

Andrew Peller Limited

Consolidated Financial Statements
March 31, 2009 and 2008

June 26, 2009

Auditors' Report

To the Shareholders of Andrew Peller Limited

We have audited the consolidated balance sheets of **Andrew Peller Limited** as at March 31, 2009 and 2008 and the consolidated statements of earnings (loss), comprehensive earnings (loss) and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Hamilton, Ontario

Andrew Peller Limited
Consolidated Balance Sheets
As at March 31, 2009 and 2008

(in thousands of dollars)

	2009	2008
Assets		
Current assets		
Accounts receivable (note 6)	\$ 22,430	\$ 23,072
Inventories (notes 1, 3 and 6)	104,157	93,817
Prepaid expenses and other assets	2,339	3,046
Income taxes recoverable	5,892	823
	<u>134,818</u>	<u>120,758</u>
Property, plant and equipment (notes 2, 4 and 6)	102,367	94,819
Intangibles and other assets (notes 2 and 5)	16,938	7,996
Goodwill (note 2)	<u>39,384</u>	<u>36,171</u>
	<u>\$ 293,507</u>	<u>\$ 259,744</u>
Liabilities		
Current liabilities		
Bank indebtedness (note 6)	\$ 52,192	\$ 57,722
Accounts payable and accrued liabilities	43,349	29,273
Dividends payable	1,197	1,088
Current portion of derivative financial instruments (note 14)	2,719	432
Current portion of long-term debt (note 6)	<u>6,158</u>	<u>6,830</u>
	105,615	95,345
Long-term debt (notes 6 and 14)	71,549	46,412
Long-term derivative financial instruments (note 14)	5,963	534
Employee future benefits (note 7)	2,824	3,167
Future income taxes (note 8)	<u>10,765</u>	<u>11,606</u>
	<u>196,716</u>	<u>157,064</u>
Shareholders' Equity		
Capital stock (note 9)	7,375	7,375
Retained earnings	<u>89,416</u>	<u>95,305</u>
	<u>96,791</u>	<u>102,680</u>
	<u>\$ 293,507</u>	<u>\$ 259,744</u>
Commitments and contingencies (note 11)		

Approved by the Board of Directors

(signed) "John E. Peller"

(signed) "Brian J. Short"

 Director

 Director

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

Andrew Peller Limited

Consolidated Statements of Earnings (Loss), Comprehensive Earnings (Loss) and Retained Earnings For the years ended March 31, 2009 and 2008

(in thousands of dollars, except per share amounts)

	2009	2008
Sales	\$ 268,212	\$ 244,274
Cost of goods sold, excluding amortization	<u>166,501</u>	<u>141,547</u>
Gross profit	101,711	102,727
Selling and administration	<u>75,876</u>	<u>73,019</u>
Earnings before interest and amortization	25,835	29,708
Interest	6,855	5,964
Amortization of plant, equipment and intangible assets	<u>8,383</u>	<u>7,802</u>
Earnings before other items	10,597	15,942
Net unrealized losses on derivative financial instruments (note 14)	9,496	420
Unusual items (note 12)	<u>1,275</u>	<u>298</u>
Earnings (loss) before income taxes	<u>(174)</u>	<u>15,224</u>
Provision for (recovery of) income taxes (note 8)		
Current	2,619	4,968
Future	<u>(2,668)</u>	<u>(1,125)</u>
	<u>(49)</u>	<u>3,843</u>
Net and comprehensive earnings (loss) for the year	(125)	11,381
Retained earnings - Beginning of year	95,305	88,147
Impact of adoption of accounting pronouncement on April 1, 2008 (note 1)	(1,875)	-
Impact of adoption of accounting pronouncement on April 1, 2007 (note 14)	-	128
Impact of adoption of accounting pronouncement on January 1, 2009 (note 1)	898	-
Dividends		
Class A and Class B shares	<u>(4,787)</u>	<u>(4,351)</u>
Retained earnings - End of year	<u>\$ 89,416</u>	<u>\$ 95,305</u>
Net earnings per share (notes 1 and 10)		
Basic and diluted		
Class A shares	<u>\$ (0.01)</u>	<u>\$ 0.78</u>
Class B shares	<u>\$ (0.01)</u>	<u>\$ 0.68</u>

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, 2009 and 2008

(in thousands of dollars)

	2009	2008
Cash provided by (used in)		
Operating activities		
Net earnings (loss) for the year	\$ (125)	\$ 11,381
Items not affecting cash		
Loss on disposal of property and equipment	11	29
Amortization of plant, equipment and intangible assets	8,383	7,802
Employee future benefits	(343)	(840)
Net unrealized loss on derivative financial instruments	9,496	420
Future income taxes	(2,668)	(1,125)
Amortization of deferred financing costs	75	150
Write-off of deferred financing costs	442	-
Write-off of investment	148	-
	<u>15,419</u>	<u>17,817</u>
Change in non-cash working capital items related to operations (note 13)	(1,715)	(7,866)
	<u>13,704</u>	<u>9,951</u>
Investing activities		
Proceeds from disposal of property and equipment	3	109
Purchase of property and equipment	(10,329)	(14,658)
Acquisition of businesses (note 2)	(13,665)	-
Investment in product development	(116)	(857)
	<u>(24,107)</u>	<u>(15,406)</u>
Financing activities		
Increase in deferred financing costs	(340)	(31)
Increase (decrease) in bank indebtedness	(7,217)	6,273
Increase in long-term debt	27,386	9,300
Repayment of long-term debt	(4,748)	(5,907)
Dividends paid	(4,678)	(4,180)
	<u>10,403</u>	<u>5,455</u>
Increase in cash during the year	-	-
Cash - Beginning of year	-	-
Cash - End of year	<u>\$ -</u>	<u>\$ -</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for		
Interest	\$ 6,990	\$ 5,876
Income taxes	5,464	5,472

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

Andrew Peller Limited

Consolidated Notes to Financial Statements

March 31, 2009 and 2008

(in thousands of dollars, except per share amounts)

1 Significant accounting policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. Significant accounting policies adopted by the Company are as follows:

(A) Basis of consolidation

These consolidated financial statements include the accounts of the Company and all subsidiary companies. The purchase method has been used to account for all acquisitions. The assets and liabilities of subsidiary companies acquired are included at their fair value on acquisition and the results of operation are included from the date of acquisition.

(B) Revenue

The Company records a sale when persuasive evidence of an arrangement exists with a customer; delivery of goods and the transfer of title to the customer has occurred under the terms of the arrangement; the selling price is fixed or determinable; and collectibility is reasonably assured. For transactions with provincial liquor boards, licensee retail stores, licensees and wine kit retailers, the Company's terms are "FOB shipping point". Accordingly, sales are recorded when the product is shipped from the Company's production facility. Sales to consumers through retail stores, winery restaurants and estate wineries are recorded when the product is purchased.

Excise taxes collected on behalf of the federal government, licensing fees paid on wine sold through the Company's independent retail stores in Ontario, product returns, breakage and discounts provided to customers are deducted from gross revenues to arrive at sales.

(C) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on an average cost basis.

The Company utilizes a weighted average cost calculation to determine the value of ending inventory (bulk wine and finished goods). Effective April 1, 2007, management calculated the average cost for domestic and import wine separately. In previous years all domestic and imported wine purchases were aggregated to determine a consolidated average cost. The change in estimate in 2008 was necessitated by the fact that domestic grape production has returned to more normal levels which resulted in higher quality grapes at higher costs. As a result, the Company's purchase and use of imported wines was substantially reduced. The Company has treated the change in estimate on a prospective basis in 2008.

Returnable containers are recorded at cost, less accumulated amortization. Amortization is based on their estimated useful lives which is 5 years.

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(D) Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated amortization. Amortization of buildings, vineyards and equipment is calculated on the straight-line basis in amounts sufficient to amortize the cost of buildings, vineyards and equipment over their estimated useful lives as follows:

Buildings	2.5% per year
Vineyards	5% per year
Machinery and equipment	7.5% to 20% per year

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

(E) Goodwill

Goodwill represents the cost of investments in subsidiaries in excess of the fair values of the net tangible and identifiable intangible assets acquired. Goodwill is not amortized but is tested for impairment on an annual basis, or more frequently if circumstances indicate that goodwill may be impaired. The Company determines an impairment of goodwill based on the ability to recover the balance from expected future discounted operating cash flows. Management has determined that there is no impairment in goodwill as at March 31, 2009 and 2008.

(F) Intangible assets

Intangible assets include brands, customer contracts, contract co-packaging arrangements and customer-based relationships. These intangible assets are recorded at estimated fair value on the date of acquisition. Customer contracts, contract co-packaging arrangements and customer-based intangible assets are amortized on a straight-line basis over 5-20 years. Brands that have been assessed as having an indefinite life are not amortized but are tested for impairment at least annually, or more frequently if events or circumstances indicate that the asset might be impaired.

(G) Impairment of long-lived assets and definite life intangible assets

The Company reviews long-lived assets and definite life intangible assets for impairment when events or circumstances indicate that the asset's carrying amount may not be recoverable. When management determines that an impairment exists, the impairment loss will be determined by comparing the asset's carrying amount to its fair value, which is determined using a discounted cash flow model.

(H) Net earnings per share

Basic net earnings per share has been calculated using the weighted average number of Class A and Class B shares outstanding during the year; diluted net earnings (loss) per share has been calculated using the treasury stock method (note 10).

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(I) Segmented information

The Company produces and markets wine products and other beverages in Canada. A significant portion of the Company's sales are made to the liquor control boards in each province in which the Company transacts business. Management has concluded that based on the type of products sold and the fact that its customers are similar in nature, the Company operates in a single operating segment. In addition, a substantial portion of the Company's sales are made in Canada. As a result, management has concluded that the Company operates in one geographic segment. During the year, the Company did have export sales of \$9,279 (2008 - \$8,982), which primarily relate to sales in the United States.

(J) Measurement uncertainty

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may vary from current estimates. These estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the year in which they become known.

(K) Income taxes

The Company follows the liability method of accounting for income taxes based on temporary differences. Future income taxes are provided for all temporary differences between the financial reporting and tax bases of assets and liabilities. Future income tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The future income tax expense represents the change during the year in future income tax assets and future income tax liabilities.

(L) Asset retirement obligations

The fair value of a liability for an asset retirement obligation is recorded in the year in which it is incurred. When the liability is initially recorded, the cost is capitalized by increasing the carrying amount of the related long-lived asset. Over time, the liability is increased to reflect an interest element considered in the initial measurement of fair value. The capitalized cost is amortized over the asset's useful life.

(M) Employee future benefits

The Company sponsors defined benefit pension plans for certain employees. The costs of the defined benefit pension plans are actuarially determined and include management's best estimate of expected plan investment performance, salary escalation and expected retirement ages. For plans with active employees, adjustments arising from plan amendments or from actuarially determined gains or losses are amortized on a straight-line basis over the average remaining service period of active employees. For plans where the majority of the plan members have retired, adjustments arising from plan amendments or from actuarially determined gains and losses are amortized on a straight-line basis over the average life expectancy of the remaining plan members.

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(N) Comprehensive income (loss)

Comprehensive income (loss) is comprised of net earnings or loss and other comprehensive income (loss) (OCI). OCI represents the change in equity for a period that arises from unrealized gains and losses on available-for-sale securities and changes in the fair market value of derivative instruments designated as hedges.

(O) Equity

This section requires separate presentation of changes in equity for the period arising from net income, OCI, contributed surplus, retained earnings, share capital and reserves. Accumulated OCI is included in the consolidated balance sheet as a separate component of shareholders' equity. The Company does not currently have any accumulated OCI.

(P) Recently adopted accounting pronouncements

Effective April 1, 2008, the Company adopted the following new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"):

- a) CICA Handbook Section 1400, "General Standards on Financial Statement Presentation" requires the Company to assess and disclose its ability to continue as a going concern. The Company's adoption of this standard did not have a material impact on disclosure in the Company's consolidated financial statements.
- b) CICA Handbook Section 1535, "Capital Disclosures" requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance (note 15).
- c) CICA Handbook Section 3031, "Inventories" replaces CICA Handbook Section 3030, "Inventories" and provides more guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories and is effective for the Company's fiscal years beginning on April 1, 2008. As required, this standard has been adopted prospectively and comparative amounts have not been restated. The change predominately relates to changes in the application of overhead cost allocations to bulk and finished goods inventory. As a result, on adoption of this standard, the Company recorded an adjustment on April 1, 2008 to reduce inventories by \$2,725, reduce future income taxes by \$850, and reduce opening retained earning by \$1,875.
- d) CICA Handbook Sections 3862 and 3863, "Financial Instruments – Disclosures" and "Financial Instruments – Presentation" replace CICA Handbook Section 3861, "Financial Instruments – Disclosure and Presentation, revise and enhance its disclosure requirements and carries forward its presentation requirements. These new sections increase emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks (note 14).

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- e) The Company adopted CICA Emerging Issues Committee 173, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities” (“EIC 173”) that requires an entity’s own credit risk and the risk of the counterparty to be taken into account when determining the fair value of financial assets and financial liabilities, including derivative amounts. As a result, on adoption, the Company recorded an adjustment on January 1, 2009 to increase the fair value of derivative financial instruments by \$1,307, increase future income taxes by \$409 and increase opening retained earning by \$898.
- f) CICA Handbook Section 3064, “Goodwill and Intangible Assets”, which replaces Section 3062, “Goodwill and Other Intangible Assets”, and Section 3450, “Research and Development Costs”, establishes standards for recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets are equivalent to the corresponding provisions of International Financial Reporting Standard IAS 38, “Intangible Assets”. The new standard also provides guidance for the recognition of internally developed intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008 with earlier adoption encouraged. The Company adopted CICA 3064 on April 1, 2008 and there was no impact on the consolidated financial statements as a result of adoption of this standard.

(Q) Recently issued accounting pronouncements

- a) Business Combinations, Consolidated Financial Statements and Non-Controlling Interests: CICA Handbook Section 1582, “Business Combinations”, CICA Handbook Section 1601, “Consolidated financial statements”, and CICA Handbook Section 1602, “Non-controlling interests” replace the former CICA Handbook Section 1581, “Business Combinations” and CICA Handbook Section 1600, “Consolidated Financial Statements” and establishes a new section for accounting for a non-controlling interest in a subsidiary. These sections provide the Canadian equivalent to International Financial Reporting Standards (“IFRS”) 3, “Business Combinations” and International Accounting Standard 27, “Consolidated and Separate Financial Statements”. CICA Handbook Section 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011. The Company is currently evaluating the impact of adoption of these standards.
- b) International Financial Reporting Standards: In February 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board will be required effective January 1, 2011 for publicly accountable profit-oriented enterprises. IFRS will require increased financial statement disclosure. Although IFRS uses a conceptual framework similar to Canadian GAAP, differences in accounting policies will need to be addressed. The Company is currently assessing the impact IFRS will have on its consolidated financial statements. A detailed analysis of the differences between IFRS and the Company’s accounting policies as well as an assessment of the impact of various alternatives are in progress. Changes in accounting policies are likely and may impact the Company’s consolidated financial statements.

Andrew Peller Limited

Consolidated Notes to Financial Statements

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(in thousands of dollars, except per share amounts)

2 Acquisitions

During the year, the Company made the following acquisitions:

On June 13, 2008, the Company acquired 50% of the outstanding shares of Rocky Ridge Vineyards Inc. ("Rocky Ridge") for consideration of \$3,927, including acquisition costs. The Company previously owned 50% of the shares of Rocky Ridge and as a result of this transaction Rocky Ridge is now a wholly-owned subsidiary. This transaction was accounted for using the purchase method. The results of operations have been fully consolidated effective June 14, 2008.

On June 30, 2008, the Company acquired 100% of the common shares of World Vintners Inc. for consideration of \$9,629, including acquisition costs. This transaction was accounted for using the purchase method. The results of operations have been included in the consolidated financial statements effective July 1, 2008.

On July 31, 2008, the Company acquired 100% of the outstanding shares of Camelot Cellars Ltd. for consideration of \$154, including acquisition costs. This transaction was accounted for using the purchase method. The results of operations have been included in the consolidated financial statements effective August 1, 2009.

On October 8, 2008, the Company acquired 100% of the outstanding shares of The Small Winemakers Collection Inc. for consideration of \$1,605, including acquisition costs. Pursuant to the purchase agreement, contingent consideration to a maximum of \$333, measured on an annual basis, may be payable based on the pre-determined sales levels up to three years beginning March 31, 2009. Future payments under this agreement will be recorded as goodwill when the amount and outcome of the contingent consideration becomes determinable. There was no contingent consideration payable on March 31, 2009. This transaction was accounted for using the purchase method. The results of operations have been included in the consolidated financial statements effective October 9, 2008.

The value assigned to goodwill in all of the acquisitions is not deductible for tax purposes.

Acquired intangible assets include brands in the amount of \$1,700 that are not subject to amortization and customer-based relationships and contract packaging agreements in the aggregate amount of \$7,790 which are subject to amortization. All acquired intangible assets are not deductible for income tax purposes.

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(in thousands of dollars, except per share amounts)

The following table summarizes the amounts paid or payable at the dates of the acquisitions and the allocation of purchase prices based on management's estimates of the fair values of assets and liabilities acquired:

	Rocky Ridge	World Vintners Inc.	Camelot Cellars, Ltd.	The Small Winemakers Collection Inc.	Total
Purchase consideration					
Cash - net of cash acquired	\$ 2,277	\$ 9,629	\$ 154	\$ 1,605	\$ 13,665
Note payable	1,650	-	-	-	1,650
	<u>3,927</u>	<u>9,629</u>	<u>154</u>	<u>1,605</u>	<u>15,315</u>
Allocation					
Accounts receivable	27	1,144	-	632	1,803
Inventories	-	1,404	38	-	1,442
Prepaid expenses and other assets	-	72	3	36	111
Income taxes recoverable	-	2,224	-	-	2,224
	<u>27</u>	<u>4,844</u>	<u>41</u>	<u>668</u>	<u>5,580</u>
Property, plant and equipment	4,503	448	34	34	5,019
Intangible assets and other assets	-	8,681	-	890	9,571
Goodwill	471	2,064	134	544	3,213
	<u>5,001</u>	<u>16,037</u>	<u>209</u>	<u>2,136</u>	<u>23,383</u>
Bank indebtedness	603	1,084	-	-	1,687
Accounts payable and accrued liabilities	-	3,797	55	256	4,108
Income taxes payable	-	-	-	5	5
Future income taxes	471	1,527	-	270	2,268
	<u>1,074</u>	<u>6,408</u>	<u>55</u>	<u>531</u>	<u>8,068</u>
Net assets acquired	\$ <u>3,927</u>	\$ <u>9,629</u>	\$ <u>154</u>	\$ <u>1,605</u>	\$ <u>15,315</u>

Andrew Peller Limited
 Consolidated Notes to Financial Statements
 March 31, 2009 and 2008

(in thousands of dollars, except per share amounts)

3 Inventories

	<u>2009</u>	<u>2008</u>
Packaging materials and supplies	\$ 12,266	\$ 10,463
Bulk wine	56,501	50,974
Finished goods	35,390	32,380
	<u>\$ 104,157</u>	<u>\$ 93,817</u>

4 Property, plant and equipment

	<u>2009</u>		
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net</u>
Land	\$ 4,807	\$ -	\$ 4,807
Vineyards	37,379	4,850	32,529
Buildings	40,728	11,366	29,362
Machinery and equipment	91,918	56,249	35,669
	<u>\$ 174,832</u>	<u>\$ 72,465</u>	<u>\$ 102,367</u>
	<u>2008</u>		
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net</u>
Land	\$ 4,807	\$ -	\$ 4,807
Vineyards	29,672	4,541	25,131
Buildings	40,055	10,157	29,898
Machinery and equipment	85,476	50,493	34,983
	<u>\$ 160,010</u>	<u>\$ 65,191</u>	<u>\$ 94,819</u>

Included in vineyards are assets amounting to \$10,498 (2008 - \$6,695) that are under development and are not being amortized.

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(in thousands of dollars, except per share amounts)

5 Intangibles and other assets

	<u>2009</u>	<u>2008</u>
Brands - indefinite lives	\$ 5,900	\$ 4,200
Customer-based intangible assets, net of accumulated amortization of \$1,293 (2008 - \$785)	8,966	2,791
Contract packaging, net of accumulated amortization of \$82 (2008 - \$nil)	1,018	-
Other assets	1,054	1,005
	<u>\$ 16,938</u>	<u>\$ 7,996</u>

6 Bank indebtedness and long-term debt

	<u>2009</u>	<u>2008</u>
Term loan	\$ 76,361	\$ -
Note payable	1,650	-
Term bank loan A	-	12,813
Term bank loan B	-	26,750
Term bank loan C	-	4,796
Term bank loan D	-	9,300
Other	-	63
	<u>78,011</u>	<u>53,722</u>
Less: Financing costs	304	480
	<u>77,707</u>	<u>53,242</u>
Less: Current portion	6,158	6,830
	<u>\$ 71,549</u>	<u>\$ 46,412</u>

The Company has established the following credit facilities:

A demand loan facility with a borrowing limit of \$65,000 (2008 - \$70,000), which incurs interest at the Royal Bank of Canada prime rate. As at March 31, 2009, the unused portion of this demand loan facility was \$12,808 (2008 - \$12,278).

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On May 15, 2008, the Company's four previous term loans were replaced with one seven year variable rate term facility in the amount of \$80,000. The new term loan is repayable in monthly principal payments of \$444 plus interest and matures on April 30, 2015. Subsequent to the repayment of the old term loans, the Company unwound the three interest rate swaps related to the old term loans. The Company subsequently entered into a new interest rate swap which effectively fixed the interest rate on the \$80,000 term loan at 5.64% for the term of the debt. As at March 31, 2009, the fair value of the interest rate swap, which was calculated using year-end market rates, amounted to an unrealized loss of \$9,022 (2008 – \$nil).

The Company and its subsidiary companies have provided accounts receivable, inventories and property, plant and equipment as security for this loan facility.

As part of the acquisition of Rocky Ridge, the Company issued a promissory note to the vendor in the amount of \$1,650. The note incurs interest at 6% compounded annually and is to be paid in two equal annual instalments of principal and interest on June 13, 2009 and June 13, 2010 (see also note 2).

The following 2008 banking facilities were replaced with the term loan as described above.

Term bank loan A related to a long-term debt facility with the Bank of Montreal. The \$25,000 term bank loan facility was for a term of seven years, maturing on October 1, 2009 and incurred interest at the Bank of Montreal's Banker's Acceptance rate plus 1.2%. The Company also entered into an interest rate swap, which effectively fixed the interest rate on this term bank loan at 5.99% for the term of the debt.

Term bank loan B related to a long-term debt facility with the Bank of Montreal. This \$35,000 term bank loan facility was for a term of seven years, maturing on May 31, 2012 and incurred interest at the Bank of Montreal's Banker's Acceptance rate plus 1.2%. The Company also entered into an interest rate swap, which effectively fixed the interest rate on this term bank loan at 5.3% for the term of the debt.

Term bank loan C related to a long-term debt facility with the Bank of Montreal. This \$6,000 term bank loan was for a term of seven years maturing on September 28, 2012 and incurred interest at the Bank of Montreal's Banker's Acceptance rate plus 1.2%. The Company also entered into an interest rate swap, which effectively fixed the interest rate on this term bank loan at 5.61% for the term of the debt.

Term bank loan D related to a long-term debt facility with the Bank of Montreal used to fund vineyard development expenditures on a leased property in the Okanagan Valley, British Columbia. This \$10,000 term bank loan was for a term of seven years, maturing on April 30, 2012 and incurred interest at the Bank of Montreal's Banker's Acceptance rate plus 1.2%.

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Interest expense on long-term debt during the year was \$4,270 (2008 - \$2,795).

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

2010	\$	6,158
2011		6,158
2012		5,333
2013		5,333
2014		5,333
Thereafter		<u>49,696</u>
	\$	<u>78,011</u>

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7 Employee future benefits

The Company has defined benefit pension plans and defined contribution savings plans for its employees. The total expense for the defined contribution savings plans was \$1,273 (2008 - \$1,161). Information about the defined benefit pension plans is as follows:

	2009	2008
Plan assets		
Fair value - Beginning of year	\$ 14,149	\$ 15,755
Actual return on plan assets	(2,383)	(217)
Company's contributions	1,040	1,338
Employees' contributions	3	11
Benefits paid	(899)	(2,738)
Fair value - End of year	<u>\$ 11,910</u>	<u>\$ 14,149</u>
Plan obligations		
Accrued benefit obligations - Beginning of year	\$ 18,696	\$ 20,332
Past service cost due to amendment	54	-
Total current service cost	563	573
Interest cost	1,010	1,021
Benefits paid	(899)	(2,738)
Actuarial losses	(5,063)	(492)
Accrued benefit obligations - End of year	<u>\$ 14,361</u>	<u>\$ 18,696</u>
Funded status		
Plan deficits	\$ (2,451)	\$ (4,547)
Unamortized actuarial gains (losses)	(373)	1,380
Accrued benefit liabilities	<u>\$ (2,824)</u>	<u>\$ (3,167)</u>
Benefit plan expense		
Current service cost	\$ 563	\$ 573
Interest cost	1,010	1,021
Expected return on plan assets	(1,058)	(1,099)
Employee contributions	(3)	(11)
Amortization of net actuarial loss, net of transition asset	130	13
Amortization of past service costs	-	187
Net benefit plan expense	<u>\$ 642</u>	<u>\$ 684</u>

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

	<u>2009</u>	<u>2008</u>
Discount rate for expenses	5%	5%
Discount rate for obligation	7%	5%
Expected long-term rate of return on plan assets	7%	7%
Rate of compensation increase	4 - 5%	5%
Retirement age	60 – 65 years	60 – 65 years
Expected average remaining service life	7 – 14 years	7 – 10 years

Amortization of actuarial gains and losses

All actuarial gains and losses are amortized over the expected average remaining service life which is estimated to be between 7 – 14 years (2008 – 7 – 10 years). Amortization begins in the fiscal year immediately following the year in which the gains or losses are calculated.

Plan assets

The plan's assets consist of the following:

	<u>2009</u>	<u>2008</u>
	%	%
McLean Budden Balanced Fund	33	33
Trimark Income Growth Fund	33	33
JF Balanced Fund	34	34
	<u>100</u>	<u>100</u>

Actuarial valuation

The most recent actuarial valuation of the plan for funding purposes was performed as at December 31, 2007. The next actuarial valuation of the plan for funding purposes will be performed effective December 31, 2010. The date at which the Company measures its fair value of plan assets and accrued benefit obligation is as of March of each year.

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8 Income taxes

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

	<u>2009</u>	<u>2008</u>
Property, plant and equipment	\$ 9,973	\$ 8,316
Intangible assets	3,831	1,497
Goodwill	2,620	2,315
Loss carry forward balances	(2,082)	(172)
Derivative financial instruments	(2,632)	-
Employee future benefits	(794)	(1,008)
Other	(151)	658
	<u>\$ 10,765</u>	<u>\$ 11,606</u>

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

	<u>2009</u>	<u>2008</u>
Provision for (recovery of) income taxes at blended statutory rate of 31.8% (2008 – 33.5%)	\$ (55)	\$ 5,100
Permanent differences and non-deductible items	439	445
Future income tax rate changes	(5)	(1,659)
Other	(428)	(43)
	<u>\$ (49)</u>	<u>\$ 3,843</u>

As at March 31, 2009, the Company and its subsidiaries have available Canadian net operating losses of \$6,873 (2008 – \$547) for income tax purposes, which expire as follows:

	\$
2024	183
2025	1,290
2026	10
2027	283
2028	1,163
2029	3,944

In aggregate, the Company has recognized \$2,082 (2008 - \$172) of the benefit of the net operating losses. The amount of the benefit of these losses ultimately realized is subject to change.

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9 Capital stock

	Authorized	2009		2008	
		Issued		Issued	
		Shares	Amount	Shares	Amount
Class A shares, non-voting	Unlimited	11,888,241	\$ 6,975	11,888,241	\$ 6,975
Class B shares, voting	Unlimited	3,004,041	400	3,004,041	400
		14,892,282	\$ 7,375	14,892,282	\$ 7,375

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.

Stock purchase plan

The Company's employees and directors participate in a Company-sponsored stock purchase plan. Under the terms of the plan, employees can purchase up to 200 Class A shares and directors can purchase up to 250 Class A shares on an annual basis. Employees are required to pay 67% of an established market price per Class A share, whereas directors are required to pay 50%. The Company is responsible for the remainder of the cost and, during 2009, expensed \$210 (2008 - \$189) related to this program. Officers of the Company also participate in a long-term incentive program, which is used to purchase Class A shares of the Company on the open market.

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10 Net earnings (loss) per share

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

	2009		2008	
Net earnings (loss) for the year	\$ <u>(125)</u>		\$ <u>11,381</u>	
	Class A	Class B	Class A	Class B
Weighted average number of shares outstanding – basic and diluted	11,888,241	3,004,041	11,888,241	3,004,041
Net earnings (loss) per share Basic and diluted	\$ (0.01)	\$ (0.01)	\$ 0.78	\$ 0.68

The dilutive effect of outstanding stock options on net earnings per share is based on the application of the treasury stock method. Under this method, the Company assumes that the proceeds from the potential exercise of such stock options are used to purchase Class A non-voting shares. As at March 31, 2009 and 2008, there were no stock options outstanding.

11 Commitments and contingencies

- a) Future minimum lease payments as at March 31, 2009 under long-term non-cancellable leases are as follows:

2010	\$ 5,678
2011	3,458
2012	2,202
2013	1,442
2014	1,063
Thereafter	<u>9,125</u>
	<u>\$ 22,968</u>

- b) As at March 31, 2009, the Company held \$15,000 in U.S. dollar-denominated foreign exchange forward contracts at rates averaging between \$1.20 and \$1.28 expiring at various dates to March 2010. Management has not elected to designate these contracts as hedges and as a result have recorded the change in fair value of \$474 in the statement of earnings (loss) (see note 14).

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- c) In the ordinary course of business activities, the Company may be contingently liable for litigation and claims. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to accurately estimate the extent of potential claims, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Company.

12 Unusual items

Unusual items are as follows:

	<u>2009</u>	<u>2008</u>
Closure costs related to Quebec warehouse facility (i)	\$ 423	\$ -
Write-off of deferred financing costs (ii)	442	-
Closure and integration costs related to Port Moody winery facility (iii)	208	256
Investment write off (iv)	148	-
Other	54	42
	<u>\$ 1,275</u>	<u>\$ 298</u>

- i) During fiscal 2009, the Company closed the Quebec wine kit warehouse in Longueuil. The distribution of these wine kit products has been transferred to the Company's distribution centre in St. Catharines, Ontario effective April 2009. Costs related to the closure amounted to \$423 in 2009.
- ii) On May 15, 2008, the Company's four previous term loans were replaced with one seven year term facility. As a result, the Company wrote-off \$442 in deferred financing costs related to the four previous term loans.
- iii) During fiscal 2006, the Company closed its Port Moody winery facility and transferred production to its winery operations in Kelowna, British Columbia. The cost of maintaining this idle facility amounted to \$208 in 2009 (2008 – \$256).
- iv) In 2009, the Company wrote-off an investment in an Ontario wine distributor in the amount of \$148.

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13 Non-cash working capital items

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

	<u>2009</u>	<u>2008</u>
Accounts receivable	\$ 2,445	\$ (1,707)
Inventories	(11,623)	(10,827)
Prepaid expenses and other assets	345	679
Income taxes recoverable	(2,845)	(504)
Accounts payable and accrued liabilities	9,963	4,493
	<u>\$ (1,715)</u>	<u>\$ (7,866)</u>

14 Financial instruments

Classification of financial instruments

Under Canadian generally accepted accounting principles, financial instruments are classified into one of the following categories: held for trading, held to maturity, available for sale, loans and receivables, other financial liabilities and derivatives.

As at March 31, 2009, the classification and measurement of the financial assets and liabilities, as well as their carrying amounts and fair values are as follows:

Assets/liability	Category	Measurement	Carrying amount \$	Fair value \$
Accounts receivable	Loans and receivables	Amortized cost	22,430	22,430
Bank indebtedness	Other liabilities	Amortized cost	52,192	52,192
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	43,349	43,349
Dividends payable	Other liabilities	Amortized cost	1,197	1,197
Long-term debt – term loans	Other liabilities	Amortized cost	77,707	77,707
Interest rate swap	Derivatives	Fair value	8,682	8,682
Foreign exchange forward contracts	Derivatives	Fair value	269	269

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. As a result of the adoption of CICA 3855 on April 1, 2007, the Company recorded a net increase of \$216 to prepaid expenses and other assets, a net increase of \$68 to future income taxes, a net increase of \$20 to long-term debt and an opening retained earnings adjustment of \$128.

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Embedded derivatives (elements of contracts whose cash flows move independently from the host contract) are required to be separated and measured at fair values if certain criteria are met. Under an election permitted by the new standard, management reviewed its contracts and determined that the Company does not currently have any embedded derivatives in these contracts that require separate accounting and disclosure.

Hedge accounting is optional. When hedge accounting is not applied, the change in the fair value of the hedging instrument is recorded directly into earnings. The Company has chosen not to designate any of its current hedging instruments as hedges for the purpose of this section and has recorded the fair value adjustments of these instruments through net unrealized losses on derivative financial instruments.

Transaction costs related to long-term debt are netted against the carrying value of the liability and are then amortized over the expected life of the instrument using the effective interest method. On adoption of CICA 3855, the Company recorded an adjustment on April 1, 2007 to reduce other assets by \$599 and long-term debt by \$599. The Company also elected to use "trade date" accounting for regular way purchases and sales of financial assets.

Fair value

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

The fair value of long-term debt is equivalent to its carrying value since the interest rates are comparable to market rates.

The fair value of the derivative financial instruments generally reflects the estimates of the amounts the Company would receive by way of settlement of favourable contracts or that the Company would pay to terminate unfavourable contracts at the consolidated balance sheet date. The fair value of the interest rate swap and foreign exchange contracts are calculated using the quotes obtained from major financial institutions. Unrealized gains or losses on derivative financial instruments are recorded in the net unrealized loss on derivative financial instruments in the consolidated statement of earnings (loss).

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.

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Objectives and policy relating to financial risk management

Interest rate risk

The Company's principal exposure to interest rate fluctuations is limited to long-term debt (as described in note 6) which bears interest at both fixed and floating interest rates. To mitigate the exposure to interest rate fluctuations, the Company uses interest rate swaps to fix the interest rate on a portion of the Company's variable rate debt. The Company has elected not to use hedge accounting and as a result the interest rate swaps are measured at fair value. The resulting gains or losses are recorded in the statement of earnings (loss) and the fair value of the interest rate swap is recorded on the balance sheet. As a result, the Company recognized an unrealized loss of \$9,022 (2008 - \$946) on the interest rate swap classified as net unrealized losses on derivative financial instruments on the statement of earnings (loss). At March 31, 2009, there is one interest rate swap outstanding for a notional amount of \$76,361 with a fixed interest rate of 5.64%. The fair value of the interest rate swap at March 31, 2009 was \$8,682.

The Company's interest rate risk arises mainly from the interest rate impact on cash, floating rate debt and interest rate swap. The Company's interest rate management policy is to borrow at fixed rates to match the duration of long lived assets. Floating rate funding is used for short-term borrowing.

The Company has fixed interest on long-term debt at 5.64% until April 2015 by entering into an interest rate swap. 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, 2009, with other variables unchanged, a 1% change in interest rates would impact the Company's net earnings (loss) by approximately \$355, exclusive of the mark-to-market adjustments on the interest rate swap.

Credit risk

The Company's exposure to concentrations of credit risk is limited. The Company places its cash and cash equivalents with major Canadian financial institutions of high creditworthiness, and the Company's accounts receivable are not subject to high concentrations of credit risk. Maximum credit risk exposure represents the loss that would be incurred if all of the Company's counterparties were to default at the same time.

The Company's exposure to credit risk is very limited. Credit risk for trade receivables is monitored through established credit monitoring activities. Over 55% of the Company's accounts receivable balance relates to amounts owing from Canadian provincial liquor boards. Excluding accounts receivable from Canadian provincial liquor board amounts, the Company does not have a significant concentration of credit risk with any single counterparty or group of counterparties. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

Amounts owing from Canadian provincial liquor boards represents \$12,428 of the \$22,430 in total accounts receivables for which no allowance has been provided. Of the remaining non-provincial liquor board balances, \$1,046 had aged over sixty days as of March 31, 2009. An allowance for doubtful accounts of \$234 (2008 - \$482) has been provided against these accounts receivable amounts which the Company has determined to represent a reasonable estimate of amounts that may be uncollectible.

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Liquidity risk

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances and by appropriately utilizing its line of credit. Company management continuously monitors and reviews both actual and forecasted cash flows and matches the maturity profile of financial assets and financial liabilities. Accounts payable are generally due within 30 days and long-term debt payment requirements are disclosed in note 6.

The following table outlines the Company's contractual obligations, including long-term debt, operating leases and commitments on short-term forward foreign exchange contracts used to mitigate the currency risk on U.S. dollar purchases as at March 31, 2009:

	Total \$	< 1 year \$	2 – 3 years \$	4 – 5 years \$	> 5 years \$
Long-term debt	78,011	6,158	11,491	10,666	49,696
Operating leases	22,968	5,678	5,660	2,505	9,125
Foreign exchange contracts	18,615	18,615	-	-	-
Pension obligations	4,924	818	1,105	818	2,183
Long-term grape purchase contracts	309,402	20,073	42,495	43,786	203,048
Total contractual obligations	433,920	51,342	60,751	57,775	264,052

Foreign exchange risk

Certain of the Company's purchases are denominated in U.S. dollars or Euros. Any increases or decreases to the foreign exchange rates could increase or decrease the Company's earnings. To mitigate the exposure to foreign exchange risk, the Company has entered into forward foreign currency contracts.

As at March 31, 2009, the Company has forward foreign currency contracts to buy U.S. \$15,000 at rates ranging between \$1.20 and \$1.28. These contracts mature at various dates to March 2010. The Company has elected not to use hedge accounting and as a result, has recognized \$474 of unrealized foreign exchange losses (2008 – unrealized gain \$742) in the consolidated statement of earnings (loss) as a component of net unrealized losses on derivative financial instruments and has recorded the fair value of \$269 in prepaid expenses and other assets in the consolidated balance sheet.

The Company's foreign exchange risk arises on the purchase of bulk wine and concentrate which are made in U.S. dollars and Euros. The Company's strategy is to hedge approximately 50% - 80% of its foreign exchange requirements prior to the beginning of each fiscal year. The Company has entered into a series of foreign exchange contracts as a hedge against movements in U.S. dollar and Euro exchange rates. These contracts are reviewed regularly. A one percent change in the value of the U.S. dollar and Euro would impact the Company's net earnings (loss) by approximately \$154 and \$61, respectively.

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15 Capital disclosures

The Company's objective when managing capital is to safeguard the Company's ability as a going concern, to provide an adequate return to shareholders and to meet external capital requirements on debt and credit facilities. Unfunded capital expenditures are limited to \$10,000 on an annual basis and this is reviewed quarterly.

The Company's capital consists of cash, bank indebtedness, long-term debt and shareholders' equity. The Company's primary use of capital is to make increases to non-cash working capital, fund maintenance and growth related capital expenditures, pay dividends and finance acquisitions.

As part of the existing debt agreement, the Company is subject to externally imposed financial covenants which consist of the following:

- Funded debt to a rolling twelve month EBITDA
- Working capital ratio
- Fixed charge coverage ratio

Compliance with these covenants is monitored by management on a quarterly basis.

In order to facilitate management of its capital requirements, the Company prepares annual budgets that are updated as necessary depending on various factors including general industry conditions. The annual budget is approved by the Board of Directors. As at March 31, 2009, the Company has remained in compliance with all external lending agreement covenants.

16 Comparative figures

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