

# **Andrew Peller Limited**

## **Condensed Interim Consolidated Financial Statements**

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**September 30, 2015**

October 27, 2015

# ANDREW PELLER LIMITED

## Condensed Consolidated Balance Sheets

Unaudited

These financial statements have not been reviewed by our auditors

	September 30	March 31	April 1
	2015	2015	2014
(in thousands of Canadian dollars)	\$	Restated <sup>(1)</sup>	Restated <sup>(1)</sup>
		\$	\$
<b>Assets</b>			
<b>Current Assets</b>			
Accounts receivable	29,615	25,616	22,693
Inventory	120,622	117,812	120,751
Biological assets	1,997	1,129	1,062
Prepaid expenses and other assets	1,803	2,207	1,381
Income taxes recoverable	-	-	240
	<u>154,037</u>	<u>146,764</u>	<u>146,127</u>
<b>Property, plant, and equipment</b>	<b>105,316</b>	<b>104,951</b>	<b>104,945</b>
<b>Intangibles</b>	<b>11,718</b>	<b>12,331</b>	<b>13,209</b>
<b>Goodwill</b>	<b>37,473</b>	<b>37,473</b>	<b>37,473</b>
	<u><b>308,544</b></u>	<u><b>301,519</b></u>	<u><b>301,754</b></u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Bank indebtedness	21,901	32,522	54,407
Accounts payable and accrued liabilities	44,506	36,712	37,371
Dividends payable	1,564	1,460	1,391
Income taxes payable	4,223	1,902	-
Current portion of derivative financial instruments	645	992	1,002
Current portion of long-term debt	4,146	4,194	7,392
	<u>76,985</u>	<u>77,782</u>	<u>101,563</u>
<b>Long-term debt</b>	<b>50,222</b>	<b>52,269</b>	<b>38,328</b>
<b>Long-term derivative financial instruments</b>	<b>1,447</b>	<b>1,447</b>	<b>268</b>
<b>Post-employment benefit obligations</b>	<b>5,035</b>	<b>6,165</b>	<b>6,132</b>
<b>Deferred income</b>	<b>303</b>	<b>506</b>	<b>910</b>
<b>Deferred income taxes</b>	<b>16,078</b>	<b>15,975</b>	<b>16,003</b>
	<u><b>150,070</b></u>	<u><b>154,144</b></u>	<u><b>163,204</b></u>
<b>Shareholders' Equity</b>			
<b>Capital stock</b>	<b>7,026</b>	<b>7,026</b>	<b>7,026</b>
<b>Retained earnings</b>	<b>151,448</b>	<b>140,349</b>	<b>131,524</b>
	<u><b>158,474</b></u>	<u><b>147,375</b></u>	<u><b>138,550</b></u>
	<u><b>308,544</b></u>	<u><b>301,519</b></u>	<u><b>301,754</b></u>

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

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

**ANDREW PELLER LIMITED****Condensed Consolidated Statements of Earnings**

Unaudited

These financial statements have not been reviewed by our auditors

	For the three months ended	For the three months ended	For the six months ended	For the six months ended
	September 30, 2015	September 30, 2014 Restated(1)	September 30, 2015	September 30, 2014 Restated(1)
(in thousands of Canadian dollars)	\$	\$	\$	\$
<b>Sales</b>	<b>85,200</b>	82,759	<b>168,318</b>	162,276
Cost of goods sold (note 4)	<b>52,484</b>	52,769	<b>103,791</b>	102,988
Amortization of plant and equipment used in production	<b>1,453</b>	1,365	<b>3,019</b>	2,891
<b>Gross profit</b>	<b>31,263</b>	28,625	<b>61,508</b>	56,397
Selling and administration (note 4)	<b>20,705</b>	20,483	<b>39,670</b>	39,616
Amortization of plant, equipment, and intangibles used in selling and administration	<b>926</b>	931	<b>1,734</b>	1,627
Interest	<b>937</b>	1,233	<b>2,018</b>	2,556
<b>Operating earnings</b>	<b>8,695</b>	5,978	<b>18,086</b>	12,598
Net unrealized gains on derivative financial instruments	<b>(711)</b>	(1,225)	<b>(396)</b>	(100)
Other (income) expenses (note 4)	<b>(68)</b>	(71)	<b>(129)</b>	33
<b>Earnings before income taxes</b>	<b>9,474</b>	7,274	<b>18,611</b>	12,665
<b>Provision for (recovery of) income taxes</b>				
Current	<b>2,721</b>	1,452	<b>4,977</b>	3,071
Deferred	<b>(270)</b>	784	<b>(78)</b>	562
	<b>2,451</b>	2,236	<b>4,899</b>	3,633
<b>Net earnings for the period</b>	<b>7,023</b>	5,038	<b>13,712</b>	9,032
<b>Net earnings per share</b>				
Basic and diluted				
Class A shares	<b>0.51</b>	0.36	<b>0.99</b>	0.65
Class B shares	<b>0.44</b>	0.32	<b>0.86</b>	0.56

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

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# ANDREW PELLER LIMITED

## Condensed Consolidated Statements of Comprehensive Income

Unaudited	For the three	For the three	For the six months	For the six months
These financial statements have not been reviewed by our auditors	months ended	months ended	ended	ended
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
		Restated(1)		Restated(1)
(in thousands of Canadian dollars)	\$	\$	\$	\$
Net earnings for the period	7,023	5,038	13,712	9,032
<b>Items that are never reclassified to net earnings</b>				
Net actuarial (losses) gains on post-employment benefit plans	(576)	(514)	696	(944)
Deferred income tax recovery (provision)	150	133	(181)	245
<b>Other comprehensive (loss) income for the period</b>	<b>(426)</b>	<b>(381)</b>	<b>515</b>	<b>(699)</b>
<b>Net comprehensive income for the period</b>	<b>6,597</b>	<b>4,657</b>	<b>14,227</b>	<b>8,333</b>

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

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

# ANDREW PELLER LIMITED

## Condensed Consolidated Statements of Changes in Equity

For the six months ended September 30, 2015 and 2014

Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)

	Capital stock	Retained earnings	Total shareholders' equity
	\$	\$	\$
<b>Balance at April 1, 2014 as reported</b>	7,026	130,977	138,003
Impact of IAS 16 and IAS 41 amendments	-	547	547
<b>Balance at April 1, 2014 as restated</b>	<u>7,026</u>	<u>131,524</u>	<u>138,550</u>
Net earnings for the period	-	9,032	9,032
Net actuarial losses (net of \$245 deferred tax recovery)	-	(699)	(699)
Net comprehensive income for the period	-	<u>8,333</u>	<u>8,333</u>
Dividends (Class A \$0.210 per share, Class B \$0.183 per share)	-	(2,920)	(2,920)
<b>Balance at September 30, 2014</b>	<u>7,026</u>	<u>136,937</u>	<u>143,963</u>
<b>Balance at April 1, 2015</b>	<u>7,026</u>	<u>140,349</u>	<u>147,375</u>
Net earnings for the period	-	13,712	13,712
Net actuarial gains (net of \$181 deferred tax provision)	-	515	515
Net comprehensive income for the period	-	<u>14,227</u>	<u>14,227</u>
Dividends (Class A \$0.225 per share, Class B \$0.196 per share)	-	(3,128)	(3,128)
<b>Balance at September 30, 2015</b>	<u>7,026</u>	<u>151,448</u>	<u>158,474</u>

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

**ANDREW PELLER LIMITED**  
**Condensed Consolidated Statements of Cash Flows**  
**Unaudited**

These financial statements have not been reviewed by our auditors

	For the six months ended September 30, 2015	For the six months ended September 30, 2014 Restated(1)
(in thousands of Canadian dollars)	\$	\$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net earnings for the period	13,712	9,032
Adjustments for:		
Loss on disposal of property and equipment	-	145
Amortization of plant, equipment, and intangible assets	4,753	4,518
Interest expense	2,018	2,556
Provision for income taxes	4,899	3,633
Post-employment benefits	(434)	(438)
Deferred income	(203)	(203)
Net unrealized gains on derivative financial instruments	(396)	(100)
Interest paid	(1,957)	(2,418)
Income taxes paid	(2,656)	(2,392)
	<u>19,736</u>	<u>14,333</u>
Changes in non-cash working capital items related to operations (note 5)	<u>605</u>	<u>582</u>
	<u>20,341</u>	<u>14,915</u>
<b>Investing activities</b>		
Proceeds from disposal of property, plant and equipment	-	3
Purchase of property, plant, equipment, and biological assets	(4,552)	(2,196)
Purchase of intangibles	-	(287)
	<u>(4,552)</u>	<u>(2,480)</u>
<b>Financing activities</b>		
Decrease in bank indebtedness	(10,621)	(22,266)
Issuance of long-term debt	-	15,020
Repayment of long-term debt	(2,048)	(1,721)
Deferred financing costs	(96)	(617)
Dividends paid	(3,024)	(2,851)
	<u>(15,789)</u>	<u>(12,435)</u>
<b>Increase (decrease) in cash during the period</b>	-	-
<b>Cash, beginning of period</b>	-	-
<b>Cash, end of period</b>	<u>-</u>	<u>-</u>

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

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

**Notes to the Condensed Interim Consolidated Financial Statements**  
**Andrew Peller Limited**  
**Unaudited**  
**September 30, 2015 and 2014**  
**(in thousands of Canadian dollars, except per share amounts)**

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**1 Nature of operations**

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

**2 Significant accounting policies**

**(A) Basis of presentation**

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of condensed interim financial statements, including International Accounting Standard (“IAS”) 34 – Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the years ended March 31, 2015 and 2014, 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, 2015 and 2014. Changes to the Company’s accounting policies from those disclosed in its consolidated financial statements for the years ended March 31, 2015 and March 31, 2014 are described in note 2 (B), recently adopted accounting pronouncements.

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 11, 2015.

**(B) 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 tables summarize the impact of adopting amended IAS 16 – Property, Plant, and Equipment and IAS 41 – Agriculture.

**Notes to the Condensed Interim Consolidated Financial Statements**  
**Andrew Peller Limited**  
**Unaudited**  
**September 30, 2015 and 2014**  
**(in thousands of Canadian dollars, except per share amounts)**

Impact on the consolidated balance sheets		March 31, 2015 as reported	Impact of IAS 16 and IAS 41 changes	March 31, 2015 as restated		April 1, 2014 as reported	Impact of IAS 16 and IAS 41 changes	April 1, 2014 as restated
(in thousands of Canadian dollars)								
Property, plant, and equipment	(1)	\$ 90,955	\$ 13,996	\$ 104,951	(1)	\$ 90,152	\$ 14,793	\$ 104,945
Biological assets	(1)	13,982	(13,982)	-	(1)	14,054	(14,054)	-
<b>Total assets</b>		301,505	14	301,519		301,015	739	301,754
Deferred income taxes	(2)	15,971	4	15,975	(2)	15,811	192	16,003
<b>Total liabilities</b>		154,140	4	154,144		163,012	192	163,204
Retained earnings		140,339	10	140,349		130,977	547	131,524
<b>Total shareholders' equity</b>		147,365	10	147,375		138,003	547	138,550

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
(in thousands of Canadian dollars)								
Amortization of plant and equipment used in production	(1)	1,177	188	1,365		2,517	374	2,891
<b>Gross profit</b>		28,813	(188)	28,625		56,771	(374)	56,397
<b>Operating earnings</b>		6,166	(188)	5,978		12,972	(374)	12,598
Other (income) expenses	(1)	(33)	(38)	(71)		109	(76)	33
<b>Earnings before income taxes</b>		7,424	(150)	7,274		12,963	(298)	12,665
Provision for income taxes – deferred	(2)	823	(39)	784		639	(77)	562
<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



**Notes to the Condensed Interim Consolidated Financial Statements**  
**Andrew Peller Limited**  
**Unaudited**  
**September 30, 2015 and 2014**  
**(in thousands of Canadian dollars, except per share amounts)**

<b>Impact on the statement of cash flows <sup>(3)</sup></b>	<b>For the six months ended September 30, 2014 as reported</b>	<b>Impact of IAS 16 and IAS 41 changes</b>	<b>For the six months ended September 30, 2014 as restated</b>
<b>(in thousands of Canadian dollars)</b>			
Net earnings for the period	9,253	(221)	9,032
<b>Adjustments for</b>			
Loss (gain) on disposal of property and equipment	(2)	147	145
Amortization of plant, equipment and intangible assets	4,144	374	4,518
Provision for income taxes	3,710	(77)	3,633
Revaluation of biological assets	223	(223)	-
<b>Cash flow from operating activities</b>	<b>14,333</b>	<b>-</b>	<b>14,333</b>

- 1) Under the amended standards, grape vines are within the scope of property, plant, and equipment rather than biological assets. The Company elected to measure the grape vines at fair value at April 1, 2014 and to use this measurement basis as the deemed cost when applying IAS 16 after this date. In applying IAS 16, the Company amortizes grape vines on owned property over a 20 year period and over the remaining lease period for grape vines controlled by the Company that were planted on leased property. Vine disposals and write-downs recorded in other expenses (income) were measured using this revised measurement basis. Prior to adoption of the amended standards, the grape vines were measured at fair value less cost to sell at each reporting period and revaluation adjustments were recorded in other expenses (income).
- 2) Deferred income taxes were adjusted to reflect the income tax effect of the adjustment described in 1.
- 3) Certain items within operating activities in the condensed consolidated statements of cash flows have been reclassified as a result of adopting the IAS 16 and IAS 41 amendments as illustrated above. Other than presentation, there was no impact on the condensed consolidated statements of cash flows as a result of the adoption of the amendments to IAS 16 and IAS 41.

**Notes to the Condensed Interim Consolidated Financial Statements**  
**Andrew Peller Limited**  
**Unaudited**  
**September 30, 2015 and 2014**  
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**(C) 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 on transition to IFRS 9. The mandatory effective date of applying these standards is for annual periods beginning on or after January 1, 2018. The standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used. The standard requires that for financial liabilities measured at fair value, any changes in an entity's own credit risk are generally to be presented in other comprehensive income instead of net earnings. A new hedge accounting model is included in the standard, as well as increased disclosure requirements about risk management activities for entities that apply hedge accounting. The Company is currently evaluating the potential impact of this standard.

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

**3 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.

**Notes to the Condensed Interim Consolidated Financial Statements**  
**Andrew Peller Limited**  
**Unaudited**  
**September 30, 2015 and 2014**  
**(in thousands of Canadian dollars, except per share amounts)**

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**4 Expenses**

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

	<b>For the three months ended September 30, 2015</b>	<b>For the six months ended September 30, 2015</b>	<b>For the three months ended September 30, 2014</b>	<b>For the six months ended September 30, 2014</b>
Raw materials and consumables	\$ 43,154	84,740	\$ 43,970	84,772
Employee compensation and benefits	14,674	28,992	14,553	28,531
Advertising, promotion, and distribution	7,086	13,279	7,013	13,733
Occupancy	2,815	5,471	2,584	5,136
Repairs and maintenance	1,328	2,674	1,425	2,624
Other external charges	4,132	8,305	3,707	7,808
	<b>\$ 73,189</b>	<b>143,461</b>	<b>\$ 73,252</b>	<b>142,604</b>

Other (income) expenses are as follows:

	<b>For the three months ended September 30, 2015</b>	<b>For the six months ended September 30, 2015</b>	<b>For the three months ended September 30, 2014</b>	<b>For the six months ended September 30, 2014</b>
Loss on disposal of vines	\$ -	-	\$ -	147
Income from idle Port Moody property	(68)	(129)	(71)	(114)
	<b>\$ (68)</b>	<b>(129)</b>	<b>\$ (71)</b>	<b>33</b>

**Notes to the Condensed Interim Consolidated Financial Statements**  
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**Unaudited**  
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**5 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:

	<b>For the six months ended</b>		<b>For the six months ended</b>
	<b>September 30, 2015</b>		<b>September 30, 2014</b>
Accounts receivable	\$ (3,999)	\$	(6,370)
Inventory	(2,810)		9,091
Biological assets	(868)		(1,570)
Prepaid expenses and other assets	453		(697)
Accounts payable and accrued liabilities	7,829		128
	<hr/>		<hr/>
	\$ 605	\$	582

**6 Related parties and management compensation**

The compensation expense recorded for directors and members of the Executive Management Team of the Company was \$1,346 (2014 - \$1,547) for the three months ended September 30, 2015 and \$2,606 (2014 - \$2,844) for the six months ended September 30, 2015. The compensation expense consists of amounts that will primarily be settled within twelve months of being earned.

**7 Bank indebtedness and long-term debt**

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 +1.40%. The interest rate on the Company's term loans remains fixed until April 28, 2019 as a result of an interest rate swap.

**8 Financial instruments**

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

The fair value of foreign exchange forward contracts is determined based on the difference between the contract rate and the forward rate at the date of valuation and is included in prepaid and other assets in the condensed consolidated balance sheets.

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

Fair value estimates are made at a specific point in time, using available information about the instrument. These estimates are subjective in nature and often cannot be determined with precision.

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

		For the three months ended September 30, 2015	For the six months ended September 30, 2015		For the three months ended September 30, 2014	For the six months ended September 30, 2014
Unrealized gains on foreign exchange forward contracts	\$	719	49	\$	165	65
Unrealized gains (losses) on interest rate swaps		(8)	347		1,060	35
	\$	711	396	\$	1,225	100

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

		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)	2015
<b>Asset/liability</b>					
Interest rate swap liability	\$	-	2,092	-	-
Foreign exchange forward contracts asset	\$	-	746	-	-
					2014
<b>Asset/liability</b>					
Interest rate swap liability	\$	-	2,439	-	-
Foreign exchange forward contracts asset	\$	-	697	-	-

There were no transfers of financial instruments between levels during the quarter.