ANDREW PELLER
LIMITED

MANAGEMENT'S DISCUSSION & ANALYSIS
For the three and six months ended September 30, 2018

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, 2018 in comparison with those for the three and six months ended September 30, 2017 for Andrew Peller Limited (the "Company" or "APL"). This discussion is prepared as of November 7, 2018 and should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes contained therein for the periods ended September 30, 2018 and 2017. 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, 2018 and March 31, 2017, is available on www.sedar.com. The financial years ending March 31, 2019 and March 31, 2018 are referred to as "fiscal 2019" and "fiscal 2018" 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 spirits; 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 labeling 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 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, Tinhorn Creek, Gray Monk Estates, 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 wine-based liqueurs under the brand *Panama Jack* and craft cider under the brand *No Boats on Sunday*. The Company has recently entered the spirits market with *Wayne Gretzky No. 99 Red Cask*, *No. 99 Ice Cask* and *99 Proof* Canadian Whiskies and *No. 99 Canadian Whisky Cream* products. In fiscal 2019, the Company is also expanding distribution of its whisky products to certain markets in the United States. 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, and experiences at the best possible value. To meet this goal, the Company invests in improvements in the quality of grapes, wines, and spirits 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 September 30, 2018, Canada, the United States of America and Mexico reached an agreement in principle to a revised trade agreement to replace the North American Free Trade Agreement implemented in 1994. The new trade agreement maintains the tariff-free market access from the original agreement and includes updates to address modern-day trade challenges and opportunities. The Company does not expect a material change to the financial results or current operations as a result of the new trade agreement.

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.

On June 6, 2018, the Company's Board of Directors approved a 13.9% increase in common share dividends. The annual dividend on Class A Shares was increased to \$0.2050 per share from \$0.1800 per share and the dividend on Class B Shares was increased to \$0.1783 per share from \$0.1565 per share. The Company has consistently paid common share dividends since 1979 and has increased dividends every year for the past five years. APL currently designates all dividends paid as "eligible dividends" for purposes of the *Income Tax Act* (Canada) unless indicated otherwise.

On October 10, 2017, the Company acquired 100% of the operating assets of Black Hills Estate Winery (Black Hills) for cash consideration of approximately \$31.3 million. On October 1, 2017, the Company acquired 100% of the common shares of Gray Monk Cellars Ltd. (Gray Monk) and certain operating assets held by related parties for consideration of approximately $36.4 million, of which $17.3 million was funded in cash and $19.1 million was funded by the issuance of 1,579,670 Class A Shares. On October 1, 2017, the Company also acquired 100% of the common and preferred shares of Tinhorn Creek Vineyards Ltd. (Tinhorn) for cash consideration of approximately $28.9 million.

Results of Operations

For the six months ended September 30, **(in $000, except per share amounts)**	**2018**	2017
Sales	**$ 198,864**	$ 180,497
Gross margin	**85,565**	74,297
Gross margin (% of sales)	**43.0%**	41.2%
Selling and administrative expenses	**53,597**	43,549
EBITA	**31,968**	30,748
Adjusted EBITA	**36,140**	31,310
Interest	**3,897**	1,940
Net unrealized gain on derivative financial instruments	**(967)**	(351)
Other expenses	**367**	215
Adjusted earnings	**20,170**	17,805
Net earnings	**16,442**	17,417
Earnings per share – basic and diluted - Class A	**$ 0.38**	$ 0.42
Earnings per share – basic and diluted - Class B	**$ 0.33**	$ 0.37
Adjusted earnings per share – basic and diluted – Class A	**$ 0.47**	$ 0.43
Adjusted earnings per share – basic and diluted – Class B	**$ 0.41**	$ 0.37
Dividend per share – Class A (annual)	**$0.2050**	$0.1800
Dividend per share – Class B (annual)	**$0.1783**	$0.1565

Sales for the six months ended September 30, 2018 rose 10.2% to $198.9 million from $180.5 million in the prior year. The increase in sales is due to the acquisition of the three estate wineries completed in October 2017, as well as growth across the Company's network of retail outlets in Ontario and its estate properties in Ontario and B.C.

The Company defines gross margin as gross profit excluding amortization. Gross margin as a percentage of sales improved to 43.0% for the six months ended September 30, 2018 compared to 41.2% in the prior year. Gross margin in fiscal 2019 has benefited 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. Management is continually focused on efforts to enhance production efficiency and productivity as well as developing synergies from the addition of the three new wineries acquired in October 2017.

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 in being expensed over time to the consolidated statement of earnings as finished goods are sold, thus reducing gross margin. During the first half of fiscal 2019, the Company's gross margin was reduced by $4.2 million due to this adjustment. It is expected that most goods acquired will be sold within fiscal 2019, and as such, the remaining balance of the fair value adjustment of $3.3 million will continue to decrease gross margin through the balance of the year.

Selling and administrative expenses increased in the first six months of fiscal 2019 compared to the prior year due to the addition of the three estate wineries acquired in October 2017, and increased investment in marketing and sales support. The Company is confident that these investments will drive innovation, provide industry thought leadership through research, and ultimately build brand equity, all of which are critical to the Company's growth in revenue and profitability. Selling and administrative expenses also increased by approximately $1.0 million in the first half of fiscal 2019 due to the increase in minimum wage in Ontario.

Earnings before interest, amortization, net unrealized gains and losses on derivative financial instruments, other (income) expenses, and income taxes ("EBITA") was $32.0 million for the six months ended September 30, 2018 compared to $30.7 million in the prior year. The increase in fiscal 2019 was due to the increase in sales from the three acquired wineries and the improved gross margin, partially offset by the increase in selling and administrative expenses and the reduction in margin due to the inventory fair value adjustment charged to cost of sales related to the three new wineries. Adjusted EBITA, which excludes from EBITA one-time acquisition related charges, was $36.1 million for the six months ended September 30, 2018 compared to $31.3 million last year.

Interest expense has increased in fiscal 2019 compared to the prior year due primarily to long-term debt incurred to complete the three acquisitions in October 2017. Amortization expense has also increased due to the addition of the three recently acquired wineries, as well as the completion of the Wayne Gretzky Estate Winery and Craft Distillery in June 2017.

The Company recorded net unrealized non-cash gains in the first six months of fiscal 2019 and fiscal 2018 related to mark-to-market adjustments on interest rate swaps and foreign exchange contracts. 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 $20.2 million for the six months ended September 30, 2018 compared to $17.8 million in the prior year. Net earnings for the year first six months of fiscal 2019 were $16.4 million or $0.38 per Class A Share compared to $17.4 million or $0.42 per Class A Share in the prior year.

The Company believes that sales will grow going forward due to strong positioning of key brands, the continued launch of new and innovative products in the Canadian wine, cider and spirits markets and continued growth in new wine-related markets.

The Company has exposure to foreign currency risk as purchases of bulk wine and concentrate are made in U.S. dollars, Australian dollars, and Euros. Fluctuating foreign currencies may have a positive or negative impact on gross margins. Management believes the impact on gross margin will be largely offset by the Company's continued ability to leverage scale and successful cost control initiatives to reduce distribution, operating and packaging expenses, and raw material costs. The Company also uses foreign exchange forward contracts to protect against changes in foreign currency rates and, as at September 30, 2018, had locked in $4.5 million in U.S. dollar contracts at rates averaging $1.29 Canadian, and $3.8 million in Australian dollar contracts at rates averaging $0.94 Canadian. These contracts expired at various dates through January 31, 2019.

Quarterly Performance

The following table outlines key quarterly highlights.

(in $000, except per share amounts)	Q2 19	Q1 19	Q4 18	Q3 18	Q2 18	Q1 18	Q4 17 (1)	Q3 17 (1)
Sales	103,323	95,541	79,817	103,583	91,857	$88,640	$72,295	$94,048
Gross margin	44,284	41,281	32,811	43,217	38,693	35,604	28,326	35,042
Gross margin (% of sales)	42.9%	43.2%	41.1%	41.7%	42.1%	40.2%	39.2%	37.3%
EBITA	16,160	15,808	4,279	17,833	16,290	14,458	5,865	11,886
Interest	1,943	1,954	1,749	1,656	1,157	783	813	702
Adjusted EBITA	18,198	17,942	5,740	20,175	16,852	14,458	5,865	12,167
Net unrealized gain on financial instruments	(749)	(218)	(833)	(216)	(285)	(66)	(189)	(868)
Other expenses (income)	92	275	35	(4,092)	70	145	(15)	52
Adjusted earnings (loss)	10,446	9,724	(904)	12,402	9,556	8,249	1,859	7,741
Net earnings (loss)	8,894	7,548	(1,691)	14,391	9,226	8,191	2,010	8,137
E.P.S. – Class A basic & diluted	$0.21	$0.18	$(0.04)	$0.33	$0.22	$0.20	$0.05	$0.20
E.P.S. – Class B basic & diluted	$0.18	$0.15	$(0.03)	$0.29	$0.19	$0.17	$0.04	$0.17
Adjusted E.P.S – Class A basic & diluted	$0.24	$0.23	$(0.02)	$0.29	$0.23	$0.20	$0.05	$0.19
Adjusted E.P.S – Class B basic & diluted	$0.21	$0.20	$(0.02)	$0.25	$0.20	$0.17	$0.04	$0.16

[1] Adjusted EBITA, Adjusted earnings and Adjusted EPS figures have been restated to conform to the current year's presentation

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.

Sales in the second quarter of fiscal 2019 increased 12.5% compared to the same quarter of fiscal 2018 due to the acquisition of the three estate wineries completed in October 2017, as well as growth across the Company's network of retail outlets in Ontario and its estate properties in Ontario and B.C. Gross margin for the three months ended September 30, 2018 was 42.9% of sales compared to 42.1% in the second quarter of fiscal 2018. The increase in gross margin is attributable to an increased focus on higher margin products, and the positive impact of the Company's cost control initiatives. Selling and administrative expenses increased in the second quarter of fiscal 2019 due to the acquisitions completed in October 2017 and an increase in marketing activities and sales support to drive innovation and build brand equity. EBITA was $16.2 million for the three months ended September 30, 2018 compared to $16.3 million in the same quarter in fiscal 2018 as the increase in sales and gross margin was offset by the higher selling and administrative expenses in the current quarter. The Company generated adjusted earnings for the three months ended September 30, 2018, not including one-time acquisition related charges, of $10.4 million compared to adjusted earnings of $9.6 million in the same prior year period. Net earnings were $8.9 million or $0.21 per Class A share for the three months ended September 30, 2018 compared to net earnings of $9.2 million or $0.22 per Class A Share in the second quarter of fiscal 2018.

Liquidity and Capital Resources

As at (in $000)	**September 30, 2018**	March 31, 2018
Current assets	**$ 199,018**	$ 198,014
Property, plant, and equipment	**195,136**	188,191
Intangibles	**17,443**	17,733
Goodwill	**53,638**	53,638
Derivative financial instruments	**1,278**	204
Total assets	**$ 466,513**	$ 457,780
Current liabilities	**$ 95,031**	$ 93,597
Long-term debt	**111,546**	116,257
Post-employment benefit obligations	**4,023**	5,140
Deferred income tax	**22,557**	22,540
Shareholders' equity	**233,356**	220,246
Total liabilities and shareholders' equity	**$ 466,513**	$ 457,780

The change in current assets as at September 30, 2018 compared to March 31, 2018 reflects an increase in accounts receivable due to the increase in sales through the first six months of the year, and a decrease in inventory due to strong VQA sales as well as the release of the fair value adjustment for acquired inventory sold in the first six months of fiscal 2019. Inventory is dependent on the increase of 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 grapes 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 $19.2 million of accounts receivable with provincial liquor boards at September 30, 2018, 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 $2.1 million at September 30, 2018. Against these amounts an allowance for doubtful accounts of $0.2 million has been provided which the Company has determined represents a reasonable estimate of amounts that may not be collectible.

Property, plant, and equipment increased at September 30, 2018 compared to the prior year due to operational investments at the Company's production facilities.

Overall bank debt decreased to $159.9 million at September 30, 2018 compared to $171.7 million at March 31, 2018. The decrease is due to the strong earnings in fiscal 2019, 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 0.69:1 at September 30, 2018 compared to 0.78:1 at March 31, 2018. At September 30, 2018, the Company had unutilized debt capacity in the amount of $51.4 million on its operating facility and $98.0 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 six months ended September 30, 2018, the Company generated cash from operating activities, after changes in non-cash working capital items, of $29.3 million compared to $22.8 million in the prior year. Investing activities were $13.4 million in the first six months of fiscal 2019 related to capital expenditures to improve operations.

Financing activities for the six months ended September 30, 2018 of $16.0 million included scheduled repayments of long-term debt, dividend payments and a decrease in bank indebtedness.

Working capital as at September 30, 2018 decreased to $104.0 million compared to $104.4 million at March 31, 2018. The decrease in inventory due to higher sales levels in fiscal 2019 was offset by an increase in accounts receivable and an increase in prepaid expenses and other assets. The net increase in liabilities is a result of an overall decrease in current debt, offset by an increase in accounts payable due to amounts accrued for harvest at September 30, 2018. Shareholders' equity as at September 30, 2018 was $233.4 million or $5.28 per common share compared to $220.2 million or $4.99 per common share as at March 31, 2018. The increase in shareholders' equity was due to the strong net earnings through the first six months of fiscal 2019, 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	**September 30, 2018**	March 31, 2018
Class A Shares	**35,975,060**	35,471,185
Class B Shares	**8,202,733**	8,702,095
Total	**44,177,793**	44,173,280

In April 2018, approximately 0.5 million Class B Shares were converted into Class A Shares on a one-for-one basis.

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 our 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 category, through its strategic alliance with Wayne Gretzky, and has introduced sangrias and ciders through its own brand labels.

The market for wine in Canada continues to grow due to a movement toward the consumption of wine by young consumers who have adopted wine as their beverage of choice, an aging population that favours the more sophisticated experience that wine offers, and the reported health benefits of moderate wine consumption. The Company has focused its product development and sales and marketing initiatives by capitalizing on the trend of increased wine consumption 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 launch wine and other craft alcohol brands in the future and increase its use of differentiated package formats. The Company will also 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 directed focus to support 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 increase its investments 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 spirits 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 the sales of its premium wines 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. 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. APL enters into a series of foreign exchange contracts as a hedge against movements in U.S. dollar, Euro, and Australian dollar exchange rates. The Company does not enter into foreign exchange contracts for trading or speculative purposes. These contracts are reviewed periodically. Based on the Company's forecasts for foreign currency purchases and the amount of foreign exchange forward contracts outstanding at September 30, 2018, each one percent change in the U.S. dollar, Euro or the Australian dollar would not have a material impact on the Company's net earnings.

The Company purchases glass, bag in box, tetra paks, and other components used in the bottling and packaging of wine and spirits. The largest component in the packaging of wine and spirits 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 like beer and spirits for consumer acceptance, loyalty, and shelf space. Any 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.

Increases in the minimum wage across Canada will also continue to negatively affect the profitability of the Company. It is estimated that increases in Ontario will increase selling and administrative expenses by approximately $2.0 million in fiscal 2019.

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 and six months ended September 30,	Three Months		Six Months	
(in $000)	**2018**	2017	**2018**	2017
Net earnings	**$ 8,894**	$ 9,226	**$ 16,442**	$ 17,417
Add: Interest	**1,943**	1,157	**3,897**	1,940
Provision for income taxes	**2,887**	3,557	**5,906**	6,480
Amortization of plant and equipment used in production	**1,925**	1,709	**3,765**	3,381
Amortization of equipment and intangibles used in selling and administration	**1,168**	856	**2,558**	1,666
Net unrealized gains on derivative financial instruments	**(749)**	(285)	**(967)**	(351)
Other expenses	**92**	70	**367**	215
EBITA	**$ 16,160**	$ 16,290	**$ 31,968**	$ 30,748
Fair value adjustment for acquired inventory sold during the period	**2,038**	-	**4,172**	-
Acquisition transaction and transition costs	**-**	562	**-**	562
Adjusted EBITA	**$ 18,198**	$ 16,852	**$ 36,140**	$ 31,310

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 and six months ended September 30,	Three Months		Six Months	
(in $000)	**2018**	2017	**2018**	2017
Sales	**$ 103,323**	$ 91,857	**$ 198,864**	$ 180,497
Less: Cost of goods sold, excluding amortization	**59,039**	53,164	**113,299**	106,200
Gross margin	**$ 44,284**	$ 38,693	**$ 85,565**	$ 74,297
Gross margin (% of sales)	**42.9%**	42.1%	**43.0%**	41.2%

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

For the three and six months ended September 30,	Three Months		Six Months	
(in $000)	**2018**	2017	**2018**	2017
Net earnings	**$ 8,894**	$ 9,226	**$ 16,442**	$ 17,417
Net unrealized gains on derivative financial instruments	**(749)**	(285)	**(967)**	(351)
Other expenses	**92**	70	**367**	215
Fair value adjustment for acquired inventory sold during the period	**2,038**	-	**4,172**	-
Acquisition transaction and transition costs	**-**	562	**-**	562
Income tax effect of the above	**171**	(17)	**156**	(38)
Adjusted earnings	**$ 10,446**	$ 9,556	**$ 20,170**	$ 17,805
Adjusted earnings per share – Class A	**$0.24**	$0.23	**$0.47**	$0.43
Adjusted earnings per share – Class B	**$0.21**	$0.20	**$0.41**	$0.37

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, 2018 and 2017.

Recently Adopted Accounting Policies
a) IFRS 9, Financial Instruments
In July 2014, the IASB issued an amended IFRS 9, Financial Instruments - Classification and Measurement of Financial Assets and Financial Liabilities. IFRS 9 replaces IAS 39, Financial Instruments - Recognition and Measurement. In addition, IFRS 7, Financial Instruments - Disclosures is amended to include additional disclosure requirements on transition to IFRS 9. The amendments were effective for annual periods beginning on or after January 1, 2018. The standard uses a single approach based on how an entity manages its financial instruments to determine whether a financial asset is measured at amortized cost or fair value and 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 new requirements were adopted effective April 1, 2018. The adoption of these amendments did not have a significant impact on the condensed interim consolidated financial statements.

b) IFRS 15, Revenue from Contracts with Customers
During May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which supersedes IAS 18, Revenue, and IAS 11, Construction Contracts. The Company adopted the requirements of IFRS 15 on April 1, 2018, using the modified retrospective method as permitted by IFRS 15.

The adoption of IFRS 15 did not result in any adjustments or in any change in the recognition of revenues compared to prior periods and therefore, no comparative figures have been restated.

IFRS 15 is based on the principle that revenue is recognized when control of a good or service is transferred to a customer. A five-step recognition model is used to apply the standard as follows:

1. Identify the contract(s) with the customer;
2. Identify the separate performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to separate performance obligations; and
5. Recognize revenue when (or as) each performance obligation is satisfied.

Under IFRS 15, revenue is derived from the sale of goods and is recognized at a point in time when the performance obligation is fulfilled. For sales to consumers through retail stores, winery restaurants, and estate wineries, the performance obligation is deemed fulfilled when the product is purchased. For sales transactions with provincial liquor boards, licensee retail stores, and wine kit retailers, the Company's performance obligation is fulfilled when the product is shipped from the Company's distribution facilities.

Excise taxes collected on behalf of the federal government, licensing fees, and levies paid on wine sold through the Company's independent retail stores in Ontario, product returns, breakage, promotional and advertising allowances, and discounts provided to customers are deducted from the selling price to determine the transaction price at which revenue is recognized. Expected product returns and breakage are estimated based on historical actuals as a percentage of sales.

Deferred revenue represents amounts paid by customers in advance of the purchase of products which typically takes the form of pre-loaded gift cards. The amounts received are recorded as deferred revenue within accounts payable and accrued liabilities on the condensed consolidated balance sheets. Once a gift card is redeemed to make a purchase, the liability is relieved, and revenue is recognized.

The Company also enters into arrangements with third parties for the sale of products to customers. When the terms of the arrangement are such that the Company is acting as an agent of the third party, revenue is recognized in the amount of the commission to which the Company is entitled in exchange for arranging for the third party to provide its goods to customers.

Recently Issued Accounting Pronouncements

a) IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases and related Interpretations. The new standard will be effective for fiscal years beginning on or after January 1, 2019, with early adoption permitted provided the Company has adopted IFRS 15, Revenue from Contracts with Customers. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts, and record it on the statement of financial position, except with respect to lease contracts that meet limited exception criteria. Given that the Company has significant contractual obligations in the form of operating leases under IAS 17, there will be a material increase to both assets and liabilities on adoption of IFRS 16, and material changes to the timing of recognition of expenses associated with the lease arrangements. The Company is analyzing the new standard to determine the impact of adopting this standard.

b) Amendments to IAS 19, Employee Benefits

This standard 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 Company has not yet assessed the impact of the amendments on the consolidated financial statements.

c) Amendments to IFRS 9, Financial Instruments

This standard has been amended to enable companies to measure at amortized cost some prepayable financial assets with negative compensation. 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 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 six months ended September 30, 2018, 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.