ANDREW PELLER

— LIMITED —

MANAGEMENT'S DISCUSSION & ANALYSIS
For the three months ended June 30, 2019

The following management's discussion and analysis ("MD&A") provides a review of corporate developments, results of operations, and financial position for the three months ended June 30, 2019 in comparison with those for the three months ended June 30, 2018 for Andrew Peller Limited (the "Company" or "APL"). This discussion is prepared as of August 7, 2019 and should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes contained therein for the periods ended June 30, 2019 and 2018. Additional information relating to the Company, including the audited annual consolidated financial statements, MD&A and Annual Information Form for the years ended March 31, 2019 and March 31, 2018, is available on www.sedar.com. The financial years ending March 31, 2019 and March 31, 2020 are referred to as "fiscal 2019" and "fiscal 2020" respectively. All dollar amounts are expressed in Canadian dollars unless otherwise indicated.

FORWARD-LOOKING INFORMATION

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

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

Overview

The Company is a leading producer and marketer of quality wines and craft beverage alcohol products in Canada. With wineries in British Columbia, Ontario, and Nova Scotia, the Company markets wines produced from grapes grown in Ontario's Niagara Peninsula, British Columbia's Okanagan and Similkameen Valleys, and from vineyards around the world. The Company's award-winning premium and ultra-premium Vintners' Quality Alliance ("VQA") brands include *Peller Estates, Trius, Thirty Bench*, *Wayne Gretzky, Sandhill, Red Rooster, Black Hills Estate Winery, Tinhorn Creek Vineyards, Gray Monk Estate Winery, Raven Conspiracy* and *Conviction*. Complementing these premium brands are a number of popularly priced varietal brands including *Peller Family Vineyards (*formerly, *Peller Estates French Cross* in Eastern Canada and *Peller Estates Proprietors Reserve* in Western Canada), *Copper Moon, Black Cellar* and *XOXO. Hochtaler, Domaine D'Or*, *Schloss Laderheim, Royal,* and *Sommet* are the Company's key value priced brands. The Company imports wines from major wine regions around the world to blend with domestic wine to craft these quality and value priced brands. The Company also produces craft beverage alcohol products, including *No Boats on Sunday* ciders*, Wayne Gretzky No. 99 Red Cask*, *No. 99 Ice Cask* and *99 Proof* Canadian Whiskies and *No. 99 Canadian Whisky Cream* products. The Company has also recently entered the craft beer market with the launch of its *No. 99 Rye Lager*. With a focus on serving the needs of all wine consumers, the Company produces and markets premium personal winemaking products through its wholly-owned subsidiary, Global Vintners Inc. ("GVI"), the recognized leader in personal winemaking products. GVI distributes products through over 170 Winexpert authorized retailers and more than 500 independent retailers across Canada, with additional distributors in the United States, the United Kingdom, New Zealand, Australia, and China. GVI's award-winning premium and ultra-premium winemaking brands include *Selection, Vintners Reserve, Island Mist, KenRidge, Cheeky Monkey, Traditional Vintage,* and *Cellar Craft*. The Company owns and operates 101 well-positioned independent retail locations in Ontario under The Wine Shop, Wine Country Vintners, and Wine Country Merchants store names. The Company also operates Andrew Peller Import Agency and The Small Winemaker's Collection Inc., importers and marketing agents for premium wines from around the world.

The Company's vision is to *Pour Extraordinary into Everyday Life*. The Company believes it achieves this objective by delivering to its customers and consumers the highest quality wines, spirits, refreshments, beer and experiences at the best possible value. To meet this goal, the Company invests in improvements in the quality of grapes, wines, and other raw materials, its winemaking and distillation capabilities, sales and marketing initiatives, tourism and hospitality experiences, and its quality management programs.

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

Recent Events

On July 29, 2019 the City of Port Moody, British Columbia approved by-law amendments to permit the future development of lands owned by the Company that had held its first winery operations since 1961. Production was moved from the property to its Kelowna, B.C. facility in January 2006. Since that time the Company has engaged with the community and the City of Port Moody to produce a plan to transform the 217,000 square foot site into a mixed-use community in partnership with experienced developers. Once the Port Moody council formally adopts the by-law amendments, expected later this year, the Company will proceed to hire development partners for the project.

On June 12, 2019, the Company's Board of Directors approved a 4.8% increase in common share dividends. The annual dividend on Class A Shares was increased to $0.215 per share from $0.205 per share and the dividend on Class B Shares was increased to $0.187 per share from $0.178 per share. The Company has consistently paid common share dividends since 1979 and has increased dividends every year for the past seven years. APL currently designates all dividends paid as "eligible dividends" for purposes of the *Income Tax Act* (Canada) unless indicated otherwise.

On April 26, 2019, the Company's Wayne Gretzky Estates introduced its expansion into the craft beer market with its new *No. 99 Rye Lager*. *No. 99 Rye Lager* has only four natural ingredients and is brewed locally in Ontario with Canadian Winter rye grain. The craft beer is available for sale across Ontario in LCBO stores, Wayne Gretzky Estates as well as select Ontario restaurants, and will be more broadly available across Ontario this fall.

On April 11, 2019, the Company announced the launch of the new *Peller Family Vineyards* brand supported by a comprehensive media campaign including television, digital, social, public relations and in-store programs, positioning *Peller Family Vineyards* as a signature for quality, approachable wine.

The Government of Ontario has announced its intention to modernize the rules for selling beverage alcohol in Ontario by expanding retail distribution in the province. This could represent a significant change to the retail landscape in Ontario with the goal of providing more convenience and choice to consumers. While there has not been a proposal by the Government of Ontario regarding implementation, the Company is working closely with its industry partners to mitigate the risks that this transition may have on its financial results.

Results of Operations

For the three months ended June 30, **(in $000, except per share amounts)**	**2019**	2018
Sales	**$ 95,216**	$ 95,541
Gross margin	**42,421**	41,281
Gross margin (% of sales)	**44.6%**	43.2%
Selling and administrative expenses	**24,071**	25,473
EBITA	**18,350**	15,808
Adjusted EBITA	**18,925**	17,942
Interest	**2,228**	1,954
Net unrealized loss (gain) on derivative financial instruments	**565**	(218)
Other expenses	**86**	275
Adjusted earnings	**9,848**	9,724
Net earnings	**8,791**	7,548
Earnings per share – basic and diluted - Class A	**$ 0.20**	$ 0.18
Earnings per share – basic and diluted - Class B	**$ 0.18**	$ 0.15
Adjusted earnings per share – basic and diluted – Class A	**$ 0.23**	$ 0.23
Adjusted earnings per share – basic and diluted – Class B	**$ 0.20**	$ 0.20
Dividend per share – Class A (annual)	**$0.215**	$0.205
Dividend per share – Class B (annual)	**$0.187**	$0.178

Sales for the three months ended June 30, 2019 were $95.2 million, consistent with the prior year. Sales were strengthened by the introduction of new products and solid performance across the majority of the Company's well established trade channels, offset by significant LCBO distribution issues, increased competition from new subsidized low-priced imported wines and market softness primarily in Western Canada.

The Company defines gross margin as gross profit excluding amortization. Gross margin as a percentage of sales continues to remain strong at 44.6% for the three months ended June 30, 2019 compared to 43.2% in the first quarter of the prior year. Gross margin is benefiting from the rationalization of lower performing products, an increased focus on higher margin products, and the positive impact of the Company's cost control initiatives, partially offset by the softer markets in Western Canada and increased competition from new subsidized low-priced imported wines. Management is continually focused on enhancing production efficiency and productivity and believes gross margin will remain strong for the foreseeable future.

On the acquisition of the three wineries purchased in October 2017, the Company recorded an increase of $10.4 million to inventory to represent the fair value of the goods acquired. This increase is being expensed over time to the consolidated statement of earnings as finished goods are sold, thus reducing gross margin. During the first quarter of fiscal 2020 the Company's gross margin was reduced by $0.6 mililon due to this adjustment compared to $2.1 million in the first quarter of fiscal 2019.

Selling and administrative expenses decreased significantly in the first quarter of fiscal 2020 compared to the prior year due primarily to the Company's ongoing focus on reducing costs and the reduction of lease expenses ($0.8 million) due to the accounting treatment for lease obligations in accordance with IFRS 16, adopted on April 1, 2019. As a percentage of revenues, selling and administrative expenses improved to 25.3% in the first quarter of fiscal 2020 from 26.7% in the same period of the prior year.

Earnings before interest, amortization, net unrealized gains and losses on derivative financial instruments, other (income) expenses, and income taxes ("EBITA") were $18.4 million for the three months ended June 30, 2019, up from $15.8 million in the prior year. EBITA strengthened in the first quarter of fiscal 2020 due to the improved gross margin and the decrease in selling and administrative expenses. Adjusted EBITA, which excludes from EBITA one-time acquisition related charges, was $18.9 million for the three months ended June 30, 2019 compared to $17.9 million in the prior year.

Interest and amortization expense increased in fiscal 2020 compared to the prior year due primarily to the lease obligations as mentioned above.

The Company recorded a net unrealized non-cash loss in the first quarter of fiscal 2020 of $0.6 million related to mark-to-market adjustments on interest rate swaps and foreign exchange contracts compared to a gain of $0.2 million in the prior year. The Company has elected not to apply hedge accounting and accordingly the change in fair value of these financial instruments is reflected in the Company's consolidated statement of earnings each reporting period. These instruments are considered to be effective economic hedges and have enabled management to mitigate the short-term volatility of changing foreign exchange and interest rates.

Adjusted earnings, defined as net earnings not including net unrealized gains and losses on derivative financial instruments, other (income) expenses, non-recurring, non-operating (gains) and losses, and the related income tax effect were $9.8 million for the three months ended June 30, 2019 compared to $9.7 million in the prior year. Net earnings for the first quarter of fiscal 2020 were $8.8 million or $0.20 per Class A Share compared to $7.5 million or $0.18 per Class A Share in the prior year.

The Company believes that sales will grow over the long term due to strong positioning of key brands, the continued launch of new and innovative products, and growth in the Canadian beverage alcohol market.

Quarterly Performance

The following table outlines key quarterly highlights.

(in $000, except per share amounts)	Q1 20	Q4 19	Q3 19	Q2 19	Q1 19	Q4 18	Q3 18	Q2 18
Sales	95,216	79,780	103,152	103,323	95,541	79,817	103,583	91,857
Gross margin	42,421	31,310	42,133	44,284	41,281	32,811	43,217	38,693
Gross margin (% of sales)	44.6%	39.2%	40.8%	42.9%	43.2%	41.1%	41.7%	42.1%
EBITA	18,350	6,554	14,353	16,160	15,808	4,279	17,833	16,290
Interest	2,228	1,055	1,920	1,943	1,954	1,749	1,656	1,157
Adjusted EBITA	18,925	6,548	15,599	18,198	17,942	5,740	20,175	16,852
Net unrealized loss (gain) on financial instruments	565	1,168	1,478	(749)	(218)	(833)	(216)	(285)
Other expenses (income)	86	669	27	92	275	35	(4,092)	70
Adjusted earnings (loss)	9,848	1,477	7,761	10,446	9,724	(904)	12,402	9,556
Net earnings (loss)	8,791	84	5,432	8,894	7,548	(1,691)	14,391	9,226
E.P.S. – Class A basic & diluted	$0.20	$0.00	$0.13	$0.21	$0.18	$(0.04)	$0.33	$0.22
E.P.S. – Class B basic & diluted	$0.18	$0.00	$0.11	$0.18	$0.15	$(0.03)	$0.29	$0.19
Adjusted E.P.S – Class A basic & diluted	$0.23	$0.03	$0.18	$0.24	$0.23	$(0.02)	$0.29	$0.23
Adjusted E.P.S – Class B basic & diluted	$0.20	$0.03	$0.16	$0.21	$0.20	$(0.02)	$0.25	$0.20

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

Liquidity and Capital Resources

As at (in $000)	June 30, 2019	March 31, 2019
Current assets	**$ 196,232**	$ 196,700
Property, plant, and equipment	**221,065**	199,749
Intangibles	**16,485**	16,932
Goodwill	**53,638**	53,638
Total assets	**$ 487,420**	$ 467,019
Current liabilities	**$ 98,693**	$ 99,395
Long-term debt	**104,437**	106,879
Long-term derivative financial instruments	**1,210**	1,008
Lease obligations	**16,493**	-
Post-employment benefit obligations	**5,527**	4,657
Deferred income tax	**19,975**	20,329
Shareholders' equity	**241,085**	234,751
Total liabilities and shareholders' equity	**$ 487,420**	$ 467,019

The change in current assets as at June 30, 2019 compared to March 31, 2019 reflects an increase in accounts receivable due to the timing of cash receipts from provincial liquor boards offset by a decrease in inventory due to sales. Inventory is dependent on domestically grown grapes that are used in the sale of premium and ultra-premium wines that are held for a longer period than imported wine. These wines are typically aged for one to three years before they are sold. The cost of producing wine from domestically grown grapes is also significantly higher than wine purchased on international markets.

Accounts receivable are predominantly with provincial liquor boards and, to a lesser extent, licensed establishments and independent retailers of consumer made wine products. The Company had $17.8 million of accounts receivable with provincial liquor boards at June 30, 2019, all of which is expected to be collectible. The balance represents amounts due from licensees, export customers, and independent retailers of consumer made wine products. The amount of accounts receivable that was 30 days past due was $2.4 million at June 30, 2019. Against these amounts an allowance for doubtful accounts of $0.1 million has been provided which the Company has determined based on assumptions about risk of default and expected loss rates.

Property, plant, and equipment increased at June 30, 2019 compared to the prior year-end due the requirement to record all lease obligations on the balance sheet as discussed above.

The change in current liabilities as at June 30, 2019 compared to March 31, 2019 reflects a decrease in accounts payable due to timing of invoices and payments offset by change in accounting treatment for lease obligations in fiscal 2020.

Overall bank debt decreased to $152.0 million at June 30, 2019 from $154.8 million at March 31, 2019. The decrease is due to cash flows from operations in fiscal 2020, the positive impact of working capital management, and regularly scheduled debt repayments. With the decrease in debt, the Company's debt to equity ratio improved to 0.63:1 at June 30, 2019 compared to 0.66:1 at March 31, 2019. At June 30, 2019, the Company had unutilized debt capacity in the amount of $52.2 million on its operating facility and $105.2 million on its investment facility.

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

For the three months ended June 30, 2019, the Company generated cash from operating activities, after changes in non-cash working capital items, of $10.3 million compared to $16.0 million in the prior year. Investing activities of $4.6 million in the first quarter of fiscal 2020 relate to capital expenditures to improve operations.

Financing activities for the three months ended June 30, 2019 of $5.7 million included scheduled repayments of long-term debt, dividend payments and the principal repayment of lease obligations.

Working capital as at June 30, 2019 was $97.5 million compared to $97.3 million at March 31, 2019. Shareholders' equity as at June 30, 2019 was $241.1 million or $5.46 per common share compared to $234.8 million or $5.31 per common share as at March 31, 2019. The increase in shareholders' equity was due to the increase in net earnings in fiscal 2020, partially offset by the payment of dividends.

Common Shares Outstanding

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

Shares outstanding	**June 30, 2019**	March 31, 2019
Class A Shares	**35,994,556**	35,988,148
Class B Shares	**8,198,994**	8,198,994
Total	**44,193,550**	44,187,142

Strategic Outlook and Direction

Andrew Peller Limited is committed to a strategy of growth that focuses on the expansion of its core business as a producer and marketer of quality wines and wine related products through concentrating on and developing leading brands that meet the needs of consumers and customers. Over the long term the Company believes higher-priced premium wine and spirits sales will continue to grow in Canada, generating higher margins and increased profitability compared to its lower-priced products. The Company has also entered the spirits and craft beer categories, through its strategic alliance with Wayne Gretzky, and has introduced sangrias and ciders through its own brand labels.

The Company has focused its product development and sales and marketing initiatives by capitalizing on wine consumption trends and expects to see continued sales growth. The Company will continue to closely monitor its costs and will react quickly to changes to risks and opportunities in the marketplace.

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

The Company expects to continue to invest in capital expenditures over the next five years to increase capacity, support its ongoing commitment to producing the highest-quality wines and spirits, and improve productivity.

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

Risks and Uncertainties

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

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

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

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

Foreign exchange risk exists on the purchases of bulk wine and concentrate that are primarily made in United States dollars, Euros, and Australian dollars. Fluctuating foreign currencies may have a positive or negative impact on gross margins, however, the Company believes the impact on gross margin will be largely offset by its continued ability to leverage scale and successful cost control initiatives to reduce other cost of goods sold. The Company's strategy is to hedge approximately 50% - 80% of its foreign exchange requirements throughout the fiscal year and to regularly review its on-going requirements. The Company does not enter into foreign exchange contracts for trading or speculative purposes and contracts are reviewed periodically. As at June 30, 2019, the Company had locked in $4.7 million in U.S. dollar contracts at rates ranging between $1.31 and $1.32 Canadian, $5.3 million in Australian dollar contracts at rates ranging between $0.92 and $0.95 Canadian and $1.1 million in Euro contracts at rates averaging $1.50 Canadian. These contracts expire at various dates through November 2019. Based on the Company's forecasts for foreign currency purchases and the amount of foreign exchange forward contracts outstanding at June 30, 2019, each one percent change in the U.S. dollar would impact the Company's net earnings by an estimated $0.2 million. Each one percent change in the Euro and the Australian dollar exchange rates would not result in a material impact on the Company's net earnings.

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

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

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

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

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

The Company has certain defined benefit pension plans. The expense and cash contributions related to these plans depend on the discount rate used to measure the liability to pay future benefits and the market performance of the plan assets set aside to pay these benefits. The Company's Pension Committee reviews the performance of plan assets on a regular basis and has a policy to hold diversified investments. Nevertheless, a decline in long-term interest rates or in asset values could increase the Company's costs related to funding the deficit in these plans.

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

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

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

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

Non-IFRS Measures

The Company utilizes EBITA (defined as earnings before interest, amortization, net unrealized gains and losses on derivative financial instruments, other (income) expenses, and income taxes) and Adjusted EBITA (EBITA before non-recurring expenses such as acquisition transaction and transition costs) to measure its financial performance. EBITA and Adjusted EBITA are not recognized measures under IFRS; however, management believes that EBITA and Adjusted EBITA are useful supplemental measures to net earnings as these measures provide readers with an indication of earnings available for investment prior to debt service, capital expenditures, and income taxes, as well as provide an indication of recurring earnings compared to prior periods.

The Company calculates EBITA and Adjusted EBITA as follows.

For the three months ended June 30, **(in $000)**	**2019**	2018
Net earnings	**$ 8,791**	$ 7,548
Add: Interest	**2,228**	1,954
Provision for income taxes	**2,690**	3,019
Amortization of plant and equipment used in production	**1,867**	1,840
Amortization of equipment and intangibles used in selling and administration	**2,123**	1,390
Net unrealized loss (gain) on derivative financial instruments	**565**	(218)
Other expenses	**86**	275
EBITA	**$ 18,350**	$ 15,808
Fair value adjustment for acquired inventory sold during the period	**575**	2,134
Adjusted EBITA	**$ 18,925**	$ 17,942

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

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

For the three months ended June 30, **(in $000)**	**2019**	2018
Sales	**$ 95,216**	**$** 95,541
Less: Cost of goods sold, excluding amortization	**52,795**	54,260
Gross margin	**42,421**	41,281
Gross margin (% of sales)	**44.6%**	43.2%

The Company calculates Adjusted earnings and Adjusted earnings per share as follows.

For the three months ended June 30, **(in $000)**	**2019**	2018
Net earnings	**$ 8,791**	$ 7,548
Net unrealized loss (gains) on derivative financial instruments	**565**	(218)
Other expenses	**86**	275
Fair value adjustment for acquired inventory sold during the period	**575**	2,134
Income tax effect of the above	**(169)**	(15)
Adjusted earnings	**$ 9,848**	$ 9,724
Adjusted earnings per share – Class A	**$0.23**	$0.23
Adjusted earnings per share – Class B	**$0.20**	$0.20

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

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

Critical Accounting Estimates
During the year management is required to make estimates and assumptions that are inherently uncertain. These estimates can vary with respect to the level of judgment involved and ultimately the impact that these estimates may have on the Company's financial statements. Estimates are deemed to be critical when a different estimate could reasonably be used or where changes are reasonably likely to occur which could materially affect the Company’s financial position or financial performance. The Company’s critical accounting estimates remain unchanged from those disclosed in the notes to the audited consolidated financial statements for the year ended March 31, 2019 and 2018, except as follows:

IFRS 16, Leases
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods covered by termination options) are only included in the lease term if the lease is reasonably certain to be extended (or terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

In determining the carrying amount of right-of-use assets and lease liabilities, the Company is required to estimate the incremental borrowing rate specific to each leased asset or portfolio of leased assets if the interest rate implicit in the lease is not readily determined. Management determines the incremental borrowing rate of each leased asset or portfolio of leased assets by using the companies specific risk portfolio, the security, term and value of the underlying leased asset, and the economic environment in which the leased asset operates in. The incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment.

Recently Adopted Accounting Policies
IFRS 16, Leases has been adopted effective April 1, 2019 which replaces IAS 17, Leases and Related Interpretations. IFRS 16 introduces a single, on-balance sheet accounting model for lessees that is similar to the former financing lease accounting, with limited exceptions for short-term leases or leases of low-value assets. Lessees recognize a right-of-use asset representing its rights to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessees also recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities. A lessee can choose to apply IFRS 16 using either a full retrospective or a modified retrospective approach. The Company has applied IFRS 16 using the modified retrospective approach, the simplified transition approach, without restating comparative amounts prior to the first adoption. The right-of-use assets and liabilities for property and equipment leases are measured on transition as if the new rules had always been applied. At the time of adoption, as at April 1, 2019, the Company recognized $17.9 million in new right-of-use assets and lease liabilities for its vineyard, building and machinery and equipment leases. Additional disclosures have been included in the condensed consolidated interim financial statements for the three month period ended June 30, 2019.

Leases are recognized as a right-of-use asset in property, plant and equipment and a corresponding lease liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the repayment of the principal portion of lease liability and the interest portion. The interest expense is charged to the condensed interim consolidated statement of earnings over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate;
- Amounts expected to be payable by the lessee under residual value guarantees;

- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payment of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Payments associated with variable lease payments not based on an index or a rate, short-term leases and leases of low value assets are recognized on a straight-line basis as an expense in the condensed interim consolidated statement of earnings.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date, less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Right-of-use assets are subject to impairment.

Some property leases contain variable payment terms that are linked to sales generated from a store. For individual stores, up to 100% of lease payments are on the basis of variable payment terms. Variable lease payments are recognized in the condensed interim consolidated statement of earnings in the period in which the condition that triggers those payments occurs. A 1% increase in sales across all stores with such variable lease contracts would not result in a material change to the total lease payments.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

IAS 19, Employee Benefits has been amended to modify the guidance in connection with defined benefit plans and accounting for plan amendments, settlements, or curtailments. The amendments are effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments did not have a material impact on the consolidated financial statements.

IFRS 9, Financial Instruments has been amended to enable companies to measure at amortized cost some prepayable financial assets with negative compensation. The assets affected, that include some loans and debt securities, would otherwise have been measured at fair value through profit or loss. Financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation, may be measured at amortized cost or at fair value through other comprehensive income when eligibility conditions are met. The amendment to IFRS 9 also clarifies how to account for the modification of a financial liability. Most modifications of financial liabilities will result in immediate recognition of a gain or loss. The amendment is effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments did not have a material impact on the consolidated financial statements.

IFRIC Interpretation 23, Uncertainty over Income Tax Treatments, has been issued to clarify how to apply the recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty over income tax treatments. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2019. The adoption of this interpretation did not have any material impact on the consolidated financial statements.

Recently Issued Accounting Pronouncements

IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors have been amended to use a consistent definition of materiality throughout all accounting standards, clarify the explanation of the definition of material and incorporate some of the guidance in IAS 1 about immaterial information. The amendments are effective for annual periods beginning on or after January 1, 2020. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

IFRS 3, Business Combinations has been amended to improve the definition of a business. The amendments will help companies determine whether an acquisition made is of a business or a group of assets. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contributions to the ability to create outputs. The amendments are effective for annual periods beginning on or after January 1, 2020. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

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

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

For the three months ended June 30, 2019, there have been no material changes in the Company's internal controls over financial reporting or changes to disclosure controls and procedures that materially affected or were likely to affect, the Company's internal control systems.