Andrew Peller Limited

Condensed Interim Consolidated Financial Statements

September 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)	September 30 2017 $	March 31 2017 $
Assets		
Current Assets		
Restricted cash (note 10)	**46,556**	-
Accounts receivable	**33,306**	26,973
Inventory	**122,868**	129,088
Biological assets	**3,264**	1,400
Prepaid expenses and other assets	**2,947**	3,106
	208,941	160,567
Property, plant, and equipment	**123,123**	118,838
Intangibles	**10,186**	10,600
Goodwill	**37,473**	37,473
Derivative financial instruments (note 7)	**184**	-
	379,907	327,478
Liabilities		
Current Liabilities		
Bank indebtedness (note 8)	**28,954**	36,620
Accounts payable and accrued liabilities	**36,686**	36,260
Dividends payable	**1,864**	1,690
Income taxes payable	**2,898**	2,348
Current portion of derivative financial instruments (note 7)	**901**	418
Current portion of long-term debt (note 8)	**4,980**	4,406
	76,283	81,742
Long-term debt (note 8)	**91,761**	46,678
Derivative financial instruments (note 7)	**-**	642
Post-employment benefit obligations	**5,061**	5,279
Deferred income taxes	**15,880**	15,820
	188,985	150,161
Shareholders' Equity		
Capital stock	**6,967**	6,967
Contributed surplus (note 9)	**35**	-
Retained earnings	**187,883**	174,193
Accumulated other comprehensive loss	**(3,963)**	(3,843)
	190,922	177,317
	379,907	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 September 30, 2017 $	For the three months ended September 30, 2016 $	For the six months ended September 30, 2017 $	For the six months ended September 30, 2016 $
Sales	**91,857**	88,357	**180,497**	176,263
Cost of goods sold (note 4)	**53,164**	54,713	**106,200**	108,476
Amortization of plant and equipment used in production	**1,709**	1,601	**3,381**	3,187
Gross profit	**36,984**	32,043	**70,916**	64,600
Selling and administration (note 4)	**22,403**	21,061	**43,549**	40,401
Amortization of plant, equipment, and intangibles used in selling and administration	**856**	838	**1,666**	1,668
Interest	**1,157**	780	**1,940**	1,563
Net unrealized gains on derivative financial instruments (note 7)	**(285)**	(1,128)	**(351)**	(1,175)
Other expenses	**70**	56	**215**	83
Earnings before income taxes	**12,783**	10,436	**23,897**	22,060
Provision for income taxes				
Current	**3,445**	2,299	**6,378**	5,308
Deferred	**112**	507	**102**	549
	3,557	2,806	**6,480**	5,857
Net earnings for the period	**9,226**	7,630	**17,417**	16,203
Net earnings per share				
Basic				
Class A shares	**0.22**	0.18	**0.42**	0.39
Class B shares	**0.19**	0.16	**0.37**	0.34
Diluted				
Class A shares	**0.22**	0.18	**0.42**	0.39
Class B shares	**0.19**	0.16	**0.37**	0.34

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ANDREW PELLER LIMITED

Condensed Consolidated Statements of Comprehensive Income

Unaudited
These financial statements have not been reviewed by our auditors

	For the three months ended	For the three months ended	For the six months ended	For the six months ended
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
(in thousands of Canadian dollars)	$	$	$	$
Net earnings for the period	**9,226**	7,630	**17,417**	16,203
Items that are never reclassified to net earnings				
Net actuarial gains (losses) on post-employment benefit plans	**1,237**	(551)	**(162)**	(1,974)
Deferred income taxes	**(322)**	143	**42**	513
Other comprehensive income (loss) for the period	**915**	(408)	**(120)**	(1,461)
Net comprehensive income for the period	**10,141**	7,222	**17,297**	14,742

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

ANDREW PELLER LIMITED

Condensed Consolidated Statements of Changes in Equity

For the six months ended September 30, 2017 and 2016

Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)

	Capital stock $	Contributed surplus $	Retained earnings $	Accumulated other comprehensive loss $	Total shareholders' equity $
Balance at April 1, 2016	6,967	-	154,605	(3,836)	157,736
Net earnings for the period	-	-	16,203	-	16,203
Net actuarial losses (net of deferred tax recovery)	-	-	-	(1,461)	(1,461)
Net comprehensive income for the period	-	-	16,203	(1,461)	14,742
Dividends (Class A $0.0816 per share, Class B $0.0710 per share)	-	-	(3,382)	-	(3,382)
Balance at September 30, 2016	6,967	-	167,426	(5,297)	169,096
Balance at April 1, 2017	6,967	-	174,193	(3,843)	177,317
Net earnings for the period	-	-	17,417	-	17,417
Net actuarial losses (net of deferred tax recovery)	-	-	-	(120)	(120)
Net comprehensive income for the period	-	-	17,417	(120)	17,297
Share-based compensation (note 9)	-	35	-	-	35
Dividends (Class A $0.090 per share, Class B $0.0783 per share)	-	-	(3,727)	-	(3,727)
Balance at September 30, 2017	6,967	35	187,883	(3,963)	190,922

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

ANDREW PELLER LIMITED

Condensed Consolidated Statements of Cash Flows

Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)	For the six months ended September 30, 2017 $	For the six months ended September 30, 2016 $
Cash provided by (used in)		
Operating activities		
Net earnings for the period	**17,417**	16,203
Adjustments for:		
Loss (gain) on disposal of property and equipment	**32**	(175)
Amortization of plant, equipment, and intangible assets	**5,047**	4,855
Interest expense	**1,940**	1,563
Provision for income taxes	**6,480**	5,857
Post-employment benefits	**(380)**	(365)
Deferred income	**-**	(102)
Net unrealized gain on derivative financial instruments	**(351)**	(1,175)
Share-based compensation	**35**	-
Interest paid	**(1,387)**	(1,486)
Income taxes paid	**(5,828)**	(5,305)
	23,005	19,870
Changes in non-cash working capital items related to operations (note 5)	**(247)**	386
	22,758	20,256
Investing activities		
Increase in restricted cash	**(46,556)**	-
Proceeds from disposal of property, plant and equipment	**-**	175
Purchase of property, plant and equipment	**(9,941)**	(11,360)
Purchase of intangibles	**(205)**	-
	(56,702)	(11,185)
Financing activities		
Decrease in bank indebtedness	**(7,666)**	(3,827)
Drawings of long-term debt	**48,000**	-
Repayment of long-term debt	**(1,792)**	(2,000)
Deferred financing costs	**(1,045)**	-
Dividends paid	**(3,553)**	(3,244)
	33,944	(9,071)
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 policies.

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 1, 2017.

(B) Recently adopted accounting policies

Share based compensation

The Company grants stock options and performance share units (PSUs) to employees under its share based compensation plan. All share based compensation arrangements are equity-settled in Class A non-voting common shares.

Equity-settled share based payments to employees are measured at the fair value of the equity instrument granted. An option valuation model (Black-Scholes) is used to fair value stock options issued to employees on the date of grant. The volume weighted average trading price of the Class A non-voting common shares for the five trading days prior to the date of the grant is used to determine the fair value of the equity-based share units issued to participants.

The grant date fair value of equity-settled share based awards is recognized as compensation expense with a corresponding increase in equity reserves over the related service period provided to the Company. The total amount of expense recognized in profit or loss is determined by reference to the fair value of the options granted or share awards, which factors in the number of options expected to vest. Equity-settled share based payment transactions are not remeasured once the grant date fair value has been determined, except in cases where the share based payment is linked to non-market performance conditions. Stock options vest in tranches (graded vesting) and accordingly, the expense is recognized in vesting tranches. PSUs vest in full at the end of the third fiscal year after the date of grant and accordingly, the expense is recognized evenly over the vesting period.

Compensation expense is recognized over the applicable vesting period by increasing contributed surplus based on the number of awards expected to vest. At the end of each reporting period, the Company revises its estimates of the number of awards that are expected to vest based on the non-market performance vesting conditions. The Company recognizes the impact of the revision to original estimates, if any, in the condensed consolidated statement of earnings, with a corresponding adjustment to contributed surplus.

IFRS 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.

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

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.

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, 2017	For the three months ended September 30, 2016	For the six months ended September 30, 2017	For the six months ended September 30, 2016
Raw materials and consumables	$ 43,679	$ 44,933	$ 87,154	$ 89,356
Employee compensation and benefits	15,834	15,697	31,708	30,685
Advertising, promotion and distribution	6,486	5,687	12,865	11,123
Occupancy	2,920	3,325	5,494	6,088
Repairs and maintenance	1,456	1,836	2,795	3,175
Other external charges	5,192	4,296	9,733	8,450
	$ 75,567	$ 75,774	$ 149,749	$ 148,877

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

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, 2017	For the six months ended September 30, 2016
Accounts receivable	$ (6,333)	$ (2,664)
Inventory	6,220	(3,160)
Biological assets	(1,864)	(1,279)
Prepaid expenses and other assets	159	(146)
Accounts payable and accrued liabilities	1,571	7,635
	$ (247)	$ 386

6 Related parties and management compensation

The compensation expense recorded for directors and members of the Executive Management Team of the Company was $442 (2016 - $1,312) for the three months ended September 30, 2017 and $1,909 (2016 - $2,772) for the six months ended September 30, 2017. When the share based compensation plan was approved in September as described in note 9, the previous cash based incentive plan was discontinued. This resulted in the reversal of the year to date accrual of $757 during the three months ended September 30, 2017. 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 its carrying value because the variable interest rate is comparable to market rates. The fair value of the interest rate swaps used to fix the interest rate on long-term debt is included in the current and long-term derivative financial instruments in the condensed consolidated balance sheets.

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

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

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

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 September 30, 2017	For the three months ended September 30, 2016	For the six months ended September 30, 2017	For the six months ended September 30, 2016
Unrealized losses (gains) on foreign exchange forward contracts	$ 274	$ (908)	$ 656	$ (817)
Unrealized gains on interest rate swaps	(559)	(220)	(1,007)	(358)
	$ (285)	$ (1,128)	$ (351)	$ (1,175)

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, 2017
	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)
Asset/liability			
Interest rate swap asset	$ -	$ 184	$ -
Interest rate swap liability	-	237	-
Foreign exchange forward contracts liability	-	664	-

			March 31, 2017
	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)
Asset/liability			
Interest rate swap liability	$ -	$ 1,060	$ -
Foreign exchange forward contracts liability	-	8	-

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

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

8 Bank indebtedness and Long-term debt

On September 29, 2017, the Company amended and restated its debt facilities. Amendments include a revised maturity date of September 29, 2022, revised financial covenants and updated applicable margins based on the Company's leverage. Additionally, the total borrowing limit was increased to $310,000 and separated into two facilities: a revolving, non-amortizing facility with a borrowing limit of $90,000 to be used for day-to-day operations, distributions and capital expenditures and a revolving, amortizing investment facility with a borrowing limit of $220,000 to be used for acquisitions or capital expenditures. Each draw on the investment facility is subject to a new amortization schedule and required annual repayments increase over the term of the loan. The initial draw on the investment facility was used to refinance the previous operating and capital term loans and fund the acquisitions as described in note 10. Monthly principal repayments of $406 are required on the revolving, amortizing investment facility based on the initial draw. At September 30, 2017, the applicable margin was 1.40% (2016 – 1.25%).

Unamortized financing costs relating to the refinanced facilities of $435 as at September 29, 2017 were expensed to interest expense in the condensed consolidated statement of earnings. Financing costs of $1,045 were incurred to amend the debt facilities and these costs will be amortized over the new term of the loan.

The Company has two interest rate swaps in place to fix the interest rate on $46,667 outstanding on the credit facilities. Until April 26, 2019, the interest rate is fixed at 2.16%, plus the applicable margin. From April 30, 2019 to July 31, 2020, the interest rate is fixed at 1.65%, plus the applicable margin. The remaining $50,800 outstanding bears interest at the prime rate, plus the applicable margin.

The Company and its subsidiaries have provided their assets as security for these loans.

Bank indebtedness

	September 30, 2017	March 31, 2017
Balance outstanding	$ 28,954	$ 36,620
Committed until	September 29, 2022	July 31, 2021
Borrowing limit	$ 90,000	$ 90,000
Interest rate	CDOR + 1.40%	CDOR + 1.25%

Long-term debt

	September 30, 2017	March 31, 2017
Revolving, amortizing loan - Investment facility	$ 97,467	$ -
Term loan - Operating facility	-	48,333
Term Loan - Capital facility	-	2,925
Other	319	319
	97,786	51,577
Less: Financing costs	1,045	493
	96,741	51,084
Less: Current portion	4,980	4,406
	$ 91,761	$ 46,678

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

9 Share based compensation

On September 13, 2017, the Company established a new share based compensation plan and on September 21, 2017 granted stock options and PSUs to certain employees and key management personnel. As at September 30, 2017, the Company had 3,358,149 Class A non-voting common shares reserved for issuance under the share based compensation arrangements.

a) Stock Options

Each share option issuance under the plan specifies the period during which the share option thereunder is exercisable and the date the share option will expire. All issued options expire after ten years from the grant date. The exercise price of each option will not be less than the volume weighted average trading price of the Class A non-voting common shares for the five trading days prior to the date of the grant. Options granted vest in tranches, equally over a three-year period on each anniversary of the grant date, commencing on the first anniversary of the grant date.

The Company's stock options transactions during the three and six months ended September 30, 2017 were as follows:

	Number of options	**Weighted average exercise price $**
Balance – March 31, 2017	-	-
Granted on September 21, 2017	252,300	11.66
Balance – September 30, 2017	252,300	11.66

The stock options granted on September 21, 2017 expire on September 21, 2027.

For options granted during the three and six months ended September 30, 2017, the fair value was estimated on the grant date using the Black-Scholes fair value option pricing model using the following assumptions:

	September 30, 2017
Weighted average fair value per share option	$3.38
Expected volatility (1)	30.44%
Dividend yield	1.76%
Risk-free interest rate	1.00%
Weighted average expected life in years	10

(1) Expected volatility was determined using historical volatility

During the three and six months ended September 30, 2017, the Company recorded stock-based compensation expense and a corresponding increase to contributed surplus related to stock options of $21 (three and six months ended September 30, 2016 – $nil).

No stock options granted under the share based compensation plan have vested or been exercised as at September 30, 2017.

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

b) PSU plan

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 for each employee that is granted PSUs is determined based on the achievement of certain performance conditions (i.e. financial targets) established by the Board of Directors and are adjusted by a factor, which ranges from 0.5 to 2.0, depending on the achievement of the targets established. Therefore, the number of units that will vest and are exchanged for Class A non-voting common shares may be higher or lower than the number of units originally granted to a participant.

The Company's PSU transactions during the three and six months ended September 30, 2017 were as follows:

	Number of units	**Fair value per unit $**
Balance – March 31, 2017	-	-
Granted on September 21, 2017	76,280	11.66
Balance – September 30, 2017	76,280	11.66

During the three and six months ended September 30, 2017, the Company recorded stock-based compensation expense and a corresponding increase to contributed surplus related to PSUs of $14 (three and six months ended September 30, 2016 – $nil).

No PSUs granted under the share based compensation plan have vested or been exercised as at September 30, 2017.

10 Subsequent events

a) Acquisitions

On October 1, 2017, the Company acquired 100% of the issued and outstanding shares of Gray Monk Cellars Ltd. and Tinhorn Creek Vineyards Ltd. and, on October 10, 2017, acquired 100% of the operating assets of Black Hills Estate Winery. These three wineries complement the Company's VQA portfolio and significantly strengthen its presence in Western Canada.

The combined purchase price of these acquisitions was $94,806, which was funded using a combination of $77,556 in cash from the Company debt facilities and issuance of 1,579,670 Class A non-voting common shares with an aggregate value of $17,250.

In accordance with the above transactions, $48,000 was drawn on the Company's revolving, amortizing investment facility on September 29, 2017, of which $46,556 was held in escrow at September 30, 2017 and is shown as restricted cash on the September 30, 2017 condensed consolidated balance sheet. On October 1, 2017, both the Company and the respective vendors approved the closing of the acquisitions and accordingly, the funds were released from escrow to the vendors. Additional funds of $31,000 were drawn on the term facility in October 2017 to complete the acquisitions.

These transactions will be accounted for as business combinations and a preliminary estimate of the purchase price allocation will be completed by December 31, 2017.

b) Interest rate swap

On October 31, 2017, the Company terminated its various interest rate swap agreements and entered into a new swap agreement to fix the interest rate on the entire amount outstanding on the investment facility. Under the revised swap agreement, the interest rate is fixed at 2.25% plus the applicable margin until September 29, 2022.