

Andrew Peller Limited

Condensed Interim Consolidated Financial Statements

June 30, 2018

ANDREW PELLER LIMITED
Condensed Consolidated Balance Sheets

Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)	June 30 2018 \$	March 31 2018 \$
Assets		
Current Assets		
Accounts receivable	29,888	31,406
Inventory	153,306	160,154
Biological assets	4,215	1,901
Prepaid expenses and other assets	4,137	4,401
Current portion of derivative financial instruments (note 7)	145	152
	<u>191,691</u>	<u>198,014</u>
Property, plant, and equipment	191,506	188,191
Intangible assets	17,441	17,733
Goodwill	53,638	53,638
Derivative financial instruments	405	204
	<u>454,681</u>	<u>457,780</u>
Liabilities		
Current Liabilities		
Bank indebtedness	41,544	47,324
Accounts payable and accrued liabilities	31,432	33,404
Dividends payable	2,211	1,935
Income taxes payable	3,600	2,775
Current portion of derivative financial instruments (note 7)	-	24
Current portion of long-term debt	8,938	8,135
	<u>87,725</u>	<u>93,597</u>
Long-term debt	113,921	116,257
Post-employment benefit obligations	4,356	5,140
Deferred income taxes	22,461	22,540
	<u>228,463</u>	<u>237,534</u>
Shareholders' Equity		
Capital stock	26,097	26,097
Contributed surplus	1,872	1,673
Retained earnings	202,050	196,713
Accumulated other comprehensive loss	(3,801)	(4,237)
	<u>226,218</u>	<u>220,246</u>
	<u>454,681</u>	<u>457,780</u>

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

ANDREW PELLER LIMITED
Condensed Consolidated Statements of Earnings
Unaudited

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	For the three months ended June 30, 2018	For the three months ended June 30, 2017
(in thousands of Canadian dollars)	\$	\$
Sales	95,541	88,640
Cost of goods sold (note 4)	54,260	53,036
Amortization of plant and equipment used in production	1,840	1,672
Gross profit	<u>39,441</u>	<u>33,932</u>
Selling and administration (note 4)	25,473	21,146
Amortization of plant, equipment, and intangibles used in selling and administration	1,390	810
Interest	1,954	783
Net unrealized gains on derivative financial instruments (note 7)	(218)	(66)
Other expense	275	145
Earnings before income taxes	<u>10,567</u>	<u>11,114</u>
Provision for (recovery of) income taxes		
Current	3,252	2,933
Deferred	(233)	(10)
	<u>3,019</u>	<u>2,923</u>
Net earnings for the period	7,548	8,191
Net earnings per share		
Basic		
Class A shares	0.18	0.20
Class B shares	<u>0.15</u>	<u>0.17</u>
Diluted		
Class A shares	0.18	0.20
Class B shares	<u>0.15</u>	<u>0.17</u>

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ANDREW PELLER LIMITED

Condensed Consolidated Statements of Comprehensive Income

Unaudited

These financial statements have not been reviewed by our auditors

For the three months ended June 30, 2018

For the three months ended June 30, 2017

(in thousands of Canadian dollars)

	June 30, 2018	June 30, 2017
	\$	\$
Net earnings for the period	7,548	8,191
Items that are never reclassified to net earnings		
Net actuarial gains (losses) on post-employment benefit plans	590	(1,399)
Deferred income taxes	(154)	364
Other comprehensive income (loss) for the year	436	(1,035)
Net comprehensive income for the period	7,984	7,156

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ANDREW PELLER LIMITED
Condensed Consolidated Statements of Changes in Equity
For the three months ended June 30, 2018 and 2017

Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)

	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
	\$	\$	\$	\$	\$
Balance at April 1, 2017	6,967	-	174,193	(3,843)	177,317
Net earnings for the period	-	-	8,191	-	8,191
Net actuarial losses (net of deferred tax recovery)	-	-	-	(1,035)	(1,035)
Net comprehensive income for the period	-	-	8,191	(1,035)	7,156
Dividends (Class A \$0.0450 per share, Class B \$0.0391 per share)	-	-	(1,864)	-	(1,864)
Balance at June 30, 2017	6,967	-	180,520	(4,878)	182,609
Balance at April 1, 2018	26,097	1,673	196,713	(4,237)	220,246
Net earnings for the period	-	-	7,548	-	7,548
Net actuarial gains (net of deferred tax provision)	-	-	-	436	436
Net comprehensive income for the period	-	-	7,548	436	7,984
Share-based compensation (note 8)	-	199	-	-	199
Dividends (Class A \$0.0513 per share, Class B \$0.0446 per share)	-	-	(2,211)	-	(2,211)
Balance at June 30, 2018	26,097	1,872	202,050	(3,801)	226,218

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

ANDREW PELLER LIMITED

Condensed Consolidated Statements of Cash Flows

Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)	For the three months ended June 30, 2018 \$	For the three months ended June 30, 2017 \$
Cash provided by (used in)		
Operating activities		
Net earnings for the period	7,548	8,191
Adjustments for:		
Loss on disposal of property and equipment	-	32
Amortization of plant, equipment, and intangible assets	3,230	2,482
Interest expense	1,954	783
Provision for income taxes	3,019	2,923
Post-employment benefits	(194)	(190)
Net unrealized gain on derivative financial instruments	(218)	(66)
Share-based compensation	199	-
Interest paid	(1,861)	(726)
Income taxes paid	(2,427)	(4,004)
	<u>11,250</u>	<u>9,425</u>
Changes in non-cash working capital items related to operations (note 5)	<u>4,708</u>	<u>(1,212)</u>
	<u>15,958</u>	<u>8,213</u>
Investing activities		
Purchase of property, plant and equipment	(6,548)	(5,479)
Purchase of intangibles	(89)	(12)
	<u>(6,637)</u>	<u>(5,491)</u>
Financing activities		
Increase (decrease) in bank indebtedness	(5,780)	43
Repayment of long-term debt	(1,606)	(1,075)
Dividends paid	(1,935)	(1,690)
	<u>(9,321)</u>	<u>(2,722)</u>
Increase (decrease) in cash during the period	-	-
Cash, beginning of period	-	-
Cash, end of period	-	-

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Andrew Peller Limited
Notes to the Condensed Interim Consolidated Financial Statements
Unaudited
June 30, 2018 and June 30, 2017
(in thousands of Canadian dollars, except per share amounts)

1 Nature of operations

Andrew Peller Limited (the “Company”) produces and markets wine, spirits and wine related products. The Company’s products are produced and sold predominantly in Canada. The Company is incorporated under the Canada Business Corporations Act and is domiciled in Canada. The address of its head office is 697 South Service Road, Grimsby, Ontario, L3M 4E8.

2 Significant accounting policies

(A) Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of condensed interim financial statements, including International Accounting Standard (“IAS”) 34 – Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the years ended March 31, 2018 and 2017, which have been prepared in accordance with IFRS as issued by the IASB.

The note disclosures for these condensed interim consolidated financial statements only present material changes to the disclosure found in the Company’s audited consolidated financial statements for the years ended March 31, 2018 and 2017. Changes to the Company’s accounting policies from those disclosed in its consolidated financial statements for the years ended March 31, 2018 and March 31, 2017 are described in note 2 (B), recently adopted accounting pronouncements.

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency and dollar amounts have been rounded to the nearest thousand, except per share amounts.

These condensed interim consolidated financial statements were approved by the Board of Directors on August 8, 2018.

(B) Recently adopted accounting pronouncements

IFRS 9, Financial Instruments

In July 2014, the IASB issued an amended IFRS 9, Financial Instruments - Classification and Measurement of Financial Assets and Financial Liabilities. IFRS 9 replaces IAS 39, Financial Instruments - Recognition and Measurement. In addition, IFRS 7, Financial Instruments - Disclosures is amended to include additional disclosure requirements on transition to IFRS 9. The amendments were effective for annual periods beginning on or after January 1, 2018. The standard uses a single approach based on how an entity manages its financial instruments to determine whether a financial asset is measured at amortized cost or fair value and requires a single impairment method to be used. The standard requires that for financial liabilities measured at fair value, any changes in an entity’s own credit risk are generally to be presented in other comprehensive income instead of net earnings. A new hedge accounting model is included in the standard, as well as increased disclosure requirements about risk management activities for entities that apply hedge accounting. The new requirements were adopted effective April 1, 2018. The adoption of these amendments did not have a significant impact on the condensed interim consolidated financial statements.

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IFRS 15, Revenue from Contracts with Customers

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

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

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

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

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

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

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

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

(C) Recently issued accounting pronouncements

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases and related Interpretations. The new standard will be effective for fiscal years beginning on or after January 1, 2019, with early adoption permitted provided the Company has adopted IFRS 15, Revenue from Contracts with

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Customers. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a “right-of-use asset” for virtually all lease contracts, and record it on the statement of financial position, except with respect to lease contracts that meet limited exception criteria. Given that the Company has significant contractual obligations in the form of operating leases under IAS 17, there will be a material increase to both assets and liabilities on adoption of IFRS 16, and material changes to the timing of recognition of expenses associated with the lease arrangements. The Company is analyzing the new standard to determine the impact of adopting this standard.

Amendments to IAS 19, Employee Benefits

This standard has been amended to modify the guidance in connection with defined benefit plans and accounting for plan amendments, settlements, or curtailments. The amendments are effective for annual periods beginning on or after January 1, 2019. The Company has not yet assessed the impact of the amendments on the consolidated financial statements.

Amendments to IFRS 9, Financial Instruments

This standard has been amended to enable companies to measure at amortized cost some prepayable financial assets with negative compensation. The assets affected, that include some loans and debt securities, would otherwise have been measured at fair value through profit or loss. Financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation, may be measured at amortized cost or at fair value through other comprehensive income when eligibility conditions are met. The amendment to IFRS 9 also clarifies how to account for the modification of a financial liability. Most modifications of financial liabilities will result in immediate recognition of a gain or loss. The amendment is effective for annual periods beginning on or after January 1, 2019. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

3 Seasonality

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

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4 Expenses

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

	For the three months ended June 30, 2018	For the three months ended June 30, 2017
Raw materials and consumables	\$ 43,531	\$ 43,475
Employee compensation and benefits	18,385	15,874
Advertising, promotion and distribution	7,751	6,379
Occupancy	3,032	2,574
Repairs and maintenance	1,527	1,339
Other external charges	5,507	4,541
	<hr/> \$ 79,733	<hr/> \$ 74,182

5 Non-cash working capital items

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

	For the three months ended June 30, 2018	For the three months ended June 30, 2017
Accounts receivable	\$ 1,518	\$ (4,149)
Inventory	6,848	6,277
Biological assets	(2,314)	(1,770)
Prepaid expenses and other assets	264	425
Accounts payable and accrued liabilities	(1,608)	(1,995)
	<hr/> \$ 4,708	<hr/> \$ (1,212)

6 Related parties and management compensation

The compensation expense recorded for directors and members of the Executive Management Team of the Company was \$1,508 (2017 - \$1,495) for the three months ended June 30, 2018. The compensation expense consists of amounts that will primarily be settled within twelve months of being earned.

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7 Financial instruments

Fair value

The fair value of accounts receivable, accounts payable and accrued liabilities and dividends payable approximates their carrying values because of the short-term maturity of these instruments.

The fair value of bank indebtedness and long-term debt is equivalent to its carrying value because the variable interest rate is comparable to market rates. The fair value of the interest rate swaps used to fix the interest rate on long-term debt is included in the current and long-term derivative financial instruments in the condensed consolidated balance sheets.

The fair value of foreign exchange forward contracts is determined based on the difference between the contract rate and the forward rate at the date of valuation and is included in the current portion of derivative financial instruments in the condensed consolidated balance sheets.

The fair value of interest rate swaps is determined based on the difference between the fixed interest rate in the contract that will be paid by the Company and the forward curve of the floating interest rates that are expected to be paid by the counterparty. The fair values of foreign exchange forward contracts and the interest rate swaps are adjusted to reflect any changes in the Company's or the counterparty's credit risk.

Fair value estimates are made at a specific point in time, using available information about the instrument. These estimates are subjective in nature and often cannot be determined with precision.

The net unrealized gains on derivative financial instruments are comprised of:

	For the three months ended June 30, 2018	For the three months ended June 30, 2017
Unrealized (gains) losses on interest rate swaps	\$ (284)	\$ 382
Unrealized losses (gains) on foreign exchange forward contracts	66	(448)
	<u>\$ (218)</u>	<u>\$ (66)</u>

The fair value measurements of the Company's financial instruments are classified in the hierarchy below according to the significance of the inputs used in making the fair value measurements.

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	June 30, 2018		
	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)
Interest rate swap asset	\$ -	\$ 464	\$ -
Foreign exchange forward contracts asset	-	86	-

	March 31, 2018		
	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)
Interest rate swap asset	\$ -	\$ 180	\$ -
Foreign exchange forward contracts asset	-	152	-

There were no transfers of financial instruments between levels during the quarter.

8 Share based compensation

On September 13, 2017, the Company established a new share based compensation plan comprised of stock options, performance share units (PSUs) and deferred share units (DSUs). The impact of the share based compensation expense recorded for the three months ended June 30, 2018 is summarized as follows:

	For the three months ended June 30, 2018
241,600 stock options (March 31, 2018 – 241,600) (a)	\$ 125
72,750 performance share units (March 31, 2018 – 72,750) (b)	74
69,559 deferred share units (March 31, 2018 – 69,559) (c)	-
	\$ 199

The stock options, PSUs and DSUs are equity settled and as such, the expense associated with these instruments is recorded as share based compensation expense through the condensed consolidated statements of earnings with a corresponding entry made to contributed surplus on the condensed consolidated balance sheets.

The maximum number of shares that may be issued under all share based compensation arrangements implemented by the Company, including the stock option plan, the PSU plan and the DSU plan, may not exceed 10% of the total number of Class A non-voting common shares issued and outstanding from time to time. As at June 30, 2018, the Company had 3,358,149 Class A non-voting common shares reserved for issuance under the share based compensation arrangements.

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a) Stock options

The Company has a stock option plan under which options to purchase Class A non-voting common shares may be granted to officers and employees of the Company. Options granted under the plan have an exercise price of not less than the volume weighted average trading price of the Class A non-voting common shares where they are listed for the five trading days prior to the date of the grant. Options granted vest in tranches, equally over a three-year period on each anniversary of the grant date, commencing on the first anniversary of the grant date.

The Company has 241,600 stock options outstanding with a weighted average exercise price per share of \$11.74. No stock options have been granted during the three month period ended June 30, 2018. No stock options granted under the share based compensation plan have vested or been exercised as at June 30, 2018.

b) PSU plan

The Company has established a PSU plan for employees and officers of the Company. PSUs represent the right to receive Class A non-voting common shares settled by the issuance of treasury shares or shares purchased on the open market. PSUs vest in full at the end of the third fiscal year after the grant date. The number of units that will vest is determined based on the achievement of certain performance conditions (i.e. financial targets) established by the Board of Directors and are adjusted by a factor, which ranges from 0.5 to 2.0, depending on the achievement of the targets established. Therefore, the number of units that will vest and are exchanged for Class A non-voting common shares may be higher or lower than the number of units originally granted to a participant.

The Company has 72,750 PSUs outstanding with a grant date fair value per unit of \$11.74. No PSUs have been granted during the three month period ended June 30, 2018. No PSUs granted under the share based compensation plan have vested or been exercised as at June 30, 2018.

c) DSU plan

The Company has established a DSU plan for employees, officers and Directors of the Company. DSUs represent the right to receive Class A non-voting common shares settled by the issuance of treasury shares or shares purchased on the open market. DSUs vest immediately but are only exercisable when the participant's employment with the Company ceases, or when the participant is no longer a Director of the Company.

The Company has 69,559 DSUs outstanding with a grant date fair value per unit of \$18.25. No DSUs have been granted during the three month period ended June 30, 2018. No DSUs granted under the share based compensation plan have been exercised as at June 30, 2018.