Andrew Peller Limited

Condensed Interim Consolidated Financial Statements

December 31, 2015

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 2015 $	March 31 2015 Restated(1) $	April 1 2014 Restated(1) $
Assets			
Current Assets			
Accounts receivable	**29,918**	25,616	22,693
Inventory	**122,719**	117,812	120,751
Biological assets	**-**	1,129	1,062
Prepaid expenses and other assets	**2,568**	2,207	1,381
Income taxes recoverable	**-**	-	240
	155,205	146,764	146,127
Property, plant, and equipment	**104,956**	104,951	104,945
Intangibles	**11,412**	12,331	13,209
Goodwill	**37,473**	37,473	37,473
	309,046	301,519	301,754
Liabilities			
Current Liabilities			
Bank indebtedness	**30,060**	32,522	54,407
Accounts payable and accrued liabilities	**32,680**	36,712	37,371
Dividends payable	**1,564**	1,460	1,391
Income taxes payable	**3,893**	1,902	-
Current portion of derivative financial instruments	**652**	992	1,002
Current portion of long-term debt	**4,116**	4,194	7,392
	72,965	77,782	101,563
Long-term debt	**49,265**	52,269	38,328
Long-term derivative financial instruments	**1,358**	1,447	268
Post-employment benefit obligations	**5,328**	6,165	6,132
Deferred income	**202**	506	910
Deferred income taxes	**16,203**	15,975	16,003
	145,321	154,144	163,204
Shareholders' Equity			
Capital stock	**7,026**	7,026	7,026
Retained earnings	**156,699**	140,349	131,524
	163,725	147,375	138,550
	309,046	301,519	301,754

(1) Restated to reflect the early adoption of the amendments to IAS 16 and IAS 41.

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

ANDREW PELLER LIMITED

Condensed Consolidated Statements of Earnings

Unaudited

These financial statements have not been reviewed by our auditors

	For the three months ended	For the three months ended	For the nine months ended	For the nine months ended
	December 31, 2015	December 31, 2014 Restated(1)	December 31, 2015	December 31, 2014 Restated(1)
(in thousands of Canadian dollars)	$	$	$	$
Sales	**91,775**	84,630	**260,093**	246,906
Cost of goods sold (note 4)	**58,498**	53,478	**162,289**	156,613
Amortization of plant and equipment used in production	**1,506**	1,468	**4,525**	4,359
Gross profit	**31,771**	29,684	**93,279**	85,934
Selling and administration (note 4)	**20,832**	20,128	**60,502**	59,744
Amortization of plant, equipment, and intangibles used in selling and administration	**893**	815	**2,627**	2,442
Interest	**771**	1,166	**2,789**	3,722
Operating earnings	**9,275**	7,575	**27,361**	20,026
Net unrealized (gains) losses on derivative financial instruments	**(525)**	50	**(921)**	(50)
Other expenses (income)	**68**	(72)	**(61)**	(186)
Earnings before income taxes	**9,732**	7,597	**28,343**	20,262
Provision for (recovery of) income taxes				
Current	**2,345**	1,964	**7,322**	5,035
Deferred	**241**	(49)	**163**	513
	2,586	1,915	**7,485**	5,548
Net earnings for the period	**7,146**	5,682	**20,858**	14,714
Net earnings per share				
Basic and diluted				
Class A shares	**0.51**	0.41	**1.50**	1.06
Class B shares	**0.45**	0.36	**1.30**	0.92

(1) Restated to reflect the early adoption of the amendments to IAS 16 and IAS 41.

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

ANDREW PELLER LIMITED

Condensed Consolidated Statements of Comprehensive Income

Unaudited
These financial statements have not been reviewed by our auditors

	For the three months ended	For the three months ended	For the nine months ended	For the nine months ended
	December 31, 2015	December 31, 2014 Restated(1)	December 31, 2015	December 31, 2014 Restated(1)
(in thousands of Canadian dollars)	$	$	$	$
Net earnings for the period	**7,146**	5,682	**20,858**	14,714
Items that are never reclassified to net earnings				
Net actuarial (losses) gains on post-employment benefit plans	**(447)**	(89)	**249**	(1,033)
Deferred income tax recovery (provision)	**116**	23	**(65)**	268
Other comprehensive (loss) income for the period	**(331)**	(66)	**184**	(765)
Net comprehensive income for the period	**6,815**	5,616	**21,042**	13,949

(1) Restated to reflect the early adoption of the amendments to IAS 16 and IAS 41.
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, 2015 and 2014

Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)

	Capital stock $	Retained earnings $	Total shareholders' equity $
Balance at April 1, 2014 as reported	7,026	130,977	138,003
Impact of IAS 16 and IAS 41 amendments	-	547	547
Balance at April 1, 2014 as restated	7,026	131,524	138,550
Net earnings for the period	-	14,714	14,714
Net actuarial losses (net of $268 deferred tax recovery)	-	(765)	(765)
Net comprehensive income for the period	-	13,949	13,949
Dividends (Class A $0.315 per share, Class B $0.274 per share)	-	(4,380)	(4,380)
Balance at December 31, 2014	7,026	141,093	148,119
Balance at April 1, 2015	7,026	140,349	147,375
Net earnings for the period	-	20,858	20,858
Net actuarial gains (net of $65 deferred tax provision)	-	184	184
Net comprehensive income for the period	-	21,042	21,042
Dividends (Class A $0.338 per share, Class B $0.293 per share)	-	(4,692)	(4,692)
Balance at December 31, 2015	7,026	156,699	163,725

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

ANDREW PELLER LIMITED

Condensed Consolidated Statements of Cash Flows

Unaudited

These financial statements have not been reviewed by our auditors

	For the nine months ended December 31, 2015	For the nine months ended December 31, 2014 Restated[1]
(in thousands of Canadian dollars)	**$**	**$**
Cash provided by (used in)		
Operating activities		
Net earnings for the period	**20,858**	14,714
Adjustments for:		
Loss on disposal of property and equipment	**465**	284
Amortization of plant, equipment, and intangible assets	**7,152**	6,801
Interest expense	**2,789**	3,722
Provision for income taxes	**7,485**	5,548
Post-employment benefits	**(588)**	(602)
Deferred income	**(304)**	(304)
Net unrealized gains on derivative financial instruments	**(921)**	(50)
Interest paid	**(2,785)**	(3,548)
Income taxes paid	**(5,331)**	(2,479)
	28,820	24,086
Changes in non-cash working capital items related to operations (note 5)	**(12,099)**	(6,499)
	16,721	17,587
Investing activities		
Proceeds from disposal of property, plant and equipment	**20**	11
Purchase of property, plant and equipment	**(6,517)**	(4,408)
Purchase of intangibles	**-**	(369)
	(6,497)	(4,766)
Financing activities		
Decrease in bank indebtedness	**(2,462)**	(20,163)
Issuance of long-term debt	**-**	15,020
Repayment of long-term debt	**(3,078)**	(2,750)
Deferred financing costs	**(96)**	(617)
Dividends paid	**(4,588)**	(4,311)
	(10,224)	(12,821)
Increase (decrease) in cash during the period	**-**	-
Cash, beginning of period	**-**	-
Cash, end of period	-	-

(1) Restated to reflect the early adoption of the amendments to IAS 16 and IAS 41.

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

1 Nature of operations

Andrew Peller Limited (the “Company”) produces and markets wine and wine related products. The Company’s products are produced and sold predominantly in Canada. The Company is incorporated under the Canada Business Corporations Act and is domiciled in Canada. The address of its head office is 697 South Service Road, Grimsby, Ontario, L3M 4E8.

2 Significant accounting policies

(A) Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of condensed interim financial statements, including International Accounting Standard (“IAS”) 34 – Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the years ended March 31, 2015 and 2014, 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, 2015 and 2014. Changes to the Company’s accounting policies from those disclosed in its consolidated financial statements for the years ended March 31, 2015 and March 31, 2014 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 thousands, except per share amounts.

These condensed interim consolidated financial statements were approved by the Board of Directors on February 10, 2016.

(B) Recently adopted accounting pronouncements

During May 2014 the IASB issued amendments to IAS 16 – Property, Plant, and Equipment and IAS 41 – Agriculture which requires bearer plants to be classified as property, plant, and equipment and accounted for under IAS 16. The amended standards are effective for annual periods beginning on or after January 1, 2016. Early application of this standard is permitted.

The Company controls bearer plants consisting of grape vines and has elected to apply these amendments effective April 1, 2015, which is prior to the mandatory effective date. The earliest comparative period presented in the financial statements after adopting the amended standards began on April 1, 2014. The Company has elected to measure bearer plants using their fair value on that date as their deemed cost.

The following tables summarize the impact of adopting amended IAS 16 – Property, Plant, and Equipment and IAS 41 – Agriculture.

Impact on the consolidated balance sheets		**March 31, 2015 as reported**	**Impact of IAS 16 and IAS 41 changes**	**March 31, 2015 as restated**	**April 1, 2014 as reported**	**Impact of IAS 16 and IAS 41 changes**	**April 1, 2014 as restated**
(in thousands of Canadian dollars)							
Property, plant and equipment	(1)	$ 90,955	$ 13,996	$ 104,951	$ 90,152	$ 14,793	$ 104,945
Biological assets	(1)	13,982	(13,982)	-	14,054	(14,054)	-
Total assets		301,505	14	301,519	301,015	739	301,754
Deferred income taxes	(2)	15,971	4	15,975	15,811	192	16,003
Total liabilities		154,140	4	154,144	163,012	192	163,204
Retained earnings		140,339	10	140,349	130,977	547	131,524
Total shareholders' equity		147,365	10	147,375	138,003	547	138,550

Impact on the consolidated statement of earnings and comprehensive income		**For the three months ended December 31, 2014 as reported**	**Impact of IAS 16 and IAS 41 changes**	**For the three months ended December 31, 2014 as restated**	**For the nine months ended December 31, 2014 as reported**	**Impact of IAS 16 and IAS 41 changes**	**For the nine months ended December 31, 2014 as restated**
(in thousands of Canadian dollars)							
Cost of goods sold	(1)	$ 53,363	$ 115	$ 53,478	$ 156,351	$ 262	$ 156,613
Amortization of plant and equipment used in production	(1)	1,283	185	1,468	3,800	559	4,359
Gross profit		29,984	(300)	29,684	86,755	(821)	85,934
Operating earnings		7,875	(300)	7,575	20,847	(821)	20,026
Other expenses (income)	(1)	81	(153)	(72)	190	(376)	(186)
Earnings before income taxes		7,744	(147)	7,597	20,707	(445)	20,262
Provision for (recovery of) income taxes - deferred	(2)	(10)	(39)	(49)	629	(116)	513
Net earnings for the period		5,790	(108)	5,682	15,043	(329)	14,714
Net earnings per share							
Basic and diluted							
Class A shares		0.41	-	0.41	1.08	(0.02)	1.06
Class B shares		0.36	-	0.36	0.94	(0.02)	0.92
Net comprehensive income for the period		5,724	(108)	5,616	14,278	(329)	13,949

Impact on the consolidated statement of cash flows (3)		**For the nine months ended December 31, 2014 as reported**		**Impact of IAS 16 and IAS 41 changes**		**For the nine months ended December 31, 2014 as restated**
(in thousands of Canadian dollars)						
Net earnings for the period	$	15,043	$	(329)	$	14,714
Loss on disposal of property and equipment		22		262		284
Amortization of plant, equipment and intangible assets		6,242		559		6,801
Provision for income taxes		5,664		(116)		5,548
Revaluation of biological assets		376		(376)		-
Cash flow from operating activities		17,587		-		17,587

1) Under the amended standards, grape vines are within the scope of property, plant, and equipment rather than biological assets. The Company elected to measure the grape vines at fair value at April 1, 2014 and to use this measurement basis as the deemed cost when applying IAS 16 after this date. In applying IAS 16, the Company amortizes grape vines on owned property over a 20 year period and over the remaining lease period for grape vines controlled by the Company that were planted on leased property. Vine disposals and write-downs were measured using this revised measurement basis and are recorded in cost of goods sold. Prior to adoption of the amended standards, the grape vines were measured at fair value less cost to sell at each reporting period and revaluation adjustments were recorded in other expenses (income).
2) Deferred income taxes were adjusted to reflect the income tax effect of the adjustment described in 1.
3) Certain items within operating activities in the condensed consolidated statements of cash flows have been reclassified as a result of adopting the IAS 16 and IAS 41 amendments as illustrated above. Other than presentation, there was no impact on the condensed consolidated statements of cash flows as a result of the adoption of the amendments to IAS 16 and IAS 41.

(C) Recently issued accounting pronouncements

During December 2014, the IASB issued amendments to IAS 1 – Presentation of Financial Statements which clarifies the concept of materiality as it applies to information disclosed in the financial statements. The amendments also provide guidance on the presentation of subtotals, the structure of the notes to the financial statements, and the disclosure of significant accounting policies. These amendments are effective for first interim periods within annual periods beginning on or after January 1, 2016. The Company is currently evaluating the potential impact of this standard.

During July 2014, the IASB issued the complete version of IFRS 9 – Financial Instruments: Classification and Measurement of Financial Assets and Financial Liabilities. IFRS 9 will replace IAS 39 – Financial Instruments: Recognition and Measurement. In addition, IFRS 7 – Financial Instruments: Disclosures was amended to include additional disclosure requirements on transition to IFRS 9. The mandatory effective date of applying these standards is for annual periods beginning on or after January 1, 2018. The standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used. The standard requires that for financial liabilities measured at fair value, any changes in an entity's own credit risk are generally to be presented in other comprehensive income instead of net earnings. A new hedge accounting model is included in the standard, as well as increased disclosure requirements about risk management activities for entities that apply hedge accounting. The Company is currently evaluating the potential impact of this standard.

During May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers which supersedes IAS 18 – Revenue and IAS 11 – Construction Contracts. The standard details a revised model for the recognition of revenue from contracts with customers. The standard is effective for first interim periods within annual periods beginning on or after January 1, 2018. The Company is currently evaluating the potential impact of adopting this amended standard.

During January 2016, the IASB issued IFRS 16 – Leases which supersedes IAS 17 – Leases. The standard includes the requirement for lessees to recognize assets and liabilities for the rights and obligations created by leases. The standard is effective for first interim periods within annual periods beginning on or after January 1, 2019. The Company is currently evaluating the potential impact of adopting this amended standard.

3 Seasonality

The third quarter of each fiscal year is historically the strongest in terms of sales and net earnings due to increased consumer purchasing of the Company's products during the holiday season.

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

4 Expenses

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

	For the three months ended December 31, 2015	For the three months ended December 31, 2014	For the nine months ended December 31, 2015	For the nine months ended December 31, 2014
Raw materials and consumables	$ 48,140	$ 42,721	$ 132,880	$ 127,640
Employee compensation and benefits	14,834	14,843	43,826	43,374
Advertising, promotion and distribution	7,187	7,472	20,466	21,205
Occupancy	2,890	3,039	8,361	8,175
Repairs and maintenance	1,869	1,739	4,543	4,363
Other external charges	4,410	3,792	12,715	11,600
	$ 79,330	$ 73,606	$ 222,791	$ 216,357

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, 2015	For the nine months ended December 31, 2014
Accounts receivable	$ (4,302)	$ (3,203)
Inventory	(4,907)	531
Biological assets	1,129	1,062
Prepaid expenses and other assets	131	(490)
Accounts payable and accrued liabilities	(4,150)	(4,399)
	$ (12,099)	$ (6,499)

6 Related parties and management compensation

The compensation expense recorded for directors and members of the Executive Management Team of the Company was $1,364 (2014 - $1,552) for the three months ended December 31, 2015 and $3,970 (2014 - $4,396) for the nine months ended December 31, 2015. The compensation expense consists of amounts that will primarily be settled within twelve months of being earned.

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

7 Bank indebtedness and long-term debt

On August 7, 2015, the Company amended its debt facilities to extend the maturity date to July 31, 2020 and reduce the floating interest rate in relation to the one to six-month Canadian Dealer Offered Rate (CDOR) to CDOR +1.40%. On May 14, 2014, the Company entered into an interest rate swap to fix the interest rate on the amount outstanding on the term loan until April 29, 2019. On December 2, 2015, the Company entered into an interest rate swap with an effective date of April 30, 2019 and a termination date of July 31, 2020 to fix the interest rate on the term loan until maturity.

8 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 its carrying value because the variable interest rate is comparable to market rates. The fair value of interest rate swaps used to fix this interest rate 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 prepaid and other assets 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 contracts that will be paid by the Company and the forward curve of the floating interest rates that are expected to be paid by the counterparty. The fair value of foreign exchange forward contracts and the interest rate swap 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 gains (losses) on derivative financial instruments are comprised of:

	For the three months ended December 31, 2015	For the three months ended December 31, 2014	For the nine months ended December 31, 2015	For the nine months ended December 31, 2014
Unrealized gains on foreign exchange forward contracts	$ 443	$ 155	$ 492	$ 220
Unrealized gains (losses) on interest rate swaps	82	(205)	429	(170)
	$ 525	$ (50)	$ 921	$ 50

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, 2015		
	Quoted prices in active markets for identical assets (Level 1)	**Significant observable inputs other than quoted prices (Level 2)**	**Significant unobservable inputs (Level 3)**
Asset/liability			
Interest rate swap liability	$ -	$ 2,010	$ -
Foreign exchange forward contracts asset	-	1,189	-

	March 31, 2015		
	Quoted prices in active markets for identical assets (Level 1)	**Significant observable inputs other than quoted prices (Level 2)**	**Significant unobservable inputs (Level 3)**
Asset/liability			
Interest rate swap liability	$ -	$ 2,439	$ -
Foreign exchange forward contracts asset	-	697	-

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