

# **Andrew Peller Limited**

Consolidated Financial Statements  
**March 31, 2015 and March 31, 2014**  
(in thousands of Canadian dollars)



June 17, 2015

## **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, 2015 and March 31, 2014 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years ended March 31, 2015 and March 31, 2014, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **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 International Financial Reporting Standards, 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.

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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, 2015 and March 31, 2014 and its financial performance and its cash flows for the years ended March 31, 2015 and March 31, 2014 in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants, Licensed Public Accountants**

**Andrew Peller Limited**  
**Consolidated Balance Sheets**  
**As at March 31, 2015 and March 31, 2014**

(in thousands of Canadian dollars)

	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
<b>Current assets</b>		
Accounts receivable (note 20)	\$ 25,616	\$ 22,693
Inventories (note 4)	117,812	120,751
Current portion of biological assets (note 6)	1,129	1,062
Prepaid expenses and other assets	2,207	1,381
Income taxes recoverable (note 14)	-	240
	<u>146,764</u>	<u>146,127</u>
<b>Property, plant and equipment</b> (note 5)	90,955	90,152
<b>Biological assets</b> (note 6)	13,982	14,054
<b>Intangible assets</b> (note 7)	12,331	13,209
<b>Goodwill</b> (note 8)	<u>37,473</u>	<u>37,473</u>
	<u>\$ 301,505</u>	<u>\$ 301,015</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 9)	\$ 32,522	\$ 54,407
Accounts payable and accrued liabilities (note 10)	36,712	37,371
Dividends payable	1,460	1,391
Income taxes payable (note 14)	1,902	-
Current portion of derivative financial instruments (note 20)	992	1,002
Current portion of long-term debt (note 11)	<u>4,194</u>	<u>7,392</u>
	77,782	101,563
<b>Long-term debt</b> (note 11)	52,269	38,328
<b>Long-term derivative financial instruments</b> (note 20)	1,447	268
<b>Post-employment benefit obligations</b> (note 12)	6,165	6,132
<b>Deferred income</b> (note 13)	506	910
<b>Deferred income taxes</b> (note 14)	<u>15,971</u>	<u>15,811</u>
	<u>154,140</u>	<u>163,012</u>
<b>Shareholders' Equity</b>		
<b>Capital stock</b> (note 15)	7,026	7,026
<b>Retained earnings</b>	<u>140,339</u>	<u>130,977</u>
	<u>147,365</u>	<u>138,003</u>
	<u>\$ 301,505</u>	<u>\$ 301,015</u>

Director

Director

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

# Andrew Peller Limited

## Consolidated Statements of Earnings

For the years ended March 31, 2015 and March 31, 2014

(in thousands of Canadian dollars, except per share amounts)

	2015	2014
<b>Sales</b>	\$ 315,697	\$ 297,824
Cost of goods sold, excluding amortization (note 16)	200,494	189,842
Amortization of plant and equipment used in production	5,116	4,979
<b>Gross profit</b>	110,087	103,003
Selling and administration (note 16)	79,685	74,253
Amortization of equipment and intangible assets used in selling and administration	3,435	3,316
Interest	4,847	5,386
Restructuring costs (note 16)	-	1,409
<b>Operating earnings</b>	22,120	18,639
Net unrealized loss (gain) on derivative financial instruments (note 20)	572	(750)
Other expenses (note 16)	51	145
<b>Earnings before income taxes</b>	21,497	19,244
<b>Provision for income taxes</b> (note 14)		
Current	5,379	3,239
Deferred	357	1,984
	5,736	5,223
<b>Net earnings for the year</b>	\$ 15,761	\$ 14,021
<b>Net earnings per share</b> (notes 2 and 17)		
Basic and diluted		
Class A shares	\$ 1.13	\$ 1.01
Class B shares	\$ 0.99	\$ 0.88

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

# Andrew Peller Limited

## Consolidated Statements of Comprehensive Income For the years ended March 31, 2015 and March 31, 2014

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(in thousands of Canadian dollars)

	<b>2015</b>		<b>2014</b>
<b>Net earnings for the year</b>	\$ 15,761	\$	14,021
Items that are never reclassified to net earnings			
Net actuarial losses on post-employment benefit plans (note 12)	(757)		(210)
Deferred income taxes (note 14)	197		54
Other comprehensive loss for the year	(560)		(156)
<b>Net comprehensive income for the year</b>	\$ 15,201	\$	13,865

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

# Andrew Peller Limited

## Consolidated Statements of Changes in Equity

For the years ended March 31, 2015 and March 31, 2014

(in thousands of Canadian dollars)

	Capital stock	Retained earnings	Total shareholders' equity
<b>Balance at April 1, 2013</b>	\$ 7,026	\$ 122,675	\$ 129,701
Net earnings for the year	-	14,021	14,021
Net actuarial losses (net of \$54 deferred tax recovery) (note 12)	-	(156)	(156)
Net comprehensive income for the year	-	13,865	13,865
Dividends (Class A \$0.400 per share, Class B \$0.348 per share)	-	(5,563)	(5,563)
<b>Balance at March 31, 2014</b>	\$ 7,026	\$ 130,977	\$ 138,003
<b>Balance at April 1, 2014</b>	\$ 7,026	\$ 130,977	\$ 138,003
Net earnings for the year	-	15,761	15,761
Net actuarial losses (net of \$197 deferred tax recovery) (note 12)	-	(560)	(560)
Net comprehensive income for the year	-	15,201	15,201
Dividends (Class A \$0.420 per share, Class B \$0.365 per share)	-	(5,839)	(5,839)
<b>Balance at March 31, 2015</b>	\$ 7,026	\$ 140,339	\$ 147,365

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, 2015 and March 31, 2014

(in thousands of Canadian dollars)

	2015	2014
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net earnings for the year	\$ 15,761	\$ 14,021
Adjustments for		
Loss on disposal of property and equipment and intangible assets	95	154
Amortization of plant, equipment and intangible assets	8,551	8,295
Interest expense	4,847	5,386
Provision for income taxes (note 14)	5,736	5,223
Revaluation of biological assets - net of insurance recovery	352	67
Net unrealized loss (gain) on derivative financial instruments (note 20)	572	(750)
Post-employment benefits	(724)	(489)
Deferred income	(404)	(404)
Interest paid	(4,476)	(4,904)
Income taxes paid	(3,237)	(3,211)
	<u>27,073</u>	<u>23,388</u>
Change in non-cash working capital items related to operations (note 19)	(1,236)	1,630
	<u>25,837</u>	<u>25,018</u>
<b>Investing activities</b>		
Proceeds from disposal of property, plant and equipment	10	18
Purchase of property, equipment and vine biological assets	(8,466)	(9,388)
Purchase of intangible assets	(369)	(1,797)
	<u>(8,825)</u>	<u>(11,167)</u>
<b>Financing activities</b>		
Decrease in bank indebtedness	(21,885)	(5,692)
Issuance of long-term debt	15,020	4,086
Repayment of long-term debt	(3,760)	(6,821)
Deferred financing costs	(617)	-
Dividends paid	(5,770)	(5,424)
	<u>(17,012)</u>	<u>(13,851)</u>
<b>Cash - Beginning and end of year</b>	<u>\$ -</u>	<u>\$ -</u>

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

# Andrew Peller Limited

## Notes to Consolidated Financial Statements

March 31, 2015 and March 31, 2014

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(in thousands of Canadian dollars, except per share amounts)

### 1 Nature of operations

Andrew Peller Limited (the Company) produces and markets wine and wine related products. The Company's products are produced and sold predominantly in Canada. The Company is incorporated under the Canada Business Corporations Act and is domiciled in Canada. The address of its head office is 697 South Service Road, Grimsby, Ontario, L3M 4E8.

### 2 Summary of significant accounting policies

#### Basis of presentation

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These consolidated financial statements were approved by the Board of Directors for issue on June 17, 2015.

#### Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for derivatives, which are measured at fair value and biological assets, which are measured at fair value less costs to sell.

#### Basis of consolidation

These consolidated financial statements include the accounts of the Company and all subsidiary companies. Subsidiaries are those entities the Company controls by having the power to govern their financial and operating policies. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are de-consolidated from the date control ceases. Intercompany transactions, balances, income and expenses, and profits and losses are eliminated.

#### Revenue

The Company records a sale when: it has transferred the risks and rewards of ownership of the goods to the buyer; the Company has no continuing managerial involvement over the goods; it is probable the consideration will be received by the Company; and the amount of revenue and costs related to the transaction can be measured reliably. For transactions with provincial liquor boards, licensee retail stores and wine kit retailers, the Company's terms are primarily "FOB shipping point." Accordingly, sales are recorded when the product is shipped from the Company's distribution 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 revenue to arrive at sales.

# Andrew Peller Limited

## Notes to Consolidated Financial Statements

### March 31, 2015 and March 31, 2014

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(in thousands of Canadian dollars, except per share amounts)

#### **Cost of goods sold**

Cost of goods sold includes the cost of finished goods inventories sold during the year, inventory writedowns and revaluations of agricultural produce to fair value less costs to sell at the point of harvest.

#### **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.

Grapes produced from vineyards controlled by the Company that are part of inventories are measured at their fair value less costs to sell at the point of harvest.

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

#### **Property, plant and equipment**

Property, plant and equipment are carried at cost less accumulated amortization. Cost includes borrowing costs for assets that require a substantial period of time to become ready for use. Amortization of buildings, vineyard infrastructure and machinery and equipment is calculated on the straight-line basis in amounts sufficient to amortize the cost of buildings, vineyard infrastructure and machinery and equipment over their estimated useful lives as follows:

Buildings	40 years
Vineyard infrastructure	20 years
Machinery and equipment	5 to 20 years

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

#### **Biological assets**

The Company measures biological assets, consisting of grape vines, at fair value less costs to sell. Agricultural produce, consisting of grapes grown on vineyards controlled by the Company, is measured at fair value less cost to sell at the point of harvest and becomes the basis for the cost of inventories after harvest.

Gains or losses arising from a change in fair value less costs to sell are included in the consolidated statement of earnings in the period in which they arise.

# Andrew Peller Limited

## Notes to Consolidated Financial Statements

March 31, 2015 and March 31, 2014

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(in thousands of Canadian dollars, except per share amounts)

### Intangible assets

Intangible assets include brands, customer contracts, customer lists, contract co-packaging arrangements, software and customer-based relationships. These intangible assets are recorded at their estimated fair value on the date of acquisition or at cost for regular way purchases.

	Amortization method	Useful life	Remaining useful life
Brands	n/a	indefinite	indefinite
Customers	straight-line	10 - 20 years	8 - 15 years
Contract packaging	straight-line	10 years	4 years
Software	straight-line	5 years	3 - 5 years
Other	straight-line	5 years	2 years

Brands have been assessed as having an indefinite life because the expected usage, period of control and other factors do not limit the life of these assets. Intangible assets with an indefinite life are not amortized but are tested for impairment at least annually or more frequently if events or circumstances indicate the asset might be impaired. To test for impairment the Company primarily compares a cash generating unit's (CGU) value in use, determined based on expected future discounted cash flows, to its carrying value. If necessary, a CGU's fair value is also considered. An impairment charge is recorded to the extent the carrying value of a CGU exceeds the greater of the CGU's fair value and its value in use. Management has determined there was no new impairment in intangible assets for the years ended March 31, 2015 and March 31, 2014.

### Goodwill

Goodwill represents the cost of a business combination 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 goodwill may be impaired. The Company assigns goodwill combined with other assets to a CGU based on certain regions and product lines, which is the lowest level at which the combined assets generate independent cash inflows. To test for impairment the Company primarily compares a CGU's value in use, determined based on expected future discounted cash flows, to its carrying value. If necessary, a CGU's fair value is also considered. An impairment charge is recorded to the extent the carrying value of a CGU exceeds the greater of the CGU's fair value and its value in use. An impairment loss in respect of goodwill cannot be reversed. Management has determined there is no impairment in goodwill for the years ended March 31, 2015 and March 31, 2014.

### Post-employment benefits

The Company sponsors defined contribution pension plans, defined benefit pension plans, post-employment medical benefits plans, and other post-employment benefit plans for certain employees. Contributions to the defined contribution pension plans are recognized as an expense as services are rendered by employees. The costs of the defined benefit plans, the post-employment medical benefit plans, and other post-employment benefit plans are actuarially determined and include management's best estimate of expected plan investment performance, the interest rate on the plan obligation, salary escalation, expected retirement ages, and medical cost escalation. The liability recognized in the consolidated balance sheets in respect of these plans is the

# Andrew Peller Limited

## Notes to Consolidated Financial Statements

March 31, 2015 and March 31, 2014

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(in thousands of Canadian dollars, except per share amounts)

present value of the defined benefit obligation at the end of the reporting period as determined by the Company's actuary less the fair value of plan assets adjusted for the unamortized portion of negative past service credits. The current service cost, amortization of past service credits, and the interest cost net of the expected return on plan assets are recognized in earnings in the period they arise. Adjustments arising from actuarially determined gains or losses are recognized in other comprehensive income in the period in which they arise. The corresponding change in shareholders' equity is adjusted to retained earnings for the year.

### Deferred income

Advance payments received for use of the Company's assets are initially recorded in deferred income. The income is recognized on a straight-line basis in net earnings over the period of use.

### Financial instruments and hedge accounting

The Company classifies its financial instruments into the following categories: loans and receivables, liabilities at amortized cost, available-for-sale investments, and financial assets and liabilities at fair value through profit or loss.

The Company has chosen not to apply hedge accounting to any of its derivative financial instruments. As a result of this policy choice, these hedging instruments are recorded initially and subsequently at fair value and the change in the fair value is recorded directly in the consolidated statements of earnings.

The Company classifies accounts payable and accrued liabilities, dividends payable, bank indebtedness, and long-term debt as liabilities at amortized cost. Accounts payable and accrued liabilities and dividends payable are initially measured at the amount to be paid, which approximates fair value because of the short-term nature of these liabilities. Subsequently, they are measured at amortized cost. Bank indebtedness and long-term debt are measured initially at fair value, net of transaction costs incurred and subsequently at amortized costs using the effective interest method.

Accounts receivable are classified as loans and receivables. Accounts receivable are primarily amounts due from customers from the sale of goods or the rendering of services. The Company maintains an allowance for doubtful accounts to record an estimate of credit losses. When no recovery of an amount owing is possible, the account receivable is reduced directly.

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 the Company does not currently have any embedded derivatives in these contracts that require separate accounting and disclosure.

# **Andrew Peller Limited**

## **Notes to Consolidated Financial Statements**

**March 31, 2015 and March 31, 2014**

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(in thousands of Canadian dollars, except per share amounts)

### **Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statements of earnings on a straight-line basis over the period the asset is used under the lease. Leases under which the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Payments on finance leases are allocated to the liability and expense so as to recognize a constant rate of interest on the remaining balance of the liability. Assets acquired under finance leases are amortized over their useful lives.

### **Impairment of non-financial assets**

The Company reviews long-lived assets and definite life intangible assets for impairment when events or circumstances indicate an asset may be impaired. Assets are assigned to a CGU based on the lowest level at which they generate independent cash inflows. When there is an indication of impairment, an impairment charge is recorded to the extent the carrying value of a CGU exceeds the greater of the CGU's fair value less costs to sell and its value in use determined by discounting expected cash flows (recoverable amount). An impairment loss is reversed if a CGU's recoverable amount increases to the extent that the related assets' carrying amounts are no larger than the amount that would have been determined, net of amortization, had no impairment loss been recorded.

### **Net earnings per share**

Basic net earnings per share have been calculated using the weighted average number of Class A and Class B shares outstanding during the year. Diluted net earnings per share have been calculated by considering the impact of any potential ordinary shares that are dilutive on the two classes of shares when considered together.

### **Dividends**

Dividends on Class A and Class B shares are recognized in the period in which they are formally declared by the Board of Directors.

### **Segmented information**

The Company produces and markets wine products 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 the Company operates in one geographic segment.

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## **Notes to Consolidated Financial Statements**

**March 31, 2015 and March 31, 2014**

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(in thousands of Canadian dollars, except per share amounts)

### **Income taxes**

Current income tax is the expected amount of tax payable or recoverable on taxable income or loss during the period. Current income tax may also include adjustments to taxes payable or recoverable in respect of previous periods.

The Company accounts for deferred income taxes based on temporary differences, which are the differences between the carrying amount of an asset or liability and its tax base. Deferred income taxes are provided for all temporary differences between the carrying amount and tax bases of assets and liabilities, except for those arising from the initial recognition of goodwill or for those arising from the initial recognition of an asset or liability in a transaction that is not a business combination and has no impact on earnings or taxable income or loss. Deferred income tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The deferred income tax provision (recovery) recorded in net earnings and other comprehensive income represents the change during the year in deferred income tax assets and deferred income tax liabilities.

### **Contingencies**

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims. Management believes 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 the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Company.

### **Comprehensive income**

Comprehensive income is comprised of net earnings and other comprehensive loss (OCI). OCI represents the change in equity for a period that arises from transactions that are required to be or are elected to be recognized outside of net earnings. The Company has chosen to record actuarial gains and losses on defined benefit pension plans and other post-employment benefit plans in OCI in the period incurred.

### **Equity**

The Company separately presents changes in equity related to capital stock and retained earnings in the consolidated statements of changes in equity.

### **Recently adopted accounting pronouncements**

In May 2013, the IASB issued IFRIC 21, Levies. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Company was required to apply this interpretation retrospectively effective April 1, 2014. The standard did not have a significant impact on the Company.

# Andrew Peller Limited

## Notes to Consolidated Financial Statements

### March 31, 2015 and March 31, 2014

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(in thousands of Canadian dollars, except per share amounts)

#### **Recently issued accounting pronouncements**

During December 2014, the IASB issued amendments to IAS 1, Presentation of Financial Statements, which clarify the concept of materiality as it applies to information disclosed in the financial statements. The amendments also provide guidance on the presentation of subtotals, the structure of the notes to the financial statements, and the disclosure of significant accounting policies. The Company is currently evaluating the potential impact of this standard.

During July 2014, the IASB issued the complete version of IFRS 9, Financial Instruments - Classification and Measurement of Financial Assets and Financial Liabilities. IFRS 9 will replace IAS 39, Financial Instruments: Recognition and Measurement. In addition, IFRS 7, Financial Instruments - Disclosures, was amended to include additional disclosure requirements on transition to IFRS 9. The mandatory effective date of applying these standards is for annual periods beginning on or after January 1, 2018. The standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used. The standard requires that for financial liabilities measured at fair value, any changes in an entity's own credit risk are generally to be presented in other comprehensive income instead of net earnings. A new hedge accounting model is included in the standard as well as increased disclosure requirements about risk management activities for entities that apply hedge accounting. The Company is currently evaluating the potential impact of this standard.

During May 2014, the IASB issued amendments to IAS 16, Property, Plant, and Equipment, and IAS 41, Agriculture, which requires bearer plants to be classified as property, plant, and equipment and accounted for under IAS 16. The amended standards are effective for annual periods beginning on or after January 1, 2016. Early application of this standard is permitted. The Company is currently evaluating the impact of these amended standards.

During May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which supersedes IAS 18, Revenue, and IAS 11, Construction Contracts. The standard details a revised model for the recognition of revenue from contracts with customers. The standard is effective for first interim periods within annual periods beginning on or after January 1, 2018. The Company is currently evaluating the potential impact of adopting this amended standard.

### **3 Critical accounting estimates and judgments**

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, the reported amounts of revenues and expenses during the reporting period and the extent of and the reported amounts in disclosures. Actual results may vary from current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the period in which they change. Specific areas of uncertainty include but are not limited to:

# **Andrew Peller Limited**

## **Notes to Consolidated Financial Statements**

**March 31, 2015 and March 31, 2014**

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(in thousands of Canadian dollars, except per share amounts)

### **Impairment of goodwill**

Testing goodwill for impairment at least annually involves estimating the recoverable amount of the CGUs to which goodwill is allocated. This requires making assumptions about future cash flows, growth rates, market conditions and discount rates, which are inherently uncertain. Actual amounts may vary from these assumptions and cause significant adjustments.

### **Post-employment benefits**

Measuring the liability for post-employment benefits uses assumptions for the discount rates, increases in compensation, increases in medical costs and timing of the payment of benefits. Actual amounts may vary from these assumptions and cause significant adjustments.

### **Fair value of biological assets**

Determining the fair value of grape vines involves making assumptions about how market participants assign the value of a vineyard between vines, land and other assets. Changes in the fair value of vines may occur as a result of changes in numerous factors, including, vine health, and expected future yields.

To estimate the fair value of controlled vines planted on leased land, discounted cash flows over the estimated remaining life of vines or the remaining lease term, whichever is shorter, were used. The fair value of vines on leased land reduces to \$nil as the lease nears its expiration date. Assumptions used include the discount rate, expected yields, grape price trends, and annual growing cost trends.

To estimate the fair value of vines in the middle and later stages of development, the estimated fair value of mature vines was reduced by the net discounted cash outflows necessary to bring the vines to a fully developed state.

Actual amounts may vary from these assumptions and cause significant adjustments.

### **Fair value of grapes at the point of harvest**

Where possible, the fair value of grapes at the point of harvest is determined by reference to local market prices for grapes of a similar quality and the same varietal. For grapes for which local market prices are not readily available, the average price of similar grapes is used. Actual amounts may vary from these assumptions and cause significant adjustments.

# Andrew Peller Limited

## Notes to Consolidated Financial Statements

March 31, 2015 and March 31, 2014

(in thousands of Canadian dollars, except per share amounts)

### 4 Inventories

	2015	2014
Packaging materials and supplies	\$ 8,726	\$ 8,493
Bulk wine	63,777	70,445
Finished goods	45,309	41,813
	<u>\$ 117,812</u>	<u>\$ 120,751</u>
Interest included in the cost of inventories	\$ 1,191	\$ 980

Inventory writedowns recognized as an expense amounted to \$1,700 (2014 - \$1,422).

The cost of inventories recognized as an expense and included in cost of goods sold, excluding amortization was \$198,794 (2014 - \$188,420).

### 5 Property, plant and equipment

	Land	Vineyard land and infrastructure	Buildings	Machinery and equipment	Total
<b>At March 31, 2013</b>					
Cost	\$ 4,777	\$ 25,521	\$ 42,914	\$ 94,981	\$ 168,193
Accumulated amortization	-	(4,901)	(14,718)	(59,733)	(79,352)
<b>Net carrying amount</b>	4,777	20,620	28,196	35,248	88,841
<b>Year ended March 31, 2014</b>					
Additions	-	132	119	8,397	8,648
Disposals	-	-	-	(90)	(90)
Amortization	-	(573)	(1,101)	(5,573)	(7,247)
<b>Closing net carrying amount</b>	<u>\$ 4,777</u>	<u>\$ 20,179</u>	<u>\$ 27,214</u>	<u>\$ 37,982</u>	<u>\$ 90,152</u>
<b>At March 31, 2014</b>					
Cost	\$ 4,777	\$ 25,653	\$ 43,033	\$ 102,352	\$ 175,815
Accumulated amortization	-	(5,474)	(15,819)	(64,370)	(85,663)
<b>Net carrying amount</b>	4,777	20,179	27,214	37,982	90,152
<b>Year ended March 31, 2015</b>					
Additions	39	69	447	7,606	8,161
Disposals	-	-	-	(105)	(105)
Amortization	-	(573)	(1,116)	(5,564)	(7,253)
<b>Closing net carrying amount</b>	<u>\$ 4,816</u>	<u>\$ 19,675</u>	<u>\$ 26,545</u>	<u>\$ 39,919</u>	<u>\$ 90,955</u>
<b>At March 31, 2015</b>					
Cost	\$ 4,816	\$ 25,722	\$ 43,480	\$ 108,297	\$ 182,315
Accumulated amortization	-	(6,047)	(16,935)	(68,378)	(91,360)
<b>Net carrying amount</b>	<u>\$ 4,816</u>	<u>\$ 19,675</u>	<u>\$ 26,545</u>	<u>\$ 39,919</u>	<u>\$ 90,955</u>

# Andrew Peller Limited

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Included in machinery and equipment are assets amounting to \$199 (2014 - \$1,554) that are under development and are not being amortized.

Contractual commitments to purchase property, plant and equipment were \$477 as at March 31, 2015 (2014 - \$nil).

Included in machinery and equipment are assets with a net carrying amount of \$184 (2014 - \$220) that were purchased under a finance lease.

### 6 Biological assets

Biological assets consist of grape vines and grapes prior to harvest that are controlled by the Company. The Company owns and leases land in Ontario and British Columbia to grow grapes in order to secure a supply of quality grapes for the making of wine.

During the year ended March 31, 2015, the Company harvested grapes valued at \$5,374 (2014 - \$5,885).

The changes in the carrying amount of biological assets are as follows:

	<b>2015</b>	<b>2014</b>
Carrying amount - Beginning of year	\$ 15,116	\$ 14,343
Net increase in fair value less costs to sell due to biological transformation	5,441	6,009
Transferred to inventory on harvest	(5,374)	(5,885)
Loss on revaluation of vines included in other expense	(352)	(67)
Net (loss) gain	(285)	57
Purchase of vines	14,831 280	14,400 716
Carrying amount - End of year	15,111	15,116
Current portion of biological assets	(1,129)	(1,062)
Biological assets	\$ 13,982	\$ 14,054

# Andrew Peller Limited

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

	<b>2015</b>		
Asset	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)
Vines on owned property	\$ -	\$ -	\$ 7,708
Vines on leased property	-	-	6,274
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,982</u>
	<b>2014</b>		
Asset	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)
Vines on owned property	\$ -	\$ -	\$ 7,946
Vines on leased property	-	-	6,108
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,054</u>

The fair value of vines on owned property is determined based on the estimated replacement cost to develop a vine to a fully producing state. The weighted average replacement cost used was \$21 per acre. This does not include the cost of tangible assets such as trellises and posts or the cost of preparing the land, which are included in property, plant and equipment.

The significant assumptions used to determine the fair value of vines planted on leased land are as follows:

	<b>2015</b>	<b>2014</b>
Annual yield	3 - 5 tonnes per acre	3 - 5 tonnes per acre
Discount rate	10 - 12%	10 - 12%
Inflation rate	2.0%	2.5%
Annual vineyard operating costs	\$7 to \$8 per acre	\$7 to \$8 per acre

A 1% increase in the discount rate would lead to a decrease in the fair value less costs to sell of vines on leased land of approximately \$484. A 1% decrease in the discount rate would lead to a corresponding increase of approximately \$547.

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The Company is exposed to financial risk because of the long period of time between the cash outflow required to plant grape vines, cultivate vineyards, and harvest grapes and the cash inflow from selling wine and related products from the harvested grapes.

Substantially all of the grapes from owned and leased vineyards are used in the Company's winemaking processes. Owned and leased vineyards, in combination with supply contracts with grape growers, are used to secure a supply of domestic grapes. These strategies reduce the financial risks associated with changes in grape prices.

### 7 Intangible assets

	Brands - indefinite life	Customers	Contract packaging	Software	Other	Total
<b>At March 31, 2013</b>						
Cost	\$ 4,175	\$ 11,147	\$ 1,100	\$ 81	\$ 1,898	\$ 18,401
Accumulated amortization and impairment	(200)	(3,804)	(536)	-	(1,255)	(5,795)
<b>Net carrying amount</b>	<b>3,975</b>	<b>7,343</b>	<b>564</b>	<b>81</b>	<b>643</b>	<b>12,606</b>
<b>Year ended March 31, 2014</b>						
Additions	-	-	-	1,632	100	1,732
Disposals	-	-	-	-	(81)	(81)
Amortization	-	(652)	(107)	(157)	(132)	(1,048)
<b>Closing net carrying amount</b>	<b>\$ 3,975</b>	<b>\$ 6,691</b>	<b>\$ 457</b>	<b>\$ 1,556</b>	<b>\$ 530</b>	<b>\$ 13,209</b>
<b>At March 31, 2014</b>						
Cost	\$ 4,175	\$ 11,147	\$ 1,100	\$ 1,713	\$ 1,917	\$ 20,052
Accumulated amortization and impairment	(200)	(4,456)	(643)	(157)	(1,387)	(6,843)
<b>Net carrying amount</b>	<b>3,975</b>	<b>6,691</b>	<b>457</b>	<b>1,556</b>	<b>530</b>	<b>13,209</b>
<b>Year ended March 31, 2015</b>						
Additions	-	-	-	420	-	420
Amortization	-	(700)	(110)	(356)	(132)	(1,298)
<b>Closing net carrying amount</b>	<b>\$ 3,975</b>	<b>\$ 5,991</b>	<b>\$ 347</b>	<b>\$ 1,620</b>	<b>\$ 398</b>	<b>\$ 12,331</b>
<b>At March 31, 2015</b>						
Cost	\$ 4,175	\$ 11,147	\$ 1,100	\$ 2,133	\$ 1,917	\$ 20,472
Accumulated amortization and impairment	(200)	(5,156)	(753)	(513)	(1,519)	(8,141)
<b>Net carrying amount</b>	<b>\$ 3,975</b>	<b>\$ 5,991</b>	<b>\$ 347</b>	<b>\$ 1,620</b>	<b>\$ 398</b>	<b>\$ 12,331</b>

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### 8 Goodwill

In order to test goodwill for impairment, the Company allocates the carrying value of goodwill to CGUs based on the lowest level that goodwill is monitored for internal management purposes. The aggregate carrying amount of goodwill allocated to each unit is as follows:

	2015		2014
Ontario and eastern Canadian wine	\$ 3,134	\$	3,134
Western Canadian wine	10,530		10,530
Personal winemaking products	23,809		23,809
	<u>\$ 37,473</u>	\$	<u>37,473</u>

The Company determined the recoverable amount of the related CGUs by estimating their value in use. Key assumptions used are:

	2015		2014
Pre-tax discount rate	12%		12%
Period of projected cash flows	5 years		5 years
Growth rate beyond period of projected cash flows	4%		4%

The Company uses past experience and current expectations about future performance in projecting cash flows, which are based on financial budgets for five years. For the period after five years, the Company projects cash flows using an assumed growth rate, which is based on expectations about long-term economic growth in Canada and any known industry specific factors that may influence long-term growth in the Canadian wine industry. The discount rate is estimated by referring to external sources of information about the cost of capital and the leverage of companies that operate in a similar industry to the Company and that are of similar size. The rate determined is then adjusted to a pre-tax basis.

### 9 Bank indebtedness

Significant terms of the Company's operating loan facility are summarized below. The floating rates are stated in relation to the one to six-month Canadian Dealer Offered Rate (CDOR).

	2015		2014
Bank indebtedness	\$ 32,522	\$	54,407
<b>Significant terms</b>			
Committed until	April 28, 2019		September 16, 2015
Borrowing limit	\$90,000		\$80,000
Interest rate	CDOR + 1.50%		CDOR + 1.75%
Unused amount	\$55,400		\$28,639

# Andrew Peller Limited

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### 10 Accounts payable and accrued liabilities

	2015		2014
Trade payables	\$ 26,248	\$	28,664
Accrued liabilities	9,976		7,802
Restructuring provision	84		501
Deferred income (note 13)	404		404
	<u>\$ 36,712</u>	\$	<u>37,371</u>

### 11 Long-term debt

	2015		2014
Term loan	\$ 56,333	\$	44,980
Other	531		637
Finance lease obligation	88		220
	<u>56,952</u>		<u>45,837</u>
Less: Financing costs	489		117
	<u>56,463</u>		<u>45,720</u>
Less: Current portion	4,194		7,392
	<u>\$ 52,269</u>	\$	<u>38,328</u>

On April 28, 2014, the Company amended its debt facilities including the term loan. On May 14, 2014, the Company entered into a new interest rate swap in order to fix the interest rate on the entire amount outstanding on the term loan.

The significant terms of the term loans were as follows:

	2015		2014
Maturity date	April 28, 2019		September 16, 2015
Monthly payment until maturity	\$ 333	\$	598
Amount bearing fixed interest as a result of an interest rate swap	56,333		36,667
Amount bearing floating interest	-		8,313
Fixed interest rate until August 31, 2015	4.68%		5.73%
Fixed interest rate from September 1, 2015 to September 19, 2019	3.66%		n/a
Floating interest rate	n/a		CDOR + 1.75%

The Company also negotiated a \$15,000 facility, which is committed until April 28, 2019 and can be drawn down for the purpose of making capital expenditures.

The Company and its subsidiaries have provided their assets as security for this loan.

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Interest expense on long-term debt during the year was \$2,945 (2014 - \$2,802).

### 12 Post-employment benefits

#### Defined contribution plans

The total expenses for defined contribution savings plans were \$1,388 (2014 - \$1,291).

#### Defined benefit plans

The Company has funded defined benefit pension plans. The Company also has an unfunded post-retirement medical benefits plan for certain employees and provides a monthly wine allowance to retired employees, which are collectively referred to as other post-employment benefits.

#### Nature

The Company's defined benefit pension plans pay benefits based on a percentage of final average salary. There are two defined benefit pension plans in British Columbia with members who continue to accrue benefits. New employees are no longer entitled to accrue benefits under these defined benefit pension plans. There is one defined benefit pension plan in Ontario and no further benefits accrue to the members of this plan. All members of the defined benefit pension plan in Ontario have retired. The Company is responsible for administering these pension plans and determining investment policies. A committee of the Company's Board of Directors is responsible for overseeing the Company's defined benefit pension plans.

#### Regulatory information

The defined benefit pension plans are governed by the Pension Benefits Standards Act in British Columbia and the Pension Benefits Act in Ontario. An appointed actuary prepares a valuation at least every three years for each of the plans. These valuations determine the Company's minimum contributions. The minimum contributions are primarily based on the normal going concern cost, the funding deficit amortized over 15 years, and the solvency deficit amortized over five years. The solvency deficit is calculated assuming the plan is wound up on the effective date of the valuation. Contributions could be reduced in certain instances via a funding holiday if requirements of the relevant regulations are met, which normally requires the plan to have a surplus above certain threshold levels.

#### Risks

The defined benefit plan assets are invested in mutual funds. The investment mix for each plan is chosen with the objective that sufficient assets will be available to pay benefits as they come due and to achieve a reasonable return at an acceptable level of risk to stakeholders. The defined benefit plans subject the Company to market, interest rate, currency, price, credit, liquidity and longevity risks, which are typical of such plans. The most significant of these risks is that the expense and cash contributions related to these plans depend on the discount rate used to measure the liability to pay future benefits and the market performance of the plan assets set aside to pay these benefits. A decline in long-term interest rates or in asset values could increase the Company's costs related to funding the deficit in these plans.

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Amounts pertaining to defined benefit plans are as follows:

	<b>2015</b>		
	<b>Pension benefits</b>	<b>Other post- employment benefits</b>	<b>Total</b>
<b>Plan assets</b>			
Fair value - Beginning of year	\$ 19,010	\$ -	\$ 19,010
Return on plan assets excluding amounts in interest income	763	-	763
Interest income	846	-	846
Company's contributions	1,521	111	1,632
Employees' contributions	3	-	3
Benefits paid	(1,113)	(111)	(1,224)
Fair value - End of year	<u>\$ 21,030</u>	<u>\$ -</u>	<u>\$ 21,030</u>
<b>Plan obligations</b>			
Accrued benefit obligations - Beginning of year	\$ 22,620	\$ 2,522	\$ 25,142
Employees' contributions	3	-	3
Total current service cost	570	75	645
Interest cost	997	112	1,109
Benefits paid	(1,113)	(111)	(1,224)
Remeasurements			
Experience gain	(79)	-	(79)
Loss from change in financial assumptions	1,343	256	1,599
Accrued benefit obligations - End of year	<u>\$ 24,341</u>	<u>\$ 2,854</u>	<u>\$ 27,195</u>
Post-employment benefit obligations	<u>\$ 3,311</u>	<u>\$ 2,854</u>	<u>\$ 6,165</u>
			<b>2015</b>
	<b>Pension benefits</b>	<b>Other post- employment benefits</b>	<b>Total</b>
<b>Benefit plan expense</b>			
Current service cost	\$ 570	\$ 75	\$ 645
Net interest cost on defined benefit liability	151	112	263
Past service cost recorded in other expenses	-	-	-
Net benefit plan expense	<u>\$ 721</u>	<u>\$ 187</u>	<u>\$ 908</u>
Amount recognized in other comprehensive income			
Net actuarial loss	<u>\$ 501</u>	<u>\$ 256</u>	<u>\$ 757</u>
Expected contributions for the year ending March 31, 2016	\$ 1,463	\$ 127	\$ 1,590
Weighted average duration of the defined benefit obligations in years	13.5	12.6	13.4

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	<b>2014</b>		
	<b>Pension benefits</b>	<b>Other post- employment benefits</b>	<b>Total</b>
<b>Plan assets</b>			
Fair value - Beginning of year	\$ 17,536	\$ -	\$ 17,536
Return on plan assets excluding amounts in interest income	216	-	216
Interest income	747	-	747
Company's contributions	1,660	90	1,750
Employees' contributions	3	-	3
Benefits paid	(1,152)	(90)	(1,242)
Fair value - End of year	\$ 19,010	\$ -	\$ 19,010
<b>Plan obligations</b>			
Accrued benefit obligations - Beginning of year	\$ 21,862	\$ 2,085	\$ 23,947
Employees' contributions	3	-	3
Total current service cost	586	74	660
Interest cost	919	102	1,021
Benefits paid	(1,152)	(90)	(1,242)
Past service cost	-	326	326
Remeasurements			
Experience loss	50	-	50
Loss from change in demographic assumptions	923	83	1,006
Gain from change in financial assumptions	(571)	(58)	(629)
Accrued benefit obligations - End of year	\$ 22,620	\$ 2,522	\$ 25,142
Post-employment benefit obligations	\$ 3,610	\$ 2,522	\$ 6,132
			<b>2014</b>
	<b>Pension benefits</b>	<b>Other post- employment benefits</b>	<b>Total</b>
<b>Benefit plan expense</b>			
Current service cost	\$ 586	\$ 74	\$ 660
Net interest cost on defined benefit liability	172	102	274
Past service cost recorded in other expenses	-	326	326
Net benefit plan expense	\$ 758	\$ 502	\$ 1,260
Amount recognized in other comprehensive income			
Net actuarial loss	\$ 187	\$ 23	\$ 210
Expected contributions for the year ending March 31, 2015	\$ 1,597	\$ 95	\$ 1,692
Weighted average duration of the defined benefit obligations in years	13.1	11.8	13.0

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

	<b>2015</b>	<b>2014</b>
Discount rate for expenses	4.4%	4.2%
Discount rate for obligations	3.6%	4.4%
Rate of compensation increase	3.0%	4.0%
Rate of medical cost increases	5%	6% decreasing to 5% after 1 year
Retirement age	60 - 65 years	60 - 65 years
Inflation rate	2.0%	2.5%
Mortality tables	CPM-B 2014 Private table	CPM-B 2014 Private table

The following table outlines the impact of a reasonable change in significant assumptions assuming all other assumptions are held constant. Changes in numerous assumptions may occur at the same time, which could increase or decrease the impact. With respect to a 1% increase or decrease in the inflation rate, the analysis excludes any impact this would have on the discount rate, medical cost trend rates and the rate of compensation increase.

	<b>2015</b>		<b>2014</b>	
	<b>Pension benefits</b>	<b>Other post-employment benefits</b>	<b>Pension benefits</b>	<b>Other post-employment benefits</b>
Increase (decrease) in the post-employment benefit obligations				
1% increase in the discount rate	\$ (2,915)	\$ (275)	\$ (2,569)	\$ (269)
1% decrease in the discount rate	3,670	444	3,368	324
1% increase in the rate of compensation increase	1,200	12	1,027	11
1% decrease in the rate of compensation increase	(1,048)	(11)	(868)	(10)
1% increase in the inflation rate	434	-	437	-
1% decrease in the inflation rate	(393)	-	(396)	-

At March 31, 2015, the accumulated actuarial losses recognized in OCI were \$4,726 (2014 - \$3,969).

**Plan assets**

The plan assets consist of the following:

	<b>2015</b>		<b>2014</b>	
Mutual funds				
Fixed income	\$ 15,192	72%	\$ 13,723	72%
Equity	5,838	28%	5,287	28%
	<b>\$ 21,030</b>	<b>100%</b>	<b>\$ 19,010</b>	<b>100%</b>

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### 13 Deferred income

During the year ended March 31, 2013, the Company received an expropriation notice that its idle facility in Port Moody, British Columbia will be used, on a temporary basis, while construction of a rapid transit project takes place. Advance payments amounting to \$2,021 were received for the temporary use of the property. The amount received was initially recorded in deferred income and is being reported as other income over the five-year term of the expropriation.

	2015		2014
Deferred income	\$ 910	\$	1,314
Less: Current portion	404		404
	<u>\$ 506</u>	\$	<u>910</u>

### 14 Income taxes

	2015		2014
Current tax on earnings for the year	\$ 5,425	\$	3,910
Adjustments in respect of prior years	(46)		(671)
Provision for current income taxes	<u>5,379</u>		<u>3,239</u>
Change in temporary differences	383		1,791
Impact of change in tax rate	(26)		193
Provision for deferred income taxes	<u>357</u>		<u>1,984</u>
Total provision for income taxes	<u>\$ 5,736</u>	\$	<u>5,223</u>

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

	2015		2014
Provision for income taxes at blended statutory rate of 25.95% (2014 - 26.30%)	\$ 5,578	\$	5,062
Permanent differences and non-deductible items	228		385
Future income tax rate changes	(26)		193
Other	(44)		(417)
	<u>\$ 5,736</u>	\$	<u>5,223</u>

The decrease in the blended statutory rate applicable to the Company is primarily a result of higher income being taxed at the rates of lower tax jurisdictions.

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The movement of the deferred income tax account is as follows:

	<b>2015</b>	<b>2014</b>
At beginning of year	\$ 15,811	\$ 13,881
Provision for deferred income taxes in net earnings	357	1,984
Recovery of deferred income taxes in other comprehensive earnings	(197)	(54)
At end of year	<u>\$ 15,971</u>	<u>\$ 15,811</u>

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

**Deferred income tax liability**

	<b>Accelerated tax depreciation and deductions on property, plant and equipment</b>	<b>Biological assets</b>	<b>Accelerated tax deductions on intangible assets</b>	<b>Tax deductions on goodwill</b>	<b>Total</b>
March 31, 2013	\$ 8,030	\$ 3,069	\$ 2,474	\$ 2,959	\$ 16,532
Provision in net earnings	877	263	314	153	1,607
March 31, 2014	8,907	3,332	2,788	3,112	18,139
Provision in net earnings	562	(2)	(218)	(19)	323
March 31, 2015	<u>\$ 9,469</u>	<u>\$ 3,330</u>	<u>\$ 2,570</u>	<u>\$ 3,093</u>	<u>\$ 18,462</u>

**Deferred income tax asset**

	<b>Fair value change on derivatives</b>	<b>Post-employment benefits</b>	<b>Other</b>	<b>Total</b>
March 31, 2013	\$ (496)	\$ (1,652)	\$ (503)	\$ (2,651)
Provision in net earnings	190	104	83	377
Recovery in other comprehensive income	-	(54)	-	(54)
March 31, 2014	(306)	(1,602)	(420)	(2,328)
(Recovery) provision in net earnings	(149)	189	(6)	34
Recovery in other comprehensive income	-	(197)	-	(197)
March 31, 2015	<u>\$ (455)</u>	<u>\$ (1,610)</u>	<u>\$ (426)</u>	<u>\$ (2,491)</u>

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### 15 Capital stock

Authorized

Unlimited number of Class A shares, non-voting

Unlimited number of Class B shares, voting

Issued

	2015		2014	
	Number of shares	Amount	Number of shares	Amount
Class A shares, non-voting	11,293,829	\$ 6,626	11,293,829	\$ 6,626
Class B shares, voting	3,004,041	400	3,004,041	400
	<u>14,297,870</u>	<u>\$ 7,026</u>	<u>14,297,870</u>	<u>\$ 7,026</u>

All of the issued Class A and Class B shares are fully paid and have no par value.

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.

Quarterly dividends of \$0.1050 (previously \$0.1000) per Class A share and \$0.0913 (previously \$0.0870) per Class B share were approved by the Board of Directors on June 4, 2014 and are formally declared in each quarter.

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, 2015 and 2014, 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 a certain number of Class A shares on an annual basis. Employees are required to pay 67% of the 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 2015, expensed \$259 (2014 - \$247) related to this program. Officers of the Company also participate in an Equity Incentive Program, where Class A shares of the Company are purchased on their behalf from the open market.

# Andrew Peller Limited

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### 16 Nature of expenses

The nature of the expenses included in selling and administration and cost of goods sold, excluding amortization are as follows:

	2015		2014
Raw materials and consumables	\$ 162,336	\$	152,493
Employee compensation and benefits	57,114		53,983
Advertising, promotion and distribution	28,518		27,052
Occupancy	10,723		10,471
Repairs and maintenance	5,740		5,732
Other external charges	15,748		14,364
	<u>\$ 280,179</u>	<u>\$</u>	<u>264,095</u>

Restructuring costs amounting to \$nil (2014 - \$1,409) were recorded during the year ended March 31, 2015. The costs relate to termination payments and benefits for restructuring of the distribution, marketing, and administration functions of the Company's personal winemaking product division.

Other (income) expenses are as follows:

	2015		2014
Revaluation of vines (a)	\$ 352	\$	67
Ongoing maintenance costs related to Port Moody winery facility (b)	141		156
Income related to Port Moody Winery facility (c)	(442)		(404)
Past service costs (d)	-		326
	<u>\$ 51</u>	<u>\$</u>	<u>145</u>

- a) Changes in the fair value less costs to sell of vines included in biological assets are included in the revaluation of vine biological assets shown above.
- b) During fiscal 2006, the Company closed its Port Moody winery facility and transferred production to its winery operations in Kelowna, British Columbia. Effective July 1, 2012, the property was expropriated for a five-year period. The cost of maintaining this idle facility and costs associated with its expropriation amounted to \$153 in 2015 (2014 - \$156).
- c) Income amounting to \$442 (2014 - \$404) was recorded related to the Company's idle Port Moody property related to expropriation notices received by the Company.
- d) The Company recorded \$nil (2014 - \$326) expense for past service costs as a result of changes to retirement benefits in a new collective bargaining agreement.

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## Notes to Consolidated Financial Statements

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(in thousands of Canadian dollars, except per share amounts)

### 17 Net earnings per share

	<b>2015</b>		
	<b>Class A</b>	<b>Class B</b>	<b>Total</b>
Net earnings attributed for the year - basic and diluted	\$ 12,800	\$ 2,961	\$ 15,761
Weighted average number of shares outstanding - basic and diluted	11,293,829	3,004,041	
Net earnings per share - basic and diluted	\$ 1.13	\$ 0.99	
	<b>2014</b>		
	<b>Class A</b>	<b>Class B</b>	<b>Total</b>
Net earnings attributed for the year - basic and diluted	\$ 11,388	\$ 2,633	\$ 14,021
Weighted average number of shares outstanding - basic and diluted	11,293,829	3,004,041	
Net earnings per share - basic and diluted	\$ 1.01	\$ 0.88	

### 18 Commitments

In certain instances, the Company leases land for the purpose of operating vineyards. The terms of the land leases are 30 and 32 years, which expire in 2036 and 2029, respectively. Under the terms of one land lease, the Company has the option to agree in advance to purchase any grapes grown on the property at market value for five or more years after the termination of the lease. The Company also has a right of first refusal to purchase the land under both land leases. The terms of such a purchase would be negotiated based on market conditions existing at the time of the purchase.

The Company leases various storage facilities, offices, and retail locations. The remaining terms of these leases range between one and ten years. The Company also leases various equipment and vehicles with remaining lease terms between one and five years. In many cases, the Company has renewal options for fair market rental prices at the time of renewal.

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The Company's minimum lease payments as at March 31, 2015 under long-term non-cancellable leases are outlined in note 20 along with its other contractual obligations.

In 2015, minimum lease payments of \$4,799 (2014 - \$4,742) were recognized as an expense.

### 19 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:

	2015		2014
Accounts receivable	\$ (2,923)	\$	2,791
Inventories and current portion of biological assets	2,872		(4,944)
Prepaid expenses and other assets	(229)		(110)
Accounts payable and accrued liabilities	(956)		3,893
	<u>\$ (1,236)</u>	\$	<u>1,630</u>

### 20 Financial instruments

#### Classification of financial instruments

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

Assets/liabilities	Category	Measurement	2015	
			Carrying amount	Fair value
Accounts receivable	Loans and receivables	Amortized cost	\$ 25,616	\$ 25,616
Bank indebtedness	Other liabilities	Amortized cost	32,522	32,522
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	36,712	36,712
Dividends payable	Other liabilities	Amortized cost	1,460	1,460
Long-term debt	Other liabilities	Amortized cost	56,463	56,463
Interest rate swap liability	Derivatives	Fair value	2,439	2,439
Foreign exchange forward contracts asset	Derivatives	Fair value	697	697

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Assets/liabilities	Category	Measurement	2014	
			Carrying amount	Fair value
Accounts receivable	Loans and receivables	Amortized cost	\$ 22,693	\$ 22,693
Bank indebtedness	Other liabilities	Amortized cost	54,407	54,407
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	37,371	37,371
Dividends payable	Other liabilities	Amortized cost	1,391	1,391
Long-term debt	Other liabilities	Amortized cost	45,720	45,720
Interest rate swap liability	Derivatives	Fair value	1,270	1,270
Foreign exchange forward contracts asset	Derivatives	Fair value	100	100

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.

### Fair value

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

The fair value of long-term debt is equivalent to its carrying value because 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 consolidated balance sheets.

The fair value of foreign exchange forward contracts is determined based on the difference between the contract rate and the forward rate at the date of the valuation.

The fair value of the interest rate swap is determined based on the difference between the fixed interest rate in the contract that will be paid by the Company and the forward curve of the floating interest rates that are expected to be paid by the counterparty. The fair value of foreign exchange forward contracts and the interest rate swap are adjusted to reflect any changes in the Company's or the counterparty's credit risk.

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.

The net unrealized (losses) gains on derivative financial instruments are comprised of:

	2015	2014
Unrealized gains (losses) on foreign exchange forward contracts	\$ 597	\$ (302)
Unrealized (losses) gains on the interest rate swap	(1,169)	1,052
	<u>\$ (572)</u>	<u>\$ 750</u>

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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.

	<b>2015</b>		
<b>Asset/liability</b>	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant observable inputs other than quoted prices (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
Interest rate swap liability	\$ -	\$ 2,439	\$ -
Foreign exchange forward contracts asset	-	697	-

  

	<b>2014</b>		
<b>Asset/liability</b>	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant observable inputs other than quoted prices (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
Interest rate swap liability	\$ -	\$ 1,270	\$ -
Foreign exchange forward contracts asset	-	100	-

### 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 its long-term debt until April 2019 by entering into interest rate swaps. The interest rate swaps are measured at fair value. An unrealized loss of \$1,169 (2014 - \$1,052 gain) was recognized on the interest rate swaps, which is classified as net unrealized loss (gain) on derivative financial instruments in the consolidated statements of earnings.

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, 2015, with other variables unchanged, a 1% change in interest rates would impact the Company's net earnings by approximately \$237 (2014 - \$460), exclusive of the mark-to-market adjustments on the interest rate swaps.

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### 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. Counterparties to derivative contracts are also major financial institutions.

Credit risk for trade receivables is monitored through established credit monitoring activities. Over 50% of the Company's accounts receivable balance relates to amounts owing from Canadian provincial liquor boards. Excluding accounts receivable from Canadian provincial liquor boards, 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 represent \$13,504 (2014 - \$12,515) of the total accounts receivable for which no allowance has been provided. Of the remaining non-provincial liquor board balances, \$755 (2014 - \$688) was over thirty days past due as at March 31, 2015. An allowance for doubtful accounts of \$99 (2014 - \$102) has been provided against these accounts receivable amounts, which the Company has determined to represent a reasonable estimate of amounts that may be uncollectible.

Sales to its largest customer, a provincial Crown corporation, were \$49,068 (2014 - \$46,410) during the year ended March 31, 2015. Sales to its second largest customer, a branch of a provincial government, were \$34,387 (2014 - \$33,204) during the year.

An analysis of accounts receivable is as follows:

	<b>2015</b>		<b>2014</b>
Liquor boards	\$ 13,504	\$	12,515
Non-liquor boards			
Current	9,380		8,355
Past due 0 - 30 days, due on delivery accounts	620		402
Past due 0 - 30 days	1,456		835
Past due 31 - 60 days	249		278
Past due > 60 days	506		410
Allowance for doubtful accounts	(99)		(102)
	<u>\$ 25,616</u>	\$	<u>22,693</u>

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

	<b>2015</b>		<b>2014</b>
Balance - Beginning of year	\$ 102	\$	142
Provision for current year	54		68
Bad debts	(57)		(108)
	<u>99</u>	\$	<u>102</u>

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### 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 operating 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 US dollar purchases as at March 31, 2015:

	Total	< 1 year	2 - 3 years	4 - 5 years	> 5 years
Long-term debt	\$ 56,952	\$ 4,194	\$ 8,212	\$ 44,546	\$ -
Leases and royalties	23,707	4,862	6,640	3,602	8,603
Pension obligations	5,306	987	1,413	858	2,048
Grape and bulk wine purchase contracts	317,176	74,636	89,782	53,656	99,102
	403,141	84,679	106,047	102,662	109,753
Interest rate swap	7,478	2,255	3,541	1,682	-
Foreign exchange forwards	35,937	35,937	-	-	-
Total contractual obligations	\$ 446,556	\$ 122,871	\$ 109,588	\$ 104,344	\$ 109,753

The Company's obligations under its interest rate swap and foreign exchange forward contracts 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 US dollars, euro or Australian dollars. 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.

The Company's foreign exchange risk arises on the purchase of bulk wine and concentrate, which are made in US dollars and euro. The Company's strategy is to hedge approximately 50% to 80% of its annual foreign exchange requirements prior to or during the beginning of each fiscal quarter. As at March 31, 2015, the Company has forward foreign currency contracts to buy US\$22,100 at rates ranging between \$1.13 and \$1.25, EUR3,500 at rates ranging between \$1.38 and \$1.44 and AU\$4,000 at rates ranging between \$0.94 and \$0.97. These contracts mature at various dates to December 2015. After considering the offsetting impact of these forward contracts, a 1% increase or decrease to the exchange rate of the US dollar, the euro or the Australian

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dollar would impact the Company's net earnings by approximately \$108 (2014 - \$41), \$16 (2014 - \$133) or \$69 (2014 - \$64), respectively. The Company has elected to not use hedge accounting and as a result, has recognized \$597 (2014 - \$302 losses) of unrealized foreign exchange gains in the consolidated statements of earnings as a component of net unrealized gains on derivative financial instruments and has recorded the fair value of \$697 in prepaid expenses and other assets in the consolidated balance sheets (2014 - \$100).

### 21 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 financial covenants, which consist of the following:

- funded debt to a rolling twelve-month EBITDA, which is defined as consolidated earnings before interest, amortization and taxes excluding unusual and non-recurring items that are agreed to by the Company and the lender; and
- fixed charge coverage ratio.

Unfunded capital expenditures are limited to \$15,000 on an annual basis. The unspent portion may be carried over to the next fiscal year.

Compliance with these covenants and the capital expenditure limit is monitored by management on a quarterly basis.

### 22 Related parties and management compensation

The Company is controlled by Jalger Limited, which owns 66.5% of the Company's Class B voting shares. The ultimate controlling party of the Company is Dr. Joseph A. Peller.

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### Compensation of directors and executives

The compensation expense recorded for directors and members of the Executive Management Team of the Company is shown below:

	<b>2015</b>		<b>2014</b>
Compensation and benefits	\$ 5,263	\$	4,145
Payments to a share purchase plan	258		160
	<u>\$ 5,521</u>	\$	<u>4,305</u>

The compensation and benefits expense consists of amounts that will primarily be settled within twelve months.

### 23 Segmented information

During the year, export sales were \$13,853 (2014 - \$11,881), primarily in the United States. The remainder of sales occurred in Canada. All of the Company's assets are located in Canada.