

# ANDREW PELLER

— LIMITED —

## MANAGEMENT'S REPORT AND INTERIM CONSOLIDATED FINANCIAL STATEMENT FOR THE THREE & SIX MONTHS ENDED SEPTEMBER 30, 2009



The following management's discussion and analysis ('MD&A') provides a review of corporate developments, results of operations and financial position for the three and six months ended September 30, 2009 in comparison with those for the three and six months ended September 30, 2008. This discussion is prepared as of November 4, 2009 and should be read in conjunction with the unaudited interim consolidated financial statements for the three and six month periods ended September 30, 2009 and 2008, the audited consolidated financial statements for the years ended March 31, 2009 and 2008, 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 labeling 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](http://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

APL 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 VQA brands include Peller Estates, Trius, Hillebrand, Thirty Bench, Sandhill, Calona Vineyards Artist Series and Red Rooster. Complementing these premium brands are a number of popularly priced varietal wine brands including Peller Estates French Cross in the East, Peller Estates Proprietors Reserve in the West, Copper Moon, XOXO and Croc Crossing. Hochtaler, Domaine D'Or, Schloss Laderheim, Royal and Sommet are our key value priced wine blends. The Company imports wines from major wine regions around the world to blend with domestic wine to craft these popularly priced and value priced wine brands. With a focus on serving the needs of all wine consumers, the Company also produces and markets consumer-made wine kit products through Global Vintners Inc. A broad range of high quality wine kit brands are available through Global Vintners including Selection, Vintners Reserve, World Vineyard, KenRidge, California

Connoisseur, Island Mist, Niagara Mist and Heron Bay. The Company owns and operates more than 100 well-positioned independent retail locations in Ontario under the Vineyards Estate Wines, Aisle 43 and WineCountry Vintners store names. The Company also owns Grady Wine Marketing Inc. based in Vancouver, and The Small Winemaker's Collection Inc. based in Ontario; both of these wine agencies are importers of premium wines from around the world and are marketing agents for these fine wines. The Company's products are sold predominantly in Canada with a focus on export sales for our icewine products. Andrew Peller Limited common shares trade on the Toronto Stock Exchange (symbols ADW.A and ADW.B).

The Company's stated mission is to build sales volumes of its blended, 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 the quality of grapes and wines, its winemaking capabilities and in its quality management programs. Over the long term, the Company believes premium wine sales will continue to grow in Canada and these products generate higher sales and increased profitability compared to lower-priced table wines.

APL is focused on initiatives to reduce costs and enhance its production efficiencies through a continual review of the Company's operations. The Company continually reviews its cost structure with a view to enhancing profitability. In addition, the Company continues to expand and strengthen its distribution through provincial liquor boards, the Company's network of 102 Vineyards Estate Wines, Aisle 43 and WineCountry Vintners retail locations, estate wineries, restaurants and other licensed establishments. This distribution network is supported by enhanced sales, marketing and promotional programs. From time to time the Company also evaluates the potential for acquisitions and partnerships, both in Canada and internationally, to further complement its product portfolio and market presence.

### **Recent Events**

On October 19, 2009 the Company announced its intention to sell its ownership in Granville Island Brewing Company ("GIB") and Mainland Beverage Distribution Ltd. ("MD") to Creemore Springs Brewery Ltd, a stand-alone craft brewery owned by Molson Coors Canada. The transaction is expected to be completed in early 2010. Proceeds from the sale will be used to reduce long-term debt and bank indebtedness.

On October 8, 2008 the Company acquired 100% of The Small Winemakers Collection Inc. ("SWM") for consideration of approximately \$1.6 million. SWM is a premium wine importer and marketing agent for fine wines in the Province of Ontario. The Company imports wines from major wine regions around the world and sells primarily to on-premise accounts in key markets and through LCBO Vintages stores.

Effective September 30, 2008 the Company increased its annual common share dividends. The dividend on Class A shares increased 10% from \$0.300 per share to \$0.330 per share, while the dividend on Class B shares increased 10% from \$0.261 per share to \$0.288 per share.

On June 30, 2008 the Company acquired 100% of the common shares of World Vintners Inc. ("WVI") a producer and seller of high quality consumer-made wine kits. The acquisition brought to the Company a dedicated network of 75 franchised wine-on-premise and retail outlets under the Wine Kitz brand name. WVI produces the popular Heron Bay brand sold through independent wine-on-premise and retail outlets across Canada. WVI was acquired for consideration of \$9.6 million, including acquisition costs. The Company has generated significant synergies in its wine kit operations as a result of this acquisition through the closure of its plant in Markham, Ontario and its Quebec distribution facility.

On June 13, 2008 the Company acquired 50% of the shares of Rocky Ridge Vineyards Inc. ("Rocky Ridge") of Cawston, British Columbia for consideration of \$3.9 million, including acquisition costs. The Company previously owned 50% of the shares of Rocky Ridge and as a result of this transaction Rocky Ridge became a wholly-owned subsidiary of the Company.

### **Financial Statements and Accounting Policies**

The Company prepared its financial statements in Canadian dollars in accordance with Canadian generally accepted accounting principles (GAAP). The Company also utilizes EBITA (defined as earnings before interest, income taxes, amortization, other income (losses) 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 March 31, 2009 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. The Company determines cost on a weighted average cost basis using separate pools for domestic and imported wines.

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.

On April 1, 2008 the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3031 "Inventories". For details on the impact of the adoption of the standard, refer to the Consolidated Financial Statements for the year ended March 31, 2009.

### **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 and WVI, Rocky Ridge, Camelot Cellars and SWM in 2009 represents the excess of purchase price of acquired businesses over the fair value of the net assets acquired. Goodwill relating to the intended disposition of GIB and MD is classified as part of the discontinued operations – long-term assets in the accompanying interim financial statements.

### **Intangible assets**

Intangible assets primarily relate to customer contracts, brands and customer based relationships that have been acquired through recent acquisitions. Management believes that 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 at least annually for impairment or when events or circumstances arise that indicates impairment may exist. Intangible assets relating to the intended disposition of GIB and MD is classified as part of the discontinued operations – long-term assets in the accompanying interim consolidated financial statements.

### **Fair value of financial instruments**

Accounts receivable, accounts payable and accrued liabilities and bank indebtedness are reflected in the consolidated 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 an interest rate swap.

The Company purchases wine and other inventory items throughout the year. These purchases are made in United States dollars and Euros. 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.

All financial instruments are initially recorded at fair value which includes the Company's interest rate swap and foreign exchange contracts. The Company has not designated any of its financial instruments as hedges and accordingly, changes to the fair value of these instruments are recorded through earnings each period as a net unrealized gain (loss) on derivative financial instruments.

### **Employee Future Benefits**

The Company provides a defined benefit pension plan to certain of its employees. The assumptions used to measure the accrued benefit obligations and benefit costs are: discount rate 5%, expected long-term rate of return on plan assets 7% and rate of compensation increase 4-5%. The annual pension expense to provide those benefits is approximately \$642. All actuarial losses are amortized over the expected remaining service life which is estimated to be 7-14 years.

### **Recently Adopted Accounting Pronouncements**

Effective April 1, 2008 the Company adopted the following new accounting standards that were issued by the CICA:

CICA Handbook Section 1400, "General Standards on Financial Statement Presentation" required the Company to assess and disclose its ability to continue as a going concern. The Company's adoption of this standard did not have a material impact on disclosure in the Company's consolidated financial statements.

CICA Handbook Section 1535, "Capital Disclosures" required that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The Company's adoption of this standard did not have a material impact on disclosure in the Company's consolidated financial statements.

CICA Handbook Section 3031 "Inventories" replaced CICA Handbook Section 3030, "Inventories" which provided guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provided 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. This change predominately related 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, to reduce future income taxes by \$850 and to reduce opening retained earnings by \$1,875.

CICA Handbook Section 3862 and 3863, "Financial Instruments – Disclosures" and "Financial Instruments - Presentation" which replaced CICA Section 3861, "Financial Instruments – Disclosure and Presentation". These sections increased the emphasis on disclosure about the nature and extent of risks arising from financial instruments and how an entity manages those risks.

The Company adopted CICA Emerging Issues Committee 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" that required an entity's own credit risk and the risk of 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.

CICA Handbook Section 3064, "Goodwill and Intangible Assets" which replaced Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs", established standards for recognition, measurement and disclosure of goodwill and intangible assets. The provisions related to the definition and initial recognition of intangible assets which are equivalent to the corresponding provisions of International Financial Reporting Standards ("IFRS") IAS 38, "Intangible Assets". The new standard also provided guidance for the recognition of internally developed intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008 with earlier adoption encouraged. The Company adopted CICA 3064 effective April 1, 2008 and there was no impact of the adoption of this standard.

### **Recently Issued Accounting Pronouncements**

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 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.

### International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that the use of IFRS as issued by the International Accounting Standards Board will be required effective January 1, 2011 for publicly accountable profit-oriented enterprises. The transition date will require the Company to restate, for comparative purposes, amounts reported for the year ending March 31, 2011. IFRS will require increased financial statement disclosure.

Although IFRS uses a conceptual framework similar to Canadian GAAP, differences in accounting policies will need to be addressed. During fiscal 2009, the Company undertook an IFRS diagnostic study with a view to assess the impact of the transition on the Company’s accounting policies and to establish a project plan to implement IFRS. A number of key accounting areas where IFRS differs from current policy and accounting alternatives were reviewed. During fiscal 2010 the Company has finalized its diagnostic study, hired a dedicated resource to lead the IFRS implementation team, engaged an external service provider to provide additional assistance and began to evaluate various components.

The Company will also assess the impact of the conversion on internal controls over financial reporting and disclosure controls and procedures and will provide sufficient resources and training to ensure an orderly transition.

The Company has begun the development of a conversion plan for the implementation effective March 31, 2011. IFRS accounting standards are continuing to evolve and therefore are subject to change throughout the conversion process. The Company will continue to monitor any IFRS accounting developments and update the conversion plan as necessary.

### Results of Operations (unaudited)

The following table outlines key highlights for the six months ended September 30, 2009, 2008 and 2007. With the Company’s announcement of its intention to sell its ownership of GIB and MD (see above), the results for the GIB and MD have been classified as a discontinued operation and accordingly have been reclassified in the table below.

FOR THE SIX MONTHS ENDED SEPTEMBER 30, (in thousands of dollars except per share amounts)	2009 \$	2008 \$	2007 \$
Sales	<b>131,911</b>	123,045	109,200
Gross profit	<b>48,613</b>	49,476	46,231
Gross profit (% of sales)	<b>36.9%</b>	40.2%	42.3%
Selling general and administrative expenses	<b>33,915</b>	35,330	32,879
Earnings before interest, taxes, amortization, other income (loss) and unusual items	<b>14,698</b>	14,146	13,352
Unrealized gain (loss) on financial instruments and unusual items	<b>1,340</b>	(1,292)	(80)
Net and comprehensive earnings from continuing operations	<b>5,100</b>	4,356	4,500
Net and comprehensive earnings from discontinued operation	<b>395</b>	741	1,066
Net and comprehensive earnings	<b>5,495</b>	5,097	5,566
Earnings per share from continuing operations Class A	<b>0.35</b>	0.30	0.31
Earnings per share from continuing operations Class B	<b>0.31</b>	0.26	0.27
Earnings per share – basic and diluted - Class A	<b>0.38</b>	0.35	0.38
Earnings per share – basic and diluted - Class B	<b>0.33</b>	0.31	0.33
Dividend per share – Class A (annual)	<b>0.330</b>	0.300	0.300
Dividend per share – Class B (annual)	<b>0.288</b>	0.261	0.261

Sales increased 7.2% for the six months ended September 30, 2009 compared to the prior year period primarily due to the acquisitions of WVI and SWM, higher sales of the Company’s wines sold through provincial liquor control boards and the Company’s chain of retail stores in Ontario, increased sales of wine kits, and new product launches that occurred during

fiscal 2010 and fiscal 2009. Sales were negatively affected by the economic impact of the recession on sales at the estate wineries and through our export trade channel.

During the first six months of fiscal 2010 and in fiscal 2009 the Company launched a number of new products through provincial liquor stores and the Company's network of retail stores. The Company has 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, investment in the new Aisle 43 retail stores, training of retail staff, and additional investments to increase tourism at its estate wineries.

Gross profit as a percentage of sales was 37.1% and 36.9% during the three and first six months ended September 30, 2009 compared to 40.5% and 40.2% in the comparable prior year periods. The decrease in gross profit percentage was due to a significant increase in the cost of domestic grapes and wine purchased on international markets, the increased cost to the Company of purchasing United States dollars, the increased use of higher priced domestic grapes used to produce cellared in Canada wine and an increase in the sales mix of lower margin wines. Management believes the Company's gross profit margin is stabilizing as cost pressures ease and efforts to enhance production efficiency and productivity improve.

While selling and administrative expenses have increased since fiscal 2008 due primarily to costs related to acquisitions, savings related to the execution of the Company's cost reduction efforts and the realization of synergies on acquisitions resulted in a decrease in selling and administrative expenses compared to the comparable prior year period. Selling and administrative expenses as a percentage of sales declined to 27.0% and 25.7% in the second quarter and first six months of fiscal 2010 compared to 28.9% and 28.7% respectively in the same periods last year.

Earnings before interest, taxes, amortization, other income (loss) and unusual items ("EBITA") were \$14.7 million for the six months ended September 30, 2009 compared to \$14.1 million in the same period in fiscal 2009. The increase is primarily due to increased sales and lower selling and administrative expenses partially offset by lower gross margins in the current year.

Amortization expenses increased to \$4.0 million the first six months of fiscal 2010 compared to \$3.7 million for the same period in the prior year due primarily to the impact of acquisitions, while interest expense increased primarily due to higher debt levels used to finance acquisitions and higher interest rates on the Company's long-term debt. Proceeds from the sale of the Company's beer business will be used to reduce long-term debt, bank indebtedness and interest expense.

The Company incurred a non-cash gain in the first six months of fiscal 2010 of approximately \$2.8 million related to the mark-to-market adjustments on an interest rate swap, partially offset by a loss of \$1.5 million on foreign exchange contracts. Under CICA accounting standards, these financial instruments must be reflected in the Company's financial statements at fair value each reporting period. These instruments are considered to be effective economic hedges and have enabled management to mitigate the volatility of changing costs and interest rates during the year. Unusual charges of approximately \$0.1 million were recorded in the first six months of fiscal 2009 resulting from carrying charges for the Company's Port Moody facility. The Company closed its Port Moody B.C. winery effective December 31, 2005 and expects to sell the facility. During the period, the Port Moody facility was leased offsetting any carrying charges.

With the Company's announcement of its intention to sell its ownership of GIB and MD, the results of these operations have been classified as earnings from discontinued operations effective for the periods ended September 30, 2009.

Net and comprehensive earnings from continuing operations, excluding the gains or losses on derivative financial instruments and the impact of unusual items, were \$1.6 million and \$4.2 in the second quarter and first six months respectively of fiscal 2010 compared to \$2.7 million and \$5.1 million respectively for the same periods in fiscal 2009. Including the impact of the other losses and unusual items and the results of discontinued operations, net and comprehensive earnings for the three and six months ended September 30, 2009 were \$2.2 million or \$0.16 per Class A share and \$5.5 million or \$0.38 per Class A share respectively compared to \$2.4 million or \$0.17 per Class A share and \$5.1 million or \$0.35 per Class A share respectively for the same periods in the prior year.

In spite of reduced consumer spending due to the challenging economic environment, the Company has experienced an increase in sales which is expected to continue through the remainder of fiscal 2010. However, higher costs for the purchase of domestic grapes and imported wine, the increased use of domestic grapes blended into cellared in Canada wine and the volatility in the value of the Canadian dollar will put continued pressure on gross profit. The Company uses foreign exchange contracts to protect against changes in foreign currency rates and accordingly has locked in U.S. dollar contracts for fiscal 2010 at rates averaging \$1.23 Canadian. Early in fiscal 2010 the Company conducted a review of its selling and administrative expenses in an effort to reduce costs and improve efficiencies which are projected to reduce annualized selling and administrative costs by \$2.6 million in fiscal 2010 compared with fiscal 2009.

### Quarterly Performance (unaudited)

The following table outlines key quarterly highlights. With the Company's announcement of its intention to sell its ownership of Granville Island Brewing Company (see above), the results for the Company's beer business has been classified as earnings from discontinued operations.

(\$000) except per share amounts	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08
	\$	\$	\$	\$	\$	\$	\$	\$
Sales	<b>66,961</b>	64,950	56,416	71,342	65,808	57,237	52,203	63,471
Gross profit	<b>24,816</b>	23,797	16,076	27,617	26,656	22,820	22,914	26,446
Gross profit (% of sales)	<b>37.1%</b>	36.6%	28.5%	38.7%	40.5%	39.9%	43.9%	41.7%
EBITA	<b>6,750</b>	7,948	(570)	9,260	7,642	6,504	5,537	8,828
Unrealized gain (loss) on financial instruments and unusual items	<b>213</b>	1,127	(67)	(9,412)	(1,073)	(219)	(417)	(221)
Net & comprehensive earnings from continuing operations	<b>1,762</b>	3,338	(3,478)	(2,712)	2,084	2,272	1,458	4,421
Net & comprehensive earnings from discontinued operations	<b>482</b>	(87)	229	739	360	381	(656)	592
Net & comprehensive earnings	<b>2,244</b>	3,251	(3,249)	(1,973)	2,444	2,653	802	5,013
EPS – Class A basic & diluted	<b>\$0.16</b>	\$0.22	(\$0.23)	(\$0.13)	\$0.17	\$0.18	\$0.05	\$0.35
EPS – Class B basic & diluted	<b>\$0.14</b>	\$0.19	(\$0.20)	(\$0.12)	\$0.15	\$0.16	\$0.05	\$0.30

The third quarter of each year is historically the strongest in terms of sales, gross profit and net and comprehensive earnings due to increased consumer purchasing of the Company's products during the holiday season. Sales in the second quarter of fiscal 2010 increased by 1.7% over the comparable period in fiscal 2009 due to increased sales through provincial liquor boards and retail stores partially offset by lower estate wine and export sales. Sales in the first quarter of fiscal 2010 were impacted by higher purchases from the LCBO in June in anticipation of a potential strike which negatively affected second quarter results. Gross profit for the three months ended September 30, 2009 declined to 37.1% of sales compared to 40.5% in the comparable prior year period due primarily to the increased blending of higher costs domestic wine into cellared-in-Canada wines, the higher cost of domestic grapes and wine purchased on international markets, the higher value of the Canadian dollar and an increase in the sales mix of lower margin wines. Net and comprehensive earnings from continuing operations, not including the gains or losses on derivative financial instruments and unusual items, was \$1.6 million for the second quarter of fiscal 2010 compared to net and comprehensive earnings of \$2.7 million in the second quarter of fiscal 2009.

### Liquidity and Capital Resources (unaudited)

As at (\$000)	September 30, 2009	March 31, 2009	September 30 2008
	\$	\$	\$
Current Assets	<b>128,488</b>	134,818	132,285
Property, Plant & Equipment	<b>97,755</b>	98,209	97,163
Goodwill	<b>35,684</b>	35,684	40,815
Intangibles and Other Assets	<b>14,496</b>	14,838	5,283
Discontinued Operations	<b>9,746</b>	9,958	9,991
Total Assets	<b>286,169</b>	293,507	285,537
Current Liabilities	<b>101,478</b>	105,615	92,699
Long-term Debt	<b>68,082</b>	71,549	73,846
Employee Future Benefits	<b>2,371</b>	2,824	2,964
Future Income Taxes	<b>11,000</b>	10,457	10,433
Long-term Derivative Financial Instruments	<b>3,040</b>	5,963	921
Discontinued Operations	<b>306</b>	308	358
Shareholders' Equity	<b>99,892</b>	96,791	104,316
Total Liabilities & Shareholders' Equity	<b>286,169</b>	293,507	285,537

The changes to the Company's balance sheet at September 30, 2009 compared to March 31, 2009 are primarily due to a lower investment in inventory partially offset by a reduction in accounts payable and accrued charges. The Company's announcement of its intention to sell its ownership of GIB and MD resulted in the Company's investment in its beer business being classified as discontinued operations.

As at September 30, 2009 long-term debt and bank indebtedness decreased to \$127.6 million compared to \$129.9 million at March 31, 2009 due primarily to increased cash flow from operating activities. Proceeds from the sale of the Company's beer business will be used to reduce long-term debt and bank indebtedness.

Inventory at September 30, 2009 decreased by approximately \$5.5 million compared to the end of fiscal 2009 due to the increased sales, a grape crop that has been harvested late this year and efforts to reduce what had been an abnormally high level of inventory at the end of fiscal 2009. Inventory is dependent on the increased use of domestically grown grapes which are used in the sale of premium and ultra-premiums wines which are held for a longer period than imported wine. These grapes are typically aged for one to three years before they are sold. The cost of domestically grown grapes is also significantly higher than wine purchased on international markets. In addition, during fiscal 2010 the Company experienced significant increases in both the costs of domestic grapes and wine purchased on international markets.

Accounts receivable are predominantly with provincial liquor boards and to a lesser extent licensed establishments and independent retailers of consumer made wine kits. Accounts receivable increased during fiscal 2010 compared to the end of fiscal 2009 due primarily to increased sales and the impact of the acquisition of SWM. The Company has \$12.9 million dollars of accounts receivable with provincial liquor boards all of which is expected to be collectable. The balance of \$11.5 million represents amounts due from licensees, export customers and independent retailers of consumer made wine kits. The amount of accounts receivable that is beyond 60 days is \$2.2 million. Against these amounts, an allowance for doubtful accounts of \$0.3 million has been provided which the Company has determined to represent a reasonable estimate of amounts that may not be collectible.

The following table outlines the Company's contractual obligations, including long-term debt, operating leases, and commitments on short-term forward foreign exchange contracts used to hedge the currency risk on US dollar purchases.

As at September 30, 2009 (\$000)	Total	<1 year	2-3 years	4-5 years	>5 years
	\$	\$	\$	\$	\$
Long-Term Bank Loan	74,240	6,158	10,667	10,667	46,748
Operating Leases	17,918	4,526	3,804	1,583	8,005
Pension Obligations	4,924	818	1,105	818	2,183
Foreign Exchange Contracts	12,252	12,252	-	-	-
Long-Term Grape Contracts	309,402	20,073	42,495	43,786	203,048
Total Long-Term Obligations	418,736	43,827	58,071	56,854	259,984

The ratio of debt to equity decreased to 1.28:1 at September 30, 2009 compared to 1.34:1 at March 31, 2009. At September 30, 2009 the Company had unutilized debt capacity in the amount of \$6.6 million on its demand loan facility. Proceeds from the sale of the Company's beer business will be used to reduce bank indebtedness.

During fiscal 2009 the Company successfully refinanced its long-term debt with the Bank of Montreal to April 30, 2015. The Company's operating facility is on a demand basis with the Royal Bank of Canada. The Bank has indicated that it is prepared to make the operating facility a one-year committed facility. The Company expects to complete this transaction during November 2009.

Management expects to generate sufficient cash flow from operations to meet its debt servicing, principal payment and working capital requirements over both the short and the long term through increased profitability and strong management of working capital and capital expenditures. The Company closed its Port Moody B.C. winery effective December 31, 2005 and is holding the facility for sale. The proceeds from the sale will be used to reduce bank indebtedness. The Company continually reviews all of its assets to ensure appropriate returns on investment are being achieved and fit with the Company's long-term strategic objectives.

During the first six months of fiscal 2010, the Company generated cash from operating activities, after changes in non-cash working capital items, of \$8.4 million compared to \$4.5 million in the same period last year. Cash flow from operating activities increased due to improved working capital, principally a reduction in inventories partially offset by a decrease in accounts payable and accrued liabilities.

Investing activities of approximately \$3.8 million were made in the six months of fiscal 2010 compared to \$20.3 million for the same period in the prior year. The decrease in fiscal 2010 is primarily related to the \$11.0 million acquisition of WVI and a \$4.0 million investment in acquiring the remaining 50% equity interest in Rocky Ridge. Excluding acquisitions, capital spending was \$3.0 million for the six months ended September 30, 2009 compared to \$5.3 million last year.

Working capital as at September 30, 2009 was \$27.0 million compared to \$29.2 million as at March 31, 2009 and \$39.6 million as at September 30, 2008. Shareholders' equity as at September 30, 2009 was \$99.9 million or \$6.71 per common share compared to \$96.8 million or \$6.55 per common share as at March 31, 2009 and \$104.3 million or \$7.00 per common share at September 30, 2008. The decline in shareholders' equity per share at September 30, 2009 compared to September 30, 2008 relates to the impact of the net unrealized losses on derivative financial instruments.

The dividend on Class A shares increased 10% from \$0.300 per share to \$0.330 per share effective September 30, 2008. The dividend on Class B shares increased 10% from \$0.261 per share to \$0.288 per share.

### 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	November 4, 2009	September 30, 2009	March 31, 2009
Class A shares	11,888,241	<b>11,888,241</b>	11,888,241
Class B shares	3,004,041	<b>3,004,041</b>	3,004,041
Total	14,892,282	<b>14,892,282</b>	14,892,282

### 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 through the development of leading brands that meet the needs of our consumers and customers.

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. The share of the market held by domestic producers increased moderately in fiscal 2010. During the first six months of fiscal 2010 the Company began to experience slight weakness in certain trade channels, specifically its estate winery and export sales, due to weak consumer spending being experienced across North America. Growth was moderate in sales to liquor boards across the country and through the Company's 102 retail stores in Ontario through increased sales of blended varietal table wines which produce lower margins than ultra-premium wines. Andrew Peller Limited has focused its product development and sales and marketing initiatives aimed at capitalizing on this trend. The Company will continue to closely monitor its costs and will react quickly if there is any further significant change in gross profit margin.

The Company expects to continue to launch new blended varietal and ultra-premium brands in fiscal 2010. The acquisitions of WVI and SWM are expected to contribute to increased sales in fiscal 2010 as well as to an enhanced presence in the sale of premium wines in Canada.

Marketing and sales support will be focused on key brands sold across the country and management expects sales and marketing expenses for fiscal 2010 to be similar to those in fiscal 2009. The Company expects to make additional investment 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 improving profitability going forward.

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

The proposed sale of the Company's interest in its ownership of GIB and MD, which are expected to close in early 2010, will allow the Company to more effectively focus on its key strengths and long-term strategies to build its leading portfolio of premium and ultra premium wines through all its trade channels. The proceeds of the sale will be used to reduce bank indebtedness.

Despite the economic slowdown in Canada over the last year, the Company expects it will continue to grow sales in fiscal 2010 while gross profit is expected to remain at or near current levels. The Company's product portfolio covers the complete

spectrum of price levels within the Canadian wine market and expects that while there may be a modest reduction in purchases of ultra-premium wine; this is expected to be mitigated by an increase in sales blended varietal wines. In addition, the Company will be accelerating its efforts to generate production efficiencies and reducing overhead costs to enhance its overall profitability.

### **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 practices.

The Company operates in a highly competitive industry and the dollar amount and unit volume of sales could be negatively impacted 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 supply of or consumer demand for, the Company's products. The Company could also experience higher than expected selling 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 APL's 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 a decrease in our production of certain products from those regions and/or an increase in costs. In the past, where there was a significant reduction in domestically sourced grapes, the Government of Ontario, in conjunction with the Wine Council of Ontario and the Ontario Grape Growers Marketing Board, has agreed to temporarily increase the blending of imported wines, which would enable the Company to continue to supply wines to 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.

Foreign exchange risk exists on the purchases by the Company of bulk wine and concentrate that 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 \$200,000 impact on the Company's net earnings.

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 its 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 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. The Company is currently reviewing its labelling on Cellared in Canada wines. 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.

The wine industry and the domestic and international market, in which the Company operates, are consolidating. This has resulted in fewer, but larger, competitors who increase their resources and scale. The increased competition from these larger market participants 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 APL's ability to retain existing customers and increase the number of new customers. The Company has worked to improve production efficiencies, 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.

The Company has experienced increases in energy costs, and further increases in the cost of energy would result in higher transportation, freight and other operating costs. The Company's future operating expenses and margins are 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.

Federal and provincial governments impose 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 labelling, 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's future operating results also 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 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 its brands. The Company does not believe that significant price discounting will occur in Canada beyond current levels.

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.

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 of APL's products, 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.

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

Compliance with National Instrument 52-109 ("NI 52-109") provided the Company with a review and documentation of the processes and internal controls that were in place within the organization. As a result of the review, the Company found no material weaknesses and will continue to update the review and documentation of processes and internal controls on an on-going basis.

### **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information required to be disclosed by the Company in reports filed with or submitted to various securities regulators is recorded, processed, summarized and reported within the time periods specified. This information is gathered and reported to the Company's 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 November 4, 2009, the Company's management, under the supervision of, and with the participation of the CEO and CFO, have designed and evaluated the Company's disclosure controls and procedures as required in Canada by "National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings". Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective.

### **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.

Designing, establishing and maintaining adequate internal controls over financial reporting is the responsibility of management. Internal controls over financial reporting is a process designed by, or under the supervision of senior management and effected by the Board of Directors to provide reasonable assurance regarding the reliability of financial reporting and preparation of the Company's financial statements in accordance with Canadian GAAP.

For the three months ended September 30, 2009, 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.

# ANDREW PELLER LIMITED

## CONSOLIDATED BALANCE SHEETS

Unaudited

These financial statements have not been reviewed by our auditors  
(expressed in thousands of Canadian dollars)

	September 30	March 31
	2009	2009
	\$	\$
<b>Assets</b>		
<b>Current Assets</b>		
Accounts receivable	21,907	20,681
Inventories	95,320	100,816
Prepaid expenses and other assets	1,970	1,999
Income taxes recoverable	3,664	6,317
Discontinued operation (note 3)	5,627	5,005
	<b>128,488</b>	<b>134,818</b>
<b>Property, plant and equipment</b>	<b>97,755</b>	<b>98,209</b>
<b>Goodwill</b>	<b>35,684</b>	<b>35,684</b>
<b>Intangibles and other assets</b>	<b>14,496</b>	<b>14,838</b>
<b>Discontinued operation - long-term assets (note 3)</b>	<b>9,746</b>	<b>9,958</b>
	<b>286,169</b>	<b>293,507</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Bank indebtedness	53,401	52,192
Accounts payable and accrued liabilities	33,545	38,206
Dividends payable	1,197	1,197
Current derivative financial instruments	2,806	2,719
Current portion of long - term debt	6,158	6,158
Discontinued operation (note 3)	4,371	5,143
	<b>101,478</b>	<b>105,615</b>
<b>Long-term debt</b>	<b>68,082</b>	<b>71,549</b>
<b>Long-term derivative financial instruments</b>	<b>3,040</b>	<b>5,963</b>
<b>Employee future benefits</b>	<b>2,371</b>	<b>2,824</b>
<b>Future income taxes</b>	<b>11,000</b>	<b>10,457</b>
<b>Discontinued operation - long-term liabilities (note 3)</b>	<b>306</b>	<b>308</b>
	<b>186,277</b>	<b>196,716</b>
<b>Shareholders' Equity</b>		
<b>Capital Stock</b>	<b>7,375</b>	<b>7,375</b>
<b>Retained Earnings</b>	<b>92,517</b>	<b>89,416</b>
	<b>99,892</b>	<b>96,791</b>
	<b>286,169</b>	<b>293,507</b>

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

# ANDREW PELLER LIMITED

## Consolidated Statements of Earnings, Comprehensive Earnings and Retained Earnings

### Unaudited

These financial statements have not been reviewed by our auditors  
(expressed in thousands of Canadian dollars)

	For the Three Months Ended		For the Six Months Ended	
	September 30		September 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Sales</b>	66,961	65,808	131,911	123,045
Cost of goods sold, excluding amortization	42,145	39,152	83,298	73,569
<b>Gross profit</b>	24,816	26,656	48,613	49,476
Selling and administration	18,066	19,014	33,915	35,330
<b>Earnings before interest and amortization</b>	6,750	7,642	14,698	14,146
Interest	2,363	1,505	4,546	2,907
Amortization of plant, equipment and intangibles	2,017	2,005	4,010	3,695
<b>Earnings before other items</b>	2,370	4,132	6,142	7,544
<b>Non-hedge derivative gains (losses)</b>	213	(1,017)	1,340	(1,178)
<b>Unusual items</b>	-	(56)	0	(114)
<b>Earnings before income taxes</b>	2,583	3,059	7,482	6,252
<b>Provision for income taxes</b>				
Current	691	1,308	1,839	2,222
Future	130	(333)	543	(326)
	821	975	2,382	1,896
<b>Net and comprehensive earnings for the period from continuing operations</b>	1,762	2,084	5,100	4,356
<b>Net and comprehensive earnings for the period from discontinued operation, net of tax (not)</b>	482	360	395	741
<b>Net and comprehensive earnings for the period</b>	2,244	2,444	5,495	5,097
<b>Retained earnings- Beginning of period</b>	91,470	94,886	89,416	95,305
<b>Impact of adopting accounting pronouncement on April 1, 2008</b>	-	-	-	(1,875)
<b>Retained earnings- Beginning of period as restated</b>	91,470	94,886	89,416	93,430
Dividends:				
Class A and Class B	(1,197)	(1,197)	(2,394)	(2,394)
<b>Retained earnings - End of period</b>	92,517	96,133	92,517	96,133
<b>Net earnings per share from continuing operations</b>				
Basic and diluted				
Class A shares	0.12	0.14	0.35	0.30
Class B shares	0.11	0.12	0.31	0.26
<b>Net earnings per share from discontinued operation</b>				
Basic and diluted				
Class A shares	0.04	0.03	0.03	0.05
Class B shares	0.03	0.03	0.02	0.05
<b>Net earnings per share</b>				
Basic and diluted				
Class A shares	0.16	0.17	0.38	0.35
Class B shares	0.14	0.15	0.33	0.31

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

# ANDREW PELLER LIMITED

## Consolidated Statements of Cash Flows

### Unaudited

These financial statements have not been reviewed by our auditors  
(expressed in thousands of Canadian dollars)

For the Three Months Ended

September 30

2009 2008

\$ \$

For the Six Months Ended

September 30

2009 2008

\$ \$

### Cash provided by (used in)

#### Operating activities

Net earnings for the period	1,762	2,084	5,100	4,356
Items not affecting cash:				
Amortization of plant, equipment and intangibles	2,017	2,005	4,010	3,695
Employee future benefits	(186)	(154)	(453)	(203)
Net unrealized (gain) loss on derivative financial instruments	(213)	1,017	(1,340)	1,178
Future income taxes	130	(333)	543	(326)
Amortization of deferred financing costs	12	55	24	93
	<u>3,522</u>	<u>4,674</u>	<u>7,884</u>	<u>8,793</u>
Changes in non-cash working capital items related to operations (note 4):	<u>7,637</u>	<u>(3,881)</u>	<u>538</u>	<u>(4,306)</u>
	<u>11,159</u>	<u>793</u>	<u>8,422</u>	<u>4,487</u>

#### Investing activities

Acquisition of World Vintners Inc.	-	(16)	-	(10,956)
Acquisition of Rocky Ridge Vineyards Inc.	-	-	(825)	(4,016)
Purchase of property and equipment	(1,589)	(2,817)	(2,957)	(5,315)
	<u>(1,589)</u>	<u>(2,833)</u>	<u>(3,782)</u>	<u>(20,287)</u>

#### Financing activities

Increase in deferred financing costs	-	(73)	-	(287)
Increase (decrease) in bank indebtedness	(7,410)	3,882	1,209	(6,676)
Increase in long-term debt	-	-	0	29,036
Repayment of long-term debt	(1,333)	(914)	(2,666)	(2,080)
Dividends paid	(1,197)	(1,197)	(2,394)	(2,285)
	<u>(9,940)</u>	<u>1,698</u>	<u>(3,851)</u>	<u>17,708</u>

### Cash provided by (used in) continuing operations

	(370)	(342)	789	1,908
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### Cash provided by (used in) discontinued operation (note 3)

	<u>370</u>	<u>342</u>	<u>(789)</u>	<u>(1,908)</u>
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### Cash at beginning and end of period

	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
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#### Supplemental disclosure of cash flow information

Cash paid (received) during the period from continuing operations for				
Interest	2,639	1,594	4,535	2,656
Income taxes	(1,016)	1,170	(812)	1,997
Cash paid (received) during the period from discontinued operation for				
Income taxes	590	362	723	362
Cash paid (received) during the period for				
Interest	2,639	1,594	4,535	2,656
Income taxes	(426)	1,532	(89)	2,359

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

Notes to the Interim Consolidated Financial Statements September 30, 2009 and 2008  
(in thousands of dollars)

## UNAUDITED

### 1. Summary of Significant Accounting Policies

The interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The note disclosure for these interim consolidated financial statements only presents material changes to the disclosure found in the Company's audited consolidated financial statements for the years ended March 31, 2009 and 2008. These interim consolidated financial statements should be read in conjunction with those consolidated financial statements and follow the same accounting policies as the audited consolidated financial statements. In the opinion of management, the accompanying unaudited interim consolidated financial

statements contain all adjustments necessary to present fairly, in all material respects the financial position of the Company as at September 30, 2009 and for the three and six-month periods then ended.

## 2. Seasonality

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.

## 3. Discontinued Operations

During the second quarter, the Board of Directors approved a plan to dispose of its ownership interests in Granville Island Brewing Company Ltd. and Mainland Beverage Distribution Ltd. (collectively referred to as "GIBCO"). The Company does not expect to retain any continuing involvement in the GIBCO operations upon completion of the eventual disposition of this operation and accordingly, the results of operations of GIBCO have been classified as discontinued operations for the second quarter.

Financial information relating to the discontinued operation is as follows:

### Consolidated balance sheet of discontinued operation

	September 30 2009 \$	March 31 2009 \$
Current assets		
Accounts receivable	2,536	1,749
Inventories	2,823	3,341
Prepaid expenses and other assets	156	340
Income taxes recoverable	112	(425)
	<u>5,627</u>	<u>5,005</u>
Long-term assets		
Property, plant and equipment	3,946	4,158
Goodwill	3,700	3,700
Intangible assets	2,100	2,100
	<u>9,746</u>	<u>9,958</u>
Current liabilities		
Accounts payable and accrued liabilities	4,371	5,143
Long-term liabilities		
Future income taxes	306	308

### Consolidated statement of net earnings from discontinued operation

	For the Three Months Ended September 30 2009 \$	For the Three Months Ended September 30 2008 \$	For the Six Months Ended September 30 2009 \$	For the Six Months Ended September 30 2008 \$
Sales	5,296	4,945	10,509	9,352
Cost of goods sold	2,747	2,499	5,452	4,790
Gross profit	2,549	2,446	5,057	4,562
Selling and administration	1,734	1,795	4,263	3,231
Amortization	106	121	213	241
Earnings before income taxes	709	530	581	1,090
Provision for income taxes	227	170	186	349
Net earnings from discontinued operations	<u>482</u>	<u>360</u>	<u>395</u>	<u>741</u>

Included in cost of goods sold is \$2,015 (2008 - \$1,610) for the six months ended September 30, 2009 and \$1,008 (2008 - \$805) for the three months ended September 30, 2009 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.

## Condensed statement of cash flows from discontinued operation

	<b>For the Three Months Ended September 30 2009</b>	For the Three Months Ended September 30 2008	<b>For the Six Months Ended September 30 2009</b>	For the Six Months Ended September 30 2008
	\$	\$	\$	\$
Cash provided by (used in) operating activities	370	459	(789)	(1,791)
Cash used in investing activities	-	(117)	-	(117)
Cash provided by (used in) financing activities	-	-	-	-
	<u>370</u>	<u>342</u>	<u>(789)</u>	<u>(1,908)</u>

### 4. Changes in non-cash working capital items

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

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	\$	\$	\$	\$
Accounts receivable	58	(6,416)	(1,226)	(4,239)
Inventories	3,062	(1,215)	5,496	(804)
Prepaid expenses and other assets	(261)	(1,231)	(1,467)	(1,864)
Accounts payable and accrued liabilities	3,072	4,841	(4,918)	2,373
Income taxes recoverable	<u>1,706</u>	<u>140</u>	<u>2,653</u>	<u>228</u>
	<u>7,637</u>	<u>(3,881)</u>	<u>538</u>	<u>(4,306)</u>

### 5. Comparative Figures

Certain of the prior year balances have been restated to conform with the current year's presentation.

Corporate Office : Andrew Peller Limited  
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“ Joseph A. Peller”

Joseph A. Peller  
Chairman  
November 4, 2009