Andrew Peller Limited

Condensed Interim Consolidated Financial Statements

December 31, 2021

ANDREW PELLER LIMITED
Condensed Consolidated Balance Sheets
Unaudited
These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)	December 31 2021 $	March 31 2021 $
Assets		
Current Assets		
Cash	**5,402**	2,737
Accounts receivable	**23,077**	28,896
Inventory	**193,272**	178,727
Biological assets	**-**	2,815
Prepaid expenses and other assets	**5,865**	4,879
Income taxes receivable	**-**	5,973
Current portion of derivative financial instruments (note 7)	**2**	-
Assets held for sale (note 9)	**-**	1,275
	227,618	225,302
Property, plant, and equipment	**223,479**	223,931
Intangible assets	**41,556**	39,650
Goodwill	**53,638**	53,638
	546,291	542,521
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	**37,358**	46,487
Dividends payable	**2,587**	2,404
Income taxes payable	**995**	-
Current portion of lease obligations	**3,894**	3,826
Current portion of derivative financial instruments (note 7)	**836**	1,901
	45,670	54,618
Long-term debt	**180,379**	174,544
Long-term derivative financial instruments (note 7)	**-**	717
Lease obligations	**12,534**	13,987
Post-employment benefit obligations (note 10)	**2,870**	3,316
Deferred income taxes	**30,895**	29,765
	272,348	276,947
Shareholders' Equity		
Capital stock (note 8)	**27,290**	27,020
Contributed surplus	**5,709**	4,950
Retained earnings	**243,703**	236,773
Accumulated other comprehensive loss	**(2,759)**	(3,169)
	273,943	265,574
	546,291	542,521

Events after reporting period (note 12)

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, except per share amounts)	For the three months ended December 31, 2021 $	For the three months ended December 31, 2020 $	For the nine months ended December 31, 2021 $	For the nine months ended December 31, 2020 $
Sales	**103,485**	111,060	**295,106**	313,911
Cost of goods sold (note 4)	**67,191**	69,523	**179,143**	185,481
Amortization of plant and equipment used in production	**2,283**	2,657	**6,893**	7,874
Gross profit	**34,011**	38,880	**109,070**	120,556
Selling and administration (note 4)	**24,210**	25,314	**76,145**	67,198
Amortization of plant, equipment, and intangibles used in selling and administration	**3,144**	1,668	**8,921**	5,165
Interest	**2,424**	1,637	**7,175**	5,489
Net unrealized (gain) loss on derivative financial instruments (note 7)	**(359)**	170	**(1,784)**	361
Gain on sale of land and property (note 9)	**-**	-	**(7,518)**	-
Gain on debt modification and financing fees	**-**	(2,312)	**-**	(2,312)
Other expense (income)	**(103)**	148	**264**	1,029
Earnings before income taxes	**4,695**	12,255	**25,867**	43,626
Income taxes				
Current	**1,178**	1,492	**5,333**	10,434
Deferred	**410**	527	**1,047**	(922)
	1,588	2,019	**6,380**	9,512
Net earnings for the period	**3,107**	10,236	**19,487**	34,114
Net earnings per share				
Basic				
Class A shares	**0.07**	0.24	**0.46**	0.80
Class B shares	**0.06**	0.21	**0.40**	0.70
Diluted				
Class A shares	**0.07**	0.24	**0.46**	0.80
Class B shares	**0.06**	0.21	**0.40**	0.70

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

ANDREW PELLER LIMITED

Condensed Consolidated Statements of Comprehensive Income

Unaudited These financial statements have not been reviewed by our auditors (in thousands of Canadian dollars)	For the three months ended December 31, 2021 $	For the three months ended December 31, 2020 $	For the nine months ended December 31, 2021 $	For the nine months ended December 31, 2020 $
Net earnings for the period	**3,107**	10,236	**19,487**	34,114
Items that are never reclassified to net earnings				
Net actuarial gains (losses) on post-employment benefit plans	**87**	(364)	**493**	(1,788)
Deferred income taxes	**23**	95	**(83)**	465
Other comprehensive income (loss) for the year	**110**	(269)	**410**	(1,323)
Net comprehensive income for the period	**3,217**	9,967	**19,897**	32,791

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 nine months ended December 31, 2021 and 2020

Unaudited

These financial statements have not been reviewed by our auditors

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

	Capital stock $	Contributed surplus $	Retained earnings $	Accumulated other comprehensive loss $	Total shareholders' equity $
Balance at April 1, 2020	26,014	4,834	218,265	(3,588)	245,525
Net earnings for the period	-	-	34,114	-	34,114
Net actuarial losses (net of deferred tax recovery)	-	-	-	(1,323)	(1,323)
Net comprehensive income for the period	-	-	34,114	(1,323)	32,791
Share-based compensation (note 11)	-	929	-	-	929
Dividends (Class A $0.162 per share, Class B $0.141 per share)	-	-	(6,874)	-	(6,874)
Balance at December 31, 2020	26,014	5,763	245,505	(4,911)	272,371
Balance at April 1, 2021	27,020	4,950	236,773	(3,169)	265,574
Net earnings for the period	-	-	19,487	-	19,487
Net actuarial gains (net of deferred tax provision)	-	-	-	410	410
Net comprehensive income for the period	-	-	19,487	410	19,897
Repurchase and cancellation of class A non-voting shares (note 8)	(449)	-	(4,761)	-	(5,210)
Exercise of share options and issuance of Class A non-voting shares (note 11)	719	(719)	-	-	-
Share-based compensation (note 11)	-	1,478	-	-	1,478
Dividends (Class A $0.185 per share, Class B $0.161 per share)	-	-	(7,796)	-	(7,796)
Balance at December 31, 2021	27,290	5,709	243,703	(2,759)	273,943

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 nine months ended December 31, 2021 $	For the nine months ended December 31, 2020 $
Cash provided by (used in)		
Operating activities		
Net earnings for the period	**19,487**	34,114
Adjustments for:		
Loss (gain) on disposal of PP&E and intangibles	**(7,518)**	610
Amortization of plant, equipment, and intangible assets	**15,814**	13,039
Amortization of deferred financing costs	**22**	-
Interest expense	**7,153**	5,489
Provision for income taxes	**6,380**	9,512
Post-employment benefits	**47**	(54)
Net unrealized (gain) loss on derivative financial instruments	**(1,784)**	360
Share-based compensation	**1,352**	744
Gain on debt refinancing	**-**	(2,861)
Interest paid	**(6,092)**	(4,655)
Income taxes paid	**1,635**	(4,929)
	36,496	51,369
Changes in non-cash working capital items related to operations (note 5)	**(14,626)**	(9,790)
	21,870	41,579
Investing activities		
Proceeds from disposal of property, plant and equipment	**8,793**	-
Purchase of property, plant and equipment	**(11,306)**	(5,556)
Purchase of intangibles	**(5,855)**	(14,165)
	(8,368)	(19,721)
Financing activities		
Principal payments on lease obligations	**(3,014)**	(2,560)
Repayment of long-term debt	**(36,000)**	(58,958)
Drawings on long-term debt	**41,000**	50,741
Deferred financing fees paid	**-**	(656)
Repurchase and cancellation of class A non-voting shares	**(5,210)**	-
Dividends paid	**(7,613)**	(6,868)
	(10,837)	(18,301)
Increase in cash during the period	**2,665**	3,557
Cash, beginning of period	**2,737**	-
Cash, end of period	**5,402**	**3,557**

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, spirits, craft beer and wine related products. The Company's products are produced and sold predominantly in Canada. The Company is incorporated under the Canada Business Corporations Act and is domiciled in Canada. The address of its head office is 697 South Service Road, Grimsby, Ontario, L3M 4E8.

The COVID-19 pandemic has continued to impact the financial results of the Company as government-mandated closures of restaurants and hospitality businesses and restricted international travel remained in place for part of the nine-month period ended December 31, 2021. Uncertainty resulting from the ongoing pandemic will continue to depend on future developments, including the duration of the pandemic and its impact on the overall economy and related advisories and restrictions.

2 Significant accounting policies

(A) Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of condensed interim financial statements, including International Accounting Standard ("IAS") 34 – Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the years ended March 31, 2021 and 2020, which have been prepared in accordance with IFRS as issued by the IASB.

The note disclosures for these condensed interim consolidated financial statements only present material changes to the disclosure found in the Company's audited consolidated financial statements for the years ended March 31, 2021 and 2020. Changes to the Company's accounting policies from those disclosed in its consolidated financial statements for the years ended March 31, 2021 and 2020 are described in note 2 (B), recently adopted accounting pronouncements.

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

These condensed interim consolidated financial statements were approved by the Board of Directors on February 9, 2022.

(B) Recently adopted accounting pronouncements

IFRS 16, Leases
This standard has been amended to provide lessees with an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. This amendment is effective for annual periods beginning on or after June 1, 2020. At this time, the Company has not received rent concessions related to COVID-19 and therefore, this amendment has not had an impact on the consolidated financial statements.

London Inter-bank Offered Rate (LIBOR) reform with amendments to IFRS 9, IFRS 7, Financial Instruments: Disclosures and IFRS 16.
In August 2020, the IASB issued Interest Rate Benchmark Reform Phase 2 (the Reform Phase 2), which complemented the Reform Phase 1 and amended various standards requiring interest rates or interest rate calculations. The Reform Phase 2 provides guidance on the impacts on the financial statements after the LIBOR reform and its replacement with alternative benchmark rates. The amendments are effective for annual periods beginning on or after January 1, 2021. The adoption of these amendments did not have a significant impact on the consolidated financial statements.

(C) Recently issued accounting pronouncements

IAS 16, Property, Plant and Equipment
This standard has been amended to prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use, clarify that an entity is "testing whether the asset is functioning properly" when it assesses the technical and physical performance of the asset and require certain related disclosures. The amendments are effective for annual periods beginning on or after January 1, 2022. The Company has not yet assessed the impact of the amendments on the consolidated financial statements.

IAS 37, Provisions
This standard has been amended to clarify that, before a separate provision for an onerous contract is established, an entity recognizes an impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract and to clarify the meaning of costs to fulfil a contract. The amendments are effective for annual periods beginning on or after January 1, 2022. The Company has not yet assessed the impact of the amendments on the consolidated financial statements.

IFRS 9, Financial Instruments
This standard has been amended to address which fees should be included in the 10% test for derecognition of financial liabilities. This amendment is effective for annual periods beginning on or after January 1, 2022. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

IAS 1, Presentation of Financial Statements, and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors
This standard has been amended to clarify the classification of liabilities as current or non-current depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. The amendment also clarifies the meaning of settlement of a liability. This amendment is effective for annual periods beginning on or after January 1, 2023. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

IAS 12, Income Taxes
This standard has been amended to require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

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

3 Seasonality

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

4 Expenses

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

	For the three months ended December 31, 2021	For the three months ended December 31, 2020	For the nine months ended December 31, 2021	For the nine months ended December 31, 2020
Raw materials and consumables	$ 47,821	$ 53,706	$ 132,523	$ 143,452
Employee compensation and benefits	22,856	20,485	64,824	58,585
Advertising, promotion and distribution	8,712	7,990	25,075	18,291
Occupancy	3,276	2,961	7,341	8,337
Repairs and maintenance	2,027	2,580	6,062	5,373
Other external charges	6,709	7,115	19,463	18,641
	$ 91,401	$ 94,837	$ 255,288	$ 252,679

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 nine months ended December 31, 2021	For the nine months ended December 31, 2020
Accounts receivable	$ 5,819	$ 11,291
Inventory	(14,545)	(6,844)
Biological assets	2,815	1,951
Prepaid expenses and other assets	(986)	(1,123)
Accounts payable and accrued liabilities	(7,729)	(15,065)
	$ (14,626)	$ (9,790)

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

6 Related parties and management compensation

The compensation expense recorded for directors and members of the Executive Management Team of the Company was $1,143 (2020 - $1,782) for the three months ended December 31, 2021 and $4,510 (2020 - $4,850) for the nine months ended December 31, 2021. The compensation expense consists of amounts that will primarily be settled within twelve months of being earned.

7 Financial instruments

Fair value

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

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

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

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

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

The net unrealized (gain) loss on derivative financial instruments is comprised of:

	For the three months ended December 31, 2021	For the three months ended December 31, 2020	For the nine months ended December 31, 2021	For the nine months ended December 31, 2020
Unrealized gains on interest rate swaps	$ (579)	$ (405)	$ (1,478)	$ (787)
Unrealized (gains) losses on foreign exchange forward contracts	220	575	(306)	1,148
	$ (359)	$ 170	$ (1,784)	$ 361

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

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

			December 31, 2021
	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)
Interest rate swap liability	$ -	$ 836	$ -
Foreign exchange forward contracts asset	-	2	-

			March 31, 2021
	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)
Interest rate swap liability	$ -	$ 2,314	$ -
Foreign exchange forward contracts liability	-	304	-

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

Liquidity Risk

On November 10, 2021, the Company amended and restated its credit agreement with its lenders to amend its interest charge coverage ratio financial covenant for the three-month period ending December 31, 2021. On December 22, 2021, the Company obtained a waiver from its lenders in connection with the financial covenants of its credit agreement for the fiscal quarter ending December 31, 2021.

8 Normal course issuer bid

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

The total number of Class A non-voting common shares repurchased for cancellation under the NCIB during the nine-month period ended December 31, 2021 amounted to 598,600 Class A non-voting common shares, at a weighted average price of $8.70 per Class A non-voting common share, for a total cash consideration of $5,210. For the nine-month period ended December 31, 2021, the Company's share capital was reduced by $449 and the remaining $4,761 was accounted for as a decrease to retained earnings.

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

9 Sale of land and property

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

10 Post-employment benefit obligations

In November 2021, the Company entered into an agreement to purchase an irrevocable group annuity contract to fund the accrued benefit obligation associated with one of the Company's defined benefit pension plans. In connection with this transaction, the Company recognized a settlement loss of $110, which was recorded in selling and administration expenses in the condensed consolidated statement of earnings. This transaction has no impact on the amount, timing, or form of the monthly retirement benefit payments to the affected retirees and beneficiaries.

11 Share based compensation

On September 13, 2017, the Company established a share based compensation plan comprised of stock options, performance share units (PSUs), restricted share units (RSUs) and deferred share units (DSUs). The impact of the share based compensation expense recorded for the nine months ended December 31, 2021 and 2020 is summarized as follows:

	For the nine months ended December 31, 2021	For the nine months ended December 31, 2020
1,310,800 stock options (March 31, 2021 – 1,041,800) (a)	$ 624	$ 418
292,731 performance share units (March 31, 2021 – 218,562) (b)	623	326
62,750 restricted share units (March 31, 2021 – nil) (c)	105	-
57,799 deferred share units (March 31, 2021 – 65,669) (d)	-	-
	$ 1,352	$ 744

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

The maximum number of shares that may be issued under all share based compensation arrangements implemented by the Company, including the stock option plan, the PSU plan, the RSU plan and the DSU plan, may not exceed 10% of the total number of Class A non-voting common shares issued and outstanding from time to time. As at December 31, 2021, the Company had 3,217,918 Class A non-voting common shares reserved for issuance under the share based compensation arrangements.

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

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.

	December 31, 2021		**December 31, 2020**	
	Number of Options	**Weighted average exercise price per share $**	**Number of Options**	**Weighted average exercise price per share $**
Balance – Beginning of year	1,041,800	11.89	765,200	14.20
Issued	290,700	8.75	500,600	9.31
Forfeited	(21,700)	(11.63)	(220,436)	(14.23)
Balance – End of year	1,310,800	11.19	1,045,364	11.90
Exercisable	619,986	12.95	341,819	13.87

For options granted during the three and nine months ended December 31, 2021, the fair value was estimated on the grant date using the Black-Scholes fair value option pricing model using the following weighted average assumptions:

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

(1) Expected volatility was determined using historical volatility

b) PSU plan

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

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

	December 31, 2021		December 31, 2020	
	Number of Options	**Weighted average exercise price per share**	**Number of Options**	**Weighted average exercise price per share**
		$		**$**
Balance – Beginning of year	218,562	12.44	219,876	14.19
Issued	125,320	8.75	107,050	9.31
Exercised	(28,416)	(17.16)	(44,419)	(11.74)
Forfeited	(22,735)	(15.97)	(63,945)	(14.25)
Balance – End of year	292,731	10.13	218,562	12.44

c) RSU plan

The Company has established a RSU plan for employees and officers of the Company. RSUs represent the right to receive Class A non-voting common shares settled by the issuance of treasury shares or shares purchased on the open market. RSUs will vest ratably over the Restriction Period, as to one-third of the RSUs on each anniversary of the grant date, commencing on the first anniversary of the grant date.

	December 31, 2021		December 31, 2020	
	Number of Options	**Weighted average exercise price per share**	**Number of Options**	**Weighted average exercise price per share**
		$		**$**
Balance – Beginning of year	-	-	-	-
Issued	62,750	8.75	-	-
Balance – End of year	62,750	8.75	-	-

d) DSU plan

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

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

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

	December 31, 2021		December 31, 2020	
	Number of Options	Weighted average exercise price per share $	Number of Options	Weighted average exercise price per share $
Balance – Beginning of year	65,669	14.40	72,459	17.19
Issued	12,770	9.35	19,840	9.48
Exercised	(20,640)	(11.19)	(26,630)	(18.22)
Balance – End of year	57,799	14.43	65,669	14.40

12 Subsequent event

On February 8, 2022, the Company amended and restated its credit agreement with its lenders to amend its financial covenants for reporting periods subsequent to December 31, 2021.