

ANDREW PELLER

— LIMITED —

MANAGEMENT'S DISCUSSION & ANALYSIS For the three and six months ended September 30, 2021

The following management's discussion and analysis ("MD&A") provides a review of corporate developments, results of operations, and financial position for the three and six months ended September 30, 2021 in comparison with those for the three and six months ended September 30, 2020 for Andrew Peller Limited (the "Company" or "APL"). This discussion is prepared as of November 10, 2021 and should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes contained therein for the period ended September 30, 2021 and 2020. Additional information relating to the Company, including the audited annual consolidated financial statements and Annual Information Form for the years ended March 31, 2021 and March 31, 2020, is available on www.sedar.com. The financial years ending March 31, 2022 and March 31, 2021 are referred to as "fiscal 2022" and "fiscal 2021" respectively. All dollar amounts are expressed in Canadian dollars unless otherwise indicated.

FORWARD-LOOKING INFORMATION

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

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

Overview

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

Company imports wines from major wine regions around the world to blend with domestic wine to craft these quality and value priced brands. The Company also produces craft beverage alcohol products, including *No Boats on Sunday* ciders and seltzers, and various beer, spirits and cream whisky products under the *Wayne Gretzky No. 99* brand. With a focus on serving the needs of all wine consumers, the Company produces and markets premium personal winemaking products through its wholly-owned subsidiary, Global Vintners Inc. (“GVI”), the recognized leader in personal winemaking products. GVI distributes products through over 200 authorized retailers and more than 400 independent retailers across Canada, with additional distributors in the United States, the United Kingdom, New Zealand, Australia, and China. GVI’s award-winning premium and ultra-premium winemaking brands include *Winexpert*, *Vine Co.*, *Apres*, *LE*, *Passport Series*, *On the House*, *Wild Grapes*, *DIY My Wine Co.*, *Island Mist* and *Niagara Mist*. The Company owns and operates 101 well-positioned independent retail locations in Ontario under The Wine Shop, Wine Country Vintners, and Wine Country Merchants store names. The Company also operates Andrew Peller Import Agency and The Small Winemaker’s Collection Inc., importers and marketing agents for premium wines from around the world.

The Company’s vision is to *Pour Extraordinary into Everyday Life*. The Company believes it achieves this objective by delivering to its customers and consumers the highest quality branded wines, spirits, refreshments, beer and experiences at the best possible value. To meet this goal, the Company invests in improvements in the quality of grapes, wines, and other raw materials, its winemaking and distillation capabilities, sales and marketing initiatives, tourism and hospitality experiences, and its quality management programs.

The Company is focused on initiatives to reduce costs and enhance its production efficiencies through a continual review of its operations and cost structure with a view to enhancing profitability. The Company continues to expand and strengthen its distribution through provincial liquor boards, Ontario independent retail locations, grocery outlets and e-commerce platform under The Wine Shop, Wine Country Vintners, and Wine Country Merchants store names, estate wineries, restaurants, and other licensed establishments. This distribution network is supported by enhanced sales, marketing, and promotional programs. From time to time the Company also evaluates the potential for acquisitions and partnerships, both in Canada and internationally, to further complement its product portfolio and market presence.

Recent Events

On September 28, 2021, the Company completed the sale of its Port Coquitlam, British Columbia property and related assets for total proceeds of approximately \$8.8 million, net of transaction costs, and generated a realized gain on sale of \$7.5 million or \$0.21 per Class A share.

On June 16, 2021, the Company’s Board of Directors approved a 10% increase in common share dividends. The annual dividend on Class A Shares was increased to \$0.246 per share and the dividend on Class B Shares was increased to \$0.214. The Company has consistently paid common share dividends since 1979. APL currently designates all dividends paid as “eligible dividends” for purposes of the Income Tax Act (Canada) unless indicated otherwise.

On March 4, 2021, the Company announced its notice of intention to make a normal course issuer bid had been approved by the Toronto Stock Exchange. Under the issuer bid the Company can purchase for cancellation up to 1,773,896 of its outstanding Class A non-voting shares, representing 5% of the Class A shares outstanding at the time, over the ensuing twelve months. As of November 10, 2021, the Company purchased 598,600 Class A non-voting common shares, at a weighted average price of \$8.70 per Class A non-voting common share, for a total cash consideration of \$5.2 million.

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

On July 27, 2020, it was announced that the Government of Canada has agreed to repeal the federal excise duty exemption of 100% Canadian wine by September 30, 2022 due to a World Trade Organization challenge put forward by Australia against Canadian wine measures. In its 2021 budget, the federal government announced an enhancement program for Canadian wine growers that is intended to mitigate the impact of the loss of the federal excise duty exemption. The enhancement program is effective July 1, 2022. The Company will continue to work with the federal

government to review the terms of the enhancement program to determine the impact on the Company's financial condition and results of operations.

The COVID-19 pandemic has continued to impact the financial results of the Company as government-mandated closures of restaurants and hospitality businesses and restricted international travel remained in place for part of the six-month period ended September 30, 2021. The pandemic has also continued to impact consumer purchasing patterns resulting in fluctuations in the Company's quarterly results. Uncertainty resulting from the ongoing pandemic will continue to depend on future developments, including the duration of the pandemic and its impact on the overall economy and related advisories and restrictions.

Results of Operations

For the six months ended September 30, (in \$000, except per share amounts)	2021	2020
Sales	\$ 191,621	\$ 202,850
Gross margin	79,669	86,892
Gross margin (% of sales)	41.6%	42.8%
Selling and administrative expenses	51,935	41,884
EBITA	27,734	45,008
Interest	4,751	3,852
Net unrealized (gain) loss on derivative financial instruments	(1,425)	191
Gain on sale of land and property	(7,518)	-
Other expenses	367	881
Adjusted earnings	9,056	24,971
Net earnings	16,380	23,876
Earnings per share – Class A basic	\$0.39	\$0.56
Earnings per share – Class B basic	\$0.34	\$0.49
Dividend per share – Class A (annual)	\$0.246	\$0.215
Dividend per share – Class B (annual)	\$0.214	\$0.187

Sales for the six months ended September 30, 2021 were \$191.6 million, down 5.5% from the prior year. When the pandemic was announced, the Company saw an increase in sales through the first six months of fiscal 2021 as a result of changes in consumer purchasing patterns and uncertainty around trade channels for alcoholic beverages remaining open. Additionally, provincial liquor stores in Ontario were closed on Mondays for the majority of fiscal 2021, resulting in an increase in sales at our retail locations. As the pandemic eases, sales in these channels have normalized when compared to prior year. Government-mandated closures of restaurants and hospitality businesses were lifted in June 2021 with restrictions on capacity remaining in place throughout the six month period ended September 30, 2021. As a result, the recovery in the restaurant and hospitality industries has lagged when compared to the retail industry. The Company expect sales in these previously closed channels to gradually increase in the quarters ahead as consumers return to pre-pandemic activities.

The Company defines gross margin as gross profit excluding amortization. Gross margin as a percentage of sales was 41.6% for the six months ended September 30, 2021 compared to 42.8% in the prior year. Gross margin has declined in fiscal 2022 due to higher imported wine costs, increased global supply chain costs due to the COVID-19 pandemic, and increased co-packing costs related to the Company's new and growing refreshment beverage categories. Gross margin, however, has improved sequentially on a quarterly basis to 42.7% in the second quarter of fiscal 2022, up from 40.3% in the first quarter of fiscal 2022, and 35.5% and 37.4% in the fourth and third quarters of fiscal 2021, respectively, due to increasing sales of higher margin products in the current quarter as pandemic restrictions ease.

Selling and administrative expenses increased for the first six months of fiscal 2022 as the Company increased staffing and marketing expenses in preparation for more normal markets returning as the impact of the COVID-19 pandemic

eases. During the first six months of fiscal 2021, the Company laid off a significant part of its workforce due to government-mandated closures and reduced advertising and promotional spending to conserve cash in response to the pandemic. In addition, certain start-up costs have been incurred in fiscal 2022 related to the acquisition of the Riverbend Inn and Vineyard, which opened on June 19, 2021. As a percentage of sales, selling and administrative expenses were 27.1% through the first six months of fiscal 2022 compared to 20.6% in the prior year. As the pandemic eases and activity in the hospitality, licensee and export channels increases, the Company expects selling and administrative expenses will trend to pre-pandemic levels as a percentage of sales.

Earnings before interest, amortization, gain on sale of land and property, net unrealized gains and losses on derivative financial instruments and deferred financing fees, other (income) expenses, and income taxes (“EBITA”) were \$27.7 million for the six months ended September 30, 2021 compared to \$45.0 million in the prior year. The decline in EBITA in fiscal 2022 is due primarily to the lower sales, reduced gross margin and higher administrative and selling expenses compared to the prior year.

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

The Company recorded a net unrealized non-cash gain in the first six months of fiscal 2022 of \$1.4 million related to mark-to-market adjustments on interest rate swaps and foreign exchange contracts compared to an unrealized net loss of \$0.2 million in the prior year. The change is primarily due to gains on interest rate swaps, partially offset by losses on foreign exchange contracts. The Company has elected not to apply hedge accounting and accordingly the change in fair value of these financial instruments is reflected in the Company’s consolidated statement of earnings each reporting period. These instruments are considered to be effective economic hedges and are expected to mitigate the short-term volatility of changing foreign exchange and interest rates.

On September 28, 2021 the Company recorded a realized gain of \$7.5 million on the sale of its Port Coquitlam, British Columbia property and related assets.

Net earnings for the six months ended September 30, 2021 were \$16.4 million or \$0.39 per Class A Share compared to \$23.9 million or \$0.56 per Class A Share in the prior year. Adjusted earnings, defined as net earnings not including the gain on sale of land and property, net unrealized gains and losses on derivative financial instruments, other (income) expenses, and the related income tax effect were \$9.1 million for the six months ended September 30, 2021 compared to \$25.0 million in the prior year.

Quarterly Performance

The following table outlines key quarterly highlights.

(in \$000, except per share amounts)	Q2 22	Q1 22	Q4 21	Q3 21	Q2 21	Q1 21	Q4 20	Q3 20
Sales	99,224	92,397	79,126	111,060	104,410	98,440	82,118	101,597
Gross margin	42,408	37,261	28,089	41,537	44,165	42,727	35,550	41,968
Gross margin (% of sales)	42.7%	40.3%	35.5%	37.4%	42.3%	43.4%	43.3%	41.3%
EBITA	15,821	11,913	1,815	16,223	22,438	22,570	9,668	16,148
Interest	2,478	2,273	2,619	1,637	1,813	2,039	1,839	1,818
Gain on debt modification and financing fees	-	-	-	(2,312)	-	-	-	-
Net unrealized (gain) loss on financial instruments	(1,037)	(388)	(495)	170	(540)	730	1,984	(646)
Gain on sale of land and property	(7,518)	-	-	-	-	-	-	-
Other expenses (income)	26	341	742	148	195	685	634	(57)
Adjusted earnings (loss)	5,801	3,255	(6,145)	8,159	12,419	12,553	1,196	7,815
Net earnings (loss)	13,090	3,290	(6,328)	10,236	12,674	11,204	(996)	8,056

(in \$000, except per share amounts)	Q2 22	Q1 22	Q4 21	Q3 21	Q2 21	Q1 21	Q4 20	Q3 20
E.P.S. – Class A basic	\$0.31	\$0.08	\$(0.15)	\$0.24	\$0.30	\$0.26	\$(0.02)	\$0.19
E.P.S. – Class B basic	\$0.27	\$0.07	\$(0.13)	\$0.21	\$0.26	\$0.23	\$(0.02)	\$0.16

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

Sales for the three months ended September 30, 2021 were 5.0% lower than the prior year's second quarter as retail sales have normalized when compared to prior year as the pandemic eases and consumer purchasing patterns change. Government-mandated closures of restaurants and hospitality businesses were lifted in June 2021 with restrictions on capacity remaining in place throughout the six month period ended September 30, 2021, and as a result, sales in these channels have increased in the second quarter of fiscal 2022 when compared with the second quarter of fiscal 2021. Gross margin was 42.7% in the second quarter of fiscal 2022, which is consistent with prior year. Selling and administrative expenses increased for the three months ended September 30, 2021 compared to the prior year's second quarter as the Company had temporarily reduced staffing levels and advertising and promotional spending in fiscal 2021 due to the COVID-19 pandemic. In the second quarter of fiscal 2022, the Company recorded a realized gain of \$7.5 million on the sale of its Port Coquitlam, British Columbia property and related assets. Net earnings for the three months ended September 30, 2021 were \$13.1 million or \$0.31 per Class A Share compared to \$12.7 million or \$0.30 per Class A Share in the second quarter of fiscal 2021. Adjusted earnings, defined as net earnings not including the realized gain on the property sale, net unrealized gains and losses on derivative financial instruments, other (income) expenses, and the related income tax effect were \$5.8 million for the three months ended September 30, 2021 compared to \$12.4 million in the prior year.

Liquidity and Capital Resources

As at (in \$000)	September 30, 2021	March 31, 2021
Current assets	\$ 240,130	\$ 225,302
Property, plant, and equipment	224,761	223,931
Intangible assets	41,162	39,650
Goodwill	53,638	53,638
Total assets	\$ 559,691	\$ 542,521
Current liabilities	\$ 69,958	\$ 54,618
Long-term debt	170,369	174,544
Long-term derivative financial instruments	-	717
Lease obligations	13,071	13,987
Post-employment benefit obligations	3,015	3,316
Deferred income taxes	30,507	29,765
Shareholders' equity	272,771	265,574
Total liabilities and shareholders' equity	\$ 559,691	\$ 542,521

The change in current assets as at September 30, 2021 compared to March 31, 2021 reflects an increase in cash on hand due to the net proceeds from the sale of the Port Coquitlam property, an increase in accounts receivable due to the timing of sales, and higher levels of inventory due to the timing of bulk wine and grape receipts. 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.

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 \$19.1 million of accounts receivable with provincial liquor boards at September 30, 2021, all of which is expected to be collectible. The balance represents amounts due from licensees, export customers, and independent retailers of personal winemaking products. The amount of accounts receivable that was 30 days past due was \$0.9 million at September 30, 2021. Against these amounts an

expected credit loss of \$0.3 million has been provided which the Company has determined based on a reasonable estimate of lifetime expected credit losses for trade receivable.

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

The change in current liabilities as at September 30, 2021 compared to March 31, 2021 is due primarily to an increase in accounts payable due to the timing of invoices and payments.

Overall bank debt decreased to \$170.4 million at September 30, 2021 from \$174.5 million at March 31, 2021, due primarily to the repayment of debt partially offset by working capital needs and increased investment in the Company's properties and operations. The Company's debt to equity ratio improved to 0.62:1 at September 30, 2021 compared to 0.66:1 at March 31, 2021. At September 30, 2021, the Company had unutilized debt capacity in the amount of \$179.6 million on its operating facility. On November 10, 2021, the Company amended and restated its credit agreement with its lenders to amend its interest charge coverage ratio financial covenant for the three-month period ending December 31, 2021.

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

For the six months ended September 30, 2021, the Company generated cash from operating activities, after changes in non-cash working capital items, of \$30.3 million compared to \$41.2 million in the prior year. Investing activities include \$8.8 million in net proceeds from the sale of the Port Coquitlam property.

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

Working capital at September 30, 2021 was \$170.2 million compared to \$170.7 million at March 31, 2021. Shareholders' equity at September 30, 2021 was \$272.8 million or \$6.33 per common share compared to \$265.6 million or \$6.08 per common share at March 31, 2021.

Common Shares Outstanding

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

Shares outstanding	September 30, 2021	March 31, 2021
Class A Shares	34,978,011	35,525,639
Class B Shares	8,144,183	8,144,183
Total	43,122,194	43,669,822

On March 4, 2021 the Company announced its notice of intention to make a normal course issuer bid had been approved by the Toronto Stock Exchange. Under the bid the Company can purchase for cancellation up to 1,773,896 of its outstanding Class A non-voting shares, representing 5% of the Class A shares outstanding, over the ensuing twelve months. As of November 10, 2021, the Company has purchased 598,600 Class A shares to date in fiscal 2022 at a weighted average price of \$8.70 per share for a total of \$5.2 million.

Strategic Outlook and Direction

Andrew Peller Limited is committed to a strategy of growth that focuses on the expansion of its core business as a producer and marketer of quality wines and wine related products through concentrating on and developing leading brands that meet the needs of consumers and customers. Over the long term the Company believes higher-priced premium wine and spirits sales will continue to grow in Canada, generating higher margins and increased profitability

compared to its lower-priced products. The Company has also entered the spirits and craft beer categories, through its strategic alliance with Wayne Gretzky, and has introduced ciders and seltzers through its own brand labels.

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

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

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

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

Risks and Uncertainties

The Company's sales of wine and craft beverage alcohol products are affected by general economic conditions and social trends such as changes in discretionary consumer spending and consumer confidence, future economic conditions, changes to inter-provincial trade laws, tax laws, the prices of its products and health trends. During the six months ended September 30, 2021, the COVID-19 pandemic has continued to impact consumer purchasing patterns resulting in fluctuations in the Company's results, however, the Company continues to generate operating cash flows to meet short-term working capital needs. The impact of the outbreak on the financial results of the Company will continue to depend on future developments, including the duration and spread of the outbreak and its impact on the overall economy and related advisories and restrictions. It is not possible to reliably estimate the length and severity of these developments and conclusively quantify the impact on the financial results and condition of the Company in future periods. 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. When environmental risks such as wildfires, occur, the Company's viticultural teams have internal processes to ensure Company's vineyards are protected. This may include the use of technology and fire suppression activities. The Company's winemaking teams are also able to monitor the quality of the grapes and use enhanced processing technology to minimize the risk of smoke taint. APL has also 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 September 30, 2021, the Company has forward foreign currency contracts to buy \$14.0 million US at rates ranging between \$1.23 and \$1.26 and \$2.3 million AUD at rates ranging between \$0.92 and \$1.00. These contracts mature at various dates to February 2022. Based on the Company's forecasts for foreign currency purchases and the amount of foreign exchange forward contracts outstanding at September 30, 2021, each one percent change in the respective foreign currency exchange rates would not result in a material impact on the Company's net earnings.

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

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

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

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

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

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

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

The Company considers its trademarks, particularly certain brand names and product packaging, advertising and promotion design, and artwork to be of significant importance to its business and ascribes a significant value to these intangible assets. APL relies on trademark laws and other arrangements to protect its proprietary rights. There can be no assurance that the steps taken by APL to protect its intellectual property rights will preclude competitors from developing confusingly similar brand names or promotional materials. The Company believes that its proprietary rights do not infringe upon the proprietary rights of fourth parties, but there can be no assurance in this regard.

As an owner and lessee of property the Company is subject to various federal and provincial laws relating to environmental matters. Such laws provide that the Company could be held liable for the cost of removal and remediation of hazardous substances on its properties. The failure to remedy any situation that might arise could lead to claims against the Company. A perceived failure to maintain high ethical, social, and environmental standards could have an adverse effect on the Company's reputation.

The success of the Company's brands depends upon the positive image that consumers have of those brands. Contamination of APL's products, whether arising accidentally or through deliberate fourth-party action, or other events that harm the integrity or consumer support for those brands could adversely affect their sales. Contaminants in raw materials purchased from fourth parties and used in the production of the Company's products or defects in the fermentation process could lead to low product quality as well as illness among, or injury to, consumers of the products and may result in reduced sales of the affected brand or all of the Company's brands.

Non-IFRS Measures

The Company utilizes EBITA (defined as earnings before interest, amortization, gain on sale of land and property, net unrealized gains and losses on derivative financial instruments, other (income) expenses, and income taxes) to measure its financial performance. EBITA is not recognized measures under IFRS; however, management believes that EBITA is a useful supplemental measure to net earnings as it provides readers with an indication of earnings available for investment prior to debt service, capital expenditures, and income taxes, as well as providing an indication of recurring earnings compared to prior periods.

The Company calculates EBITA as follows.

For the three and six months ended September 30, (in \$000)	Three Months		Six Months	
	2021	2020	2021	2020
Net earnings	\$ 13,090	\$ 12,674	\$ 16,380	\$ 23,876
Add: Interest	2,478	1,813	4,751	3,852
Provision for income taxes	3,509	3,836	4,792	7,494
Amortization of plant and equipment used in production	2,411	2,616	4,516	5,217
Amortization of equipment and intangibles used in selling and administration	2,862	1,844	5,871	3,497
Net unrealized (gains) losses on derivative financial instruments	(1,037)	(540)	(1,425)	191
Gain on sale of land and property	(7,518)	-	(7,518)	-
Other expenses	26	195	367	881
EBITA	\$15,821	\$ 22,438	\$ 27,734	\$ 45,008

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

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

For the three and six months ended September 30, (in \$000)	Three Months		Six Months	
	2021	2020	2021	2020
Sales	\$ 99,224	\$ 104,410	\$ 191,621	\$ 202,850
Less: Cost of goods sold, excluding amortization	56,816	60,245	111,952	115,958
Gross margin	\$ 42,408	\$ 44,165	\$ 79,669	\$ 86,892
Gross margin (% of sales)	42.7%	42.3%	41.6%	42.8%

The Company calculates adjusted earnings as follows:

For the three and six months ended September 30, (in \$000)	Three Months		Six Months	
	2021	2020	2021	2020
Net earnings	\$ 13,090	\$ 12,674	\$ 16,380	\$ 23,876
Net unrealized (gains) losses on derivative financial instruments	(1,037)	(540)	(1,425)	191
Other expenses	26	195	367	881
Gain on sale of land and property	(7,518)	-	(7,518)	-
Fair value adjustment for acquired inventory sold during the period	-	-	-	302
Income tax effect of the above	1,240	90	1,252	(279)
Adjusted earnings	\$ 5,801	\$ 12,419	\$ 9,056	\$ 24,971

The Company's method of calculating EBITA, gross margin, and Adjusted earnings may differ from the methods used by other companies and accordingly, may not be comparable to the corresponding measures used by other companies.

Financial Statements and Accounting Policies

The Company's condensed interim consolidated financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 – Interim Financial Reporting.

Critical Accounting Estimates

During the year, management is required to make estimates and assumptions that are inherently uncertain. These estimates can vary with respect to the level of judgment involved and ultimately the impact that these estimates may have on the Company's financial statements. Estimates are deemed to be critical when a different estimate could reasonably be used or where changes are reasonably likely to occur which could materially affect the Company's financial position or financial performance. The Company's critical accounting estimates remain unchanged from those disclosed in the notes to the audited consolidated financial statements for the years ended March 31, 2021 and 2020.

Recently adopted accounting pronouncements

IFRS 16, Leases

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

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

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

Recently issued accounting pronouncements

IAS 16, Property, Plant and Equipment

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

IAS 37, Provisions

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

IFRS 9, Financial Instruments

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

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

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

IAS 12, Income Taxes

This standard has been amended to require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

Evaluation of Disclosure Controls and Procedures and Internal Control over Financial Reporting

To comply with National Instrument 52-109, the Company's management, under the supervision of, and with participation of the CEO and CFO, have designed and maintained the Company's disclosure controls and procedures as required in Canada by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings.

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

Andrew Peller Limited

Condensed Interim Consolidated Financial Statements

September 30, 2021

ANDREW PELLER LIMITED
Condensed Consolidated Balance Sheets
Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)	September 30 2021 \$	March 31 2021 \$
Assets		
Current Assets		
Cash	12,613	2,737
Accounts receivable	30,829	28,896
Inventory	180,113	178,727
Biological assets	4,406	2,815
Prepaid expenses and other assets	6,511	4,879
Income taxes receivable	5,436	5,973
Current portion of derivative financial instruments (note 7)	222	-
Assets held for sale (note 9)	-	1,275
	<u>240,130</u>	<u>225,302</u>
Property, plant, and equipment	224,761	223,931
Intangible assets	41,162	39,650
Goodwill	53,638	53,638
	<u>559,691</u>	<u>542,521</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	62,079	46,487
Dividends payable	2,587	2,404
Current portion of lease obligations	3,877	3,826
Current portion of derivative financial instruments (note 7)	1,415	1,901
	<u>69,958</u>	<u>54,618</u>
Long-term debt	170,369	174,544
Long-term derivative financial instruments (note 7)	-	717
Lease obligations	13,071	13,987
Post-employment benefit obligations	3,015	3,316
Deferred income taxes	30,507	29,765
	<u>286,920</u>	<u>276,947</u>
Shareholders' Equity		
Capital stock (note 8)	27,290	27,020
Contributed surplus	5,166	4,950
Retained earnings	243,183	236,773
Accumulated other comprehensive loss	(2,868)	(3,169)
	<u>272,771</u>	<u>265,574</u>
	<u>559,691</u>	<u>542,521</u>

Events after the reporting period (note 11)

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	For the three months ended	For the three months ended	For the six months ended	For the six months ended
(in thousands of Canadian dollars, except per share amounts)	September 30, 2021 \$	September 30, 2020 \$	September 30, 2021 \$	September 30, 2020 \$
Sales	99,224	104,410	191,621	202,850
Cost of goods sold (note 4)	56,816	60,245	111,952	115,958
Amortization of plant and equipment used in production	2,411	2,616	4,516	5,217
Gross profit	39,997	41,549	75,153	81,675
Selling and administration (note 4)	26,587	21,727	51,935	41,884
Amortization of plant, equipment, and intangibles used in selling and administration	2,862	1,844	5,871	3,497
Interest	2,478	1,813	4,751	3,852
Net unrealized (gain) loss on derivative financial instruments (note 7)	(1,037)	(540)	(1,425)	191
Gain on sale of land and property (note 9)	(7,518)	-	(7,518)	-
Other expense	26	195	367	881
Earnings before income taxes	16,599	16,510	21,172	31,370
Income taxes				
Current	3,059	4,804	4,155	8,943
Deferred	450	(968)	637	(1,449)
	3,509	3,836	4,792	7,494
Net earnings for the period	13,090	12,674	16,380	23,876
Net earnings per share				
Basic				
Class A shares	0.31	0.30	0.39	0.56
Class B shares	0.27	0.26	0.34	0.49
Diluted				
Class A shares	0.31	0.30	0.38	0.56
Class B shares	0.27	0.26	0.33	0.49

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

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	For the three months ended	For the six months ended	For the six months ended
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
(in thousands of Canadian dollars)	\$	\$	\$	\$
Net earnings for the period	13,090	12,674	16,380	23,876
Items that are never reclassified to net earnings				
Net actuarial gains (losses) on post-employment benefit plans	(37)	3	406	(1,424)
Deferred income taxes	10	(1)	(105)	370
Other comprehensive income (loss) for the year	(27)	2	301	(1,054)
Net comprehensive income for the period	13,063	12,676	16,681	22,822

ANDREW PELLER LIMITED
Condensed Consolidated Statements of Changes in Equity
For the six months ended September 30, 2021 and 2020

Unaudited

These financial statements have not been reviewed by our auditors

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

	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
	\$	\$	\$	\$	\$
Balance at April 1, 2020	26,014	4,834	218,265	(3,588)	245,525
Net earnings for the period	-	-	23,876	-	23,876
Net actuarial losses (net of deferred tax recovery)	-	-	-	(1,054)	(1,054)
Net comprehensive income for the period	-	-	23,876	(1,054)	22,822
Share-based compensation (note 10)	-	567	-	-	567
Dividends (Class A \$0.1076 per share, Class B \$0.0936 per share)	-	-	(4,580)	-	(4,580)
Balance at September 30, 2020	26,014	5,401	237,561	(4,642)	264,334
Balance at April 1, 2021	27,020	4,950	236,773	(3,169)	265,574
Net earnings for the period	-	-	16,380	-	16,380
Net actuarial gains (net of deferred tax provision)	-	-	-	301	301
Net comprehensive income for the period	-	-	16,380	301	16,681
Repurchase and cancellation of class A non-voting shares (note 8)	(449)	-	(4,761)	-	(5,210)
Exercise of share options and issuance of Class A non-voting shares (note 10)	719	(719)	-	-	-
Share-based compensation (note 10)	-	935	-	-	935
Dividends (Class A \$0.123 per share, Class B \$0.107 per share)	-	-	(5,209)	-	(5,209)
Balance at September 30, 2021	27,290	5,166	243,183	(2,868)	272,771

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

	For the six months ended September 30, 2021	For the six months ended September 30, 2020
(in thousands of Canadian dollars)	\$	\$
Cash provided by (used in)		
Operating activities		
Net earnings for the period	16,380	23,876
Adjustments for:		
Loss (gain) on disposal of PP&E and intangibles	(7,518)	616
Amortization of plant, equipment, and intangible assets	10,387	8,714
Amortization of deferred financing costs	15	-
Interest expense	4,751	3,852
Provision for income taxes	4,792	7,494
Post-employment benefits	105	(36)
Net unrealized loss (gain) on derivative financial instruments	(1,425)	191
Share-based compensation	809	381
Interest paid	(3,665)	(3,713)
Income taxes paid	(3,618)	(5,651)
	<u>21,013</u>	<u>35,724</u>
Changes in non-cash working capital items related to operations (note 5)	<u>9,243</u>	<u>5,464</u>
	<u>30,256</u>	<u>41,188</u>
Investing activities		
Proceeds from disposal of property, plant and equipment	8,793	-
Purchase of property, plant and equipment	(8,510)	(3,655)
Purchase of intangibles	(3,442)	(9,701)
	<u>(3,159)</u>	<u>(13,356)</u>
Financing activities		
Decrease in bank indebtedness	-	(16,632)
Principal payments on lease obligations	(1,985)	(1,700)
Repayment of long-term debt	(17,000)	(4,924)
Drawings on long-term debt	12,000	-
Repurchase and cancellation of class A non-voting shares	(5,210)	-
Dividends paid	(5,026)	(4,576)
	<u>(17,221)</u>	<u>(27,832)</u>
Increase in cash during the period	9,876	-
Cash, beginning of period	2,737	-
Cash, end of period	<u>12,613</u>	<u>-</u>

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

Andrew Peller Limited
Notes to the Condensed Interim Consolidated Financial Statements
Unaudited
September 30, 2021 and September 30, 2020
(in thousands of Canadian dollars, except per share amounts)

1 Nature of operations

Andrew Peller Limited (the “Company”) produces and markets wine, spirits, craft beer 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.

The COVID-19 pandemic has continued to impact the financial results of the Company as government-mandated closures of restaurants and hospitality businesses and restricted international travel remained in place for part of the six-month period ended September 30, 2021. Uncertainty resulting from the ongoing pandemic will continue to depend on future developments, including the duration of the pandemic and its impact on the overall economy and related advisories and restrictions.

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, 2021 and 2020, 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, 2021 and 2020. Changes to the Company’s accounting policies from those disclosed in its consolidated financial statements for the years ended March 31, 2021 and 2020 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 November 10, 2021.

(B) Recently adopted accounting pronouncements

IFRS 16, Leases

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

Andrew Peller Limited
Notes to the Condensed Interim Consolidated Financial Statements
Unaudited
September 30, 2021 and September 30, 2020
(in thousands of Canadian dollars, except per share amounts)

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

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

(C) Recently issued accounting pronouncements

IAS 16, Property, Plant and Equipment

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

IAS 37, Provisions

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

IFRS 9, Financial Instruments

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

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

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

IAS 12, Income Taxes

This standard has been amended to require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

Andrew Peller Limited
Notes to the Condensed Interim Consolidated Financial Statements
Unaudited
September 30, 2021 and September 30, 2020
(in thousands of Canadian dollars, except per share amounts)

3 Seasonality

The second and third quarters of the Company's fiscal year are historically the largest due to increased activity at the Company's estate properties and increased consumer purchasing of the Company's products during the holiday season. However, the COVID-19 pandemic may cause unusual fluctuations in the Company's results and consequently, quarterly results for fiscal 2022 may not follow historical trends.

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 September 30, 2021	For the three months ended September 30, 2020	For the six months ended September 30, 2021	For the six months ended September 30, 2020
Raw materials and consumables	\$ 42,933	\$ 46,334	\$ 84,702	\$ 89,745
Employee compensation and benefits	21,639	19,103	41,968	38,100
Advertising, promotion and distribution	8,449	5,488	16,363	10,301
Occupancy	2,161	3,036	4,065	5,377
Repairs and maintenance	2,091	1,921	4,035	2,793
Other external charges	6,130	6,090	12,754	11,526
	\$ 83,403	\$ 81,972	\$ 163,887	\$ 157,842

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 six months ended September 30, 2021	For the six months ended September 30, 2020
Accounts receivable	\$ (1,933)	\$ 4,177
Inventory	(1,386)	4,180
Biological assets	(1,591)	(3,150)
Prepaid expenses and other assets	(1,632)	(1,425)
Accounts payable and accrued liabilities	15,785	1,682
	\$ 9,243	\$ 5,464

Andrew Peller Limited
Notes to the Condensed Interim Consolidated Financial Statements
Unaudited
September 30, 2021 and September 30, 2020
(in thousands of Canadian dollars, except per share amounts)

6 Related parties and management compensation

The compensation expense recorded for directors and members of the Executive Management Team of the Company was \$1,733 (2020 - \$1,754) for the three months ended September 30, 2021 and \$3,367 (2020 - \$3,068) for the six months ended September 30, 2021. The compensation expense consists of amounts that will primarily be settled within twelve months of being earned.

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 the 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 (gain) loss on derivative financial instruments is comprised of:

	For the three months ended September 30, 2021	For the three months ended September 30, 2020	For the six months ended September 30, 2021	For the six months ended September 30, 2020
Unrealized gains on interest rate swaps	\$ (403)	\$ (370)	\$ (899)	\$ (382)
Unrealized (gains) losses on foreign exchange forward contracts	(634)	(170)	(526)	573
	<u>\$ (1,037)</u>	<u>\$ (540)</u>	<u>\$ (1,425)</u>	<u>\$ 191</u>

Andrew Peller Limited
Notes to the Condensed Interim Consolidated Financial Statements
Unaudited
September 30, 2021 and September 30, 2020
(in thousands of Canadian dollars, except per share amounts)

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.

	September 30, 2021		
	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	\$ -	\$ 1,415	\$ -
Foreign exchange forward contracts asset	-	(222)	-
			March 31, 2021
	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	\$ -	\$ 2,314	\$ -
Foreign exchange forward contracts liability	-	304	-

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

8 Normal course issuer bid

On March 4, 2021, the Company announced its normal course issuer bid (the "NCIB") to repurchase for cancellation up to 1,773,896 Class A non-voting common shares, representing 5% of Class A non-voting common shares issued and outstanding as at the close of markets on February 25, 2021, during the 12-month period from March 8, 2021 to March 7, 2022.

The total number of Class A non-voting common shares repurchased for cancellation under the NCIB during the six-month period ended September 30, 2021 amounted to 598,600 Class A non-voting common shares, at a weighted average price of \$8.70 per Class A non-voting common share, for a total cash consideration of \$5,210. For the six-month period ended September 30, 2021, the Company's share capital was reduced by \$449 and the remaining \$4,761 was accounted for as a decrease to retained earnings.

9 Sale of land and property

During 2020, the Company listed for sale plant assets in Port Coquitlam, British Columbia, as a result of the consolidation of production assets. The assets listed for sale had a net book value of \$1,275. On September 28, 2021, the Company completed the sale of the assets for total consideration, net of selling costs, of \$8,793 resulting in a realized gain on sale of \$7,518.

Andrew Peller Limited
Notes to the Condensed Interim Consolidated Financial Statements
Unaudited
September 30, 2021 and September 30, 2020
(in thousands of Canadian dollars, except per share amounts)

10 Share based compensation

On September 13, 2017, the Company established a share based compensation plan comprised of stock options, performance share units (PSUs), restricted share units (RSUs) and deferred share units (DSUs). The impact of the share based compensation expense recorded for the six months ended September 30, 2021 and 2020 is summarized as follows:

	For the six months ended September 30, 2021	For the six months ended September 30, 2020
1,316,499 stock options (March 31, 2021 – 1,041,800) (a)	\$ 445	\$ 286
292,731 performance share units (March 31, 2021 – 218,562) (b)	343	95
62,750 restricted share units (March 31, 2021 – nil) (c)	21	-
57,799 deferred share units (March 31, 2021 – 65,669) (d)	-	-
	<u>\$ 809</u>	<u>\$ 381</u>

The stock options, PSUs, RSUs, 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, the RSU 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 September 30, 2021, the Company had 3,217,918 Class A non-voting common shares reserved for issuance under the share based compensation arrangements.

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.

	<u>September 30, 2021</u>		<u>September 30, 2020</u>	
	Number of options	Weighted average exercise price per share \$	Number of options	Weighted average exercise price per share \$
Balance – Beginning of year	1,041,800	11.89	765,200	14.19
Issued	290,700	8.75	494,900	9.29
Forfeited	(16,001)	(11.12)	(209,567)	(14.08)
Balance – End of year	<u>1,316,499</u>	<u>11.20</u>	<u>1,050,533</u>	<u>11.90</u>
Exercisable	<u>622,717</u>	<u>12.95</u>	<u>334,953</u>	<u>13.88</u>

Andrew Peller Limited
Notes to the Condensed Interim Consolidated Financial Statements
Unaudited
September 30, 2021 and September 30, 2020
(in thousands of Canadian dollars, except per share amounts)

For options granted during the three and six months ended September 30, 2021, the fair value was estimated on the grant date using the Black-Scholes fair value option pricing model using the following weighted average assumptions:

Weighted average fair value per share option	\$1.89
Expected volatility ⁽¹⁾	24.68%
Dividend yield	2.19%
Risk-free interest rate	1.19%
Weighted average expected life in years	10

(1) Expected volatility was determined using historical volatility

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 be exchanged for Class A non-voting common shares may be higher or lower than the number of units originally granted to a participant.

	September 30, 2021		September 30, 2020	
	Number of options	Weighted average exercise price per share \$	Number of options	Weighted average exercise price per share \$
Balance – Beginning of year	218,562	12.44	219,876	14.20
Issued	125,320	8.75	105,830	9.29
Exercised	(28,416)	(17.16)	(44,419)	(11.74)
Forfeited	(22,735)	(15.97)	(60,405)	(14.15)
Balance – End of year	292,731	10.13	220,882	12.46

Andrew Peller Limited
Notes to the Condensed Interim Consolidated Financial Statements
Unaudited
September 30, 2021 and September 30, 2020
(in thousands of Canadian dollars, except per share amounts)

c) RSU plan

The Company has established a RSU plan for employees and officers of the Company. RSUs 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. RSUs will vest ratably over the Restriction Period, as to one-third of the RSUs on each anniversary of the grant date, commencing on the first anniversary of the grant date.

	September 30, 2021		September 30, 2020	
	Number of options	Weighted average exercise price per share \$	Number of options	Weighted average exercise price per share \$
Balance – Beginning of year	-	-	-	-
Issued	62,750	8.75	-	-
Balance – End of year	62,750	8.75	-	-

d) 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.

Subsequent to year end, the Board of Directors were offered director fees in the form of DSUs which resulted in a reclassification from accounts payable to contributed surplus in the year.

	September 30, 2021		September 30, 2020	
	Number of options	Weighted average exercise price per share \$	Number of options	Weighted average exercise price per share \$
Balance – Beginning of year	65,669	14.40	72,459	17.19
Issued	12,770	9.35	19,840	9.48
Exercised	(20,640)	(11.19)	(26,630)	(18.22)
Balance – End of year	57,799	14.43	65,669	14.40

11 Subsequent event

On November 10, 2021, the Company amended and restated its credit agreement with its lenders to amend its interest charge coverage ratio financial covenant for the three-month period ending December 31, 2021.