Andrew Peller Limited

Condensed Interim Consolidated Financial Statements

December 31, 2020

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 2020 $	March 31 2020 $
Assets		
Current Assets		
Cash	**3,557**	-
Accounts receivable	**22,805**	34,096
Inventory	**177,623**	170,779
Biological assets	**-**	1,951
Prepaid expenses and other assets	**5,121**	3,998
Income taxes receivable	**-**	1,232
Current portion of derivative financial instruments	**-**	783
Assets held for sale	**1,275**	1,275
	210,381	214,114
Property, plant, and equipment (note 2)	**215,305**	221,100
Intangible assets	**36,618**	25,067
Goodwill	**53,638**	53,638
	515,942	513,919
Liabilities		
Current Liabilities		
Bank indebtedness	**-**	58,114
Accounts payable and accrued liabilities	**36,178**	53,821
Dividends payable	**2,292**	2,288
Income taxes payable	**4,273**	-
Current portion of lease obligations (note 2)	**4,132**	3,018
Current portion of derivative financial instruments (note 8)	**2,032**	1,604
Current portion of long-term debt	**-**	11,615
	48,907	130,460
Long-term debt (note 7)	**154,344**	95,515
Long-term derivative financial instruments (note 8)	**1,081**	1,932
Lease obligations (note 2)	**13,205**	14,802
Post-employment benefit obligations	**5,383**	3,649
Deferred income taxes	**20,651**	22,038
	243,571	268,396
Shareholders' Equity		
Capital stock	**26,014**	26,014
Contributed surplus	**5,763**	4,834
Retained earnings	**245,505**	218,263
Accumulated other comprehensive loss	**(4,911)**	(3,588)
	272,371	245,523
	515,942	513,919

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

ANDREW PELLER LIMITED
Condensed Consolidated Statements of Earnings
Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)	For the three months ended December 31, 2020 $	For the three months ended December 30, 2019 $	For the nine months ended December 31, 2020 $	For the nine months ended December 30, 2019 $
Sales	**111,060**	101,597	**313,911**	300,188
Cost of goods sold (note 5)	**69,523**	59,629	**185,481**	169,488
Amortization of plant and equipment used in production	**2,657**	2,419	**7,874**	7,175
Gross profit	**38,880**	39,549	**120,556**	123,525
Selling and administration (note 5)	**25,314**	25,820	**67,198**	78,867
Amortization of plant, equipment, and intangibles used in selling and administration	**1,668**	1,654	**5,165**	4,993
Interest	**1,637**	1,818	**5,489**	6,269
Gain on debt modification and financing fees (note 7)	**(2,312)**	-	**(2,312)**	-
Net unrealized losses (gains) on derivative financial instruments (note 8)	**170**	(646)	**361**	(578)
Other expense (income)	**148**	(57)	**1,029**	1,133
Earnings before income taxes	**12,255**	10,960	**43,626**	32,841
Provision for (recovery of) income taxes				
Current	**1,492**	2,952	**10,434**	8,439
Deferred	**527**	(48)	**(922)**	(89)
	2,019	2,904	**9,512**	8,350
Net earnings for the period	**10,236**	8,056	**34,114**	24,491
Net earnings per share				
Basic				
Class A shares	**0.24**	0.19	**0.80**	0.57
Class B shares	**0.21**	0.16	**0.70**	0.49
Diluted				
Class A shares	**0.24**	0.19	**0.80**	0.57
Class B shares	**0.21**	0.16	**0.70**	0.49

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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, 2020 $	For the three months ended December 30, 2019 $	For the nine months ended December 31, 2020 $	For the nine months ended December 30, 2019 $
Net earnings for the period	**10,236**	8,056	**34,114**	24,491
Items that are never reclassified to net earnings				
Net actuarial (losses) gains on post-employment benefit plans	**(364)**	(75)	**(1,788)**	(1,710)
Deferred income taxes	**95**	19	**465**	445
Other comprehensive loss for the year	**(269)**	(56)	**(1,323)**	(1,265)
Net comprehensive income for the perioc	**9,967**	8,000	**32,791**	23,226

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, 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	-	-	24,491	-	24,491
Net actuarial gains (net of deferred tax provision)	-	-	-	(1,265)	(1,265)
Net comprehensive income for the period	-	-	24,491	(1,265)	23,226
Issuance of class A non-voting shares	115	(115)	-	-	-
Repurchase and cancellation of class A non-voting shares	(45)	-	(705)	-	(750)
Share-based compensation (note 9)	-	1,614	-	-	1,614
Dividends (Class A $0.0538 per share, Class B $0.0468 per share)	-	-	(6,959)	-	(6,959)
Balance at December 31, 2019	26,400	4,236	226,652	(5,406)	251,882
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 9)	-	929	-	-	929
Dividends (Class A $0.0538 per share, Class B $0.0468 per share)	-	-	(6,874)	-	(6,874)
Balance at December 31, 2020	26,014	5,763	245,505	(4,911)	272,371

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, 2020 $	For the nine months ended December 30, 2019 $
Cash provided by (used in)		
Operating activities		
Net earnings for the period	**34,114**	24,491
Adjustments for:		
Loss on disposal of PPE & intangible assets	**610**	215
Amoritzation of plant, equipment and intangible assets	**13,039**	12,168
Interest expense	**5,489**	6,269
Provision for income taxes	**9,512**	8,350
Post-employment benefits	**(54)**	(221)
Net unrealized loss (gain) on derivative financial instruments	**360**	(578)
Gain on debt modification (note 7)	**(2,861)**	-
Share-based compensation	**744**	1,353
Interest paid	**(4,655)**	(6,089)
Income taxes paid	**(4,929)**	(7,895)
	51,369	38,063
Changes in non-cash working capital items related to operations (note 6)	**(9,790)**	(16,541)
	41,579	21,522
Investing activities		
Purchase of property, plant and equipment	**(5,556)**	(13,943)
Purchase of intangibles	**(14,165)**	(4,006)
	(19,721)	(17,949)
Financing activities		
Repurchase of Class A shares	**-**	(750)
Increase (decrease) in bank indebtedness	**(58,114)**	13,466
Principal payments on lease obligations	**(2,560)**	(2,102)
Repayment of long-term debt	**(18,103)**	(7,332)
Drawings on long-term debt	**68,000**	-
Financing fees paid	**(656)**	-
Dividends paid	**(6,868)**	(6,855)
	(18,301)	(3,573)
Increase in cash	**3,557**	-
Cash, beginning of period	**-**	-
Cash, end of period	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.

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 as issued by the International Accounting Standards Board ("IFRS") 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.

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 February 10, 2021.

(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

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 contributions 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.

(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 December 31, 2020		For the three months ended December 31, 2019	For the nine months ended December 31, 2020		For the nine months ended December 31, 2019
Raw materials and consumables	53,706	$	47,813	143,452	$	136,239
Employee compensation and benefits	20,485		19,947	58,585		59,643
Advertising, promotion and distribution	7,990		7,059	18,291		21,181
Occupancy	2,961		2,672	8,337		7,992
Repairs and maintenance	2,580		2,120	5,373		6,202
Other external charges	7,115		5,838	18,641		17,098
	94,837	$	85,449	252,679	$	248,355

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, 2020		For the nine months ended December 31, 2019
Accounts receivable	$	11,291	$	(83)
Inventory		(6,844)		(7,712)
Biological assets		1,951		1,736
Prepaid expenses and other assets		(1,123)		14
Accounts payable and accrued liabilities		(15,065)		(10,496)
	$	(9,790)	$	(16,541)

(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 $1,782 (2019 - $1,482) for the three months ended December 31, 2020 and $4,850 (2019 - $4,760) for the nine months ended December 31, 2020. The compensation expense consists of amounts that will primarily be settled within twelve months of being earned.

7 Bank indebtedness and long-term debt

	December 31, 2020 $	March 31, 2020 $
Bank indebtedness	-	58,114
Significant terms		
Committed until	-	September 29, 2022
Borrowing limit	-	$90,000
Interest rate	-	CDOR + 1.90%
Unused amount	-	$31,886

	December 31, 2020 $	March 31, 2020 $
Revolving, amortizing loan – investment facility	-	107,591
Revolving, interest only facility	154,448	-
Other	-	106
	154,448	107,697
Less: Financing costs	104	567
	154,344	107,130
Less: Current portion of revolving, amortizing loan	-	11,509
Less: Current portion of other loan	-	106
	154,344	95,515

On December 8, 2020, the Company amended and restated its debt facilities. Amendments include a revised maturity date of December 8, 2024, revised financial covenants and additional tiers to the applicable margins based on the Company's leverage. Additionally, the total borrowing limit was increased to $350,000 and combined into one revolver, interest only facility to be used for acquisitions and day-to-day operations, distributions and capital expenditures. Repayment of the facility is due on maturity. As at December 31, 2020, the applicable margin was 1.40% (2019 – 1.40%). Management has assessed and determined that these amendments constitute a modification of long term debt, which has resulted in the debt being valued at present values of future cash flows. As a result, the Company has recorded a gain on debt modification of $2,861 offset by financing costs of $549.

Financing costs of $106 are being amortized over the new term of the loan.

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

The Company has entered into interest rate swap agreements to fix the interest rate on the balance outstanding on the investment facility. Until September 29, 2022, the interest rate is fixed at 2.25%, plus the applicable margin.

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

Interest expense on long-term debt as at December 31, 2020 was $5,489 (2019 – $6,269).

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 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 loss on derivative financial instruments are comprised of:

	For the three months ended December 31, 2020	For the three months ended December 31, 2019	For the nine months ended December 31, 2020	For the nine months ended December 31, 2019
Unrealized (gains) losses on interest rate swaps	$ (405)	$ (662)	$ (787)	$ (668)
Unrealized (gains) losses on foreign exchange forward contracts	575	16	1,148	90
	$ 170	$ (646)	$ 361	$ (578)

(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, 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	$	-	$	2,749	$	-
Foreign exchange forward contracts liability		-		364		-

						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.

9 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 nine months ended December 31, 2020 and 2019 is summarized as follows:

		For the nine months ended December 31, 2020		**For the nine months ended December 31, 2019**
1,045,364 stock options (March 31, 2020 – 765,200) (a)	$	418	$	599
218,562 performance share units (March 31, 2020 – 219,876) (b)		326		754
65,669 deferred share units (March 31, 2020 – 72,459) (c)		-		-
	$	744	$	1,353

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.

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

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 December 31, 2020, the Company had 3,266,974 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 – September 8, 2020	494,900	9.29
Options granted – November 11, 2020	5,700	10.77
Options forfeited	(220,436)	(14.23)
	1,045,364	11.90
Exercisable	341,819	13.87

For options granted during the three months ended December 31, 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	$2.34
Expected volatility [(1)]	24.47%
Dividend yield	1.89%
Risk-free interest rate	0.75%
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.

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

	Number of units	**Grant date fair value per unit $**
Balance – April 1, 2020	219,876	14.20
Units granted	107,050	9.31
Units exercised	(44,419)	(11.74)
Units forfeited	(63,945)	(14.25)
	218,562	12.44

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.

	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)
	65,669	14.40

10 Subsequent events

The Company has entered into an agreement to acquire land and building for $10 million, in Ontario and will settle on February 26, 2021.