

Andrew Peller Limited

Condensed Consolidated Financial Statements

September 30, 2014

ANDREW PELLER LIMITED
Condensed Consolidated Balance Sheets

Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)	September 30 2014 \$	March 31 2014 \$
Assets		
Current Assets		
Accounts receivable	29,063	22,693
Inventory	111,660	120,751
Current portion of biological assets	2,632	1,062
Prepaid expenses and other assets	2,143	1,381
Income taxes recoverable	-	240
	<u>145,498</u>	<u>146,127</u>
Property, plant, and equipment	89,116	90,152
Biological assets	14,018	14,054
Intangibles	12,909	13,209
Goodwill	37,473	37,473
	<u>299,014</u>	<u>301,015</u>
Liabilities		
Current Liabilities		
Bank indebtedness (note 7)	32,141	54,407
Accounts payable and accrued liabilities	37,997	37,371
Dividends payable	1,460	1,391
Income taxes payable	439	-
Current portion of derivative financial instruments	1,092	1,002
Current portion of long-term debt (note 7)	4,218	7,392
	<u>77,347</u>	<u>101,563</u>
Long-term debt (note 7)	54,337	38,328
Long-term derivative financial instruments	143	268
Post-employment benefit obligations	6,638	6,132
Deferred income	707	910
Deferred income taxes	16,205	15,811
	<u>155,377</u>	<u>163,012</u>
Shareholders' Equity		
Capital stock	7,026	7,026
Retained earnings	136,611	130,977
	<u>143,637</u>	<u>138,003</u>
	<u>299,014</u>	<u>301,015</u>
Commitments		

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

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

Unaudited

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	For the three months ended	For the three months ended	For the six months ended	For the six months ended
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
(in thousands of Canadian dollars)	\$	\$	\$	\$
Sales	82,759	77,226	162,276	149,944
Cost of goods sold (note 4)	52,769	49,135	102,988	94,043
Amortization of plant and equipment used in production	1,177	1,045	2,517	2,395
Gross profit	28,813	27,046	56,771	53,506
Selling and administration (note 4)	20,248	19,070	39,381	37,205
Amortization of plant, equipment, and intangibles used in selling and administration	931	909	1,627	1,635
Interest	1,233	1,292	2,556	2,593
Restructuring costs (note 4)	-	99	-	99
Operating earnings	6,401	5,676	13,207	11,974
Net unrealized (gains) losses on derivative financial instruments	(1,225)	464	(100)	(267)
Other expenses (note 4)	202	296	344	264
Earnings before income taxes	7,424	4,916	12,963	11,977
Provision for income taxes				
Current	1,452	1,212	3,071	2,764
Deferred	823	164	639	581
	2,275	1,376	3,710	3,345
Net earnings for the period	5,149	3,540	9,253	8,632
Net earnings per share				
Basic and diluted				
Class A shares	0.37	0.25	0.67	0.62
Class B shares	0.32	0.22	0.58	0.54

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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, 2014	September 30, 2013	September 30, 2014	September 30, 2013
(in thousands of Canadian dollars)	\$	\$	\$	\$
Net earnings for the period	5,149	3,540	9,253	8,632
Items that are never reclassified to net earnings				
Net actuarial (losses) gains on post-employment benefit plans	(514)	402	(944)	1,323
Deferred income tax recovery (provision)	133	(105)	245	(344)
Other comprehensive (loss) income for the period	(381)	297	(699)	979
Net comprehensive income for the period	4,768	3,837	8,554	9,611

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ANDREW PELLER LIMITED

Condensed Consolidated Statements of Changes in Equity

For the six months ended September 30, 2014 and 2013

Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)

	Capital stock	Retained earnings	Total shareholders' equity
	\$	\$	\$
Balance at April 1, 2013	7,026	122,675	129,701
Net earnings for the period	-	8,632	8,632
Net actuarial gains (net of \$344 deferred tax provision)	-	979	979
Net comprehensive income for the period	-	9,611	9,611
Dividends (Class A \$0.200 per share, Class B \$0.174 per share)	-	(2,782)	(2,782)
Balance at September 30, 2013	7,026	129,504	136,530
Balance at April 1, 2014	7,026	130,977	138,003
Net earnings for the period	-	9,253	9,253
Net actuarial losses (net of \$245 deferred tax recovery)	-	(699)	(699)
Net comprehensive income for the period	-	8,554	8,554
Dividends (Class A \$0.210 per share, Class B \$0.183 per share)	-	(2,920)	(2,920)
Balance at September 30, 2014	7,026	136,611	143,637

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

ANDREW PELLER LIMITED
Condensed Consolidated Statements of Cash Flows
Unaudited

These financial statements have not been reviewed by our auditors

	For the six months ended September 30, 2014	For the six months ended September 30, 2013
(in thousands of Canadian dollars)	\$	\$
Cash provided by (used in)		
Operating activities		
Net earnings for the period	9,253	8,632
Adjustments for:		
Loss (gain) on disposal of property and equipment	(2)	63
Amortization of plant, equipment, and intangible assets	4,144	4,030
Interest expense	2,556	2,593
Provision for income taxes	3,710	3,345
Revaluation of biological assets	223	66
Post-employment benefits	(438)	(112)
Deferred income	(203)	(203)
Net unrealized gains on derivative financial instruments	(100)	(267)
Interest paid	(2,418)	(2,522)
Income taxes paid	(2,392)	(216)
	<u>14,333</u>	<u>15,409</u>
Changes in non-cash working capital items related to operations (note 5)	<u>582</u>	<u>2,930</u>
	<u>14,915</u>	<u>18,339</u>
Investing activities		
Proceeds from disposal of property and equipment	3	18
Purchase of property, equipment, and biological assets	(2,196)	(4,349)
Purchase of intangibles	(287)	(927)
	<u>(2,480)</u>	<u>(5,258)</u>
Financing activities		
Decrease in bank indebtedness	(22,266)	(7,726)
Issuance of long-term debt	15,020	586
Repayment of long-term debt	(1,721)	(3,298)
Dividends paid	(2,851)	(2,643)
Deferred financing costs	(617)	-
	<u>(12,435)</u>	<u>(13,081)</u>
Increase (decrease) in cash during the period	-	-
Cash, beginning of period	-	-
Cash, end of period	<u>-</u>	<u>-</u>

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

Notes to the Condensed Consolidated Financial Statements
Andrew Peller Limited
Unaudited
September 30, 2013 and 2014
(in thousands of Canadian dollars, except per share amounts)

1 Nature of operations

Andrew Peller Limited (the “Company”) produces and markets wine and wine related products. The Company’s products are produced and sold 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 consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB applicable to the preparation of condensed interim financial statements, including IAS 34 – Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the years ended March 31, 2014 and 2013, 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, 2014 and 2013. Changes to the Company’s accounting policies from those disclosed in its consolidated financial statements for the years ended March 31, 2014 and March 31, 2013 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 12, 2014.

(B) Recently adopted accounting pronouncements

In May 2013 the IASB issued IFRIC 21 – Levies. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Company was required to apply this interpretation retrospectively effective April 1, 2014. The standard did not have a significant impact on the Company.

(C) Recently issued accounting pronouncements

During September 2014, the IASB issued amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures. The amendments are prospective and will be effective January 1, 2016. The amendments clarify the extent to which a gain or loss is recorded when nonmonetary assets are sold or contributed to an associate or joint venture. The gain or loss is recognized to the extent of the other investors' interests unless the assets constitute a business.

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. The mandatory effective date of applying the standard 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.

In 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 is currently evaluating the impact of these amended standards. It is expected that grape vines controlled by the Company will be within the scope of IAS 16 – Property, plant, and equipment after the adoption of these amended standards.

In May 2014, the IASB issued amendments to IFRS 11 – Joint Arrangements which requires an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that meets the definition of a business. The amended standard is effective for annual periods beginning on or after January 1, 2016. The Company is currently evaluating the potential impact of adopting this amended standard.

In 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, 2017. 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.

4 Expenses

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

	For the three months ended September 30, 2014	For the three months ended September 30, 2013	For the six months ended September 30, 2014	For the six months ended September 30, 2013
Raw materials and consumables	\$ 43,970	\$ 39,401	\$ 84,772	\$ 75,541
Employee compensation and benefits	14,318	14,632	28,296	27,952
Advertising, promotion, and distribution	7,013	6,424	13,733	12,410
Occupancy	2,584	2,452	5,136	4,999
Repairs and maintenance	1,425	1,602	2,624	2,871
Other external charges	3,707	3,694	7,808	7,475
	<u>\$ 73,017</u>	<u>\$ 68,205</u>	<u>\$ 142,369</u>	<u>\$ 131,248</u>

Other expenses (income) are as follows:

	For the three months ended September 30, 2014	For the three months ended September 30, 2013	For the six months ended September 30, 2014	For the six months ended September 30, 2013
Revaluation of vines	\$ 38	\$ 33	\$ 223	\$ 66
Expenses (income) from idle Port Moody property	(71)	(63)	(114)	(128)
Past pension service costs – Amendments recognized in a new collective agreement	-	326	-	326
Other	235	-	235	-
	<u>\$ 202</u>	<u>\$ 296</u>	<u>\$ 344</u>	<u>\$ 264</u>

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:

	For the six months ended September 30, 2014	For the six months ended September 30, 2013
Accounts receivable	\$ (6,370)	\$ (3,241)
Inventory	9,091	7,810
Current portion of biological assets	(1,570)	(2,572)
Prepaid expenses and other assets	(697)	(421)
Accounts payable and accrued liabilities	128	1,354
	<hr/>	<hr/>
	\$ 582	\$ 2,930

6 Related parties and management compensation

The compensation expense recorded for directors and members of the Executive Management Team of the Company was \$1,547 (2013 -\$1,305) for the three months ended September 30, 2014 and was \$2,844 (2013 - \$2,323) for the six months ended September 30, 2014. 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 April 28, 2014, the Company amended its debt facilities. The terms of the revised operating loan facility are as detailed below.

Committed until	April 28, 2019
Borrowing limit	\$ 90,000
Interest rate	CDOR + 1.75%

The Company also amended its term loan. On May 14, 2014, the Company entered into a new interest rate swap in order to fix the interest rate on the entire amount outstanding on its term loan. The amended terms of the term loan and interest rate swap were as follows:

Maturity date	April 28, 2019
Monthly payment until maturity	\$ 333
Amount bearing fixed interest as a result of an interest rate swap	60,000
Amount bearing floating interest	-
Fixed interest rate until August 31, 2015	4.93%
Fixed interest rate from September 1, 2015 until April 28, 2019	3.91%

The Company also negotiated a \$15,000 facility which is committed until April 28, 2019 and can be drawn down for the purpose of making capital expenditures.