

ANDREW PELLER

— LIMITED —

MANAGEMENT'S DISCUSSION & ANALYSIS

For the three months ended June 30, 2021

The following management's discussion and analysis ("MD&A") provides a review of corporate developments, results of operations, and financial position for the three months ended June 30, 2021 in comparison with those for the three months ended June 30, 2020 for Andrew Peller Limited (the "Company" or "APL"). This discussion is prepared as of August 4, 2021 and should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes contained therein for the period ended June 30, 2021 and 2020. Additional information relating to the Company, including the audited annual consolidated financial statements and Annual Information Form for the years ended March 31, 2021 and March 31, 2020, is available on www.sedar.com. The financial years ending March 31, 2022 and March 31, 2021 are referred to as "fiscal 2022" and "fiscal 2021" 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; its launch of new premium wines and craft beverage alcohol products; sales trends in foreign markets; its supply of domestically grown grapes; and current economic conditions. These statements are subject to certain risks, assumptions, and uncertainties that could cause actual results to differ materially from those included in the forward-looking statements. The words "believe", "plan", "intend", "estimate", "expect", or "anticipate", and similar expressions, as well as future or conditional verbs such as "will", "should", "would", "could", and similar verbs often identify forward-looking statements. We have based these forward-looking statements on our current views with respect to future events and financial performance. With respect to forward-looking statements contained in this MD&A, the Company has made assumptions and applied certain factors regarding, among other things: future grape, glass bottle, and wine and spirit prices; its ability to obtain grapes, imported wine, glass, and other raw materials; fluctuations in foreign currency exchange rates; its ability to market products successfully to its anticipated customers; the trade balance within the domestic Canadian and international wine markets; market trends; reliance on key personnel; protection of its intellectual property rights; the economic environment; the regulatory requirements regarding producing, marketing, advertising, and labelling of its products; the regulation of liquor distribution and retailing in Ontario; the application of federal and provincial environmental laws; and the impact of increasing competition.

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

Overview

The Company is a leading producer and marketer of quality wines and craft beverage alcohol products in Canada. With wineries in British Columbia, Ontario, and Nova Scotia, the Company markets wines produced from grapes grown in Ontario's Niagara Peninsula, British Columbia's Okanagan and Similkameen Valleys, and from vineyards around the world. The Company's award-winning premium and ultra-premium Vintners' Quality Alliance ("VQA") brands include *Peller Estates*, *Trius*, *Thirty Bench*, *Wayne Gretzky*, *Sandhill*, *Red Rooster*, *Black Hills Estate Winery*, *Tinhorn Creek Vineyards*, *Gray Monk Estate Winery*, *Raven Conspiracy* and *Conviction*. Complementing these premium brands are a number of popularly priced varietal brands including *Peller Family Vineyards*, *Copper Moon*, *Black Cellar* and *XOXO*. *Hochtaler*, *Domaine D'Or*, *Schloss Laderheim*, *Royal*, and *Sommet* are the Company's key value priced brands. The

Company imports wines from major wine regions around the world to blend with domestic wine to craft these quality and value priced brands. The Company also produces craft beverage alcohol products, including *No Boats on Sunday* ciders and seltzers, and various beer, spirits and cream whisky products under the *Wayne Gretzky No. 99* brand. 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 200 authorized retailers and more than 400 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 *Winexpert*, *Vine Co.*, *Apres*, *LE*, *Passport Series*, *On the House*, *Wild Grapes*, *DIY My Wine Co.*, *Island Mist* and *Niagara Mist*. 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 branded wines, spirits, refreshments, beer and experiences at the best possible value. To meet this goal, the Company invests in improvements in the quality of grapes, wines, and other raw materials, its winemaking and distillation capabilities, sales and marketing initiatives, tourism and hospitality experiences, and its quality management programs.

The Company is focused on initiatives to reduce costs and enhance its production efficiencies through a continual review of its operations and cost structure with a view to enhancing profitability. The Company continues to expand and strengthen its distribution through provincial liquor boards, Ontario independent retail locations, grocery outlets and e-commerce platform 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 June 16, 2021, the Company’s Board of Directors approved a 10% increase in common share dividends. The annual dividend on Class A Shares was increased to \$0.246 per share and the dividend on Class B Shares was increased to \$0.214. The Company has consistently paid common share dividends since 1979. APL currently designates all dividends paid as “eligible dividends” for purposes of the Income Tax Act (Canada) unless indicated otherwise.

On March 4, 2021, the Company announced its notice of intention to make a normal course issuer bid had been approved by the Toronto Stock Exchange. Under the issuer bid the Company can purchase for cancellation up to 1,773,896 of its outstanding Class A non-voting shares, representing 5% of the Class A shares outstanding at the time, over the ensuing twelve months. As of August 4, 2021, the Company purchased 100,000 Class A non-voting common shares, at a weighted average price of \$9.58 per Class A non-voting common share, for a total cash consideration of \$1.0 million.

On February 26, 2021, the Company announced it had acquired The Riverbend Inn and Vineyard in Niagara-on-the-Lake, Ontario. This historic and well-located property, containing 17 acres of prime vineyards and a 21-room hotel and restaurant, is situated directly adjacent to the Company’s Peller Estates Winery. The Company paid \$10.0 million for 100% ownership of the assets and the property. Due to the COVID-19 pandemic, the Inn was closed during fiscal 2021, and re-opened in June 2021 when the government-mandated lockdown in Ontario was lifted.

On July 27, 2020, it was announced that the Government of Canada has agreed to repeal the federal excise duty exemption of 100% Canadian wine by June 30, 2022. This agreement was reached due to a World Trade Organization challenge put forward by Australia against Canadian wine measures. In its 2021 budget, the federal government announced an enhancement program for Canadian wine growers that is intended to mitigate the impact of the loss of the federal excise duty exemption. The enhancement program is effective July 1, 2022. The Company will continue to work with the federal government to review the terms of the enhancement program to determine the impact on the Company’s financial condition and results of operations.

With the announcement of the start of the COVID-19 pandemic in March 2020, Canadian businesses selling beer, wine and other alcohol products were deemed essential services, as well as those businesses that supply them. Under this

provision, all of the Company's production facilities, retail locations and retail estate locations have remained open with enhanced protocols relating to cleanliness and physical distancing. During the period ended June 30, 2021, the pandemic has continued to impact consumer purchasing patterns resulting in fluctuations in the Company's results, however, the Company continues to generate operating cash flows to meet short-term working capital needs. The impact of the outbreak on the financial results of the Company will continue to depend on future developments, including the duration and spread of the outbreak and its impact on the overall economy and related advisories and restrictions.

Results of Operations

For the three months ended June 30, (in \$000, except per share amounts)	2021	2020
Sales	\$ 92,397	\$ 98,440
Gross margin	37,261	42,727
Gross margin (% of sales)	40.3%	43.4%
Selling and administrative expenses	25,348	20,157
EBITA	11,913	22,570
Interest	2,273	2,039
Net unrealized (gain) loss on derivative financial instruments	(388)	730
Other expenses	341	685
Adjusted earnings	3,255	12,553
Net earnings	3,290	11,204
Earnings per share – basic and diluted - Class A	\$0.08	\$0.26
Earnings per share – basic and diluted - Class B	\$0.07	\$0.23
Dividend per share – Class A (annual)	\$0.246	\$0.218
Dividend per share – Class B (annual)	\$0.214	\$0.190

Sales for the three months ended June 30, 2021 were \$92.4 million, down 6.1% from the prior year. When the pandemic was announced in March 2020, the Company saw an increase in sales as a result of higher consumer purchases due to uncertainty around trade channels for alcoholic beverages remaining open. Additionally, provincial liquor stores in Ontario were closed on Mondays through much of the first quarter of fiscal 2021, resulting in an increase in sales at our retail locations. As these conditions are no longer present, sales through provincial liquor boards and our retail locations have normalized when compared to prior year. The Company's sales in hospitality, licensee and export channels remained impacted in the first quarter of fiscal 2022 due to government-mandated closures and restricted international travel. Many of these restrictions were lifted during June of fiscal 2022, and as a result, the Company expects sales in these channels to increase when compared to fiscal 2021.

The Company defines gross margin as gross profit excluding amortization. Gross margin as a percentage of sales was 40.3% for the three months ended June 30, 2021 compared to 43.4% in the prior year. Gross margin in the first quarter of fiscal 2022 declined due to revenue declines in high margin trade channels, increased distribution costs, higher imported wine costs and increased co-packing costs related to the Company's new and growing refreshment beverage categories.

Selling and administrative expenses increased for the first three months of fiscal 2022 as the Company increased staffing and marketing expenses in preparation for more normal markets returning as the impact of the COVID-19 pandemic eases. During the first quarter of fiscal 2021, the Company laid off a significant part of its workforce due to government-mandated closures and reduced advertising and promotional spending to conserve cash in response to the pandemic. In addition, during the first quarter of fiscal 2022 certain start-up costs were incurred related to the recently acquired Riverbend Inn and Vineyard which opened on June 19, 2021. As a percentage of sales, selling and administrative expenses were 27.4% through the first three months of fiscal 2022 compared to 20.5% in the prior year. Going forward, as the pandemic eases and activity in the hospitality, licensee and export channels increases, the Company expects selling and administrative expenses will increase in fiscal 2022 compared to fiscal 2021.

Earnings before interest, amortization, net unrealized gains and losses on derivative financial instruments and deferred financing fees, other (income) expenses, and income taxes (“EBITA”) were \$11.9 million for the three months ended June 30, 2021 compared to \$22.6 million in the prior year. The decline in EBITA in fiscal 2022 is due primarily to the lower sales, reduced gross margin and higher administrative and selling expenses compared to the prior year.

Interest expense in fiscal 2022 increased marginally compared to the prior year due higher debt levels resulting primarily from capital investments in the Company’s operations and properties.

The Company recorded a net unrealized non-cash gain in the first three months of fiscal 2022 of \$0.4 million related to mark-to-market adjustments on interest rate swaps and foreign exchange contracts compared to an unrealized net loss of \$0.7 million in the prior year. The change is primarily due to gains on interest rate swaps, partially offset by losses on 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 are expected to mitigate the short-term volatility of changing foreign exchange and interest rates.

Net earnings for the three months ended June 30, 2021 were \$3.3 million or \$0.08 per Class A Share compared to \$11.2 million or \$0.26 per Class A Share in the prior year. Adjusted earnings, defined as net earnings not including net unrealized gains and losses on derivative financial instruments, other (income) expenses, and the related income tax effect were \$3.3 million for the three months ended June 30, 2021 compared to \$12.6 million in the prior year.

Quarterly Performance

The following table outlines key quarterly highlights.

(in \$000, except per share amounts)	Q1 22	Q4 21	Q3 21	Q2 21	Q1 21	Q4 20	Q3 20	Q2 20
Sales	92,397	79,126	111,060	104,410	98,440	82,118	101,597	103,375
Gross margin	37,261	28,089	41,537	44,165	42,727	35,550	41,968	46,311
Gross margin (% of sales)	40.3%	35.5%	37.4%	42.3%	43.4%	43.3%	41.3%	44.8%
EBITA	11,913	1,815	16,223	22,438	22,570	9,668	16,148	17,335
Interest	2,273	2,619	1,637	1,813	2,039	1,839	1,818	2,222
Gain on debt modification and financing fees	-	-	(2,312)	-	-	-	-	-
Net unrealized (gain) loss on financial instruments	(388)	(495)	170	(540)	730	1,984	(646)	(497)
Other expenses (income)	341	742	148	195	685	634	(57)	1,106
Adjusted earnings (loss)	3,255	(6,145)	8,159	12,419	12,553	1,196	7,815	8,716
Net earnings (loss)	3,290	(6,328)	10,236	12,674	11,204	(996)	8,056	7,643
E.P.S. – Class A basic & diluted	\$0.08	\$(0.15)	\$0.24	\$0.30	\$0.26	\$(0.02)	\$0.19	\$0.18
E.P.S. – Class B basic & diluted	\$0.07	\$(0.13)	\$0.21	\$0.26	\$0.23	\$(0.02)	\$0.16	\$0.15

The second and third quarters of the Company’s fiscal year are historically the largest due to increased activity at the Company’s estate properties and increased consumer purchasing of the Company’s products during the holiday season. However, the COVID-19 pandemic has, and may continue to cause fluctuations in the Company’s results and consequently, quarterly results may not follow historical trends.

Liquidity and Capital Resources

As at (in \$000)	June 30, 2021	March 31, 2021
Current assets	\$ 216,699	\$ 225,302
Property, plant, and equipment	224,127	223,931
Intangible assets	40,981	39,650
Goodwill	53,638	53,638
Total assets	\$ 535,445	\$ 542,521
Current liabilities	\$ 44,579	\$ 54,618
Long-term debt	178,158	174,544
Long-term derivative financial instruments	309	717
Lease obligations	13,861	13,987
Post-employment benefit obligations	2,926	3,316
Deferred income taxes	29,463	29,765
Shareholders' equity	266,149	265,574
Total liabilities and shareholders' equity	\$ 535,445	\$ 542,521

The change in current assets as at June 30, 2021 compared to March 31, 2021 reflects a decrease in cash on hand, a decrease in accounts receivable due to the lower sales in the first quarter of fiscal 2022, and lower levels of inventory. Inventory is dependent on domestically grown grapes that are used in the sale of premium and ultra-premium wines that are held for a longer period than imported wine. These wines are typically aged for one to three years before they are sold. The cost of producing wine from domestically grown grapes is also significantly higher than wine purchased on international markets. Included in current assets as at June 30, 2021 was \$1.3 million reflecting the carrying value of the Company's production facility in Port Coquitlam British Columbia held for sale.

Accounts receivable are predominantly with provincial liquor boards and, to a lesser extent, licensed establishments and independent retailers of personal winemaking products. The Company had \$15.1 million of accounts receivable with provincial liquor boards at June 30, 2021, all of which is expected to be collectible. The balance represents amounts due from licensees, export customers, and independent retailers of personal winemaking products. The amount of accounts receivable that was 30 days past due was \$0.9 million at June 30, 2021. Against these amounts an expected credit loss of \$0.3 million has been provided which the Company has determined based on a reasonable estimate of lifetime expected credit losses for trade receivable.

Property, plant and equipment and intangible assets increased at June 30, 2021 compared to the prior year-end due to investments in the Company's properties and operations, partially offset by amortization.

The change in current liabilities as at June 30, 2021 compared to March 31, 2021 is due primarily to a reduction in accounts payable, due to the timing of invoices and payments, partially offset by an increase in bank indebtedness.

Overall bank debt increased to \$180.2 million at June 30, 2021 from \$174.5 million at March 31, 2021, due primarily to working capital needs and increased investment in the Company's properties and operations. The Company's debt to equity ratio was 0.68:1 at June 30, 2021 compared to 0.66:1 at March 31, 2021. At June 30, 2021, the Company had unutilized debt capacity in the amount of \$169.8 million on its operating facility.

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

For the three months ended June 30, 2021, the Company generated cash from operating activities, after changes in non-cash working capital items, of \$2.0 million compared to \$17.4 million in the prior year. Investing activities include \$5.4 million related to capital and intangible expenditures.

Financing activities for the three months ended June 30, 2021 include the payment of dividends, principal repayment of lease obligations and the purchase of Class A shares under the Company's approved issuer bid.

Working capital at June 30, 2021 was \$172.1 million compared to \$170.7 million at March 31, 2021. Shareholders' equity at June 30, 2021 was \$266.1 million or \$6.09 per common share compared to \$265.6 million or \$6.08 per common share at March 31, 2021.

Common Shares Outstanding

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

Shares outstanding	June 30, 2021	March 31, 2021
Class A Shares	35,546,719	35,525,639
Class B Shares	8,144,183	8,144,183
Total	43,690,902	43,669,822

On March 4, 2021 the Company announced its notice of intention to make a normal course issuer bid had been approved by the Toronto Stock Exchange. Under the bid the Company can purchase for cancellation up to 1,773,896 of its outstanding Class A non-voting shares, representing 5% of the Class A shares outstanding, over the ensuing twelve months. As of August 4, 2021, the Company has purchased 100,000 Class A shares to date in fiscal 2022 at a weighted average price of \$9.58 per share for a total of \$1.0 million.

Strategic Outlook and Direction

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

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

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

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

The Company believes that sales will grow over the long term due to strong positioning of key brands, the continued launch of new and innovative products in both its core wine business and in new product categories, as well as overall growth in the Canadian beverage alcohol market. The Company expects to continue to invest in capital expenditures to improve efficiencies, increase capacity, support its ongoing commitment to producing the highest-quality wines and spirits, and improve productivity.

Risks and Uncertainties

The Company's sales of wine and craft beverage alcohol products are affected by general economic conditions and social trends such as changes in discretionary consumer spending and consumer confidence, future economic conditions, changes to inter-provincial trade laws, tax laws, the prices of its products and health trends. During the three

months ended June 30, 2021, the COVID-19 pandemic has continued to impact consumer purchasing patterns resulting in fluctuations in the Company's results, however, the Company continues to generate operating cash flows to meet short-term working capital needs. The impact of the outbreak on the financial results of the Company will continue to depend on future developments, including the duration and spread of the outbreak and its impact on the overall economy and related advisories and restrictions. It is not possible to reliably estimate the length and severity of these developments and conclusively quantify the impact on the financial results and condition of the Company in future periods. Such general economic conditions have, and may continue to, impact the Company's sales through duty-free export, restaurant and estate property channels. In response to COVID-19, the Company has implemented working practices to address potential impacts to its operations, employees and customers and will take further measures in the future, if required. At present, the Company has not identified any material continuity risks specifically associated with COVID-19.

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.

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

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

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

Foreign exchange risk exists on the purchases of bulk wine and concentrate that are primarily made in United States dollars, Euros, and Australian dollars. Fluctuating foreign currencies may have a positive or negative impact on gross margins, however, the Company believes the impact on gross margin will be largely offset by its continued ability to leverage scale and successful cost control initiatives to reduce other cost of goods sold. The Company's strategy is to hedge approximately 50% - 80% of its foreign exchange requirements throughout the fiscal year and to regularly review its on-going requirements. The Company does not enter into foreign exchange contracts for trading or speculative purposes and contracts are reviewed periodically. As at June 30, 2021, the Company has forward foreign currency contracts to buy \$21.0 million US at rates ranging between \$1.23 and \$1.26; \$0.8 million Euro at a rate of 1.52 and \$3.4 million AUD at a rate of \$0.99. These contracts mature at various dates to February 2022. Based on the Company's forecasts for foreign currency purchases and the amount of foreign exchange forward contracts outstanding at June 30,

2021, each one percent change in the respective foreign currency exchange rates would not result in a material impact on the Company's net earnings.

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

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

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

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

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

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

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

The Company considers its trademarks, particularly certain brand names and product packaging, advertising and promotion design, and artwork to be of significant importance to its business and ascribes a significant value to these intangible assets. APL relies on trademark laws and other arrangements to protect its proprietary rights. There can be no assurance that the steps taken by APL to protect its intellectual property rights will preclude competitors from developing confusingly similar brand names or promotional materials. The Company believes that its proprietary rights do not infringe upon the proprietary rights of fourth 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 fourth-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 fourth 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) to measure its financial performance. EBITA is not recognized measures under IFRS; 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, as well as providing an indication of recurring earnings compared to prior periods.

The Company calculates EBITA as follows.

For the three months ended June 30,		
(in \$000)	2021	2020
Net earnings	\$ 3,290	\$ 11,204
Add: Interest	2,273	2,039
Income taxes	1,283	3,658
Amortization of plant and equipment used in production	2,199	2,601
Amortization of equipment and intangibles used in selling and administration	2,915	1,653
Net unrealized (gain) loss on derivative financial instruments	(388)	730
Other expenses	341	685
EBITA	\$ 11,913	\$ 22,570

Readers are cautioned that 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 utilizes gross margin (defined as sales less cost of goods sold, excluding amortization) as calculated below.

For the three months ended June 30, (in \$000)	2021	2020
Sales	\$ 92,397	\$ 98,440
Less: Cost of goods sold, excluding amortization	55,136	55,713
Gross margin	37,261	42,727
Gross margin (% of sales)	40.3%	43.4%

The Company calculates adjusted earnings as follows:

For the three months ended June 30, (in \$000)	2021	2020
Net earnings	\$ 3,290	\$ 11,204
Net unrealized (gain) loss on derivative financial instruments	(388)	730
Other expenses	341	685
Fair value adjustment for acquired inventory sold during the period	-	302
Income tax effect of the above	12	(368)
Adjusted earnings	\$ 3,255	\$ 12,553

The Company's method of calculating EBITA, gross margin, and Adjusted earnings 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 condensed interim 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 years ended March 31, 2021 and 2020.

Recently adopted accounting pronouncements

IFRS 16, Leases

This standard has been amended to provide lessees with an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. This amendment is effective for annual periods beginning on or after June 1, 2020. At this time, the Company has not received rent concessions related to COVID-19 and therefore, this amendment has not had an impact on the consolidated financial statements.

London Inter-bank Offered Rate (LIBOR) reform with amendments to IFRS 9, IFRS 7, Financial Instruments: Disclosures and IFRS 16.

In August 2020, the IASB issued Interest Rate Benchmark Reform Phase 2 (the Reform Phase 2), which complemented the Reform Phase 1 and amended various standards requiring interest rates or interest rate calculations. The Reform Phase 2 provides guidance on the impacts on the financial statements after the LIBOR reform and its replacement with alternative benchmark rates. The amendments are effective for annual periods beginning on or after January 1, 2021. The adoption of these amendments did not have a significant impact on the consolidated financial statements.

Recently issued accounting pronouncements

IAS 16, Property, Plant and Equipment

This standard has been amended to prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use, clarify that an entity is “testing whether the asset is functioning properly” when it assesses the technical and physical performance of the asset and require certain related disclosures. The amendments are effective for annual periods beginning on or after January 1, 2022. The Company has not yet assessed the impact of the amendments on the consolidated financial statements.

IAS 37, Provisions

This standard has been amended to clarify that, before a separate provision for an onerous contract is established, an entity recognizes an impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract and to clarify the meaning of costs to fulfil a contract. The amendments are effective for annual periods beginning on or after January 1, 2022. The Company has not yet assessed the impact of the amendments on the consolidated financial statements.

IFRS 9, Financial Instruments

This standard has been amended to address which fees should be included in the 10% test for derecognition of financial liabilities. This amendment is effective for annual periods beginning on or after January 1, 2022. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

IAS 1, Presentation of Financial Statements, and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

This standard has been amended to clarify the classification of liabilities as current or non-current depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. The amendment also clarifies the meaning of settlement of a liability. This amendment is effective for annual periods beginning on or after January 1, 2023. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

IAS 12, Income Taxes

This standard has been amended to require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. 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, the Company’s management, under the supervision of, and with participation of the CEO and CFO, have designed and maintained the Company’s disclosure controls and procedures as required in Canada by National Instrument 52-109 – Certification of Disclosure in Issuers’ Annual and Interim Filings.

For the three months ended June 30, 2021, there have been no material changes in the Company’s internal controls over financial reporting or changes to disclosure controls and procedures that materially affect or were likely to affect, the Company’s internal control systems.