

# ANDREW PELLER

— LIMITED —

## MANAGEMENT'S DISCUSSION & ANALYSIS

### For the three and six months ended September 30, 2015

The following management's discussion and analysis ("MD&A") provides a review of corporate developments, results of operations, and financial position for the three and six months ended September 30, 2015 in comparison with those for the three and six months ended September 30, 2014. This discussion is prepared as of November 11, 2015 and should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and six months ended September 30, 2015 and 2014. Additional information relating to Andrew Peller Limited, including the audited consolidated financial statements, MD&A and Annual Information Form for the years ended March 31, 2015 and March 31, 2014, is available on [www.sedar.com](http://www.sedar.com). The financial years ending March 31, 2016, March 31, 2015, and March 31, 2014 are referred to as "fiscal 2016", "fiscal 2015", and "fiscal 2014", respectively. All dollar amounts are expressed in Canadian dollars unless otherwise indicated.

### FORWARD-LOOKING INFORMATION

Certain statements in this MD&A may contain "forward-looking statements" within the meaning of applicable securities laws including the "safe harbour provisions" of the Securities Act (Ontario) with respect to Andrew Peller Limited ("APL" or the "Company") and its subsidiaries. Such statements include, but are not limited to, statements about the growth of the business in light of the Company's acquisitions; its launch of new premium wines; sales trends in foreign markets; its supply of domestically grown grapes; and current economic conditions. These statements are subject to certain risks, assumptions, and uncertainties that could cause actual results to differ materially from those included in the forward-looking statements. The words "believe", "plan", "intend", "estimate", "expect", or "anticipate", and similar expressions, as well as future or conditional verbs such as "will", "should", "would", "could", and similar verbs often identify forward-looking statements. We have based these forward-looking statements on our current views with respect to future events and financial performance. With respect to forward-looking statements contained in this MD&A, the Company has made assumptions and applied certain factors regarding, among other things: future grape, glass bottle, and wine prices; its ability to obtain grapes, imported wine, glass, and its ability to obtain other raw materials; fluctuations in the U.S./Canadian dollar, Euro/Canadian dollar, and Australian/Canadian dollar exchange rates; its ability to market products successfully to its anticipated customers; the trade balance within the domestic Canadian wine market; market trends; reliance on key personnel; protection of its intellectual property rights; the economic environment; the regulatory requirements regarding producing, marketing, advertising, and labeling of its products; the regulation of liquor distribution and retailing in Ontario; the application of federal and provincial environmental laws; and the impact of increasing competition.

These forward-looking statements are also subject to the risks and uncertainties discussed in the "Risks and Uncertainties" section and elsewhere in this MD&A and other risks detailed from time to time in the publicly filed disclosure documents of the Company which are available at [www.sedar.com](http://www.sedar.com). Forward-looking statements are not guarantees of future performance and involve risks, uncertainties, and assumptions which could cause actual results to differ materially from the conclusions, forecasts, or projections anticipated in these forward-looking statements. Because of these risks, uncertainties, and assumptions you should not place undue reliance on these forward-looking statements. The Company's forward-looking statements are made only as of the date of this MD&A, and except as required by applicable law, Andrew Peller Limited undertakes no obligation to update or revise these forward-looking statements to reflect new information, future events, or circumstances.

### Overview

The Company is a leading producer and marketer of quality wines in Canada. With wineries in British Columbia, Ontario, and Nova Scotia, the Company markets wines produced from grapes grown in Ontario's Niagara Peninsula, British Columbia's Okanagan and Similkameen Valleys, and from vineyards around the world. The Company's award-winning premium and ultra-premium VQA brands include *Peller Estates*, *Trius*, *Hillebrand*, *Thirty Bench*, *Crush*, *Wayne Gretzky*, *Sandhill*, *Calona Vineyards Artist Series*, and *Red Rooster*. Complementing these premium brands are a number of popularly priced varietal brands including *Peller Estates French Cross* in Eastern Canada, *Peller Estates Proprietors Reserve* in Western Canada, *Copper Moon*, *XOXO*, *skinnygrape*, *Black Cellar*, and *Verano*.

*Hochtaler, Domaine D'Or, Schloss Laderheim, Royal, and Sommet* are our key value priced brands. The Company produces wine based liqueurs and cocktails under the brand *Panama Jack* and wine based spritzers under the *skinnygrape* brand. The Company imports wines from major wine regions around the world to blend with domestic wine to craft these popularly priced and value priced brands. With a focus on serving the needs of all wine consumers, the Company produces and markets premium personal winemaking products through its wholly-owned subsidiary, Global Vintners Inc. ("GVI"), the recognized leader in personal winemaking products. GVI distributes products through over 170 Winexpert authorized retailers and more than 600 independent retailers across Canada, the United States, the United Kingdom, New Zealand, Australia, and China. GVI's award-winning premium and ultra-premium winemaking brands include *Selection, Vintners Reserve, Island Mist, KenRidge, Cheeky Monkey, Ultimate Estate Reserve, Traditional Vintage, and Cellar Craft*. The Company owns and operates over 100 well-positioned independent retail locations in Ontario under The Wine Shop, Wine Country Vintners, and Wine Country Merchants store names. The Company also owns Andrew Peller Import Agency and The Small Winemaker's Collection Inc. ("SWM"), importers and marketing agents for premium wines from around the world. The Company's products are sold predominantly in Canada with a focus on export sales for its icewine and personal winemaking products.

The Company's stated mission is to build sales volumes of its blended, premium, and ultra-premium brands by delivering to its customers and consumers the highest quality wines at the best possible value. To meet this goal the Company invests in improvements in the quality of grapes and wines, its winemaking capabilities, sales and marketing initiatives, and its quality management programs. Over the long term the Company believes premium wine sales will continue to grow in Canada and these products generate higher prices and increased profitability compared to lower-priced table wines.

The Company is focused on initiatives to reduce costs and enhance its production efficiencies through a continual review of its operations and cost structure with a view to enhancing profitability. The Company continues to expand and strengthen its distribution through provincial liquor boards, the Ontario independent retail locations under The Wine Shop, Wine Country Vintners, and Wine Country Merchants store names, estate wineries, restaurants, and other licensed establishments. This distribution network is supported by enhanced sales, marketing, and promotional programs. From time to time the Company also evaluates the potential for acquisitions and partnerships, both in Canada and internationally, to further complement its product portfolio and market presence.

### **Recent Events**

On September 4, 2015 the Company announced that it had filed planning documents for the development of the new Wayne Gretzky Estate Winery and Craft Distillery in Niagara-on-the-Lake, Ontario. Located on land adjacent to the Company's Trius Winery, the proposed 15,000 square foot facility will include a winery, craft distillery, barrel aging cellars, tasting rooms, retail and hospitality facilities, all surrounded by landscaping and vineyards. The Company established its strategic alliance with the Wayne Gretzky Estate Winery in 2011, and has generated significant growth in their brands to where their wines are now among the top-ten best sellers across Canada. The new winery is expected to open in the spring of 2017 and will add to the significant investments the Company has made in its Peller Estates, Trius, Thirty Bench, Sandhill and Red Rooster estate wineries.

On June 3, 2015 the Company's Board of Directors announced a 7.1% increase in common share dividends for shareholders of record on June 30, 2015 payable on July 10, 2015. The annual amount of dividends on Class A Shares was increased to \$0.450 per share from \$0.420 per share and the dividends on Class B Shares was increased to \$0.391 per share from \$0.365 per share.

On April 1, 2015 the Company adopted International Accounting Standards Board (IASB) amendments to IAS 16 – Property, Plant, and Equipment, and IAS 41 – Agriculture, which require bearer plants to be classified as property, plant, and equipment and accounted for under IAS 16. The Company has determined that grape vines controlled by the Company are within the scope of these amendments. While the amended standards are effective for annual periods beginning on or after January 1, 2016, early application of these standards is permitted. The Company elected to apply these amendments effective April 1, 2015. Comparative period information was re-stated beginning April 1, 2014 to reflect the adoption of these amendments.

In June 2014, Peller Estates was awarded the prestigious honour of "Canadian Winery of the Year" at the 2014 WineAlign National Wine Awards held in Penticton, British Columbia. This year marked the 14<sup>th</sup> national competition judged by an extensive panel of the most respected wine writers, wine critics, retail buyers, Master

Sommeliers, and Masters of Wines in Canada. With 1,335 wines being reviewed from 189 wineries across Canada, the “Canadian Winery of the Year” is the highest distinction awarded in the Canadian wine industry.

On June 4, 2014 the Company’s Board of Directors announced a 5% increase in common share dividends for shareholders of record on June 30, 2014 payable on July 4, 2014. The annual amount of dividends on Class A Shares was increased to \$0.420 per share from \$0.400 per share and the dividends on Class B Shares was increased to \$0.365 per share from \$0.348 per share.

## Results of Operations

<b>For the six months ended September 30, (in \$000, except per share amounts)</b>	<b>2015</b>	<b>2014<sup>1</sup></b>
Sales	<b>\$ 168,318</b>	\$ 162,276
Gross margin	<b>64,527</b>	59,288
Gross margin (% of sales)	<b>38.3%</b>	36.5%
Selling and administrative expenses	<b>39,670</b>	39,616
EBITA	<b>24,857</b>	19,672
Net unrealized gains on derivative financial instruments	<b>(396)</b>	(100)
Other (income) expenses	<b>(129)</b>	33
Adjusted earnings	<b>13,324</b>	8,982
Net earnings	<b>13,712</b>	9,032
Earnings per share – basic and diluted - Class A	<b>\$0.99</b>	\$0.65
Earnings per share – basic and diluted - Class B	<b>\$0.86</b>	\$0.56
Dividend per share – Class A (annual)	<b>\$0.450</b>	\$0.420
Dividend per share – Class B (annual)	<b>\$0.391</b>	\$0.365

1. Restated to reflect the early adoption of the amendments to IAS 16 and IAS 41.

Sales for the six months ended September 30, 2015 increased 3.7% compared to the same period in fiscal 2015 due to strong organic growth driven by distribution expansion as well as the introduction of new products and categories over the prior twelve months. Sales growth was particularly strong in Atlantic Canada and through the Company’s two wine import and marketing agencies, and its personal winemaking business.

The Company defines gross margin as gross profit excluding amortization. Gross margin as a percentage of sales increased to 38.3% for the six months ended September 30, 2015 from 36.5% in the same prior year period. Gross margin in fiscal 2016 benefited from the positive impact of the Company’s cost control initiatives to improve productivity and raw material cost savings as well as lower discounting of selling prices in Ontario related to a short crop resulting from the prior two unusually cold winters. Management is focused on further efforts to enhance production efficiency and productivity.

Selling and administrative expenses in the six-months ended September 30, 2015 were generally unchanged when compared to the same prior year period. As a percentage of sales, selling and administrative expenses for the six months ended September 30, 2015 improved to 23.6% of revenues from 24.4% of revenues in the same prior year period. The Company is focused on ensuring selling and administrative expenses are tightly controlled, however it expects selling expenses will increase through the balance of the year to support the recent launch of new products.

Earnings before interest, amortization, net unrealized gains and losses on derivative financial instruments, other (income) expenses, and income taxes (“EBITA”) were \$24.9 million for the six months ended September 30, 2015, an increase of 26.4% compared to \$19.7 million last year. The increase in EBITA is primarily the result of the higher sales and improved gross margin in the current year.

Interest expense decreased for the six months ended September 30, 2015 compared to the same prior year period due to lower interest rates charged on bank debt and lower debt levels.

The Company recorded a net unrealized non-cash gain in fiscal 2016 and fiscal 2015 related to mark-to-market adjustments on an interest rate swap and foreign exchange contracts. The Company has elected not to apply hedge accounting and accordingly the change in fair value of these financial instruments is reflected in the Company's consolidated statement of earnings each reporting period. These instruments are considered to be effective economic hedges and have enabled management to mitigate the volatility of changing foreign exchange and interest rates.

Other income in fiscal 2016 related primarily to income from the temporary expropriation of the Company's Port Moody property. In fiscal 2015 other expenses related primarily to a write-down of certain grapevines harmed by the extreme cold weather experienced over the period's winter season, partially offset by income from the temporary expropriation of the Port Moody property. The property is temporarily being used as a staging area for the construction of a rapid transit project. Payments amounting to \$2.0 million for the use of the property were received in advance and were recorded as deferred income and are being recognized as other income over the five-year term of the expropriation which began on July 1, 2012.

Adjusted earnings, defined as net earnings not including net unrealized gains and losses on derivative financial instruments and other (income) expenses, were \$13.3 million for the six months ended September 30, 2015 compared to \$9.0 million in the same prior year period.

Net earnings for the six months ended September 30, 2015 were \$13.7 million or \$0.99 per Class A Share compared to \$9.0 million or \$0.65 per Class A Share in the same period in fiscal 2015.

The Company believes that sales will continue to grow in fiscal 2016 due to the strong positioning of key brands, the continued launch of new and innovative products in the Canadian wine market, and continued growth in new wine-related markets. In fiscal 2016 the higher cost of U.S. dollar currency purchases may have a negative impact on gross margins, although management believes this will be offset by the Company's successful cost control initiatives to reduce distribution, operating and packaging expenses and raw material cost savings.

The Company uses foreign exchange forward contracts to protect against changes in foreign currency rates and, as at September 30, 2015, had locked in \$15.2 million in U.S. dollar contracts at rates averaging \$1.29 Canadian, €2.3 million in Euro contracts at rates averaging \$1.45 Canadian, and \$3.3 million in Australian dollar contracts at rates averaging \$0.94 Canadian. These contracts expire at various dates through June 30, 2016.

## Quarterly Performance

The following table outlines key quarterly highlights.

(in \$000, except per share amounts)	Q2 16	Q1 16	Q4 15 <sup>1</sup>	Q3 15 <sup>1</sup>	Q2 15 <sup>1</sup>	Q1 15 <sup>1</sup>	Q4 14	Q3 14
Sales	\$85,200	\$83,118	\$68,791	\$84,630	\$82,759	\$79,517	\$66,026	\$81,854
Gross margin	32,716	31,811	24,648	31,267	29,990	29,298	22,606	29,475
Gross margin (% of sales)	38.4%	38.3%	35.8%	36.9%	36.2%	36.8%	34.2%	36.0%
EBITA	12,011	12,846	4,707	11,139	9,507	10,165	3,655	11,378
Restructuring costs	-	-	-	-	-	-	1,056	254
Unrealized losses (gains) on financial instruments	(711)	315	622	50	(1,225)	1,125	(231)	(252)
Other (income) expenses	(68)	(61)	(43)	43	(71)	104	(97)	(22)
Adjusted earnings (loss)	6,447	6,877	939	5,750	4,079	4,903	(39)	5,952
Net earnings (loss)	7,023	6,689	511	5,681	5,038	3,994	(578)	5,967
E.P.S. – Class A basic & diluted	\$0.51	\$0.48	\$0.04	\$0.41	\$0.36	\$0.29	\$(0.04)	\$0.43
E.P.S. – Class B basic & diluted	\$0.44	\$0.42	\$0.04	\$0.36	\$0.32	\$0.25	\$(0.03)	\$0.37

1. Restated to reflect the early adoption of the amendments to IAS 16 and IAS 41.

The third quarter is historically the strongest in each fiscal year due to increased consumer purchasing of the Company's products during the holiday season.

Sales in the second quarter of fiscal 2016 increased 3.0% compared to the same quarter of fiscal 2015 due primarily to strong organic growth across most of the Company's trade channels, including its network of retail outlets in Ontario, its export markets, its two wine import and marketing agencies, provincial liquor control boards across the country, and in its personal winemaking business. Gross margin for the three months ended September 30, 2015 improved to 38.4% of sales from 36.2% in the prior year's second quarter. The increase was due primarily to the positive impact of the Company's cost control initiatives to improve productivity and raw material cost savings, as well as lower discounting of selling prices in Ontario related to a short crop resulting from the prior two unusually cold winters. Selling and administrative expenses increased marginally in the second quarter of fiscal 2015 due to the timing of marketing activities and support for recent new product launches. EBITA was \$12.0 million for the three months ended September 30, 2015, up from \$9.5 million for the same quarter in fiscal 2015 as a result of the increase in sales and gross margins. Adjusted net earnings were \$6.4 million for the three months ended September 30, 2015 compared to \$4.1 million in the same prior year period.

## Liquidity and Capital Resources

As at (in \$000)	September 30, 2015	March 31, 2015 <sup>1</sup>
Current assets	\$ 154,037	\$ 146,764
Property, plant, and equipment	105,316	104,951
Intangibles	11,718	12,331
Goodwill	37,473	37,473
Total assets	\$ 308,544	\$ 301,519
Current liabilities	\$ 76,985	\$ 77,782
Long-term debt	50,222	52,269
Long-term derivative financial instruments	1,447	1,447
Post-employment benefit obligations	5,035	6,165
Deferred income	303	506
Deferred income tax	16,078	15,975
Shareholders' equity	158,474	147,375
Total liabilities and shareholders' equity	\$ 308,544	\$ 301,519

1. Restated to reflect the early adoption of the amendments to IAS 16 and IAS 41.

Inventory increased at September 30, 2015 compared to March 31, 2015 due to an earlier harvest compared to last year while finished goods were higher at September 30, 2015 as a result of the introduction of new products. Extreme cold weather experienced in Ontario resulted in a smaller domestic grape crop for vintage 2014 in the province. Certain vintage 2014 varietals are in short supply but this is not expected to have a material impact on the Company's profitability during fiscal 2016 which is when the majority of its vintage 2014 wines will be sold. The Company continues to generate benefits from improved information technology systems introduced to monitor and control the Company's supply chain. These systems include improvements to the Company's ability to manage supply shortages and excesses. Inventory is dependent on the increased use of domestically grown grapes that are used in the sale of premium and ultra-premium wines that are held for a longer period than imported wine. These grapes are typically aged for one to three years before they are sold. The cost of domestically grown grapes is also significantly higher than wine purchased on international markets.

Accounts receivable were higher at September 30, 2015 compared to March 31, 2015 due to the increase in sales in the period which are predominantly with provincial liquor boards and to a lesser extent licensed establishments and independent retailers of consumer made wine products. The Company had \$15.5 million of accounts receivable with provincial liquor boards at September 30, 2015, all of which is expected to be collectible. The balance represents amounts due from licensees, export customers, and independent retailers of consumer made wine products. The amount of accounts receivable that was 30 days past due was \$0.5 million at September 30, 2015. Against these amounts an allowance for doubtful accounts of \$0.1 million has been provided which the Company has determined represents a reasonable estimate of amounts that may not be collectible.

Overall bank debt declined to \$76.3 million as at September 30, 2015 compared to \$89.0 million at March 31, 2015 as a result of strong earnings and working capital management, and scheduled long-term debt repayments.

The ratio of debt to equity was 0.48:1 at September 30, 2015 compared to 0.60:1 at March 31, 2015. At September 30, 2015 the Company had unutilized debt capacity in the amount of \$72.5 million on its operating loan facility.

On August 7, 2015, the Company amended its debt facilities to extend the maturity date to July 31, 2020 and reduce the floating interest rate in relation to the one to six-month Canadian Dealer Offered Rate (CDOR) to CDOR plus an applicable margin based on the Company's leverage. For the six months ended September 30, 2015, the applicable margin was 1.4%. The interest rate on the Company's term loans remains fixed until April 28, 2019 as a result of an interest rate swap.

Management expects to generate sufficient cash flow from operations to meet its debt servicing, principal payment, and working capital requirements over both the short and the long-term through increased profitability and strong management of working capital and capital expenditures. The Company continually reviews all of its assets to ensure appropriate returns on investment are being achieved and that they fit with the Company's long-term strategic objectives.

For the six months ended September 30, 2015 the Company generated cash from operating activities, after changes in non-cash working capital items, of \$20.3 million compared to \$14.9 million in the same prior year period. Higher earnings were partially offset by an increase in inventory, accounts receivable and accounts payable.

Investing activities of \$4.6 million were made in fiscal 2016 compared to \$2.5 million in the same prior year period. Capital expenditures in fiscal 2016 consisted of normal expenditures to sustain operations and the replanting of certain of the Company's vineyards.

Working capital as at September 30, 2015 increased to \$77.1 million compared to \$69.0 million at March 31, 2015. Accounts receivable, inventory and accounts payable increased due to the sales growth and earlier harvest in fiscal 2016, while bank indebtedness and the current portion of long-term debt decreased. Shareholders' equity as at September 30, 2015 was \$158.5 million or \$11.08 per common share compared to \$147.4 million or \$10.31 per common share as at March 31, 2015. The increase in shareholders' equity is due to the increase net earnings partially offset by the payment of dividends.

## Common Shares Outstanding

The Company is authorized to issue an unlimited number of Class A and Class B Shares. Class A Shares are non-voting and are entitled to a dividend in an amount equal to 115% of any dividend paid or declared on Class B Shares. Class B Shares are voting and convertible into Class A Shares on a one-for-one basis.

Shares outstanding	September 30, 2015	March 31, 2015
Class A Shares	11,293,829	11,293,829
Class B Shares	3,004,041	3,004,041
Total	14,297,870	14,297,870

## Strategic Outlook and Direction

Andrew Peller Limited is committed to a strategy of growth that focuses on the expansion of its core business as a producer and marketer of quality wines and wine related products through concentrating on and developing leading brands that meet the needs of our consumers and customers.

The market for wine in Canada continues to grow due to a movement toward the consumption of wine made by young consumers who have adopted wine as their beverage of choice, an aging population that favours the more sophisticated experience that wine offers, and the widely reported health benefits of moderate wine consumption. The Company has recorded strong growth in sales through provincial liquor boards and export and agency trade channels. The Company has focused its product development and sales and marketing initiatives at capitalizing on the trend of increased wine consumption and expects to see continued sales growth. The Company will continue to closely monitor its costs and will react quickly to changes to risks and opportunities in the marketplace.

The Company will continue to launch wine brands in the future and increase its use of differentiated package formats. The Company will also expand product offerings outside the traditional table wine segment, into other alcoholic beverages, where it is able to leverage its detailed knowledge of growth opportunities in the Canadian market. The Company will also make packaging design changes that are more appealing to its target markets and are consistent with its initiative to be more environmentally friendly. Increased focus will be made on coordination between the Company's business-to-consumer trade channels to provide customers with a more intimate awareness of its broad product portfolio. New product launches and directed spending to support key brands through all of the Company's distribution channels will continue to receive increased marketing and sales support in fiscal 2016.

The Company expects to maximize the efficiency of its existing assets while also making additional investments in capital expenditures to increase capacity, to support its ongoing commitment to producing the highest-quality wines, and to improve productivity. Improvements to enhance the coordination throughout its supply chain have been implemented recently and benefits have begun to accrue. Investments made over the past few years are expected to continue to result in increased sales and improved profitability.

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

The Company plans to dedicate further resources towards rectifying unfair trade practices and taxes by continuing to work closely with other members of the Canadian wine industry and the Canadian and provincial governments.

The Company anticipates it will generate increased sales in fiscal 2016 while gross margin dollars are expected to remain stable. The higher costs of U.S. dollar currency purchases may have a negative impact on gross margin percentage in fiscal 2016 which is expected to be offset by raw material cost savings and production efficiencies.

The Company's product portfolio covers the complete spectrum of price levels within the Canadian wine market. While there may be an increase in purchases of ultra-premium wine, this is expected to be offset by a slight decrease in sales of blended varietal wine. In addition, the Company will be accelerating its efforts to generate production efficiencies and reduce overhead costs to enhance its overall profitability.

## **Risks and Uncertainties**

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

The Canadian wine market continues to be the target of low-priced imported wines from regions and countries that subsidize wine production and grape growing as well as providing sizeable export subsidies. Many of these countries and regions prohibit or restrict the sale of imported wine in their own domestic markets. The Company, along with other members of the Canadian wine industry, are working with the Canadian government to rectify these unfair trade practices.

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

APL expects to increase the sales of its premium wines in Canada principally through the sale of VQA wines, and as a result, is dependent on the quality and supply of domestically grown premium quality grapes. If any of the Company's vineyards or the vineyards of our grape suppliers experience certain weather variations, natural disasters, pestilence, other severe environmental problems, or other occurrences, APL may not be able to secure a sufficient supply of grapes, a situation which could result in a decrease in production of certain products from those regions and/or result in an increase in costs. In the past where there has been a significant reduction in domestically sourced grapes, the Government of Ontario, in conjunction with the Ontario Grape Growers Marketing Board, have agreed to temporarily increase the blending of imported wines which would enable the Company to continue to supply products to the market. The inability to secure premium quality grapes could impair the ability of the Company to supply certain wines to its customers. APL has developed programs to ensure it has access to a consistent supply of premium quality grapes and wine. The price of grapes is determined through negotiations with the Ontario Grape Growers Marketing Board in Ontario and with independent growers in British Columbia.

Foreign exchange risk exists on the purchases of bulk wine and concentrate that are primarily made in United States dollars, Euros, and Australian dollars. The Company's strategy is to hedge approximately 50% - 80% of its foreign exchange requirements throughout the fiscal year and to regularly review its on-going requirements. APL has entered into a series of foreign exchange contracts as a hedge against movements in U.S. dollar, Euro and Australian dollar exchange rates. The Company does not enter into foreign exchange contracts for trading or speculative purposes. These contracts are reviewed periodically. During fiscal 2016, based on the Company's forecasts for foreign currency purchases and the amount of foreign exchange forward contracts outstanding at November 11, 2015, each one percent change in the value of the U.S. dollar, Euro and Australian dollar will not have a material impact on the Company's net earnings.

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

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

During fiscal 2015, the Government of Ontario set up the Premier's Advisory Council, a special government advisory panel to look at methods to extract more value from its assets which includes the LCBO. Following this review, the Government announced that it will issue licenses to sell beer in grocery stores. There were no significant decisions announced in respect of changes to the distribution of wine in the Province of Ontario. The Company is consulting with the Premier's Advisory Council, however there is a risk that significant changes may be made in the future and these changes could have a significant impact on the Company. The impact of these changes will remain uncertain until details are known and they are implemented.

The Province of British Columbia has recently announced that it will allow the sale of wine in grocery stores amongst other changes in liquor policies. Effective April 1, 2015 the B.C. government launched a pilot project to allow the sale of B.C. wine in selected grocery stores. This project is still in its early stages and at this point the Company doesn't anticipate material impact to its results.

The wine industry and the domestic and international market in which the Company operates are consolidating. This has resulted in fewer, but larger, competitors who have increased their resources and scale. The increased competition from these larger market participants may affect the Company's pricing strategies and create margin pressures resulting in potentially lower revenues. Competition also exerts pressure on existing customer relationships which may affect APL's ability to retain existing customers and increase the number of new customers. The Company has worked to improve production efficiencies, selectively increase pricing to increase gross margin, and implement a higher level of promotion and advertising activity to combat these initiatives. APL and other wine industry participants also generally compete with other alcoholic beverages like beer and spirits for consumer acceptance, loyalty, and shelf space. No assurance can be given that consumer demand for wine and premium wine products will continue at current levels in the future.

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

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

The Company has defined benefit pension plans. 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 pension committee reviews the performance of plan assets on a regular basis and has a policy to hold diversified investments. Nevertheless, 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.

The competitive nature of the wine industry internationally has resulted in the discounting of retail prices of wine in key markets such as the United States and the United Kingdom. Although significant price discounting may occur in Canada beyond current levels, the Company believes that its product quality, advertising and promotional support along with its competitive pricing strategies will effectively mitigate the impact of this to APL.

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

As an owner and lessor of property the Company is subject to various federal and provincial laws relating to environmental matters. Such laws provide that the Company could be held liable for the cost of removal and remediation of hazardous substances on its properties. The failure to remedy any situation that might arise could lead to claims against the Company. A perceived failure to maintain high ethical, social, and environmental standards could have an adverse effect on the Company's reputation.

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

#### Non-IFRS Measures

The Company utilizes EBITA (defined as earnings before interest, amortization, net unrealized gains and losses on derivative financial instruments, other (income) expenses, and income taxes) to measure its financial performance. EBITA is not a recognized measure under IFRS; however, management believes that EBITA is a useful supplemental measure to net earnings as it provides readers with an indication of earnings available for investment prior to debt service, capital expenditures, and income taxes.

For the three and six months ended September 30, (in \$000)	Three months		Six months	
	2015	2014 <sup>1</sup>	2015	2014 <sup>1</sup>
Net earnings	\$ 7,023	\$ 5,038	\$ 13,712	\$ 9,032
Add: Interest	937	1,233	2,018	2,556
Provision for income taxes	2,451	2,236	4,899	3,633
Amortization of plant and equipment used in production	1,453	1,365	3,019	2,891
Amortization of equipment and intangibles used in selling and administration	926	931	1,734	1,627
Net unrealized gains on derivative financial instruments	(711)	(1,225)	(396)	(100)
Other (income) expenses	(68)	(71)	(129)	33
<b>EBITA</b>	<b>\$ 12,011</b>	<b>\$ 9,507</b>	<b>\$ 24,857</b>	<b>\$ 19,672</b>

1. Restated to reflect the early adoption of the amendments to IAS 16 and IAS 41.

Readers are cautioned that EBITA should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of the Company's performance or to cash flows from operating, investing, and financing activities as a measure of liquidity and cash flows.

The Company also utilizes gross margin (defined as sales less cost of goods sold, excluding amortization) as calculated below.

<b>For the three and six-months ended September 30,</b> <b>(in \$000)</b>	Three months		Six months	
	<b>2015</b>	2014	<b>2015</b>	2014
Sales	<b>\$ 85,200</b>	\$ 82,759	<b>\$ 168,318</b>	\$ 162,276
Less: Cost of goods sold, excluding amortization	<b>52,484</b>	52,769	<b>103,791</b>	102,988
Gross margin	<b>\$ 32,716</b>	\$ 29,990	<b>\$ 64,527</b>	\$ 59,288
Gross margin (% of sales)	<b>38.4%</b>	36.2%	<b>38.3%</b>	36.5%

The Company calculates adjusted earnings as follows.

<b>For the three and six-months ended September 30,</b> <b>(in \$000)</b>	Three months		Six months	
	<b>2015</b>	2014 <sup>1</sup>	<b>2015</b>	2014 <sup>1</sup>
Net earnings	<b>\$ 7,023</b>	\$ 5,038	<b>\$ 13,712</b>	\$ 9,032
Net unrealized gains on derivative financial instruments	<b>(711)</b>	(1,225)	<b>(396)</b>	(100)
Other (income) expenses	<b>(68)</b>	(71)	<b>(129)</b>	33
Income tax effect of the above	<b>203</b>	337	<b>137</b>	17
Adjusted earnings	<b>\$ 6,447</b>	\$ 4,079	<b>\$ 13,324</b>	\$ 8,982

1. Restated to reflect the early adoption of the amendments to IAS 16 and IAS 41.

The Company's method of calculating EBITA, gross margin, and adjusted earnings may differ from the methods used by other companies and accordingly, may not be comparable to the corresponding measures used by other companies.

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

The Company's consolidated financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 – Interim Financial Reporting.

### **Critical Accounting Estimates**

During the year management is required to make estimates and assumptions that are inherently uncertain. These estimates can vary with respect to the level of judgment involved and ultimately the impact that these estimates may have on the Company's financial statements. Estimates are deemed to be critical when a different estimate could reasonably be used or where changes are reasonably likely to occur which could materially affect the Company's financial position or financial performance. The Company's critical accounting estimates remain unchanged from those discussed in the notes to the consolidated financial statements for the years ended March 31, 2015 and March 31, 2014 except as noted below.

### **Biological Assets**

During fiscal 2015, the Company measured biological assets, consisting of grape vines, at fair value less costs to sell. Gains or losses arising from a change in fair value less costs to sell were included in the consolidated statement of earnings in the period in which they arose.

Due to the adoption of the amendments to IAS 16 – Property, Plant, and Equipment and IAS 41 – Agriculture during fiscal 2016 explained below, grape vines have been restated and are now measured at cost and amortized over the useful lives in accordance with IAS 16. Consequently, management has determined that the estimates used to measure grape vines no longer result in critical accounting estimates.

### **Recently Adopted Accounting Pronouncements**

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 controls bearer plants consisting of grape vines and has elected to apply these amendments effective April 1, 2015, which is prior to the mandatory effective date. The earliest comparative period presented in the financial statements after adopting the amended standards began on April 1, 2014. The Company has elected to measure bearer plants using their fair value on that date as their deemed cost.

The following table summarizes the impact of adopting amended IAS 16 – Property, Plant, and Equipment and IAS 41 – Agriculture for the three and six-months ended September 30, 2014.

Impact on the statement of earnings and comprehensive income	For the three months ended September 30, 2014 as reported	Impact of IAS 16 and IAS 41 changes	For the three months ended September 30, 2014 as restated	For the six months ended September 30, 2014 as reported	Impact of IAS 16 and IAS 41 changes	For the six months ended September 30, 2014 as restated
<b>Net earnings for the period</b>	5,149	(111)	5,038	9,253	(221)	9,032
<b>Net earnings per share</b>						
Basic and diluted						
Class A Shares	0.37	(0.01)	0.36	0.67	(0.02)	0.65
Class B Shares	0.32	-	0.32	0.58	(0.02)	0.56
<b>Net comprehensive income for the period</b>	4,768	(111)	4,657	8,554	(221)	8,333

### Recently Issued Accounting Pronouncements

During December 2014, the IASB issued amendments to IAS 1 – Presentation of Financial Statements which clarifies 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. These amendments are effective for first interim periods within annual periods beginning on or after January 1, 2016. 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 upon 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 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.

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

To comply with National Instrument 52-109 (“NI 52-109”) the Company’s management, under the supervision of, and with the participation of the CEO and CFO, have designed and maintained the Company’s disclosure controls and procedures as required in Canada by “National Instrument 52-109 – Certification of Disclosure in Issuers’ Annual and Interim Filings”.

For the six months ended September 30, 2015 there have been no material changes in the Company’s internal controls over financial reporting or changes to disclosure controls and procedures that materially affected or were likely to affect, the Company’s internal control systems.