

ANDREW PELLER

— LIMITED —

MANAGEMENT'S DISCUSSION & ANALYSIS For the three and six months ended September 30, 2020

The following management's discussion and analysis ("MD&A") provides a review of corporate developments, results of operations, and financial position for the three and six months ended September 30, 2020 in comparison with those for the three and six months ended September 30, 2019 for Andrew Peller Limited (the "Company" or "APL"). This discussion is prepared as of November 11, 2020 and should be read in conjunction with the the unaudited condensed interim consolidated financial statements and accompanying notes contained therein for the periods ended September 30, 2020 and 2019. Additional information relating to the Company, including the audited annual consolidated financial statements, MD&A and Annual Information Form for the years ended March 31, 2020 and March 31, 2019, is available on www.sedar.com. The financial years ending March 31, 2021 and March 31, 2020 are referred to as "fiscal 2021" and "fiscal 2020" respectively. All dollar amounts are expressed in Canadian dollars unless otherwise indicated.

FORWARD-LOOKING INFORMATION

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

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

Overview

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

Hochtaler, Domaine D'Or, Schloss Laderheim, Royal, and Sommet are the Company's key value priced brands. The Company imports wines from major wine regions around the world to blend with domestic wine to craft these quality and value priced brands. The Company also produces craft beverage alcohol products, including *No Boats on Sunday, Wayne Gretzky No. 99 Red Cask, No. 99 Ice Cask* and *99 Proof Canadian Whiskies* and *No. 99 Canadian Whisky Cream* products. The Company has also recently entered the craft beer market with the launch of *No. 99 Premium Lager, No. 99 Pale Ale* and *No. 99 Session Ale*. With a focus on serving the needs of all wine consumers, the Company produces and markets premium personal winemaking products through its wholly-owned subsidiary, Global Vintners Inc. ("GVI"), the recognized leader in personal winemaking products. GVI distributes products through over 200 authorized retailers and more than 400 independent retailers across Canada, with additional distributors in the United States, the United Kingdom, New Zealand, Australia, and China. GVI's award-winning premium and ultra-premium winemaking brands include *Winexpert, Vine Co., Apres, LE, Passport Series, On the House, Wild Grapes, DIY My Wine Co., Island Mist* and *Niagara Mist*. The Company owns and operates 101 well-positioned independent retail locations in Ontario under The Wine Shop, Wine Country Vintners, and Wine Country Merchants store names. The Company also operates Andrew Peller Import Agency and The Small Winemaker's Collection Inc., importers and marketing agents for premium wines from around the world.

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

The Company is focused on initiatives to reduce costs and enhance its production efficiencies through a continual review of its operations and cost structure with a view to enhancing profitability. The Company continues to expand and strengthen its distribution through provincial liquor boards, Ontario independent retail locations, 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 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 June 30, 2022. This agreement was reached due to a World Trade Organization challenge put forward by Australia against Canadian wine measures. The federal Finance Minister has committed that the Canadian government is prepared to support the wine industry in managing the impacts of this agreement and are actively investigating options that align with Canada's international trade obligations, with a view to ensuring the long-term success of the industry. Should a permanent replacement program not be implemented, the loss of the federal excise duty exemption would have a material adverse impact on the Company's financial condition and results of operations. The Company, along with its industry partners, will continue to work with the federal government to mitigate the economic impacts of the negotiated settlement.

On June 24, 2020, Randy Powell resigned as President of the Company to pursue other interests. John Peller, Chief Executive Officer has assumed his responsibilities.

On March 11, 2020, the World Health Organization characterized the outbreak of COVID-19 as a global pandemic. The Company has demonstrated its ability to respond to new developments and continues to closely assess the risks and uncertainties associated with the pandemic, including industry, market and internal factors, as well as regulations enacted by governments across Canada. Businesses selling beer, wine and other alcohol products were deemed essential services, as well as those businesses that supply them. As a result, all of the Company's production facilities, retail locations and retail estate locations remained open throughout the first six months of fiscal 2021 with new protocols related to cleanliness and physical distancing deployed. The Company's export and estate property hospitality sales have been affected by the pandemic. However, consumption of alcohol beverages remains stable in Canada with consumers purchasing products through alternative trade channels available during the pandemic, benefiting the Company's sales through provincial liquor stores and its other retail channels. The Company has also enhanced its capabilities to support increased demand for direct-to-home purchases through a new on-line platform,

www.thewineshops.com. In response to COVID-19, the Company has implemented enhanced protocols to address potential impacts to its operations, employees and customers and will take further measures, if required. These practices have been permanently established to enhance the ability for the Company to respond in the future.

On June 10, 2020, the Company’s Board of Directors approved a common share dividend, consistent with prior year to preserve capital as a result of COVID-19. The annual dividend on Class A Shares of \$0.215 per share and the dividend on Class B Shares of \$0.187 will be paid quarterly to shareholders. The third quarter dividend is payable to shareholders of record on December 31, 2020 and will be paid on January 8, 2021. 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.

Results of Operations

For the six months ended September 30, (in \$000, except per share amounts)	2020	2019
Sales	\$ 202,850	\$ 198,591
Gross margin	86,892	88,731
Gross margin (% of sales)	42.8%	44.7%
Selling and administrative expenses	41,884	53,047
EBITA	45,008	35,684
Interest	3,852	4,450
Net unrealized loss (gain) on derivative financial instruments	191	68
Other expenses	881	1,190
Adjusted earnings	24,971	18,563
Net earnings	23,876	16,435
Earnings per share – basic and diluted - Class A	\$0.56	\$0.38
Earnings per share – basic and diluted - Class B	\$0.49	\$ 0.33
Dividend per share – Class A (annual)	\$0.215	\$ 0.215
Dividend per share – Class B (annual)	\$0.187	\$ 0.187

Sales for the six months ended September 30, 2020 were \$202.9 million, up 2.1% from the prior year. Due to the COVID-19 pandemic, consumer purchasing patterns changed resulting in an increase in sales at provincial liquor stores, other retail channels, and the Company’s new e-commerce platform, *www.thewineshops.com*. Partially offsetting the increase was the reduction in hospitality and licensee sales due to COVID-19 closures and lower duty-free export sales due to restricted travel.

The Company defines gross margin as gross profit excluding amortization. Gross margin as a percentage of sales was 42.8% for the six months ended September 30, 2020 compared to 44.7% in the prior year due to the impact of COVID-19. Gross margin in fiscal 2021 has declined as a result of higher imported wine costs, an increase in consumption of lower margin products, and revenue decline in high margin trade channels. The Company expects margin to improve in post COVID-19 periods.

Selling and administrative expenses were lower in the first six months of fiscal 2021 compared to the prior year due to a deliberate effort to conserve cash resources by temporarily reducing advertising and promotional spending, and staffing levels due to the COVID-19 pandemic. As a percentage of sales, selling and administrative expenses were reduced to 20.6% compared to 26.7% in the prior year.

Earnings before interest, amortization, net unrealized gains and losses on derivative financial instruments, other (income) expenses, and income taxes (“EBITA”) were \$45.0 million for the six months ended September 30, 2020, up from \$35.7 million in the prior year. EBITA strengthened due primarily to the lower selling and administrative costs.

Interest expense decreased in the first six months of fiscal 2021 compared to the prior year due to lower interest rates and lower debt levels.

The Company recorded a net unrealized non-cash loss in the first six months of fiscal 2020 of \$0.2 million related to mark-to-market adjustments on interest rate swaps and foreign exchange contracts compared to \$0.1 million in the prior year. The Company has elected not to apply hedge accounting and accordingly the change in fair value of these financial instruments is reflected in the Company's consolidated statement of earnings each reporting period. These instruments are considered to be effective economic hedges and are expected to mitigate the short-term volatility of changing foreign exchange and interest rates.

Net earnings for the six months ended September 30, 2020 were \$23.9 million or \$0.56 per Class A Share compared to \$16.4 million or \$0.38 per Class A Share in the prior year. Adjusted earnings, defined as net earnings not including net unrealized gains and losses on derivative financial instruments, other (income) expenses, and the related income tax effect were \$25.0 million for the six months ended September 30, 2020 compared to \$18.6 million in the prior year.

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

Quarterly Performance

The following table outlines key quarterly highlights.

(in \$000, except per share amounts)	Q2 21	Q1 21	Q4 20	Q3 20	Q2 20	Q1 20	Q4 19	Q3 19
Sales	104,410	98,440	82,118	101,597	103,375	95,216	79,780	103,152
Gross margin	44,165	42,727	35,550	41,968	46,311	42,421	31,310	42,133
Gross margin (% of sales)	42.3%	43.4%	43.3%	41.3%	44.8%	44.6%	39.2%	40.8%
EBITA	22,438	22,570	9,668	16,148	17,335	18,350	6,554	14,353
Interest	1,813	2,039	1,839	1,818	2,222	2,228	1,055	1,920
Net unrealized loss (gain) on financial instruments	(540)	730	1,984	(646)	(497)	565	1,168	1,478
Other expenses (income)	195	685	634	(57)	1,106	86	669	27
Adjusted earnings	12,419	12,553	1,196	7,815	8,716	9,848	1,477	7,761
Net earnings (loss)	12,674	11,204	(996)	8,056	7,643	8,791	84	5,432
E.P.S. – Class A basic & diluted	\$0.30	\$0.26	\$(0.02)	\$0.19	\$0.18	\$0.20	\$0.00	\$0.13
E.P.S. – Class B basic & diluted	\$0.26	\$0.23	\$(0.02)	\$0.16	\$0.15	\$0.18	\$0.00	\$0.11

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 2021 may not follow historical trends.

Sales in the second quarter of fiscal 2020 increased marginally compared to prior year's second quarter due to an increase in sales at provincial liquor stores and other retail channels, offset by a reduction in hospitality, licensee sales and lower duty-free export sales due to COVID-19 restrictions.

Gross margin for the three months ended September 30, 2020 was 42.3% of sales compared to 44.8% in the second quarter of fiscal 2020 due to the impact of COVID-19. Gross margin in the second quarter of fiscal 2021 has declined as a result of higher imported wine costs, an increase in consumption of lower margin products and revenue decline in high margin trade channels. The Company expects margin to improve in post COVID-19 periods.

Selling and administrative expenses reduced significantly in the second quarter of fiscal 2021 compared to the prior year due to efforts to conserve cash resources by temporarily reducing advertising and promotional spending, and staffing levels due to the COVID-19 pandemic.

EBITA was \$22.4 million for the three months ended September 30, 2020 compared to \$17.3 million in the same quarter in fiscal 2020. The increase is due primarily to the higher sales, the reduction in selling and administrative expenses, partially offset by the reduced gross margin in fiscal 2021.

Net earnings were \$12.7 million or \$0.30 per Class A share for the three months ended September 30, 2020 compared to net earnings of \$7.6 million or \$0.18 per Class A share in the prior year.

Liquidity and Capital Resources

As at (in \$000)	September 30, 2020	March 31, 2020
Current assets	\$ 208,528	\$ 214,114
Property, plant, and equipment	216,920	221,100
Intangible assets	32,380	25,067
Goodwill	53,638	53,638
Total assets	\$ 511,466	\$ 513,919
Current liabilities	\$ 117,162	\$ 130,460
Long-term debt	89,498	95,515
Long-term derivative financial instruments	1,463	1,932
Lease obligations	13,754	14,802
Post-employment benefit obligations	5,037	3,649
Deferred income taxes	20,219	22,038
Shareholders' equity	264,333	245,523
Total liabilities and shareholders' equity	\$ 511,466	\$ 513,919

The change in current assets as at September 30, 2020 compared to March 31, 2020 reflects a decrease in accounts receivable due to customer sales mix, a slight decrease in inventory due to the higher sales levels and collection of income taxes recoverable. Inventory is dependent on domestically grown grapes that are used in the sale of premium and ultra-premium wines that are held for a longer period than imported wine. These wines are typically aged for one to three years before they are sold. The cost of producing wine from domestically grown grapes is also significantly higher than wine purchased on international markets. Included in current assets as at September 30, 2020 was \$1.3 million reflecting the carrying value of the Company's production facility in Port Coquitlam British Columbia which is being held for sale.

Accounts receivable are predominantly with provincial liquor boards and, to a lesser extent, licensed establishments and independent retailers of personal winemaking products. The Company had \$16.9 million of accounts receivable with provincial liquor boards at September 30, 2020, all of which is expected to be collectible. The balance represents amounts due from licensees, export customers, and independent retailers of personal winemaking products. The amount of accounts receivable that was 30 days past due was \$2.5 million at September 30, 2020. Against these amounts an allowance for doubtful accounts of \$0.8 million has been provided which the Company has determined based on assumptions about risk of default and expected loss rates.

Intangible assets increased at September 30, 2020 compared to the prior year-end due to the investment in the Company's new Enterprise Resource Planning (ERP) solution.

The change in current liabilities as at September 30, 2020 compared to March 31, 2020 reflects a decrease in current debt due to higher cash flows from operations, partially offset by an increase in lease obligations and taxes payable.

Overall bank debt decreased to \$143.8 million at September 30, 2020 from \$165.2 million at March 31, 2020 due to higher cash flows from operations in fiscal 2021 and regularly scheduled debt repayments. With the decrease in debt, the Company's debt to equity ratio was 0.54:1 at September 30, 2020 compared to 0.67:1 at March 31, 2020. At

September 30, 2020, the Company had unutilized debt capacity in the amount of \$41.0 million on its operating facility and \$117.2 million on its investment facility.

Management expects to generate sufficient cash flow from operations to meet its debt servicing, principal payment, and working capital requirements over both the short and long-term through continued profitability and strong management of working capital and prioritization of capital expenditures. The Company 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, 2020, the Company generated cash from operating activities, after changes in non-cash working capital items, of \$41.2 million compared to \$21.2 million in the prior year. Investing activities of \$13.4 million in the first six months of fiscal 2021 relate primarily to capital expenditures to implement the new ERP system.

Financing activities for the six months ended September 30, 2020 of \$27.8 million include scheduled repayments of long-term debt, dividend payments, the principal repayment of lease obligations, and a decrease in bank indebtedness.

Working capital as at September 30, 2020 was \$91.4 million compared to \$83.7 million at March 31, 2020. Shareholders' equity as at September 30, 2020 was \$264.3 million or \$6.05 per common share compared to \$245.5 million or \$5.63 per common share as at March 31, 2020. The increase in shareholders' equity was due to the increased net earnings in the period partially offset by the payment of dividends.

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, 2020	March 31, 2020
Class A Shares	35,477,939	35,403,767
Class B Shares	8,191,883	8,191,883
Total	43,669,822	43,595,650

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

Strategic Outlook and Direction

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

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

The Company will continue to expand product offerings outside the traditional table wine segment into other alcoholic beverages where it is able to leverage its detailed knowledge of growth opportunities in the Canadian market. The Company will also make packaging design changes that are more appealing to its target markets and are consistent with its initiative to be more environmentally friendly. Increased focus will be made on coordination between the Company's

business-to-consumer trade channels to provide customers with a more intimate awareness of its broad product portfolio. New product launches and key brands through all of the Company's distribution channels will continue to receive increased marketing and sales support.

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

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

Risks and Uncertainties

The Company's sales of wine and craft beverage alcohol products are affected by general economic conditions and social trends such as changes in discretionary consumer spending and consumer confidence, future economic conditions, changes to inter-provincial trade laws, tax laws, the prices of its products and health trends. The duration and impact of the COVID-19 outbreak is unknown at this time. The impact of the outbreak on the financial results of the Company will depend on future developments, including the duration and spread of the outbreak and its impact on the overall economy and related advisories and restrictions. It is not possible to reliably estimate the length and severity of these developments and conclusively quantify the impact on the financial results and condition of the Company in future periods. Such general economic conditions could impact the Company's sales through duty-free export, restaurant and estate property.

The outbreak may also have an effect on the future collectability of certain receivables, recoverability of property plant and equipment, goodwill and intangible assets, as well as fair value of derivatives. As the duration and impact of the COVID-19 outbreak or the efficacy of the Government and Bank of Canada interventions is not known at this time, it is not possible to reliably estimate the length and severity of these developments or quantify the impact this pandemic may have on the financial results and condition of the Company in future periods. In response to COVID-19, the Company has implemented working practices to address potential impacts to its operations, employees and customers and will take further measures in the future, if required. At present, the Company has not identified any material continuity-risks specifically associated with COVID-19.

The Government of Ontario has announced its intention to modernize the rules for selling beverage alcohol in Ontario by expanding retail distribution in the province. This could represent a significant change to the retail landscape in Ontario with the goal of providing more convenience and choice to consumers. While there has not been a proposal by the Government of Ontario regarding implementation, the Company is working closely with its industry partners to mitigate the risks that this transition may have on its financial results.

The Canadian wine market continues to be the target of low-priced imported wines from regions and countries that subsidize wine production and grape growing as well as providing sizeable export incentives on subsidies. Many of these countries and regions prohibit or restrict the sale of imported wine in their own domestic markets. The Company, along with other members of the Canadian wine industry, are working with the Canadian government to improve support for the domestic industry.

The Company operates in a highly competitive industry and the dollar amount and unit volume of sales could be negatively impacted by its inability to maintain or increase prices, changes in geographic or product mix, a general decline in beverage alcohol consumption, or the decision of retailers or consumers to purchase competitive products instead of the Company's products. Retailer and consumer purchasing decisions are influenced by, among other things, the perceived absolute or relative overall value of the Company's products including their quality or pricing compared to competitive products. Unit volume and dollar sales could also be affected by purchasing, financing, operational, advertising, or promotional decisions made by provincial agencies and retailers which could affect supply of or consumer demand for the Company's products. APL could also experience higher than expected selling and administrative expenses if it finds it necessary to increase the number of its personnel, advertising, or promotional expenditures to maintain its competitive position.

APL expects to increase sales in Canada principally through the sale of VQA wines, and as a result, is dependent on the quality and supply of domestically grown premium quality grapes. If any of the Company's vineyards or the vineyards of our grape suppliers experience certain weather variations, natural disasters, pestilence, other severe environmental problems, or other occurrences, APL may not be able to secure a sufficient supply of grapes, a situation which could result in a decrease in production of certain products from those regions and/or result in an increase in costs. The inability to secure premium quality grapes could impair the ability of the Company to supply certain wines to its customers. APL has developed programs to ensure it has access to a consistent supply of premium quality grapes and wine. The price of grapes is determined through negotiations with the Ontario Grape Growers Marketing Board in Ontario and with independent growers in British Columbia.

Foreign exchange risk exists on the purchases of bulk wine and concentrate that are primarily made in United States dollars, Euros, and Australian dollars. Fluctuating foreign currencies may have a positive or negative impact on gross margins, however, the Company believes the impact on gross margin will be largely offset by its continued ability to leverage scale and successful cost control initiatives to reduce other cost of goods sold. The Company's strategy is to hedge approximately 50% - 80% of its foreign exchange requirements throughout the fiscal year and to regularly review its on-going requirements. The Company does not enter into foreign exchange contracts for trading or speculative purposes and contracts are reviewed periodically. As at September 30, 2020, the Company had locked in \$21.5 million in U.S. dollar contracts at rates ranging between \$1.31 and \$1.33 Canadian and \$3.8 million in Australian dollar contracts at \$0.94 Canadian. These contracts expire at various dates through 2021. Based on the Company's forecasts for foreign currency purchases and the amount of foreign exchange forward contracts outstanding at September 30, 2020, each one percent change in the U.S. dollar, Euro, and Australian dollar exchange rates would not result in a material impact on the Company's net earnings.

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

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

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

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

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

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

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

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

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

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

Non-IFRS Measures

The Company utilizes EBITA (defined as earnings before interest, amortization, net unrealized gains and losses on derivative financial instruments, other (income) expenses, and income taxes) 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	
	2020	2019	2020	2019
Net earnings	\$ 12,674	\$ 7,643	\$ 23,876	\$ 16,435
Add: Interest	1,813	2,222	3,852	4,450
Provision for income taxes	3,836	2,755	7,494	5,445
Amortization of plant and equipment used in production	2,616	1,894	5,217	3,761
Amortization of equipment and intangibles used in selling and administration	1,844	2,212	3,497	4,335
Net unrealized gains on derivative financial instruments	(540)	(497)	191	68
Other expenses	195	1,106	881	1,190
EBITA	\$ 22,438	\$ 17,335	\$ 45,008	\$ 35,684

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 Month		Six Months	
	2020	2019	2020	2019
Sales	\$ 104,410	\$ 103,375	\$ 202,850	\$ 198,591
Less: Cost of goods sold, excluding amortization	60,245	57,064	115,958	109,860
Gross margin	\$ 44,165	\$ 46,311	\$ 86,892	\$ 88,731
Gross margin (% of sales)	42.3%	44.8%	42.8%	44.7%

The Company calculates adjusted earnings as follows:

For the three and six months ended September 30, (in \$000)	Three Months		Six Months	
	2020	2019	2019	2018
Net earnings	\$ 12,674	\$ 7,643	\$ 23,876	\$ 16,435
Net unrealized gains on derivative financial instruments	(540)	(497)	191	68
Other expenses	195	1,106	881	1,190
Fair value adjustment for acquired inventory sold during the period	-	622	302	1,197
Income tax effect of the above	90	(158)	(279)	(327)
Adjusted earnings	\$ 12,419	\$ 8,716	\$ 24,971	\$ 18,563

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, 2020 and 2019.

Recently adopted accounting pronouncements

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

IFRS 3, Business Combinations

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

Recently issued 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 is not expected to have a significant impact 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. 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 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.

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, 2020, there have been no material changes in the Company's internal controls over financial reporting or changes to disclosure controls and procedures that materially affect or were likely to affect, the Company's internal control systems.

Andrew Peller Limited

Condensed Interim Consolidated Financial Statements

September 30, 2020

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 2020 \$	March 31 2020 \$
Assets		
Current Assets		
Accounts receivable	29,919	34,096
Inventory	166,599	170,779
Biological assets	5,101	1,951
Prepaid expenses and other assets	5,423	3,998
Income taxes receivable	-	1,232
Current portion of derivative financial instruments	211	783
Assets held for sale	1,275	1,275
	<u>208,528</u>	<u>214,114</u>
Property, plant, and equipment (note 2)	216,920	221,100
Intangible assets	32,380	25,067
Goodwill	53,638	53,638
	<u>511,466</u>	<u>513,919</u>
Liabilities		
Current Liabilities		
Bank indebtedness	41,482	58,114
Accounts payable and accrued liabilities	52,601	53,821
Dividends payable	2,292	2,288
Income taxes payable	2,059	-
Current portion of lease obligations (note 2)	4,190	3,018
Current portion of derivative financial instruments (note 7)	1,691	1,604
Current portion of long-term debt	12,847	11,615
	<u>117,162</u>	<u>130,460</u>
Long-term debt	89,498	95,515
Long-term derivative financial instruments (note 7)	1,463	1,932
Lease obligations (note 2)	13,754	14,802
Post-employment benefit obligations	5,037	3,649
Deferred income taxes	20,219	22,038
	<u>247,133</u>	<u>268,396</u>
Shareholders' Equity		
Capital stock	26,014	26,014
Contributed surplus	5,400	4,834
Retained earnings	237,561	218,263
Accumulated other comprehensive loss	(4,642)	(3,588)
	<u>264,333</u>	<u>245,523</u>
	<u>511,466</u>	<u>513,919</u>

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

ANDREW PELLER LIMITED

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)	September 30, 2020 \$	September 30, 2019 \$	September 30, 2020 \$	September 30, 2019 \$
Sales	104,410	103,375	202,850	198,591
Cost of goods sold (note 4)	60,245	57,064	115,958	109,860
Amortization of plant and equipment used in production	2,616	1,894	5,217	3,761
Gross profit	41,549	44,417	81,675	84,970
Selling and administration (note 4)	21,727	28,976	41,884	53,047
Amortization of plant, equipment, and intangibles used in selling and administration	1,844	2,212	3,497	4,335
Interest	1,813	2,222	3,852	4,450
Net unrealized (gains) losses on derivative financial instruments (note 7)	(540)	(497)	191	68
Other expense	195	1,106	881	1,190
Earnings before income taxes	16,510	10,398	31,370	21,880
Provision for (recovery of) income taxes				
Current	4,804	2,698	8,943	5,486
Deferred	(968)	57	(1,449)	(41)
	3,836	2,755	7,494	5,445
Net earnings for the period	12,674	7,643	23,876	16,435
Net earnings per share				
Basic				
Class A shares	0.30	0.18	0.56	0.38
Class B shares	0.26	0.15	0.49	0.33
Diluted				
Class A shares	0.30	0.18	0.56	0.38
Class B shares	0.26	0.15	0.49	0.33

ANDREW PELLER LIMITED

Condensed Consolidated Statements of Comprehensive Income

Unaudited	For the three	For the three	For the six	For the six
These financial statements have not been reviewed by our auditors	months ended	months ended	months ended	months ended
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
(in thousands of Canadian dollars)	\$	\$	\$	\$
Net earnings for the period	12,674	7,643	23,876	16,435
Items that are never reclassified to net earnings				
Net actuarial gains (losses) on post-employment benefit plans	3	(649)	(1,424)	(1,635)
Deferred income taxes	(1)	168	370	425
Other comprehensive income (loss) for the year	2	(481)	(1,054)	(1,210)
Net comprehensive income for the period	12,676	7,162	22,822	15,225

ANDREW PELLER LIMITED
Condensed Consolidated Statements of Changes in Equity
For the six months ended September 30, 2020 and 2019

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, 2019	26,330	2,737	209,825	(4,141)	234,751
Net earnings for the period	-	-	16,435	-	16,435
Net actuarial losses (net of deferred tax recovery)	-	-	-	(1,210)	(1,210)
Net comprehensive income for the period	-	-	16,435	(1,210)	15,225
Issuance of class A non-voting shares	115	(115)	-	-	-
Share-based compensation (note 8)	-	1,020	-	-	1,020
Dividends (Class A \$0.0538 per share, Class B \$0.0468 per share)	-	-	(4,641)	-	(4,641)
Balance at September 30, 2019	26,445	3,642	221,619	(5,351)	246,355
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 8)	-	567	-	-	567
Dividends (Class A \$0.0538 per share, Class B \$0.0468 per share)	-	-	(4,580)	-	(4,580)
Balance at September 30, 2020	26,014	5,401	237,561	(4,642)	264,334

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, 2020	For the six months ended September 30, 2019
	\$	\$
Cash provided by (used in)		
Operating activities		
Net earnings for the period	23,876	16,435
Adjustments for:		
Loss on disposal of PP&E and intangibles	616	215
Amortization of plant, equipment, and intangible assets	8,714	8,096
Interest expense	3,852	4,450
Provision for income taxes	7,494	5,445
Post-employment benefits	(36)	(169)
Net unrealized loss (gain) on derivative financial instruments	191	68
Share-based compensation	381	759
Interest paid	(3,713)	(4,341)
Income taxes paid	(5,651)	(7,165)
	<u>35,724</u>	<u>23,793</u>
Changes in non-cash working capital items related to operations (note 5)	<u>5,464</u>	<u>(2,566)</u>
	<u>41,188</u>	<u>21,227</u>
Investing activities		
Purchase of property, plant and equipment	(3,655)	(10,206)
Purchase of intangibles	(9,701)	(216)
	<u>(13,356)</u>	<u>(10,422)</u>
Financing activities		
(Decrease) increase in bank indebtedness	(16,632)	41
Principal payments on lease obligations	(1,700)	(1,389)
Repayment of long-term debt	(4,924)	(4,924)
Dividends paid	(4,576)	(4,533)
	<u>(27,832)</u>	<u>(10,805)</u>
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.

Andrew Peller Limited
Notes to the Condensed Interim Consolidated Financial Statements
Unaudited
September 30, 2020 and September 30, 2019
(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.

In March 2020, the World Health Organization characterized the outbreak of the novel strain of coronavirus, specifically identified as COVID-19, as a global pandemic. This resulted in governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business, resulting in a global economic slowdown. Equity markets have experienced significant volatility and weakness and governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. While the Company is deemed an essential service, there is uncertainty as to the likely effects this outbreak will have on the business.

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, 2020 and 2019, 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, 2020 and 2019. Changes to the Company’s accounting policies from those disclosed in its consolidated financial statements for the years ended March 31, 2020 and 2019 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 11, 2020.

(B) Recently adopted accounting pronouncements

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

These standards have been amended to use a consistent definition of materiality throughout all accounting standards, clarify the explanation of the definition of material and incorporate some of the guidance in IAS 1 about immaterial information. The amendments are effective for annual periods beginning on or after

Andrew Peller Limited
Notes to the Condensed Interim Consolidated Financial Statements
Unaudited
September 30, 2020 and September 30, 2019
(in thousands of Canadian dollars, except per share amounts)

January 1, 2020. The adoption of these amendments did not have a significant impact on the consolidated financial statements.

IFRS 3, Business Combinations

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

(C) Recently issued 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 is not expected to have a significant impact 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. 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 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.

Andrew Peller Limited
Notes to the Condensed Interim Consolidated Financial Statements
Unaudited
September 30, 2020 and September 30, 2019
(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 2021 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, 2020		For the three months ended September 30, 2019		For the six months ended September 30, 2020		For the six months ended September 30, 2019
Raw materials and consumables	46,333	\$	47,912		89,746	\$	88,427
Employee compensation and benefits	19,103		20,858		38,100		39,696
Advertising, promotion and distribution	5,488		7,523		10,301		14,122
Occupancy	3,036		1,245		5,377		5,320
Repairs and maintenance	1,921		2,340		2,793		4,082
Other external charges	6,090		6,162		11,526		11,260
	<u>81,972</u>	<u>\$</u>	<u>86,040</u>		<u>157,842</u>	<u>\$</u>	<u>162,907</u>

Andrew Peller Limited
Notes to the Condensed Interim Consolidated Financial Statements
Unaudited
September 30, 2020 and September 30, 2019
(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, 2020	For the six months ended September 30, 2019
Accounts receivable	\$ 4,177	\$ (5,078)
Inventory	4,180	6,729
Biological assets	(3,150)	(2,161)
Prepaid expenses and other assets	(1,425)	(395)
Accounts payable and accrued liabilities	1,682	(1,661)
	<hr/> \$ 5,464	<hr/> \$ (2,566)

6 Related parties and management compensation

The compensation expense recorded for directors and members of the Executive Management Team of the Company was \$1,754 (2019 - \$1,541) for the three months ended September 30, 2020 and \$3,068 (2019 - \$3,320) for the six months ended September 30, 2020. 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

Andrew Peller Limited
Notes to the Condensed Interim Consolidated Financial Statements
Unaudited
September 30, 2020 and September 30, 2019
(in thousands of Canadian dollars, except per share amounts)

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 loss on derivative financial instruments are comprised of:

	For the three months ended September 30, 2020	For the three months ended September 30, 2019	For the six months ended September 30, 2020	For the six months ended September 30, 2019
Unrealized (gains) losses on interest rate swaps	\$ (370)	\$ (354)	\$ (382)	\$ (5)
Unrealized (gains) losses on foreign exchange forward contracts	(170)	(143)	573	73
	<u>\$ (540)</u>	<u>\$ (497)</u>	<u>\$ 191</u>	<u>\$ 68</u>

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

	September 30, 2020		
	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	\$ -	\$ 3,154	\$ -
Foreign exchange forward contracts asset	-	211	-
	March 31, 2020		
	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	\$ -	\$ 3,536	\$ -
Foreign exchange forward contracts asset	-	783	-

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

Andrew Peller Limited
Notes to the Condensed Interim Consolidated Financial Statements
Unaudited
September 30, 2020 and September 30, 2019
(in thousands of Canadian dollars, except per share amounts)

8 Share based compensation

On September 13, 2017, the Company established a new share based compensation plan comprised of stock options, performance share units (PSUs) and deferred share units (DSUs). The impact of the share based compensation expense recorded for the six months ended September 30, 2020 and 2019 is summarized as follows:

	For the six months ended September 30, 2020	For the six months ended September 30, 2019
1,050,533 stock options (March 31, 2020 – 765,200) (a)	\$ 286	\$ 438
220,882 performance share units (March 31, 2020 – 219,876) (b)	95	321
65,669 deferred share units (March 31, 2020 – 72,459) (c)	-	-
	<u>\$ 381</u>	<u>\$ 759</u>

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

The maximum number of shares that may be issued under all share based compensation arrangements implemented by the Company, including the stock option plan, the PSU plan and the DSU plan, may not exceed 10% of the total number of Class A non-voting common shares issued and outstanding from time to time. As at September 30, 2020, the Company had 3,195,925 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.

	Number of options	Weighted average exercise price per share \$
Balance – April 1, 2020	765,200	14.19
Options granted	494,900	9.29
Options forfeited	(209,567)	(14.08)
	<u>1,050,533</u>	<u>11.90</u>
Exercisable	334,953	13.88

Andrew Peller Limited
Notes to the Condensed Interim Consolidated Financial Statements
Unaudited
September 30, 2020 and September 30, 2019
(in thousands of Canadian dollars, except per share amounts)

For options granted during the three and six months ended September 30, 2020, 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	\$1.99
Expected volatility ⁽¹⁾	24.41%
Dividend yield	1.82%
Risk-free interest rate	0.54%
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 are exchanged for Class A non-voting common shares may be higher or lower than the number of units originally granted to a participant.

	Number of units	Grant date fair value per unit \$
Balance – April 1, 2020	219,876	14.20
Units granted	105,830	9.29
Units exercised	(44,419)	(11.74)
Units forfeited	(60,405)	(14.15)
	220,882	12.46

c) DSU plan

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

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.

Andrew Peller Limited
Notes to the Condensed Interim Consolidated Financial Statements
Unaudited
September 30, 2020 and September 30, 2019
(in thousands of Canadian dollars, except per share amounts)

	Number of units	Grant date fair value per unit \$
Balance – April 1, 2020	72,459	17.19
Units issued	19,840	9.48
Units exercised	(26,630)	(18.22)
	<u>65,669</u>	<u>14.40</u>