Andrew Peller Limited

Condensed Consolidated Financial Statements

September 30, 2012

ANDREW PELLER LIMITED
Condensed Consolidated Balance Sheets
Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)	September 30 2012 $	March 31 2012 $
Assets		
Current Assets		
Accounts receivable	**29,186**	24,937
Inventory	**112,033**	110,256
Current portion of biological assets	**3,587**	881
Prepaid expenses and other assets	**2,431**	1,338
	147,237	137,412
Property, plant, and equipment (note 4)	**88,072**	84,490
Biological assets	**13,134**	12,556
Intangibles	**13,004**	13,621
Goodwill	**37,473**	37,473
	298,920	285,552
Liabilities		
Current Liabilities		
Bank indebtedness	**52,954**	57,495
Accounts payable and accrued liabilities	**43,736**	37,118
Dividends payable	**1,252**	1,252
Income taxes payable	**1,087**	40
Current portion of derivative financial instruments	**1,174**	1,272
Current portion of long-term debt	**6,081**	5,366
	106,284	102,543
Long-term debt (note 5)	**42,956**	41,456
Long-term derivative financial instruments	**1,645**	1,943
Post-employment benefit obligations	**8,631**	7,151
Deferred income (note 6)	**1,515**	-
Deferred income taxes	**12,178**	11,907
	173,209	165,000
Shareholders' Equity		
Capital stock	**7,026**	7,026
Retained earnings	**118,685**	113,526
	125,711	120,552
	298,920	285,552

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

ANDREW PELLER LIMITED
Condensed Consolidated Statements of Earnings
Unaudited
These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)	For the three months ended September 30 2012 $	2011 $	For the six months ended September 30 2012 $	2011 $
Sales	**73,082**	69,990	**145,744**	139,397
Cost of goods sold (note 7)	**44,980**	42,718	**89,415**	84,812
Amortization of plant and equipment used in production	**1,138**	1,211	**2,347**	2,444
Gross profit	**26,964**	26,061	**53,982**	52,141
Selling and administration (note 7)	**19,205**	18,467	**37,755**	36,298
Amortization of plant, equipment, and intangibles used in selling and administration	**1,012**	717	**1,780**	1,431
Interest	**1,332**	1,482	**2,578**	3,031
Operating earnings	**5,415**	5,395	**11,869**	11,381
Net unrealized (gains) losses on derivative financial instruments	**(198)**	113	**(396)**	413
Other (income) expenses (note 7)	**(513)**	492	**(427)**	656
Earnings before income taxes	**6,126**	4,790	**12,692**	10,312
Provision for income taxes				
Current	**1,296**	1,311	**2,949**	2,827
Deferred	**490**	94	**741**	189
	1,786	1,405	**3,690**	3,016
Net earnings for the period	**4,340**	3,385	**9,002**	7,296
Net earnings per share				
Basic and diluted				
Class A shares	**0.31**	0.24	**0.65**	0.52
Class B shares	**0.27**	0.22	**0.56**	0.46

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ANDREW PELLER LIMITED

Condensed Consolidated Statements of Comprehensive Income

Unaudited

These financial statements have not been reviewed by our auditors

	For the three months ended September 30		For the six months ended September 30	
	2012	2011	2012	2011
(in thousands of Canadian dollars)	$	$	$	$
Net earnings for the period	**4,340**	3,385	**9,002**	7,296
Net actuarial losses on post-employment benefit plans	**(1,487)**	(1,531)	**(1,808)**	(1,857)
Deferred income taxes	**387**	398	**470**	483
Other comprehensive loss for the period	**(1,100)**	(1,133)	**(1,338)**	(1,374)
Net comprehensive income for the period	**3,240**	2,252	**7,664**	5,922

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

ANDREW PELLER LIMITED
Condensed Consolidated Statements of Changes in Equity
For the six months ended September 30, 2012 and 2011
Unaudited
These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)

	Capital stock	Retained earnings	Total shareholders' equity
	$	$	$
Balance at April 1, 2011	7,026	107,271	114,297
Net earnings for the period	-	7,296	7,296
Net actuarial losses (net of $483 deferred tax recovery)	-	(1,374)	(1,374)
Net comprehensive income for the period	-	5,922	5,922
Dividends (Class A $0.180 per share, Class B $0.157 per share)	-	(2,505)	(2,505)
Balance at September 30, 2011	7,026	110,688	117,714
Balance at April 1, 2012	7,026	113,526	120,552
Net earnings for the period	-	9,002	9,002
Net actuarial losses (net of $470 deferred tax recovery)	-	(1,338)	(1,338)
Net comprehensive income for the period	-	7,664	7,664
Dividends (Class A $0.180 per share, Class B $0.157 per share)	-	(2,505)	(2,505)
Balance at September 30, 2012	7,026	118,685	125,711

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

ANDREW PELLER LIMITED
Condensed Consolidated Statements of Cash Flows
Unaudited
These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)	For the six months ended September 30, 2012 $	For the six months ended September 30, 2011 $
Cash provided by (used in)		
Operating activities		
Net earnings for the period	**9,002**	7,296
Adjustments for:		
Gain (loss) on disposal of property and equipment	**(547)**	110
Amortization of plant, equipment, and intangibles	**4,127**	3,875
Interest expense	**2,578**	3,031
Provision for income taxes	**3,690**	3,016
Revaluation of biological assets	**55**	556
Post-employment benefits	**(328)**	(330)
Deferred income	**1,919**	-
Net unrealized (gain) loss on derivative financial instruments	**(396)**	413
Interest paid	**(2,456)**	(2,962)
Income taxes paid	**(1,902)**	(3,770)
	15,742	11,235
Changes in non-cash working capital items related to operations (note 8)	**(4,020)**	(1,080)
	11,722	10,155
Investing activities		
Proceeds from disposal of property and equipment	**514**	-
Purchase of property, equipment, and biological assets	**(8,265)**	(3,591)
Purchases of intangibles	**-**	(28)
Proceeds from disposal of a business	**1,000**	-
Acquisition of businesses	**-**	(600)
	(6,751)	(4,219)
Financing activities		
Decrease in bank indebtedness	**(4,541)**	(4,891)
Issuance of long-term debt	**5,000**	50,263
Repayment of long-term debt	**(2,770)**	(48,278)
Deferred financing costs	**(155)**	(629)
Dividends paid	**(2,505)**	(2,401)
	(4,971)	(5,936)
Increase (decrease) in cash during the period	**-**	-
Cash, beginning of period	**-**	-
Cash, end of period	-	-

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

Notes to the Condensed Consolidated Financial Statements
Andrew Peller Limited
Unaudited
September 30, 2011 and 2012
(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 predominately 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 Significant accounting policies

(A) Basis of presentation

These condensed consolidated interim financial statements have been prepared in accordance with IFRS as issued by the IASB applicable to the preparation of condensed interim financial statements, including IAS 34 – Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the years ended March 31, 2012 and 2011, which have been prepared in accordance with IFRS as issued by the IASB.

The note disclosures for these condensed interim consolidated financial statements only present material changes to the disclosure found in the Company's audited consolidated financial statements for the years ended March 31, 2012 and 2011. There have been no changes to the Company's accounting policies from those disclosed in its consolidated financial statements for years ended March 31, 2012 and March 31, 2011.

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency and dollar amounts have been rounded to the nearest thousand, except per share amounts.

These condensed interim consolidated financial statements were approved by the Board of Directors on November 7, 2012.

(B) Recently adopted accounting pronouncements

In December 2010, the IASB issued an amendment to IAS 12 – Income Taxes, which introduced an exception to the requirement to measure the deferred tax assets or liabilities arising on an investment property measured at fair value based on its expected manner of recovery. The new requirement is effective for annual periods beginning on or after January 1, 2012. The adoption of this amendment had no impact on the Company.

(C) Recently issued accounting pronouncements

In December 2011, the IASB issued amendments to IFRS 7 – Financial Instruments: Disclosures, which increase the disclosure requirements related to the offsetting of financial assets and financial liabilities. The new requirements are effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the potential impact of this standard.

In June 2011, the IASB issued amendments to IAS 1 – Financial Statement Presentation, which require changes in the presentation of other comprehensive income ("OCI") including grouping together certain items of OCI that may be reclassified to net earnings. The new requirements are effective for annual periods beginning on or after July 1, 2012. The Company is currently evaluating the potential impact of this standard.

In June 2011, the IASB issued amendments to IAS 19 – Employee Benefits, which require changes to the recognition and disclosure of defined benefit plans, including eliminating the deferral of actuarial gains and losses, requiring that actuarial gains and losses are included in OCI and increasing disclosures on the characteristics and risks of defined benefit plans. The amendments also include significant changes to recognition and measurement of defined benefit pension expense and termination benefits. The new requirements are effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the potential impact of this standard.

In May 2011, the IASB issued IFRS 13 – Fair Value Measurements, which defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurements. The standard applies when another standard requires or permits a fair value measurement. The new requirements are effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the potential impact of this standard.

In May 2011, the IASB issued IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements and IFRS 12 – Disclosure of Interests in Other Entities. IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 - Consolidated and Separate Financial Statements and SIC-12 – Consolidation - Special Purpose Entities. IFRS 11- Joint Arrangements establishes principles for the financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS 31 - Interests in Joint Ventures and SIC-13 - Jointly Controlled Entities - Non-Monetary Contributions by Venturers. IFRS 12 changes the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new standards, the IASB also issued amended and retitled versions of IAS 27 - Separate Financial Statements and IAS 28 - Investments in Associates and Joint Ventures. The new requirements are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently evaluating the potential impact of these standards.

In October 2010, the IASB issued amendments to IFRS 7 – Financial Instruments: Disclosures, which increases disclosure requirements in relation to transferred financial assets. The standard is effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company is currently evaluating the potential impact of this standard and will include any necessary disclosures in its 2013 annual financial statements.

In November 2009, the IASB issued IFRS 9 – Financial Instruments: Classification and Measurement of Financial Assets and Financial Liabilities. In October 2010 it added requirements for financial liabilities. IFRS 9 will replace IAS 39 – Financial Instruments: Recognition and Measurement. The IASB also issued additional disclosure requirements on transition to IFRS 9 in IFRS 7 – Financial Instruments: Disclosures. IFRS 9 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. For financial liabilities, 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 OCI instead of net earnings. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is currently evaluating the potential impact of this standard.

3 Seasonality

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

4 Property, plant, and equipment

The Company made additions to plant and equipment in the amount of $7,060 (2011 - $2,992) during the six months ended September 30, 2012. Additions of $4,859 during the six months ended September 30, 2012 were made to expand the processing and cooperage capacity at the Company's Grimsby winery.

5 Long-term debt

On September 28, 2012 the Company drew an additional $2,000 on its term loan facility and on July 9, 2012, it drew an additional $3,000. The total outstanding amount at September 30, 2012 was $49,563. The additional amounts were borrowed to fund expenditures incurred to expand the processing and cooperage capacity at the Grimsby winery. As a result of these increases, the loan will be repayable in monthly installments of $503 plus interest until it matures on September 16, 2015.

6 Deferred income

During the six months ended September 30, 2012, 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) expenses over the five-year term of the expropriation, which began on July 1, 2012.

7 Expenses

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

	For the three months ended September 30, 2012	For the three months ended September 30, 2011	For the six months ended September 30, 2012	For the six months ended September 30, 2011
Raw materials and consumables	$ 35,658	$ 34,035	$ 71,413	$ 67,729
Employee compensation and benefits	14,336	13,896	28,046	27,168
Advertising, promotion, and distribution	6,872	6,246	13,250	12,399
Occupancy	2,244	2,300	4,716	4,589
Repairs and maintenance	1,473	1,304	2,925	2,568
Other external charges	3,602	3,404	6,820	6,657
	$ 64,185	$ 61,185	$ 127,170	$ 121,110

Other expenses (income) are as follows:

	For the three months ended September 30, 2012	For the three months ended September 30, 2011	For the six months ended September 30, 2012	For the six months ended September 30, 2011
Revaluation of vines	$ 7	$ 444	$ 54	$ 557
Expenses (income) from idle Port Moody property	(520)	48	(481)	99
	$ (513)	$ 492	$ (427)	$ 656

8 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:

	For the six months ended September 30, 2012	For the six months ended September 30, 2011
Accounts receivable	$ (5,249)	$ (3,536)
Inventory	(1,777)	6,114
Current portion of biological assets	(2,706)	(1,905)
Prepaid expenses and other assets	(1,093)	(1,179)
Accounts payable and accrued liabilities	6,805	(574)
	$ (4,020)	$ (1,080)

9 Related parties and management compensation

The compensation expense recorded for directors and members of the Executive Management Team of the Company was $2,204 (2011 - $2,193) for the six months ended September 30, 2012. The compensation expense consists of amounts that will primarily be settled within twelve months of being earned.