereby the Company will operate the manufacturing facilities of GIBCO and provide certain administrative support services for a period of time to assist the purchaser in the transition of these businesses. Under these agreements, the Company will be reimbursed for costs incurred in providing the manufacturing and administrative support services.

(in thousands of dollars, except per share amounts)

Details of the gain recorded are as follows:

Cash consideration	$	24,992
Deferred consideration		1,250
Proceeds of disposal		26,242
Less		
Net book value of assets sold		12,178
Costs of disposal		679
Gain on sale of discontinued operation		13,385
Provision for income taxes		1,526
Gain on sale of discontinued operation (net of tax)	$	11,859

Financial information relating to the discontinued operation is as follows:

		2010		2009
Condensed balance sheet of discontinued operation				
Current assets				
Accounts receivable	$	-	$	1,386
Inventory		-		3,273
Prepaid expenses and other assets		-		30
Income taxes recoverable (payable)		-		(425)
	$	-	$	4,264
Long-term assets				
Property, plant and equipment	$	-	$	4,133
Goodwill		-		3,700
Intangible assets		-		2,100
	$	-	$	9,933
Current liabilities				
Accounts payable and accrued liabilities	$	-	$	4,837
Long-term liabilities				
Future income taxes	$	-	$	337

(in thousands of dollars, except per share amounts)

		2010		2009
Condensed statement of net earnings from discontinued operation				
Sales	$	10,354	$	17,076
Cost of goods sold		5,438		9,056
Gross profit		4,916		8,020
Selling and administration		4,292		5,544
Amortization		239		536
Gain on sale of discontinued operation		(13,385)		-
		(8,854)		6,080
Earnings before income taxes		13,770		1,940
Provision for income taxes		1,635		621
Net earnings from discontinued operation	$	12,135	$	1,319

Included in cost of goods sold is $2,055 (2009 - $3,513) for the year for costs relating to manufacturing services provided by a related company. The costs incurred by the Company for these activities are not expected to continue upon completion of the eventual disposition.

		2010		2009
Condensed statement of cash flows from discontinued operation				
Cash provided by (used in) operating activities	$	(2,880)	$	5,495
Cash provided by investing activities		24,699		-
Cash used in financing activities		-		(325)
Increase in cash during the year from discontinued operation	$	21,819	$	5,170