ANDREW PELLER
LIMITED

MANAGEMENT'S DISCUSSION & ANALYSIS
For the three months and year ended March 31, 2020

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 and year ended March 31, 2020 in comparison with those for the three months and year ended March 31, 2019 for Andrew Peller Limited (the "Company" or "APL"). This discussion is prepared as of June 10, 2020 and should be read in conjunction with the audited consolidated financial statements and accompanying notes contained therein for the years ended March 31, 2020 and 2019. 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, 2020 and March 31, 2019, is available on www.sedar.com. The financial years ending March 31, 2019 and March 31, 2020 are referred to as "fiscal 2019" and "fiscal 2020" respectively. All dollar amounts are expressed in Canadian dollars unless otherwise indicated.

FORWARD-LOOKING INFORMATION

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

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

Overview

The Company is a leading producer and marketer of quality wines and craft beverage alcohol products in Canada. With wineries in British Columbia, Ontario, and Nova Scotia, the Company markets wines produced from grapes grown in Ontario's Niagara Peninsula, British Columbia's Okanagan and Similkameen Valleys, and from vineyards around the world. The Company's award-winning premium and ultra-premium Vintners' Quality Alliance ("VQA") brands include *Peller Estates, Trius, Thirty Bench*, *Wayne Gretzky, Sandhill, Red Rooster, Black Hills Estate Winery, Tinhorn Creek Vineyards, Gray Monk Estate Winery, Raven Conspiracy* and *Conviction*. Complementing these premium brands are a number of popularly priced varietal brands including *Peller Family Vineyards*, *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, Wayne Gretzky No. 99 Red Cask*, *No. 99 Ice Cask* and *99 Proof* Canadian Whiskies and *No. 99 Canadian Whisky Cream* products. The Company has also recently entered the craft beer market with the launch of *No. 99 Premium Lager, No. 99 Pale Ale* and *No. 99 Session Ale*. 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 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 March 11, 2020, the World Health Organization characterized the outbreak of COVID-19 as a global pandemic. Management continues to closely monitor and assess developments regarding the pandemic, including industry, market and internal factors, as well as regulations enacted by governments across Canada. Businesses selling beer, wine and other alcohol products have been deemed essential services, as well as those businesses that supply them. As a result, all of the Company's production facilities remain open, as do the Company's retail locations and retail estate locations. New protocols related to cleanliness and social distancing have been deployed at all locations. In late March 2020, the Company introduced a temporary wage increase for front line staff to recognize their efforts during the COVID-19 pandemic. Management believes its export, estate property hospitality and personal winemaking sales will be affected by the pandemic. However, consumption of alcohol beverages remain stable in Canada with consumers purchasing products through alternative trade channels available during the pandemic, benefiting the Company's sales through provincial liquor stores and its other retail channels. The Company has enhanced its capabilities to support increased demand for direct-to-home purchases. 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, if required. These practices have been permanently established to enhance the ability for the Company to respond in the future. The outbreak may also have an effect on the future collectability of certain receivables, recoverability of property plant and equipment, goodwill and intangible assets, as well as the fair value of derivatives. At present, the Company has not identified any material continuity-risks specifically associated with COVID-19. The Company believes it has the management experience and the financial resources and flexibility to meet the liquidity needs presented by the pandemic. The Company continues to review all capital allocations to ensure it remains financially stable and well capitalized going forward.

On June 10, 2020, the Company's Board of Directors approved a common share dividend with no increase to preserve capital as a result of COVID-19. The annual dividend on Class A Shares is $0.215 per share and the dividend on Class B Shares is $0.187 will be paid quarterly to shareholders. 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 July 29, 2019 the City of Port Moody, British Columbia approved by-law amendments to permit the future development of lands owned by the Company that had held its first winery operations since 1961. Production was moved from the property to its Kelowna, B.C. facility in January 2006 Since that time the Company has engaged with the community and the City of Port Moody to produce a plan to transform the 217,000 square foot site into a mixed-use community.

Results of Operations

For the year ended March 31, **(in $000, except per share amounts)**	**2020**	2019	2018
Sales	**$ 382,306**	$ 381,796	$ 363,897
Gross margin	**166,250**	159,008	150,325
Gross margin (% of sales)	**43.5%**	41.6%	41.3%
Selling and administrative expenses	**104,749**	106,133	97,465
EBITA	**61,501**	52,875	52,860
Adjusted EBITA	**63,233**	58,287	57,225
Interest	**8,107**	6,872	5,345
Net unrealized loss (gain) on derivative financial instruments	**1,406**	1,679	(1,400)
Other expenses	**1,769**	1,063	(3,842)
Adjusted earnings	**27,575**	29,408	29,303
Net earnings	**23,494**	21,958	30,117
Earnings per share – basic and diluted - Class A	**$ 0.55**	$0.51	$0.71
Earnings per share – basic and diluted - Class B	**$ 0.48**	$0.44	$0.62
Adjusted earnings per share – basic and diluted – Class A	**$ 0.64**	$0.68	$0.69
Adjusted earnings per share – basic and diluted – Class B	**$ 0.56**	$0.59	$0.60
Dividend per share – Class A (annual)	**$0.215**	$0.205	$0.180
Dividend per share – Class B (annual)	**$0.187**	$0.178	$0.156

Sales for the year ended March 31, 2020 were $382.3 million, up from $381.8 million in the prior year. The Company experienced solid sales growth through the majority of its well-established bottled wine trade channels due to the introduction of new products and new product categories, and new and innovative sales and marketing programs. This growth was partially offset by reduced sales in the personal winemaking market, increased competition from subsidized lower priced imported wines, and lower duty-free export sales due to trade and political disputes between Canada and China.

The Company defines gross margin as gross profit excluding amortization. Gross margin as a percentage of sales strengthened to 43.5% for the year ended March 31, 2020 compared to 41.6% in the prior year. Gross margin is benefiting from an increased focus on higher margin products and the positive impact of the Company's cost control initiatives. Management is continually focused on enhancing production efficiency and productivity and believes gross margin will remain strong for the foreseeable future.

On the acquisition of the three wineries purchased in October 2017, the Company recorded an increase of $10.4 million to inventory to represent the fair value of the goods acquired. This increase is being expensed over time to the consolidated statement of earnings as finished goods are sold, thus reducing gross margin. For fiscal 2020 the Company's gross margin was reduced by $1.7 million due to this adjustment compared to $5.5 million in the prior year.

Selling and administrative expenses were lower in fiscal 2020 compared to the prior year. Included in fiscal 2020 is the reduction of lease expenses of $3.2 million due to the accounting treatment for lease obligations in accordance with IFRS 16, adopted on April 1, 2019 (see IFRS, Leases below). Partially offsetting these reductions are expenditures related to the Company's implementation of a new Enterprise Resource Planning (ERP) solution, and an increase in the allowance for doubtful accounts due to the potential impact of the COVID-19 pandemic on certain customers. As a percentage of sales, selling and administrative expenses improved to 27.4% in fiscal 2020 compared to 27.8% in the prior year.

Earnings before interest, amortization, net unrealized gains and losses on derivative financial instruments, other (income) expenses, and income taxes ("EBITA") were $61.5 million for the year ended March 31, 2020, up from $52.9 million in the prior year. EBITA strengthened due primarily to the improved gross margin and the lower selling and administrative costs in fiscal 2020. Adjusted EBITA, which excludes from EBITA one-time acquisition related charges, was $63.2 million for the year ended March 31, 2020 compared to $58.3 million in the prior year.

Interest and amortization expense increased in fiscal 2020 compared to the prior year due primarily to the lease obligations as mentioned above. Other expenses in fiscal 2020 include $1.7 million in restructuring costs.

The Company recorded a net unrealized non-cash loss in fiscal 2020 of $1.4 million related to mark-to-market adjustments on interest rate swaps and foreign exchange contracts compared to $1.7 million in the prior year. The Company has elected not to apply hedge accounting and accordingly the change in fair value of these financial instruments is reflected in the Company's consolidated statement of earnings each reporting period. These instruments are considered to be effective economic hedges and have enabled management to mitigate the short-term volatility of changing foreign exchange and interest rates.

Net earnings for fiscal 2020 were $23.5 million or $0.55 per Class A Share compared to $22.0 million or $0.51 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, non-recurring, non-operating (gains) and losses, and the related income tax effect were $27.6 million for the year ended March 31, 2020 compared to $29.4 million in the prior year.

The Company believes that sales will grow over the long term due to strong positioning of key brands, the continued launch of new and innovative products in both its core wine business and in the new product categories, as well as overall growth in the Canadian beverage alcohol market.

Quarterly Performance
The following table outlines key quarterly highlights.

(in $000, except per share amounts)	Q4 20	Q3 20	Q2 20	Q1 20	Q4 19	Q3 19	Q2 19	Q1 19
Sales	82,118	101,597	103,375	95,216	79,780	103,152	103,323	95,541
Gross margin	35,550	41,968	46,311	42,421	31,310	42,133	44,284	41,281
Gross margin (% of sales)	43.3%	41.3%	44.8%	44.6%	39.2%	40.8%	42.9%	43.2%
EBITA	9,668	16,148	17,335	18,350	6,554	14,353	16,160	15,808
Interest	1,839	1,818	2,222	2,228	1,055	1,920	1,943	1,954
Adjusted EBITA	9,924	16,427	17,957	18,925	6,548	15,599	18,198	17,942
Net unrealized loss (gain) on financial instruments	1,984	(646)	(497)	565	1,168	1,478	(749)	(218)
Other expenses (income)	634	(57)	1,106	86	669	27	92	275
Adjusted earnings	1,196	7,815	8,716	9,848	1,477	7,761	10,446	9,724
Net earnings (loss)	(996)	8,056	7,643	8,791	84	5,432	8,894	7,548
E.P.S. – Class A basic & diluted	$(0.02)	$0.19	$0.18	$0.20	$0.00	$0.13	$0.21	$0.18
E.P.S. – Class B basic & diluted	$(0.02)	$0.16	$0.15	$0.18	$0.00	$0.11	$0.18	$0.15
Adjusted E.P.S – Class A basic & diluted	$0.03	$0.18	$0.20	$0.23	$0.03	$0.18	$0.24	$0.23
Adjusted E.P.S – Class B basic & diluted	$0.03	$0.15	$0.17	$0.20	$0.03	$0.16	$0.21	$0.20

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.

Sales in the fourth quarter of fiscal 2020 were $82.1 million, up from $79.8 million in the prior year's fourth quarter. The Company experienced solid sales growth through the majority of its well-established bottled wine trade channels due to the introduction of new products and new product categories, and new and innovative sales and marketing programs. This growth was partially offset by reduced sales in the personal winemaking market, increased competition from subsidized lower priced imported wines, and lower duty-free export sales due to trade and political disputes between Canada and China.

Gross margin for the three months ended March 31, 2020 strengthened to 43.3% of sales compared to 39.2% in the fourth quarter of fiscal 2019. Gross margin in fiscal 2020 is benefiting from 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 fourth quarter of fiscal 2020 compared to the prior year's fourth quarter due to the increase in the allowance for doubtful accounts for potential impact of the COVID-19 pandemic on certain customers, partially offset by the reduction of lease expenses.

EBITA was $9.7 million for the three months ended March 31, 2020 compared to $6.5 million in the same quarter in fiscal 2019. The increase is due primarily to the higher sales and gross margin. The Company recorded a net unrealized non-cash loss of $2.0 million in the fourth quarter of fiscal 2020 related to mark-to-market adjustments on interest rate swaps and foreign exchange contracts compared to $1.2 million in the fourth quarter of fiscal 2019.

The Company incurred a net loss of $1.0 million or $(0.02) per Class A share for the three months ended March 31, 2020 compared to net profit of $0.8 million or $0.00 per Class A Share in the fourth quarter of fiscal 2019. The Company generated adjusted earnings for the three months ended March 31, 2020 of $1.2 million compared with $1.5 million the same period in the prior year.

Liquidity and Capital Resources

As at (in $000)	**March 31, 2020**	March 31, 2019	March 31, 2018
Current assets	**$ 214,114**	$ 196,700	$ 198,014
Property, plant, and equipment	**221,100**	199,749	188,191
Intangibles	**25,067**	16,932	17,733
Goodwill	**53,638**	53,638	53,638
Derivative financial instruments	**-**	-	204
Total assets	**$ 513,919**	$ 467,019	$ 457,780
Current liabilities	**$ 130,460**	$ 99,395	
Long-term debt	**95,515**	106,879	$ 93,597
Long-term derivative financial instruments	**1,932**	1,008	116,257
Lease obligations	**14,802**	-	-
Post-employment benefit obligations	**3,649**	4,657	5,140
Deferred income tax	**22,038**	20,329	22,540
Shareholders' equity	**245,523**	234,751	220,246
Total liabilities and shareholders' equity	**$ 513,919**	$ 467,019	$ 457,780

The change in current assets as at March 31, 2020 compared to March 31, 2019 reflects an increase in accounts receivable due to higher sales in the fourth quarter of fiscal 2020 and an increase in inventory due to seasonal factors and the harvesting of grapes. 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 for the year ended March 31, 2020 was $1.3 million reflecting the carrying value of the Company's production facility in Port Coquitlam British Columbia which is being 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 $20.8 million of accounts receivable with provincial liquor boards at March 31, 2020, 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 $1.5 million at March 31, 2020. Against these amounts an allowance for doubtful accounts of $0.9 million has been provided which the Company has determined based on assumptions about risk of default and expected loss rates. The allowance for doubtful accounts was increased in March 2020 due to the potential impact of the COVID-19 pandemic on certain customers.

Property, plant and equipment increased at March 31, 2020 due to the requirement to record all lease obligations on the Balance Sheet, as discussed above and operational investments in the Company's facilities.

Intangibles increased at March 31, 2020 compared to the prior year-end due to the investment in a new Enterprise Resource Planning (ERP) solution.

The change in current liabilities as at March 31, 2020 compared to March 31, 2019 reflects an increase in accounts payable due to timing of invoices and payments, an increase in bank indebtedness, and the change in accounting treatment for lease obligations.

Overall bank debt increased to $165.2 million at March 31, 2020 from $154.8 million at March 31, 2019. The increase is due to cash flows from operations in fiscal 2020 offset by regularly scheduled debt repayments. With the increase in debt, the Company's debt to equity ratio was 0.67:1 at March 31, 2020 compared to 0.66:1 at March 31, 2019. At March 31, 2020, the Company had unutilized debt capacity in the amount of $24.2 million on its operating facility and $112.4 million on its investment facility. A reduction in EBITA, could result in the breach of a covenant relative to its impact on the trailing twelve months results used in calculating covenant compliance. The company is actively managing its administrative costs, inventory, bank indebtedness and long-term debt balances in order to comply with lenders covenants.

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 continued profitability and strong management of working capital and prioritization of capital expenditures. The Company continues to monitor its capital allocations in order to preserve capital during the current COVID-19 pandemic. 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 year ended March 31, 2020, the Company generated cash from operating activities, after changes in non-cash working capital items, of $31.5 million compared to $49.0 million in the prior year. Investing activities of $23.3 million in fiscal 2020 relate primarily to capital expenditures to improve operations and to implement the new ERP system.

Financing activities for the year ended March 31, 2020 of $8.2 million include $6.2 million for the repurchase of class A shares under its Normal Course Issuer Bid (see Common Shares Outstanding below), scheduled repayments of long-term debt, dividend payments, the principal repayment of lease obligations, and an increase in bank indebtedness.

Working capital as at March 31, 2020 was $83.7 million compared to $97.3 million at March 31, 2019. Shareholders' equity as at March 31, 2020 was $245.5 million or $5.63 per common share compared to $234.8 million or $5.31 per common share as at March 31, 2019. The increase in shareholders' equity was due to the net earnings in fiscal 2020, partially offset by the payment of dividends.

The following table outlines the Company's contractual obligations as at March 31, 2020:

(in $000)	< 1 Year	2 - 3 years	4 - 5 Years	> 5 Years	Total
Long-term debt	$ 11,615	$ 96,082	$ -	$ -	$ 107,697
Leases and royalties	4,957	8,737	5,645	16,961	36,300
Service agreements	483	3,958	1,496	-	5,937
Pension obligations	221	379	40	69	709
Grape and bulk wine purchase contracts	62,816	78,433	58,647	98,491	298,387
Packaging purchase contracts	31,299	21,472	2,271	-	55,042
	111,391	209,061	68,099	115,521	504,072
Interest rate swap	2,309	2,934	-	-	5,243
Foreign exchange forwards	10,070	-	-	-	10,070
Total contractual obligations	$ 123,770	$ 211,995	$ 68,099	$ 115,521	$ 519,385

The Company's obligations under its interest rate swaps and foreign exchange forward contracts are stated above on a gross basis rather than net of the corresponding contractual benefits.

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	**March 31, 2020**	March 31, 2019	March 31, 2018
Class A Shares	**35,403,767**	35,988,148	35,471,185
Class B Shares	**8,191,883**	8,198,994	8,702,095
Total	**43,595,650**	44,187,142	44,173,280

On November 8, 2019, the Company announced that it filed with the Toronto Stock Exchange ("TSX"), and the TSX has accepted, a notice of intention to make a Normal Course Issuer Bid ("NCIB") permitting the Company to purchase for cancellation up to 1,799,733 of its outstanding class A non-voting shares ("Class A Shares") over a 12-month period, representing 5% of the 35,994,667 Class A Shares outstanding as of the close of trading on November 7, 2019.

The total number of common shares repurchased for cancellation under the NCIB during the year ended March 31, 2020 amounted to 597,900 common shares, at a weighted average price of $10.44 per common share, for a total cash consideration of $6.3 million. For the year ended March 31, 2020, the Company's share capital was reduced by $0.5 million and the remaining $5.8 million was accounted for as a decrease in retained earnings. In order to preserve capital during the COVID-19 pandemic, the Company has suspended purchases on its NCIB.

Strategic Outlook and Direction

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

The Company has focused its product development and sales and marketing initiatives by capitalizing on 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.

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

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

Risks and Uncertainties

The Company's sales of wine and craft beverage alcohol products are affected by general economic conditions 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. The duration and impact of the COVID-19 outbreak is unknown at this time. The impact of the outbreak on the financial results of the Company will 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. If the overall economy is impacted for an extended period, the financial results of the Company may be materially adversely affected. Such general economic conditions could impact the Company's sales through duty-free export, restaurant, estate property and personal winemaking channels. The Company's suppliers may not have the materials, capacity or capability to supply components according to its schedule and specifications if the outbreak continues. This could delay the release or delivery of the Company's products or require management to make unexpected changes to such products which may materially affect the business, operating results and future compliance with the Company's financial covenants.

The outbreak may also have an effect on the future collectability of certain receivables, recoverability of property plant and equipment, goodwill and intangible assets, as well as fair value of derivatives. As the duration and impact of the COVID-19 outbreak or the efficacy of the Government and Bank of Canada interventions is not known at this time, it is not possible to reliably estimate the length and severity of these developments or quantify the impact this pandemic may have on the financial results and condition of the Company in future periods. 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 March 31, 2020, the Company had locked in $7.7 million in U.S. dollar contracts at rates ranging between $1.30 and $1.31 Canadian. These contracts expire at various dates through September 2020. Based on the Company's forecasts for foreign currency purchases and the amount of foreign exchange forward contracts outstanding at March 31, 2020, each one percent change in the U.S. dollar would impact the Company's net earnings by an estimated $0.2 million. Each one percent change in the Euro and the Australian dollar exchange rates would not result in a material impact on the Company's net earnings.

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

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

The wine industry and the domestic and international markets in which the Company operates are consolidating. This has resulted in fewer, but larger, competitors who have increased their resources and scale. The increased competition from these larger market participants may affect the Company's pricing strategies and create margin pressures resulting in potentially lower revenues. Competition also exerts pressure on existing customer relationships which may affect APL's ability to retain existing customers and increase the number of new customers. The Company has worked to improve production efficiencies, selectively increase pricing to increase gross margin, and implement a higher level of promotion and advertising activity to remain competitive. APL and other wine industry participants also generally compete with other alcoholic beverages for consumer acceptance, loyalty, and shelf space. 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) and Adjusted EBITA (EBITA before non-recurring expenses such as acquisition transaction and transition costs) to measure its financial performance. EBITA and Adjusted EBITA are not recognized measures under IFRS; however, management believes that EBITA and Adjusted EBITA are useful supplemental measures to net earnings as these measures provide readers with an indication of earnings available for investment prior to debt service, capital expenditures, and income taxes, as well as provide an indication of recurring earnings compared to prior periods.

The Company calculates EBITA and Adjusted EBITA as follows.

For the three months and years ended March 31,	Three Months		Year	
(in $000)	**2020**	2019	**2020**	2019
Net earnings (loss)	**$ (996)**	$ 84	**$ 23,494**	$ 21,958
Add: Interest	**1,839**	1,055	**8,107**	6,872
Provision for income taxes	**621**	234	**8,971**	8,533
Amortization of plant and equipment used in production	**2,882**	2,091	**10,057**	7,749
Amortization of equipment and intangibles used in selling and administration	**2,704**	1,253	**7,697**	5,021
Net unrealized loss (gain) on derivative financial instruments	**1,984**	1,168	**1,406**	1,679
Other expenses (income)	**634**	669	**1,769**	1,063
EBITA	**$ 9,668**	$ 6,554	**$ 61,501**	$ 52,875
Professional fees and COGS adjustments - acquisitions (FMV)	**256**	305	**1,732**	5,483
Acquisition transaction and transition costs	**-**	(311)	**-**	(71)
Adjusted EBITA	**$ 9,924**	$ 6,548	**$ 63,233**	$ 58,287

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

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

For the three months and years ended March 31,	Three Months		Year	
(in $000)	**2020**	2019	**2020**	2019
Sales	**$ 82,118**	$ 79,780	**$ 382,306**	$ 381,796
Less: Cost of goods sold, excluding amortization	**46,568**	48,470	**216,056**	222,788
Gross margin	**$ 35,550**	$ 31,310	**$ 166,250**	$ 159,008
Gross margin (% of sales)	**43.3%**	39.2%	**43.5%**	41.6%

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

For the three months and years ended March 31,	Three Months		Year	
(in $000)	**2020**	2019	**2020**	2019
Net earnings (loss)	**$ (996)**	$ 84	**$ 23,494**	$ 21,958
Net unrealized loss (gain) on derivative financial instruments	**1,984**	1,168	**1,406**	1,679
Other expenses (income)	**634**	669	**1,769**	1,063
Fair value adjustment for acquired inventory sold during the period	**256**	305	**1,732**	5,483
Acquisition transaction and transition costs	**-**	(311)	**-**	(71)
Income tax effect of the above	**(682)**	(438)	**(826)**	(704)
Adjusted earnings (loss)	**$ 1,196**	$ 1,477	**$ 27,575**	$ 29,408
Adjusted earnings (loss) per share – Class A	**$0.03**	$0.03	**$0.64**	$0.68
Adjusted earnings (loss) per share – Class B	**$0.03**	$0.03	**$0.56**	$0.59

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.

Transactions with Related Parties

The Company is controlled by Peller Family Enterprises Inc. (formerly, Jalger Limited), which owns 61.0% of the Company's Class B voting shares. No individual has sole voting power or control in respect of the shares of the Company owned by Peller Family Enterprises Inc.

The compensation expense recorded for directors and members of the Executive Management Team of the Company is shown below:

For the years ended March 31 (in $000)	**2020**	**2019**
Compensation and short-term benefits	**$ 4,374**	$ 4,336
Post-employment benefits	**266**	295
Stock based compensation expense	**1,613**	1,097
	$ 6,253	$ 5,728

The compensation and short-term benefits expense consist of amounts that will primarily be settled within twelve months.

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").

Critical Accounting Estimates
The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the consolidated financial statements, the reported amounts of revenues and expenses during the reporting periods and the extent of and the reported amounts in disclosures. Actual results may vary from current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the period in which they change. Specific areas of uncertainty include but are not limited to:

Impairment of goodwill and indefinite life intangible assets
Testing goodwill for impairment at least annually involves estimating the recoverable amount of the cash generating units (CGUs) to which goodwill is allocated. This requires making assumptions about future cash flows, growth rates and discount rates. Testing indefinite life intangible assets for impairment at least annually involves estimating the fair value using the relief of royalty method. This requires making assumptions about royalty rates, growth rates and discount rates. These assumptions are inherently uncertain and as such, actual amounts may vary from these assumptions and cause significant adjustments.

Post-employment benefits
Measuring the liability for post-employment benefits requires assumptions for the discount rates, increases in compensation, increases in medical costs and the timing of the payment of benefits. Actual amounts may vary from these assumptions and cause significant adjustments.

Fair value of grapes at the point of harvest
Where possible, the fair value of grapes at the point of harvest is determined by reference to local market prices for grapes of a similar quality and same varietal. For grapes for which local market prices are not readily available, the average price of similar grapes is used. Actual amounts may vary from these assumptions and cause significant adjustments.

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

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

Recently adopted accounting pronouncements

IFRS 16, Leases
The IASB issued IFRS 16, Leases, which replaces IAS 17, Leases and Related Interpretations. On April 1, 2019, the Company adopted the new accounting standard using the modified retrospective method and therefore, comparative figures have not been restated, as permitted under the specific transitional provisions in the standard. Under this method,

the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized in operating retained earnings at April 1, 2019.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessment on whether leases are onerous;
- The accounting for operating leases with a remaining lease term of less than 12 months as at April 1, 2019 as short term leases;
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Company relied on its assessment made applying IAS 17 and IFRIC 4, Determining whether an Arrangement Contains a Lease.

The Company leases various vineyards, retail stores, offices, warehouses, equipment and vehicles. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Where the Company is a lessee, IFRS 16 resulted in recognition of most of its leases that were considered operating leases under IAS 17. This resulted in recognition of a right-of-use asset and a lease liability for the present value of the remaining future lease payments, discounted using the incremental borrowing rate at the date of initial application. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on April 1, 2019 was 5.01%.

Depreciation expense on the right-of-use asset and interest expense on the lease liability replaced the previously recognized operating lease expense. The impact of adopting this standard on the consolidated statement of cash flow is to present the principle repayment on lease obligations in financing activities under IFRS 16, whereas previously payments for operating leases were presented in operating activities.

The adoption of this standard resulted in the recognition of right-of-use assets, in property, plant and equipment and lease liabilities amounting to $17,658 as of April 1, 2019.

The expense related to leases with variable consideration, short term leases and low value leases amounted to $2,354 for year ended March 31, 2020. The total cash outflows relating to leases during the year were $6,213.

Some property leases contain variable payment terms that are linked to sales generated from a store. For individual stores, up to 100% of lease payments are on the basis of variable payment terms. Variable lease payments are recognized in the consolidated statement of earnings in the period in which the condition that triggers those payments occurs. A 5% increase in sales across all stores with such variable lease contracts would not result in a material change to the total lease payments.

IAS 19, Employee Benefits

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

IAS 9, Financial Instruments
IFRS 9, Financial Instruments 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 adoption of these amendments did not have a material impact on the consolidated financial statements.

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

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

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

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. The amendments are 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.

Evaluation of Disclosure Controls and Procedures and Internal Control over Financial Reporting
Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information required to be disclosed by the Company in reports filed with or submitted to various securities regulators are recorded, processed, summarized and reported within the time periods specified. This information is gathered and reported to the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") on a timely basis so that decisions can be made regarding the Company disclosures to the public.

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". As at June 10, 2020, the CEO and CFO of the Company have evaluated the effectiveness of the disclosure controls and procedures. Based on these evaluations, the CEO and CFO have concluded that the controls and procedures were operating effectively.

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

Designing, establishing and maintain adequate internal controls over financial reporting is the responsibility of management. Internal controls over financial reporting is a process designed by, or under the supervision of senior management and effected by the Board of Directors to provide reasonable assurance regarding the reliability of financial reporting and preparation of the Company's financial statements in accordance with IFRS.

For the year ended March 31, 2020, 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. As at June 10, 2020, the CEO and CFO of the Company have evaluated the effectiveness of the Company's internal controls over financial reporting. Based on these evaluations, the CEO and CFO have concluded that the controls and procedures were operating effectively.