Andrew Peller Limited

Condensed Interim Consolidated Financial Statements

June 30, 2017

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 2017 $	March 31 2017 $
Assets		
Current Assets		
Accounts receivable	**31,122**	26,973
Inventory	**122,811**	129,088
Biological assets	**3,170**	1,400
Prepaid expenses and other assets	**2,681**	3,106
	159,784	160,567
Property, plant, and equipment	**120,922**	118,838
Intangibles	**10,297**	10,600
Goodwill	**37,473**	37,473
	328,476	327,478
Liabilities		
Current Liabilities		
Bank indebtedness	**36,663**	36,620
Accounts payable and accrued liabilities	**33,096**	36,260
Dividends payable	**1,864**	1,690
Income taxes payable	**1,277**	2,348
Current portion of derivative financial instruments (note 7)	**801**	418
Current portion of long-term debt	**4,406**	4,406
	78,107	81,742
Long-term debt	**45,625**	46,678
Long-term derivative financial instruments (note 7)	**201**	642
Post-employment benefit obligations	**6,488**	5,279
Deferred income taxes	**15,446**	15,820
	145,867	150,161
Shareholders' Equity		
Capital stock	**6,967**	6,967
Retained earnings	**180,520**	174,193
Accumulated other comprehensive loss	**(4,878)**	(3,843)
	182,609	177,317
	328,476	327,478

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

ANDREW PELLER LIMITED

Condensed Consolidated Statements of Earnings

Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)	For the three months ended June 30, 2017 $	For the three months ended June 30, 2016 $
Sales	**88,640**	87,906
Cost of goods sold (note 4)	**53,036**	53,763
Amortization of plant and equipment used in production	**1,672**	1,586
Gross profit	**33,932**	32,557
Selling and administration (note 4)	**21,146**	19,340
Amortization of plant, equipment, and intangibles used in selling and administration	**810**	830
Interest	**783**	783
Net unrealized gains on derivative financial instruments (note 7)	**(66)**	(47)
Other expense	**145**	27
Earnings before income taxes	**11,114**	11,624
Provision for (recovery of) income taxes		
Current	**2,933**	3,009
Deferred	**(10)**	42
	2,923	3,051
Net earnings for the period	**8,191**	8,573
Net earnings per share		
Basic and diluted		
Class A shares	**0.20**	0.21
Class B shares	**0.17**	0.18

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ANDREW PELLER LIMITED

Condensed Consolidated Statements of Comprehensive Income

Unaudited

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(in thousands of Canadian dollars)	For the three months ended June 30, 2017 $	For the three months ended June 30, 2016 $
Net earnings for the period	**8,191**	8,573
Items that are never reclassified to net earnings		
Net actuarial losses on post-employment benefit plans	**(1,399)**	(1,423)
Deferred income taxes	**364**	370
Other comprehensive loss for the year	**(1,035)**	(1,053)
Net comprehensive income for the period	**7,156**	7,520

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ANDREW PELLER LIMITED

Condensed Consolidated Statements of Changes in Equity

For the three months ended June 30, 2017 and 2016

Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)

	Capital stock $	Retained earnings $	Accumulated other comprehensive loss	Total shareholders' equity $
Balance at April 1, 2016	6,967	154,605	(3,836)	157,736
Net earnings for the period	-	8,573	-	8,573
Net actuarial losses (net of deferred tax recovery)	-	-	(1,053)	(1,053)
Net comprehensive income for the period	-	8,573	(1,053)	7,520
Dividends (Class A $0.0408 per share, Class B $0.0355 per share)	-	(1,691)	-	(1,691)
Balance at June 30, 2016	6,967	161,487	(4,889)	163,565
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

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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, 2017 $	For the three months ended June 30, 2016 $
Cash provided by (used in)		
Operating activities		
Net earnings for the period	**8,191**	8,573
Adjustments for:		
Loss on disposal of property and equipment	**32**	-
Amortization of plant, equipment, and intangible assets	**2,482**	2,416
Interest expense	**783**	783
Provision for income taxes	**2,923**	3,051
Post-employment benefits	**(190)**	(183)
Deferred income	**-**	(102)
Net unrealized gain on derivative financial instruments	**(66)**	(47)
Interest paid	**(726)**	(742)
Income taxes paid	**(4,004)**	(3,275)
	9,425	10,474
Changes in non-cash working capital items related to operations (note 5)	**(1,212)**	(2,914)
	8,213	7,560
Investing activities		
Purchase of property, plant and equipment	**(5,479)**	(5,935)
Purchase of intangibles	**(12)**	-
	(5,491)	(5,935)
Financing activities		
Increase in bank indebtedness	**43**	928
Repayment of long-term debt	**(1,075)**	(1,000)
Dividends paid	**(1,690)**	(1,553)
	(2,722)	(1,625)
Increase (decrease) in cash during the period	**-**	-
Cash, beginning of period	**-**	-
Cash, end of period	-	-

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

1 Nature of operations

Andrew Peller Limited (the "Company") produces and markets wine 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, 2017 and 2016, 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, 2017 and 2016. Changes to the Company's accounting policies from those disclosed in its consolidated financial statements for the years ended March 31, 2017 and March 31, 2016 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 9, 2017.

(B) Recently adopted accounting pronouncements

In January 2016, the IASB issued an amendment to IAS 7 – Statement of Cash Flows, introducing additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments were effective for annual periods beginning on or after January 1, 2017. The new requirements were adopted effective April 1, 2017. The adoption of these amendments did not have a significant impact on the consolidated financial statements.

In January 2016, the IASB issued amendments to IAS 12 – Income Taxes to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. The amendments were effective for annual periods beginning on or after January 1, 2017. The new requirements were adopted effective April 1, 2017. The adoption of these amendments did not have a significant impact on the consolidated financial statements.

(C) Recently issued accounting pronouncements

During July 2014, the IASB issued the complete version of IFRS 9, Financial Instruments - Classification and Measurement of Financial Assets and Financial Liabilities. IFRS 9 will replace IAS 39, Financial Instruments - Recognition and Measurement. In addition, IFRS 7, Financial Instruments - Disclosures was amended to include additional disclosure requirements on transition to IFRS 9. The mandatory effective date of applying these standards is for annual periods beginning on or after January 1, 2018. The standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also 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 Company is currently evaluating the potential impact of this standard; however, it is not expected to have a significant impact on the consolidated financial statements.

During May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which supersedes IAS 18, Revenue, and IAS 11, Construction Contracts. The standard details a revised model for the recognition of revenue from contracts with customers. In April 2016, the IASB has amended IFRS 15 to clarify the guidance on identifying performance obligations, licenses of intellectual property and principal versus agent. The amendments also provide additional practical expedients on transition. The standard is effective for first interim periods within annual periods beginning on or after January 1, 2018. The Company is currently in the process of evaluating the potential impact this new guidance will have on the Company's consolidated financial statements. The Company has not completed this evaluation and therefore, cannot conclude whether the guidance will have a significant impact on the consolidated financial statements at this time. However, based on preliminary work completed, the Company is considering the implications the new standard may have on its agency wine businesses, presentation of certain customer related trade spending, as well as the timing of recognition of certain promotional discounts, which are areas that could potentially be impacted by the adoption of the new guidance.

In January 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases and related Interpretations. The new standard will be effective for fiscal years beginning on or after January 1, 2019, with early adoption permitted provided the Company has adopted IFRS 15, Revenue from Contracts with Customers. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all leases 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.

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.

(in thousands of Canadian dollars, except per share amounts)

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, 2017	For the three months ended June 30, 2016
Raw materials and consumables	$ 43,475	$ 44,423
Employee compensation and benefits	15,874	14,988
Advertising, promotion and distribution	6,379	5,436
Occupancy	2,574	2,763
Repairs and maintenance	1,339	1,339
Other external charges	4,541	4,154
	$ 74,182	$ 73,103

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, 2017	For the three months ended June 30, 2016
Accounts receivable	$ (4,149)	$ (3,661)
Inventory	6,277	4,762
Biological assets	(1,770)	(1,926)
Prepaid expenses and other assets	425	210
Accounts payable and accrued liabilities	(1,995)	(2,299)
	$ (1,212)	$ (2,914)

6 Related parties and management compensation

The compensation expense recorded for directors and members of the Executive Management Team of the Company was $1,495 (2016 - $1,460) for the three months ended June 30, 2017. The compensation expense consists of amounts that will primarily be settled within twelve months of being earned.

(in thousands of Canadian dollars, except per share amounts)

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 accounts payable and accrued liabilities 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 value 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 losses (gains) on derivative financial instruments are comprised of:

	For the three months ended June 30, 2017	For the three months ended June 30, 2016
Unrealized losses on foreign exchange forward contracts	$ 382	$ 91
Unrealized gains on interest rate swaps	(448)	(138)
	$ (66)	$ (47)

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.

			June 30, 2017
Asset/liability	**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 liability	$ -	$ 612	$ -
Foreign exchange forward contracts liability	-	390	-

			March 31, 2017
Asset/liability	**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 liability	$ -	$ 1,060	$ -
Foreign exchange forward contracts liability	-	8	-

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