Andrew Peller Limited

Consolidated Financial Statements
March 31, 2011 and 2010

PRICEWATERHOUSECOOPERS

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Independent Auditor's Report

To the Shareholders of
Andrew Peller Limited

We have audited the accompanying consolidated financial statements of Andrew Peller Limited, which comprise the consolidated balance sheets as at March 31, 2011 and 2010 and the consolidated statements of earnings and comprehensive earnings and retained earnings and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Andrew Peller Limited as at March 31, 2011 and 2010 and the results of operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario, Canada
June 22, 2011

Andrew Peller Limited
Consolidated Balance Sheets
As at March 31, 2011 and 2010

(in thousands of dollars)

	2011	2010
Assets		
Current assets		
Accounts receivable	$ 23,390	$ 22,902
Inventories (note 2)	96,085	89,693
Prepaid expenses and other assets	818	1,818
Income taxes recoverable	-	1,327
	120,293	115,740
Property, plant and equipment (note 3)	94,154	95,728
Intangibles and other assets (note 4)	14,170	14,775
Goodwill (notes 5 and 7)	38,073	37,473
	$ 266,690	$ 263,716
Liabilities		
Current liabilities		
Bank indebtedness (note 6)	$ 48,758	$ 48,877
Accounts payable and accrued liabilities	33,883	28,229
Dividends payable	1,148	1,197
Income taxes payable	1,000	-
Current portion of derivative financial instruments (note 14)	1,894	1,922
Current portion of long-term debt (note 6)	5,333	6,158
	92,016	86,383
Long-term debt (notes 6 and 14)	42,720	47,633
Long-term derivative financial instruments (note 14)	1,578	1,667
Employee future benefits (note 7)	3,803	4,530
Future income taxes (note 8)	11,906	9,838
	152,023	150,051
Shareholders' Equity		
Capital stock (note 9)	7,026	7,375
Retained earnings	107,641	106,290
	114,667	113,665
	$ 266,690	$ 263,716

Commitments and contingencies (note 11)

Approved by the Board of Directors

Director

Director

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

Andrew Peller Limited

Consolidated Statements of Earnings and Comprehensive Earnings and Retained Earnings

For the years ended March 31, 2011 and 2010

(in thousands of dollars, except per share amounts)

	2011	2010
Sales	$ 265,420	$ 263,151
Cost of goods sold, excluding amortization	161,758	166,827
Gross profit	103,662	96,324
Selling and administration	71,703	68,970
Earnings before interest and amortization	31,959	27,354
Interest	6,673	7,873
Amortization of plant, equipment and intangible assets	8,202	7,991
Earnings before other items	17,084	11,490
Net unrealized gains on derivative financial instruments (note 14)	(117)	(3,224)
Other expenses (note 12)	921	1,627
Earnings before income taxes	16,280	13,087
Provision for income taxes (note 8)		
Current	3,223	3,503
Future	2,068	58
	5,291	3,561
Net and comprehensive earnings for the year from continuing operations	10,989	9,526
Net and comprehensive earnings for the year from a discontinued operation (note 16)	-	12,135
Net and comprehensive earnings for the year	10,989	21,661
Retained earnings - Beginning of year	106,290	89,416
Dividends		
Class A and Class B shares	(4,738)	(4,787)
Repurchase of Class A shares (note 9)	(4,900)	-
Retained earnings - End of year	$ 107,641	$ 106,290
Net earnings per share from continuing operations		
Basic and diluted		
Class A shares	$ 0.76	$ 0.66
Class B shares	$ 0.66	$ 0.57
Net earnings per share from a discontinued operation		
Basic and diluted		
Class A shares	$ -	$ 0.83
Class B shares	$ -	$ 0.73
Net earnings per share (notes 1 and 10)		
Basic and diluted		
Class A shares	$ 0.76	$ 1.49
Class B shares	$ 0.66	$ 1.30

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, 2011 and 2010

(in thousands of dollars)

	2011	2010
Cash provided by (used in)		
Operating activities		
Net earnings for the year	$ 10,989	$ 9,526
Items not affecting cash		
Loss on disposal of property, plant and equipment	865	175
Amortization of plant, equipment and intangible assets	8,202	7,991
Employee future benefits	(727)	(866)
Net unrealized gain on derivative financial instruments	(117)	(3,224)
Future income taxes	2,068	58
Amortization of deferred financing costs	420	371
Write-off of deferred financing costs	-	267
Impairment charges	-	1,247
	21,700	15,545
Change in non-cash working capital items related to operations (note 13)	1,319	2,070
	23,019	17,615
Investing activities		
Proceeds from disposal of property, plant and equipment	1,488	34
Purchase of property and equipment	(8,093)	(5,047)
Purchase of other assets	(101)	(165)
Acquisition of businesses	(825)	(825)
	(7,531)	(6,003)
Financing activities		
Increase in deferred financing costs	-	(979)
Increase (decrease) in bank indebtedness	(119)	(3,315)
Payment to partially unwind a derivative financial instrument	-	(1,600)
Repayment of long-term debt	(5,333)	(22,750)
Dividends paid	(4,787)	(4,787)
Repurchase of Class A shares	(5,249)	-
	(15,488)	(33,431)
Decrease in cash during the year from continuing operations	-	(21,819)
Increase in cash during the year from discontinued operation (note 16)	-	21,819
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	$ 6,601	$ 7,819
Income taxes	896	38
Cash paid during the year from discontinued operation for		
Income taxes	-	602
Cash paid during the year for		
Interest	6,601	7,819
Income taxes	896	640

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 and levies 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	2.5% to 20% per year

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

(E) Intangible assets

Intangible assets include brands, customer contracts, contract co-packaging arrangements and customer-based relationships. These intangible assets are recorded at their 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.

(F) 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.

(G) 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)

(H) Financial instruments and hedge accounting

Details of the classification and measurement of financial instruments are presented in note 14.

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 and has recorded the fair value adjustments of these instruments in earnings 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 recognizes financial instruments when it becomes a party to the terms of the instrument and has elected to use “trade date” accounting for regular way purchases and sales of financial assets.

Embedded derivatives (elements of contracts whose cash flows move independently from the host contract similar to a stand-alone derivative) are required to be separated and measured at fair values if certain criteria are met. 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.

(I) 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).

(J) 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 per share has been calculated using the treasury stock method (note 10).

(in thousands of dollars, except per share amounts)

(K) 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 $10,040 (2010 - $10,181), which primarily relate to sales in the United States.

(L) 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.

(M) 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.

(N) Comprehensive income

Comprehensive income 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 revenue, expenses, gains and losses that are recognized in comprehensive income but excluded from net earnings.

(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.

(in thousands of dollars, except per share amounts)

(P) 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 has elected not to adopt these sections prior to its fiscal year beginning April 1, 2011.

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 does not expect the adoption of this standard to impact the consolidated financial statements.

c) In February 2008, the Canadian Accounting Standards Board confirmed that the use of IFRS as issued by the International Accounting Standards Board will be required effective for fiscal years beginning after January 1, 2011 for publicly accountable enterprises. Accordingly, the Company will begin preparing its current period and comparative period information under IFRS beginning for the first quarter of fiscal 2012.

(in thousands of dollars, except per share amounts)

2 Inventories

		2011		2010
Packaging materials and supplies	$	8,213	$	8,957
Bulk wine		52,102		50,787
Finished goods		35,770		29,949
	$	96,085	$	89,693

The amount of interest included in the cost of inventories is $800 (2010 - $941).

Inventory write-downs recognized as an expense amounted to $1,357 (2010 - $1,743).

3 Property, plant and equipment

						2011
		Cost		Accumulated amortization		Net
Land	$	4,807	$	-	$	4,807
Vineyards		37,651		6,618		31,033
Buildings		39,872		12,491		27,381
Machinery and equipment		92,256		61,323		30,933
	$	174,586	$	80,432	$	94,154

						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

Included in vineyards are assets amounting to $Nil (2010 - $11,731) 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 $420 for net proceeds of $766.

(in thousands of dollars, except per share amounts)

4 Intangibles and other assets

	2011	2010
Brands - indefinite lives	$ 3,800	$ 3,800
Customer-based intangible assets, net of accumulated amortization of $2,466 (2010 - $1,884)	7,793	8,375
Contract packaging, net of accumulated amortization of $316 (2010 - $192)	784	908
Other assets	1,793	1,692
	$ 14,170	$ 14,775

5 Goodwill

On October 8, 2008, the Company acquired 100% of the outstanding shares of The Small Winemakers Collection Inc. for initial consideration of $1,605, including acquisition costs. Pursuant to the purchase agreement, contingent consideration of $600 was payable based on the acquired business achieving a pre-determined sales level prior to the year ended March 31, 2011, which was achieved. Accordingly, the Company accrued the amount during the year which resulted in an increase in goodwill.

6 Bank indebtedness and long-term debt

	2011	2010
Term loan	$ 48,278	$ 53,611
Note payable	-	825
	48,278	54,436
Less: Financing costs	225	645
	48,053	53,791
Less: Current portion	5,333	6,158
	$ 42,720	$ 47,633

The Company has established the following credit facilities:

The Company modified the terms of its short-term loan facility on August 27, 2010. The loan will mature on August 26, 2011. The facility has a borrowing limit of $75,000 (2010 - $75,000) and incurs interest at the Royal Bank of Canada prime rate plus 2.00% (2010 – 2.75%). As at March 31, 2011, the unused portion of this loan facility was $20,143 (2010 - $19,409).

(in thousands of dollars, except per share amounts)

The term loan was last modified on January 26, 2010 and matures on April 30, 2015. It is repayable in monthly principal payments of $444 plus interest prior to maturity. The Company maintains an interest rate swap which effectively fixes the interest rate on the term loan at 5.64%. The Company also pays additional interest of 0.50% (2010 - 0.95%) based on leverage ratios and a funding premium of 0.80% (2010 – 1.05%), which is negotiated annually.

For the year ended March 31, 2011, the change in fair value of the interest rate swap, which was calculated using year-end market rates, amounted to an unrealized gain of $219 (2010 – $3,937).

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

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 incurred interest at 6% compounded annually and the final fixed annual instalment of principal and interest was paid in June 2010.

Interest expense on long-term debt during the year was $4,124 (2010 - $5,272).

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

2012	$	5,333
2013		5,333
2014		5,333
2015		5,333
2016		26,946
	$	48,278

(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 $1,230 (2010 - $1,311). Information about the defined benefit pension plans and other post employment medical benefits are as follows:

		2011		2010
Plan assets				
Fair value - Beginning of year	$	14,983	$	11,910
Actual return on plan assets		1,169		2,729
Company's contributions		1,121		1,436
Employees' contributions		3		3
Benefits paid		(1,098)		(1,095)
Fair value - End of year	$	16,178	$	14,983
Plan obligations				
Accrued benefit obligations - Beginning of year	$	19,032	$	14,361
Post employment medical benefits initially recognized		-		1,031
Past service cost due to amendment		-		130
Total current service cost		469		336
Interest cost		1,042		1,000
Benefits paid		(1,098)		(1,095)
Actuarial losses		950		3,269
Accrued benefit obligations - End of year	$	20,395	$	19,032
Funded status				
Plan deficits	$	(4,217)	$	(4,049)
Unamortized actuarial losses		1,818		1,060
Unamortized actuarial gain for post employment medical benefits		(837)		(893)
Unamortized plan amendment asset for post employment medical benefits		(567)		(648)
Accrued benefit liabilities	$	(3,803)	$	(4,530)
Benefit plan expense				
Current service cost	$	469	$	336
Interest cost		1,042		1,000
Expected return on plan assets		(1,050)		(846)
Employee contributions		(3)		(3)
Amortization of net actuarial (gain) loss, net of transition asset		(64)		(47)
Net benefit plan expense	$	394	$	440

(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:

	2011	**2010**
Discount rate for expenses	5.5%	7.0%
Discount rate for obligation	5.0%	5.5%
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	6 – 13 years	7 – 14 years
Expected health care cost inflation rate for post employment medical benefits	9% next year decreasing to 5% after four years	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 6 – 13 years (2010 – 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:

	2011 %	**2010 %**
McLean Budden Balanced Fund	33	33
Trimark Income Growth Fund	33	33
JF Balanced Fund	34	34
	100	100

(in thousands of dollars, except per share amounts)

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 to be effective December 31, 2010 and December 31, 2011. The valuations effective December 31, 2010 will be completed during fiscal 2012. 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. The valuations for funding purposes do not affect the accrued benefit liability recorded in the consolidated financial statements as at March 31, 2011.

8 Income taxes

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

	2011	2010
Property, plant and equipment	$ 8,656	$ 8,761
Intangible assets	2,801	2,975
Goodwill	2,613	2,443
Loss carry forward balances	(143)	(2,308)
Derivative financial instruments	(889)	(949)
Employee future benefits	(967)	(1,155)
Other	(165)	71
	$ 11,906	$ 9,838

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

	2011	2010
Provision for income taxes at blended statutory rate of 28.8% (2010 – 31.4%)	$ 4,689	$ 4,109
Permanent differences and non-deductible items	269	290
Future income tax rate changes	7	(589)
Other	326	(249)
	$ 5,291	$ 3,561

(in thousands of dollars, except per share amounts)

As at March 31, 2011, the Company and its subsidiaries have available Canadian net operating losses of $571 (2010 – $8,566) for income tax purposes, which expire as follows:

	$
2025	52
2028	93
2030	310
2031	116

In aggregate, the Company has recognized $143 (2010 - $2,308) of the benefit of the net operating losses. The amount of the benefit of these losses ultimately realized is subject to change.

9 Capital stock

		2011			**2010**		
	Authorized	**Issued**			**Issued**		
		Shares		**Amount**	**Shares**		**Amount**
Class A shares, non-voting	Unlimited	11,293,829	$	6,626	11,888,241	$	6,975
Class B shares, voting	Unlimited	3,004,041		400	3,004,041		400
		14,297,870	$	7,026	14,892,282	$	7,375

During 2011, the Company repurchased 594,412 Class A non-voting shares through a normal course issuer bid. The repurchase price was first allocated to capital stock based on the average per-share carrying amount of Class A shares. The remaining amount was allocated to retained earnings. A summary of the transaction in Class A shares is as follows:

	2011			**2010**		
	Shares		**Amount**	**Shares**		**Amount**
Shares outstanding at the beginning of year	11,888,241	$	6,975	11,888,241	$	6,975
Repurchase	(594,412)		(5,249)	-		-
Excess of repurchase price over average per-share issue price	-		4,900	-		-
	11,293,829	$	6,626	11,888,241	$	6,975

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.

(in thousands of dollars, except per share amounts)

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, 2011 and 2010, 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 $1 to $6 Class A shares on an annual basis. Employees are required to pay 67% of an established market price per Class A share. Directors can purchase 750 Class A shares and are required to pay 50% of the cost. The Company is responsible for the remainder of the cost and, during 2011, expensed $215 (2010 - $215) related to this program. Officers of the Company also participate in an equity incentive program, whereby Class A shares of the Company are purchased on their behalf from the open market.

10 Net earnings per share

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

	2011		2010	
Net earnings for the year from continuing operations		$ 10,989		$ 9,526
Net earnings for the year from a discontinued operation		$ -		$ 12,135
Net earnings for the year		$ 10,989		$ 21,661
	Class A	**Class B**	**Class A**	**Class B**
Weighted average number of shares outstanding – Basic and diluted	11,860,556	3,004,041	11,888,241	3,004,041
Net earnings per share from continuing operations Basic and diluted	$ 0.76	$ 0.66	$ 0.66	$ 0.57
Net earnings per share from a discontinued operation Basis and diluted	$ 0.00	$ 0.00	$ 0.83	$ 0.73
Net earnings per share Basic and diluted	$ 0.76	$ 0.66	$ 1.49	$ 1.30

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, 2011 and 2010, 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

i) Future minimum lease payments as at March 31, 2011 under long-term non-cancellable leases are as follows:

2012	$ 3,176
2013	2,729
2014	1,875
2015	1,466
2016	914
Thereafter	8,149
	$ 18,309

ii) 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.

12 Other expenses

Other expenses are as follows:

	2011	2010
Write-down for damaged vines (i)	$ 1,338	$ -
Closure and integration costs related to Port Moody winery facility (ii)	189	113
Change in estimated disposal costs to complete the sale of Granville Island Brewing Company Ltd. and Mainland Beverage Distribution Ltd. (iii)	(260)	-
Gain on sale of vineyard (iv)	(346)	-
Impairment charges (v)	-	1,247
Write-off of deferred financing costs (vi)	-	267
	$ 921	$ 1,627

i) During 2011, approximately 98 acres of vines developed by the Company on leased land in Oliver, British Columbia were irreparably damaged by frost. The Company wrote down vineyards included in property, plant and equipment related to this vine damage in the amount of $1,736 and inventories in the amount of $316. The Company received $714 under an insurance policy for the damaged vines. The net pre-tax loss recorded as a result of the damaged vines is $1,338.

(in thousands of dollars, except per share amounts)

ii) 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 $189 in 2011 (2010 - $113).

iii) During 2011, the Company recorded a $260 reduction in its estimate of costs to complete the disposition of Granville Island Brewing Company Ltd. and Mainland Beverage Distribution Ltd.

iv) On May 25, 2010, the Company sold a portion of a vineyard with a net book value of $420 for net proceeds of $766. A pre-tax gain in the amount of $346 was recorded.

v) 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 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).

vi) On January 26, 2010, the Company renegotiated the terms of its 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.

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:

	2011	2010
Accounts receivable	$ (488)	$ (1,858)
Inventories	(6,392)	11,190
Prepaid expenses and other assets	1,000	26
Income taxes recoverable and payable	2,327	3,465
Accounts payable and accrued liabilities	4,872	(10,753)
	$ 1,319	$ 2,070

(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:

			2011	
Assets/liability	**Category**	**Measurement**	**Carrying amount $**	**Fair value $**
Accounts receivable	Loans and receivables	Amortized cost	23,390	23,390
Bank indebtedness	Other liabilities	Amortized cost	48,758	48,758
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	33,883	33,883
Dividends payable	Other liabilities	Amortized cost	1,148	1,148
Long-term debt – term loans	Other liabilities	Amortized cost	48,053	48,053
Interest rate swap liability	Derivatives	Fair value	2,926	2,926
Foreign exchange forward contracts liability	Derivatives	Fair value	546	546

			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

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)

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 variable interest rate is comparable to market rates. The fair value of the interest rate swap used to fix this interest rate is included in the current and long-term derivative financial instruments in the balance sheet.

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 with adjustment to reflect any changes in the Company's or the counterparty's credit risk. 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.

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.

			2011
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	-	2,926	-
Foreign exchange forward contracts	-	546	-

			2010
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	-	3,145	-
Foreign exchange forward contracts	-	444	-

Objectives and policy relating to financial risk management

Interest rate risk

The Company is exposed to interest rate risk as a result of cash balances, floating rate debt and an interest rate swap. Of these risks, the Company's principal exposure is that increases in the floating interest rates on its debt, if unmitigated, could lead to decreases in cash flow and earnings. The Company's objective in managing interest rate risk is to achieve a balance between minimizing borrowing costs over the long-term, ensuring that it meets borrowing covenants and ensuring that it meets other expectations and requirements of investors. To meet these objectives, the Company's policy is to effectively fix the rates on long-term debt to match the duration of investments in long lived assets and to use floating rate funding for short-term borrowing.

The Company has effectively fixed its interest rate on long-term debt until April 2015 by entering into an interest rate swap. The interest rate swap is measured at fair value because the Company has elected not to use hedge accounting. An unrealized gain of $219 (2010 - $3,937) was recognized on the interest rate swap, which is classified as net unrealized gains on derivative financial instruments in the statement of earnings. As at March 31, 2011, there is one interest rate swap outstanding with a notional amount of $48,278 with a fixed rate of 5.64%. The fair value of the interest rate swap at March 31, 2011 was $2,926.

(in thousands of dollars, except per share amounts)

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, 2011, with other variables unchanged, a 1% change in interest rates would impact the Company's net earnings by approximately $354 (2010 - $343), exclusive of the mark-to-market adjustments on the interest rate swap.

Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and accounts receivable. The Company places its cash and cash equivalents with major Canadian financial institutions of high creditworthiness. Counterparties to derivative contracts are also major Canadian financial institutions of high creditworthiness.

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. Amounts owing from Canadian provincial liquor boards represents $13,653 of the $23,390 in total accounts receivables for which no allowance has been provided. Of the remaining non-provincial liquor board balances, $353 (2010 - $947) were over thirty days past due as of March 31, 2011. An allowance for doubtful accounts of $192 (2010 - $288) has been provided against these accounts receivable amounts which the Company has determined to represent a reasonable estimate of amounts that may be uncollectible.

An analysis of accounts receivable is as follows:

	2011	**2010**
Liquor boards	$ 13,653	$ 12,629
Non-liquor boards		
Current	7,036	7,255
Past due 0 – 30 days, due on delivery accounts	389	593
Past due 0 – 30 days	1,959	1,478
Past due 31 – 60 days	319	482
Past due > 60 days	226	753
Allowance for doubtful accounts	(192)	(288)
	$ 23,390	$ 22,902

The change in the allowance for doubtful accounts was as follows:

	2011	**2010**
Balance – Beginning of year	$ 288	$ 234
Provision for current year	131	254
Bad debt	(227)	(200)
Balance – End of year	$ 192	$ 288

(in thousands of dollars, except per share amounts)

Liquidity risk

The Company incurs obligations to deliver cash or other financial assets on future dates. Liquidity risk inherently arises from these obligations, which include requirements to repay debt, purchase grape inventory and make operating lease payments.

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.

The following table outlines the Company's contractual undiscounted obligations. The Company analyzes contractual obligations for financial liabilities in conjunction with other commitments in managing liquidity risk. Contractual obligations include long-term debt, the expected payments under a swap agreement that fixes the Company's interest rate on long-term debt, 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, 2011:

	Total	< 1 year	2 – 3 years	4 – 5 years	> 5 years
Long-term debt	$ 48,278	$ 5,333	$ 10,666	$ 32,279	$ -
Operating leases	18,309	3,176	4,604	2,380	8,149
Pension obligations	3,342	454	782	617	1,489
Long-term grape purchase contracts	294,373	21,208	43,148	42,643	187,374
	364,302	30,171	59,200	77,919	197,012
Interest rate swap	10,677	3,191	5,267	2,219	-
Foreign exchange forwards	20,017	20,017	-	-	-
Total contractual obligations	$ 394,996	$ 53,379	$ 64,467	$ 80,138	$ 197,012

The Company's obligations under its interest rate swap and foreign exchange forwards are stated above on a gross basis rather than net of the corresponding contractual benefits.

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, 2011, the Company has forward foreign currency contracts to buy U.S. $20,000 at rates ranging between $0.99 and $1.01. These contracts mature at various dates to February 2012. The Company has elected not to use hedge accounting and as a result, has recognized $102 of unrealized foreign exchange losses (2010 – unrealized losses $713) in the consolidated statement of earnings as a component of net unrealized gains on derivative financial instruments and has recorded the fair value of $546 in current portion of derivative financial instruments in the consolidated balance sheet.

(in thousands of dollars, except per share amounts)

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 annual 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 and Euro exchange rates. These contracts are reviewed regularly. A one percent change in the value of the U.S. dollar and Euro would impact the Company's net earnings by approximately $62 (2010 - $96) and $95 (2010 - $43), respectively.

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.

The Company's capital consists of cash, bank indebtedness, long-term debt and shareholders' equity. The primary uses of capital are to make increases to non-cash working capital, fund maintenance and growth related capital expenditures, pay dividends and finance acquisitions. In order to meet the Company's objectives in managing capital, the Company prepares annual budgets of cash, earnings and capital expenditures that are updated during the year as necessary. The annual budget is approved by the Board of Directors.

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

Unfunded capital expenditures are limited to $10,000 on an annual basis.

Compliance with these covenants and the capital expenditure limit is monitored by management on a quarterly basis. Quarterly during the year ended March 31, 2011, and as at March 31, 2011, 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 recognized a disposal gain of $11,859 (net of tax) in 2010, which is classified with the results from discontinued operations.

In connection with the sale of GIBCO, the Company had entered into certain agreements whereby the Company operated the manufacturing facilities of GIBCO and provided certain administrative support services for a period of time to assist the purchaser in the transition of these businesses. Under these agreements, the Company was reimbursed for costs incurred in providing the manufacturing and administrative support services. This agreement ended in May 2011.

(in thousands of dollars, except per share amounts)

Details of the gain recorded in 2010 are as follows:

		2010
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

Of the $1,250 deferred consideration $250 was received in 2011 and $1,000 is scheduled to be received on April 30, 2012.

Financial information relating to the discontinued operation is as follows:

		2010
Condensed statement of net earnings from discontinued operation		
Sales	$	10,354
Cost of goods sold		5,438
Gross profit		4,916
Selling and administration		4,292
Amortization		239
Gain on sale of discontinued operation		(13,385)
		(8,854)
Earnings before income taxes		13,770
Provision for income taxes		1,635
Net earnings from discontinued operation	$	12,135

(in thousands of dollars, except per share amounts)

Included in cost of goods sold in 2010 is $2,055 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
Condensed statement of cash flows from discontinued operation		
Cash provided by (used in) operating activities	$	(2,880)
Cash provided by investing activities		24,699
Cash used in financing activities		-
Increase in cash during the year from discontinued operation	$	21,819

17 Comparative figures

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