



ANDREW PELLER — LIMITED —

MANAGEMENT'S REPORT AND INTERIM CONSOLIDATED FINANCIAL STATEMENT For the Three and Six Months Ended September, 2007

The following management's discussion and analysis ('MD&A') provides a review of corporate developments, results of operations and financial position for the three and six months ended September 30, 2007 in comparison with those for the three and six months ended September 30, 2006 and September 30, 2005. This discussion is prepared as of November 8, 2007 and should be read in conjunction with the audited consolidated financial statements for the years ended March 31, 2007 and 2006 and the accompanying notes contained therein. All dollar amounts are expressed in Canadian dollars unless otherwise indicated.

FORWARD-LOOKING INFORMATION

Certain statements in this Management's Discussion & Analysis 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 Andrew Peller Limited ('APL' or the 'Company') and its subsidiaries. Such statements include, but are not limited to, statements about the growth of the business in light of the Company's recent acquisitions; its launch of new premium wines; 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" and "could" 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 prices; its ability to obtain grapes, imported wine, glass and its ability to obtain other raw materials; fluctuations in the U.S./Canadian dollar exchange rates; its ability to market products successfully to its anticipated customers; the trade balance within the domestic Canadian wine market; 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 "Risk Factors" 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 those 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

Andrew Peller Limited ('APL' or the 'Company') is a leading producer and marketer of quality wines 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 brands include Peller Estates, Trius, Hillebrand, Thirty Bench, Croc Crossing, XOXO, Sandhill, Copper Moon, Calona Vineyards Artist Series VQA wines and Red Rooster. Complementing these premium brands are a number of popular priced products including Hochtaler, Domaine D'Or, Schloss Laderheim, Royal and Sommet.

With a focus on serving the needs of all wine consumers, the Company produces and markets consumer-made wine kit products through Winexpert and Vineco International Products. The Company also owns and operates Vineyards Estate Wines and WineCountry Vintners, independent wine retailers in Ontario with more than 100 well-positioned retail locations. The Company also markets craft beer under the Granville Island brand. The Company's products are sold predominantly in Canada.

Over the past ten years, the Company has taken decisive steps to increase its focus on the premium and ultra-premium wines in the Canadian market. Premium wine sales continue to grow in Canada, and these products generate higher sales and increased profitability compared to lower-priced table wines. In line with this focused strategy, over the last two years the Company completed the acquisition of three premium and ultra-premium wine producers – Thirty Bench Winery, Cascadia Brands and Red Rooster Winery. With the acquisition of Cascadia, the Company decided to integrate its Port Moody facility into Cascadia's Kelowna facility. Costs related to the integration and the closure of the Company's Port Moody facility are being expensed as incurred.

The Company's stated mission is to build sales volumes of its premium and ultra-premium brands by delivering to its customers and consumers the highest quality wines at the best possible value. To meet this goal, the Company is investing in improvements in both its winemaking capabilities and in the quality of its grapes and wines.

APL is focused on initiatives to reduce costs and enhance its production efficiencies through a continual review of the Company's operations. The Company continues to expand and strengthen its distribution through provincial liquor boards, the Company's network of more than 100 Vineyards Estate Wines and WineCountry Vintners retail locations, estate wineries, restaurants and other licensed establishments. This distribution network is supported by sophisticated sales, marketing and promotional programs. In addition, the Company from time to time evaluates the potential for acquisitions and partnerships, both in Canada and internationally, to further complement its product portfolio and market presence.

As a result of continued strong performance, the Company increased annual common share dividends effective for shareholders of record on September 30, 2006 by 18% to \$0.253 per share on Class A shares and to \$0.220 per share on Class B shares. On June 8, 2007 the Company increased its annual common share dividends by a further 19% to \$0.300 per Class A share and to \$0.261 per Class B share.

At the Company's Annual and Special Meeting of Shareholders held on September 20, 2006, Class B shareholders approved a three for one split of each of the Class A and Class B shares effective October 31, 2006. Accordingly, the Company has retroactively adjusted share capital and per share amounts to reflect the impact of the share split.

Financial Statements and Accounting Policies

The Company prepared its financial statements in Canadian dollars in accordance with Canadian generally accepted accounting principles (GAAP). The Company's significant accounting policies are summarized in Note 1 to the consolidated financial statements. The Company also utilizes EBITA (defined as earnings before interest, income taxes, amortization, other income and unusual items) to measure its financial performance.

EBITA is not a recognized measure under GAAP; however, management believes that EBITA is a useful supplemental measure to net earnings, as it provides readers with an indication of earnings available for investment prior to debt service, capital expenditures and income taxes.

Readers are cautioned that EBITA should not be construed as an alternative to net earnings determined in accordance with GAAP 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's method of calculating EBITA may differ from the methods by which other companies calculate EBITA and, accordingly, EBITA may not be comparable to measures used by other companies.

Critical Accounting Estimates

During the year, management is required to make estimates or rely on 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 would materially affect the Company's financial position, or results in operations. The Company's significant accounting policies are discussed in Note 1 of the Notes to the Consolidated Financial Statements; critical estimates inherent in these accounting policies are set out below.

Accounts Receivable

The Company recorded an allowance for doubtful accounts to reflect management's best estimate of losses that may occur on accounts receivable during the year. This allowance was recorded through a charge to the earnings and took into consideration the financial condition and recent payment patterns of customers and the general state of the economy. Management believed that the allowance is sufficient to cover any risk of potential losses. Credit losses were within management's expectations.

Inventory Valuation

Inventories are valued at the lower of cost and net realizable value. Cost is determined on an average cost basis. All inventories are counted as close as possible to year end without impacting the operations of the Company. Management has provided an allowance for slow moving and obsolete inventory which is considered to be sufficient for potential losses.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated amortization. Amortization is calculated on a straight line basis in amounts that are sufficient to amortize the cost over the estimated useful life of the asset. Details of the amounts classified as property, plant and equipment are set out in the Notes to the Consolidated Financial Statements.

Goodwill

Goodwill on the purchase of Hillebrand in 1993, Vineco International Products in 1996, Brew King (now named Winexpert) in 1997, Distrivin and Winexpert in 2004, Wine Not in 2005 and Cascadia, Thirty Bench and Red Rooster in 2006 represented the excess of purchase price of acquired businesses over the fair value of the net assets acquired. An impairment test was conducted at year end and, based on the results of the test; the Company determined that Goodwill had not been impaired.

Intangible assets

Intangible assets primarily relate to customer contracts, brands and customer based relationships that have been acquired through recent acquisitions. Management believed that its brands do not have a fixed or determinable life and consequently brands are not amortized but are subject to annual impairment tests based on a comparison of the carrying amount to the estimated fair market value of the brands. The amortization periods related to those intangible assets with finite lives are based on the expected duration of the contracts and relationships acquired. These intangible assets will be tested for impairment when events or circumstances arise that indicates impairment may exist.

Fair value of financial instruments

Accounts receivable, accounts payable and accrued liabilities and short-term bank indebtedness are reflected in the consolidated financial statements at carrying values, which approximate fair value due to the short-term maturity of these instruments.

In January 2005 the Accounting Standards Board of the Canadian Institute of Chartered Accountants ("CICA") issued CICA 3855, Financial Instruments – Recognition and Measurement ("CICA 3855"), CICA 3865, Hedges ("CICA 3865"), and CICA 1530, Comprehensive Income ("CICA 1530"). These new standards were adopted by the Company on April 1, 2007. CICA 3855 prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and the measurement of such amount. It also specifies how financial instrument gains and losses are to be presented.

All financial instruments are initially recorded at fair value which includes the Company's interest rate swaps and foreign exchange contracts. The Company has not designated any of its financial instruments as hedges and accordingly, changes to the fair value of these instruments are recorded through earnings each period as other income. The Canadian Institute of Chartered Accountants ("CICA") issued the following accounting standards effective for fiscal years beginning after October 1, 2007 and January 1, 2008:

- a) Accounting Standards Section 3031 "Inventories" provides 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 fiscal years beginning after January 1, 2008.

- b) Accounting Standards Section 3862 “Financial Instruments – Disclosures” requires disclosures in the financial statements that will enable users to evaluate: the significance of financial instruments for the company’s financial position and performance; and the nature and extent of risks arising from financial instruments to which the company is exposed during the period and at the balance sheet date, and how the company manages those risks. This accounting standard is effective for fiscal years beginning after October 1, 2007.

The Company has not yet determined the impact of adopting the above accounting standards.

Changes in borrowing and foreign exchange rates can have a significant impact on the Company’s overall profitability. Accordingly, management has utilized interest rate swaps and foreign exchange forward contracts to mitigate these risks. Under the new accounting standards, management has not chosen to apply hedge accounting to these instruments and as a result, changes in the fair market value of these contracts are recorded through other income each period. While this accounting policy decision may result in some future variability in net earnings as a result of mark-to-market adjustments, management is satisfied that the contracts sufficiently reduce the interest rate and foreign currency risk in the Company’s operations. In addition, transaction costs related to all financial instruments are netted against the carrying value of the financial instrument and are amortized over the expected life of the instrument using the effective interest method.

Results of Operations (unaudited)

FOR THE SIX MONTHS ENDED SEPTEMBER 30, (in thousands of dollars except per share amounts)	2007	2006	2005
Sales	118,376	114,548	103,887
Gross profit	50,662	47,874	43,080
Gross profit (% of sales)	42.8%	41.8%	41.5%
Selling general and administrative expenses	35,466	33,744	30,829
Earnings before interest, taxes, amortization, other income (loss) and unusual items	15,196	14,130	12,251
Other loss and unusual items	(80)	(198)	(635)
Net and comprehensive earnings	5,566	4,932	3,827
Net earnings excluding other income (loss) and unusual items	5,618	5,062	4,221
Earnings per share – basic and fully diluted - Class A	\$ 0.38	\$ 0.34	\$0.26
Earnings per share – basic and fully diluted - Class B	\$ 0.33	\$ 0.30	\$0.23
Dividend per share – Class A (annual)	\$0.300	\$0.253	\$0.215
Dividend per share – Class B (annual)	\$0.261	\$0.220	\$0.187

Sales increased 3.3% for the six months ended September 30, 2007 due to higher sales of the Company’s key blended and premium wines sold through all of the Company’s trade channels and due to the successful introduction of new products in fiscal 2008 and 2007. The increase is also the result of higher sales of premium wines due to the return to normal grape supply conditions in Ontario, and improved supply of wine and beer in Western Canadian markets. In addition, during the second and third quarters of fiscal 2007 and the first half of fiscal 2008 the Company launched a number of new products through provincial liquor stores and the Company’s network of retail stores, including four distinct varietal blends under the new XOXO brand, Croc Crossing which is a blend of Australian and domestic varietal wines, and Peller Estates’ French Cross, which became Canada’s first domestic wine available in the popular tetra pak format. Sales of VQA wine in fiscal 2007 were negatively impacted by the short crop in Ontario. The Company continued to invest in its sales and marketing efforts with the aim to grow sales volumes of its products through new and increased advertising and promotional initiatives in all trade channels, increased sales staff focused on the licensee channel, investments in new upscale retail store concepts and layouts, training of retail staff, and investments to increase tourism at its estate wineries.

Gross profit as a percentage of sales improved to 42.8% through the first six months of fiscal 2008 compared to 41.8% and 41.5% respectively in the comparable period in prior years. The increases are primarily due to higher sales volume of premium and ultra-premium wines and improvements in value of the Canadian dollar which reduced the cost of wine purchased on international markets. Gross profit in fiscal 2006 was impacted by accounting adjustments required to value purchased inventory from Cascadia at fair market value.

Selling and administrative expenses have increased over the last three years due primarily to the acquisitions of Thirty Bench, Cascadia and Red Rooster and as a result of increased costs associated with the product launches of French Cross Tetra Pak, Croc Crossing and XOXO. However, as a percentage of sales, selling and administrative expenses remained relatively stable at 30.0% for the six months ended September 30, 2007 compared to 29.5% for the same period in fiscal 2006 and 29.7% in fiscal 2005. The Company expects to realize certain economies of scale and cost synergies through the balance of fiscal 2008 related to acquisitions completed over the prior two years.

Primarily as a result of the sales growth, EBITA increased 7.5% to \$15.2 million in the first half of fiscal 2008 compared to \$14.1 million in the comparable period in fiscal 2007 and \$12.3 million in fiscal 2006.

Amortization expenses were flat compared with the same period last year while interest expense has increased due to higher levels of debt resulting from increased investments in inventory as the grape crop in Ontario returned to normal levels and due to the impact of higher interest rates on short-term borrowings.

Through the first six months of fiscal 2008, the Company recognized other income of \$0.04 million related to the mark-to-market adjustments on interest rate swaps and foreign exchange contracts (see Critical Accounting Estimates). In addition, an unusual charge to earnings of \$0.12 million was recorded due to the integration of the Company's Port Moody operations into Cascadia's Kelowna facility. The Company closed its Port Moody B.C. winery effective December 31, 2005 and expects to sell the facility during 2010.

Net and comprehensive earnings increased over the last three years primarily due to higher sales levels and improved gross profit. Additional synergies relating to the acquisitions will be fully realized through the balance of fiscal 2008. Including the impact of the other income and unusual items, net and comprehensive earnings for the six months ended September 30, 2007 were \$5.6 million or \$0.38 per Class A share compared to \$4.9 million or \$0.34 per Class A share last year.

Quarterly Performance (unaudited)

(\$000) except per share amounts	Q2 08	Q1 08	Q1 07	Q2 07	Q3 07	Q4 07	Q1 06	Q2 06
	\$	\$	\$	\$	\$	\$	\$	\$
Sales	61,236	57,140	55,135	59,413	63,225	50,419	46,831	57,056
Gross profit	26,196	24,466	22,830	25,044	26,340	20,894	19,535	23,545
Gross profit (% of sales)	42.8%	42.8%	41.4%	42.2%	41.7%	41.4%	41.7%	41.3%
EBITA	7,765	7,431	6,802	7,328	9,286	4,249	5,679	6,572
Other income (loss) and unusual items	(394)	314	(34)	(164)	(15)	7	-	(635)
Net and comprehensive earnings	2,652	2,914	2,376	2,556	4,142	398	2,012	1,815
EPS – Class A basic & diluted	\$0.18	\$0.20	0.16	0.18	0.29	0.02	0.14	0.12
EPS – Class B basic & diluted	\$0.16	\$0.17	0.14	0.15	0.25	0.02	0.12	0.11

The Company has generated consistent year-over-year growth in sales and gross profit due primarily to the Company's successful initiatives to increase sales of its key blended, premium and ultra-premium brands and by the introduction of new products. Fiscal 2007 included a full period contribution from the acquisitions of Thirty Bench on May 2, 2005, Cascadia on May 25, 2005, and Red Rooster on November 1, 2005. Gross profit as a percentage of sales was higher in fiscal 2008 compared to the prior year due primarily to the higher sales volumes of premium and ultra-premium wines, the increased value of the Canadian dollar which partially offset higher grape and raw material costs. Sales and marketing expenses have increased year-over-year due to costs associated with the launch of new products which occurred primarily in the second and third quarters of fiscal 2007 and the first half of fiscal 2008.

Other income (loss) in fiscal 2008 related to mark-to-market adjustments on the Company's interest rate swaps and outstanding forward foreign currency contracts. Under the new CICA accounting standards, these financial instruments must be reflected in the Company's financial statements at fair value each period. The net gain represents the change in market value of these contracts since April 1, 2007. Unusual charges in fiscal 2008 and fiscal 2007 primarily relate to costs incurred in the rationalization of the Company's British Columbia operations.

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

Liquidity and Capital Resources (Unaudited)

As at (\$000)	September 30, 2007 \$	March 31, 2007 \$
Current Assets	112,650	107,657
Property Plant & Equipment	92,541	87,143
Goodwill	36,171	36,171
Other Assets	7,074	7,985
Total Assets	248,436	238,956
Current Liabilities	88,711	82,341
Long-Term Debt	43,990	44,423
Employee Future Benefits	3,820	4,007
Future Income Taxes	12,874	12,663
Shareholders' Equity	99,041	95,522
Total Liabilities & Shareholders' Equity	248,436	238,956

The changes to the Company's balance sheet at September 30, 2007 compared to the prior year-end are primarily due to an increase in accounts payable and accrued liabilities due to the timing of payments to suppliers and to a higher level of capital investment in property, plant and equipment through the first six months of fiscal 2008 principally due to the upgrading of the restaurant, tasting room, retail store and other areas at Hillebrand and the planting of a vineyard in British Columbia.

During the first half of fiscal 2008 the Company generated cash from operating activities, after changes in non-cash working capital items, of \$10.9 million compared to \$1.0 million in the comparable period last year. Cash flow from operating activities increased due primarily to higher net earnings and a reduction in non-cash working capital items.

The Company's purchases of domestically grown grapes increased \$11.2 million to \$18.5 million compared with the same period last year. The cost of domestically grown grapes is significantly higher than wine purchased on international markets. Inventory levels are also dependent on increased use of domestically grown grapes that are used in premium and ultra-premium wines. Typically these wines are aged between one to three years before they are sold. This aging process is reflected in the amount of inventory held by the Company.

Investments of approximately \$8.2 million were made in the first half of fiscal 2008 compared to \$3.3 million in the prior year. The increase in fiscal 2008 is primarily related to a \$3.0 million investment in the development of a vineyard in the Okanagan Valley in British Columbia and a \$3.1 million investment made in upgrading the restaurant, tasting room, retail store and other areas at Hillebrand. Excluding these items, capital spending was \$2.1 million for the second quarter compared to \$2.9 million last year.

As at September 30, 2007 total bank indebtedness decreased to \$100.1 million compared to \$101.8 million at the end of fiscal 2007. The decrease was due primarily to net earnings less dividend payments and regular debt payments offset by increased investments in vineyard development and enhancements to the Hillebrand winery during the first half of fiscal 2008.

On April 12, 2007 the Company obtained additional financing from the Bank of Montreal in the form of a seven year term bank loan in the amount of \$10.0 million. The term loan is for the purpose of developing a vineyard on 300 acres of land in the Okanagan Valley in British Columbia. The land has been leased for a 30 year period which expires on October 31, 2037. As at November 8, 2007, \$3.5 million has been drawn on this facility.

On October 2, 2007 the Company obtained additional financing from the Royal Bank of Canada in the form of a bulge demand facility to finance additional working capital requirements. The facility is in the amount of \$10 million and is available during the months of November to January each year and increases the Company's borrowing limit to \$70 million during this period. As at November 8, 2007, no amount was drawn on this facility

The ratio of debt to equity decreased to 1.01:1 at September 30, 2007 compared to 1.07:1 at March 31, 2007. At September 30, 2007, the Company had unused debt available in the amount of \$9.8 million on its demand loan facility. Management is confident it can generate sufficient cash flow from operations to meet its debt servicing and principal payment requirements over both the short and the long term.

Common share dividends were increased 18% effective September 30, 2006 and a further 19% effective June 30, 2007.

Working capital as at September 30, 2007 was \$23.9 million compared to \$25.3 million as at March 31, 2007. Shareholders' equity as at September 30, 2007 rose to \$99.0 million or \$6.65 per common share from \$95.5 million or \$6.41 per share as at March 31, 2007. The increase is due primarily to the strong earnings performance in the first six months of fiscal 2008.

Common Shares Outstanding

The Company is authorized to issue an unlimited number of Class A and Class B common 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	November 8, 2007	September 30, 2007	March 31, 2007	September 30, 2006
Class A shares	11,888,241	11,888,241	11,888,241	11,887,641
Class B shares	3,004,041	3,004,041	3,004,041	3,004,641
Total	14,892,282	14,892,282	14,892,282	14,892,282

Related Party Transactions

As at September 30, 2007, the Company has guaranteed debt of up to \$1,750,000 for Rocky Ridge Vineyards Inc., a joint venture in which the Company has a 50% interest. The joint venture grows grapes on a vineyard in the Similkameen Valley in British Columbia.

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 craft beer through the development of leading brands that meet the needs of our consumers and customers. Management believes the acquisitions completed in 2006 have strengthened the Company's product portfolio and expanded its selling and distribution capabilities.

The Canadian wine market has grown over the past three years due primarily to positive demographic trends and the shift in consumer preference to premium wines. However, the share of the market held by domestic producers has declined moderately. Imports of premium and ultra-premium wines have increased as consumers favoured higher-priced varietal wines over lower-priced blended table wines. Andrew Peller Limited has increased its product development and sales and marketing initiatives aimed at capitalizing on this growing trend.

The Company expects to continue to launch new premium and ultra-premium brands in 2008. The acquisitions of Thirty Bench, Cascadia and Red Rooster are expected to continue to contribute to increased sales in 2008 as well as an enhanced presence in the sale of ultra-premium wines in Canada. Marketing and sales support will be focused on key brands sold across the country, and management expects sales and marketing expenses for 2008 to rise moderately. The Company expects to invest in capital expenditures to support its ongoing commitment to producing the highest-quality wines.

Investments made over the past few years are expected to continue to result in increased sales and improved profitability going forward. In addition, recent initiatives have led to an increase in export sales of the Company's premium and ultra-premium wines, particularly icewine.

Following the acquisition of Cascadia, management began the process of rationalizing and integrating its two British Columbia facilities to capture production and overhead synergies. Management expects the integration to be completed during 2008.

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

Risks and Uncertainties

The Company is subject to a number of risks and uncertainties outlined in the Company's 2007 Annual Report and other securities filings.

Internal Controls over Financial Reporting

Internal controls over financial reporting are procedures designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to reliability of financial reporting and financial statement preparation.

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

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information relating to the operation of the Company and its consolidated subsidiaries is gathered and provided to senior management, including the President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), on a timely basis so that decisions can be made regarding the Company's disclosure to the public. As at November 8, 2007, the CEO and the CFO of the Company have evaluated the system of disclosure controls and procedures in the Company and its consolidated subsidiaries as set out by Canadian Securities Laws. Based on that evaluation, the CEO and CFO have concluded that the disclosure controls and procedures were effective in providing reasonable assurance that information required to be disclosed in the Company's annual and interim filings and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time frames specified by those laws and that material information is accumulated and communicated to management of the Company, including the CEO and CFO, as appropriate to ensure the timely disclosure of that information.

Internal Controls over Financial Reporting

The Company's CEO and CFO have concluded that internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with Canadian generally accepted accounting principles as of September 30, 2007.

During the six months ended September 30, 2007, there have been no material changes in the Company's internal control over financial reporting that materially affected or were likely to affect, the Company's internal control systems.

ANDREW PELLER LIMITED
CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30	March 31
	2007	2007
(000's)	\$	\$
Assets		
Current Assets		
Accounts receivable	23,972	21,365
Inventories	83,021	82,990
Prepaid expenses	4,769	2,983
Income taxes recoverable	888	319
	112,650	107,657
Property, plant and equipment	92,541	87,143
Goodwill	36,171	36,171
Other assets	7,074	7,985
	248,436	238,956
Liabilities		
Current Liabilities		
Bank indebtedness	50,237	51,449
Accounts payable and accrued liabilities	31,483	24,069
Dividends payable	1,088	917
Current portion of long - term debt	5,903	5,906
	88,711	82,341
Long-term debt	43,990	44,423
Employee future benefits	3,820	4,007
Future income taxes	12,874	12,663
	149,395	143,434
Shareholders' Equity		
Capital Stock	7,375	7,375
Retained Earnings	91,666	88,147
	99,041	95,522
	248,436	238,956

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

ANDREW PELLER LIMITED

Consolidated Statements of Earnings, Comprehensive Earnings and Retained Earnings

(Unaudited)

(000's)

	For the Three Months Ended		For the Six Months Ended	
	September 30		September 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
Sales	61,236	59,413	118,376	114,548
Cost of goods sold, excluding amortization	35,040	34,369	67,714	66,674
Gross profit	26,196	25,044	50,662	47,874
Selling and administration	18,431	17,716	35,466	33,744
Earnings before interest and amortization	7,765	7,328	15,196	14,130
Interest	1,439	1,383	2,864	2,658
Amortization of plant, equipment and intangibles	1,918	1,908	3,818	3,801
Earnings before other items	4,408	4,037	8,514	7,671
Other income (loss) (Note 1)	(325)	-	44	-
Unusual items	(69)	(164)	(124)	(198)
Earnings before income taxes	4,014	3,873	8,434	7,473
Provision for (recovery of) income taxes				
Current	1,409	1,248	2,725	2,408
Future	(47)	69	143	133
	1,362	1,317	2,868	2,541
Net and comprehensive earnings for the period	2,652	2,556	5,566	4,932
Retained earnings- Beginning of period	90,101	83,803	88,147	82,205
Impact of adopting accounting pronouncements on April 1, 2007 (Note 1)	-	-	128	-
Retained earnings- Beginning of period as restated	90,101	83,803	88,275	82,205
Dividends:				
Class A and Class B	1,087	917	2,175	1,695
Retained earnings- End of period	91,666	85,442	91,666	85,442
Net earnings per share				
Basic and Diluted				
Class A shares	0.18	0.18	0.38	0.34
Class B shares	0.16	0.15	0.33	0.30

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

ANDREW PELLER LIMITED
Consolidated Statements of Cash Flows
(Unaudited)
(000's)

	For the Three Months Ended		For the Six Months Ended	
	September 30		September 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
Cash provided by (used in)				
Operating activities				
Net earnings for the period	2,652	2,556	5,566	4,932
Items not affecting cash:				
Amortization of plant, equipment and intangibles	1,918	1,908	3,818	3,801
Unrealized loss (gain) on foreign exchange contracts and interest rate swaps (Note 1)	325	-	(44)	-
Employee future benefits	(162)	(92)	(187)	(186)
Future income taxes	(47)	69	143	133
Non-cash interest expense	37	-	73	-
Amortization of deferred financing costs	-	37	-	71
	<u>4,723</u>	<u>4,478</u>	<u>9,369</u>	<u>8,751</u>
Changes in non-cash working capital items related to operations (Note 4)	<u>8,088</u>	<u>(2,608)</u>	<u>1,541</u>	<u>(7,773)</u>
	<u>12,811</u>	<u>1,870</u>	<u>10,910</u>	<u>978</u>
Investing activities				
Acquisition of Cascadia, net of cash acquired	-	-	-	(309)
Purchase of property and equipment	(4,396)	(1,692)	(8,212)	(2,944)
	<u>(4,396)</u>	<u>(1,692)</u>	<u>(8,212)</u>	<u>(3,253)</u>
Financing activities				
Increase in deferred financing costs	-	(27)	-	(27)
Repayment of long-term debt	(1,476)	(1,472)	(2,951)	(2,928)
Increase in long-term debt	3,470	-	3,470	-
Increase in (repayment of) bank indebtedness	(9,321)	2,099	(1,212)	6,786
Dividends paid	(1,088)	(778)	(2,005)	(1,556)
	<u>(8,415)</u>	<u>(178)</u>	<u>(2,698)</u>	<u>2,275</u>
Cash at beginning and end of period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

Notes to the Interim Consolidated Financial Statements (000's) September 30, 2007 and 2006

(in thousands of dollars, except per share amounts)

UNAUDITED

1. Summary of Significant Accounting Policies

The interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The note disclosure for these interim consolidated financial statements only presents material changes to the disclosure found in the Company's audited consolidated financial statements for the year ended March 31, 2007. These interim consolidated financial statements should be read in conjunction with those consolidated financial statements and follow the same accounting policies as the audited consolidated financial statements except as disclosed below. In the opinion of management, the accompanying unaudited interim consolidated financial statements contain all adjustments necessary to present fairly, in all material respects the financial position of the Company as at September 30, 2007 and for the three and six-month periods then ended.

Recently adopted accounting pronouncements

On April 1, 2007 the Company adopted the Canadian Institute of Chartered Accountants (CICA) handbook sections 1530 "Comprehensive Income," section 3251 "Equity," section 3855 "Financial Instruments – Recognition and Measurement" and section 3865 "Hedges." As required, these standards have been adopted prospectively and comparative amounts for the periods have not been restated.

a) Comprehensive Income

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

b) Equity

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

c) Financial Instruments

This section establishes standards for the recognition and measurement of financial instruments; which is comprised of financial assets, financial liabilities, derivatives and non-financial derivatives. All financial instruments are initially recorded at fair value and are subsequently accounted for based on one of four classifications: held for trading, held to maturity, loans and receivables or available for sale. The classification of a financial instrument depends on its characteristics and the purpose for which it was acquired. Fair values are based upon quoted market prices from active markets or are otherwise determined using a variety of valuation techniques and models. The Company's interest rate swaps and foreign exchange contracts are derivatives and are recorded at fair value through other income. As a result, on adoption of this standard, the Company recorded a net increase of \$216 to 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.

d) Hedges

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 other income.

e) Transaction Costs

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 this new standard the Company recorded an adjustment on April 1, 2007 to reduce other assets by \$599 and long-term debt by \$599.

Recently issued accounting pronouncements

The Canadian Institute of Chartered Accountants (“CICA”) issued the following accounting standards effective for the fiscal years beginning after October 1, 2007 and January 1, 2008:

- a) Accounting Standards Section 3031 “Inventories” provides 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 fiscal years beginning after January 1, 2008.
- b) Accounting Standards Section 3862 “Financial Instruments – Disclosures” requires disclosures in the financial statements that will enable users to evaluate: the significance of financial instruments for the company’s financial position and performance; and the nature and extent of risks arising from financial instruments to which the company is exposed during the period and at the balance sheet date, and how the company manages those risks. This accounting standard is effective for fiscal years beginning after October 1, 2007.

The Company has not yet determined the impact of adopting the above accounting standards.

2. Seasonality

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

3. Capital Stock

At the Company’s Annual and Special Meeting of Shareholders held on September 20, 2006, Class B shareholders approved a three-for-one split of the Class A and Class B shares for shareholders of record at October 31, 2006. The Company recorded the effect of the split retroactively to all disclosures of share capital and per share amounts.

As at September 30, 2007 there were 11,888,241 Class A shares issued and outstanding (March 31, 2007 – 11,888,241) and 3,004,041 Class B shares issued and outstanding (March 31, 2007 – 3,004,041). There were 11,888,241 weighted average Class A shares outstanding (2006 – 11,887,641) and 3,004,041 weighted average Class B shares outstanding (2006 – 3,004,641) for the three and six months ended September 30, 2007.

4. Financing

On October 2, 2007 the Company obtained additional financing from the Royal Bank of Canada in the form of a bulge demand facility to finance additional working capital requirements. The facility is in the amount of \$10,000 and is available during the months of November to January each year and increases the Company’s borrowing limit to \$70,000 during this period. As at November 8, 2007, no amount was drawn on this facility.

5. Changes in non-cash working capital items

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

	For the Three Months Ended September 30		For the Six Months Ended September 30	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	\$	\$	\$	\$
Accounts receivable	(2,164)	(6,005)	(2,607)	(9,242)
Inventories	(1,523)	(1,739)	(31)	(1,342)
Prepaid expenses	(754)	(640)	(1,786)	(1,511)
Income taxes recoverable	(826)	(1,002)	(569)	378
Accounts payable and accrued liabilities	<u>13,355</u>	<u>6,778</u>	<u>6,534</u>	<u>3,944</u>
	<u>8,088</u>	<u>(2,608)</u>	<u>1,541</u>	<u>(7,773)</u>