Andrew Peller Limited

Condensed Interim Consolidated Financial Statements

December 31, 2016

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 2016 $	March 31 2016 $
Assets		
Current Assets		
Accounts receivable	**34,908**	28,223
Inventory	**130,421**	119,666
Biological assets	**-**	1,196
Prepaid expenses and other assets	**2,669**	1,782
	167,998	150,867
Property, plant, and equipment	**116,520**	108,929
Intangibles	**10,121**	11,040
Goodwill	**37,473**	37,473
	332,112	308,309
Liabilities		
Current Liabilities		
Bank indebtedness (note 7)	**41,106**	33,701
Accounts payable and accrued liabilities	**34,007**	36,772
Dividends payable	**1,690**	1,553
Income taxes payable	**3,285**	2,425
Current portion of derivative financial instruments (note 8)	**385**	645
Current portion of long-term debt (note 7)	**4,406**	4,106
	84,879	79,202
Long-term debt (note 7)	**47,806**	48,202
Long-term derivative financial instruments (note 8)	**748**	1,529
Post-employment benefit obligations	**5,286**	5,947
Deferred income	**-**	102
Deferred income taxes	**16,305**	15,591
	155,024	150,573
Shareholders' Equity		
Capital stock (note 9)	**6,967**	6,967
Retained earnings	**173,873**	154,605
Accumulated other comprehensive loss	**(3,752)**	(3,836)
	177,088	157,736
	332,112	308,309

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

ANDREW PELLER LIMITED

Condensed Consolidated Statements of Earnings

Unaudited
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(in thousands of Canadian dollars)	For the three months ended December 31, 2016 $	For the three months ended December 31, 2015 $	For the nine months ended December 31, 2016 $	For the nine months ended December 31, 2015 $
Sales	**94,048**	91,775	**270,311**	260,093
Cost of goods sold (note 4)	**59,006**	58,498	**167,482**	162,289
Amortization of plant and equipment used in production	**1,599**	1,506	**4,786**	4,525
Gross profit	**33,443**	31,771	**98,043**	93,279
Selling and administration (note 4)	**23,156**	20,832	**63,557**	60,502
Amortization of plant, equipment, and intangibles used in selling and administration	**823**	893	**2,491**	2,627
Interest	**702**	771	**2,265**	2,789
Net unrealized gains on derivative financial instruments (note 8)	**(868)**	(525)	**(2,043)**	(921)
Other expenses (income)	**52**	68	**135**	(61)
Earnings before income taxes	**9,578**	9,732	**31,638**	28,343
Provision for income taxes				
Current	**1,306**	2,345	**6,614**	7,322
Deferred	**135**	241	**684**	163
	1,441	2,586	**7,298**	7,485
Net earnings for the period	**8,137**	7,146	**24,340**	20,858
Net earnings per share (note 9)				
Basic and diluted				
Class A shares	**0.20**	0.17	**0.59**	0.50
Class B shares	**0.17**	0.15	**0.51**	0.43

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ANDREW PELLER LIMITED

Condensed Consolidated Statements of Comprehensive Income

Unaudited These financial statements have not been reviewed by our auditors	For the three months ended	For the three months ended	For the nine months ended	For the nine months ended
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
(in thousands of Canadian dollars)	$	$	$	$
Net earnings for the period	**8,137**	7,146	**24,340**	20,858
Items that are never reclassified to net earnings				
Net actuarial gains (losses) on post-employment benefit plans	**2,088**	(447)	**114**	249
Deferred income tax (provision) recovery	**(543)**	116	**(30)**	(65)
Other comprehensive income (loss) for the period	**1,545**	(331)	**84**	184
Net comprehensive income for the period	**9,682**	6,815	**24,424**	21,042

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, 2016 and 2015

Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)

	Capital stock $	Retained earnings $	Accumulated other comprehensive loss	Total shareholders' equity $
Balance at April 1, 2015	7,026	143,847	(3,498)	147,375
Net earnings for the period	-	20,858	-	20,858
Net actuarial gains (net of deferred tax provision)	-	-	184	184
Net comprehensive income for the period	-	20,858	184	21,042
Dividends (Class A $0.113 per share, Class B $0.098 per share)	-	(4,692)	-	(4,692)
Balance at December 31, 2015	7,026	160,013	(3,314)	163,725
Balance at April 1, 2016	6,967	154,605	(3,836)	157,736
Net earnings for the period	-	24,340	-	24,340
Net actuarial gains (net of deferred tax provision)	-	-	84	84
Net comprehensive income for the period	-	24,340	84	24,424
Dividends (Class A $0.123 per share, Class B $0.107 per share)	-	(5,072)	-	(5,072)
Balance at December 31, 2016	6,967	173,873	(3,752)	177,088

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, 2016 $	For the nine months ended December 31, 2015 $
Cash provided by (used in)		
Operating activities		
Net earnings for the period	**24,340**	20,858
Adjustments for:		
(Gain) loss on disposal of property and equipment	**(174)**	465
Amortization of plant, equipment, and intangible assets	**7,277**	7,152
Interest expense	**2,265**	2,789
Provision for income taxes	**7,298**	7,485
Post-employment benefits	**(547)**	(588)
Deferred income	**(102)**	(304)
Net unrealized gain on derivative financial instruments	**(2,043)**	(921)
Interest paid	**(2,373)**	(2,785)
Income taxes paid	**(5,754)**	(5,331)
	30,187	28,820
Changes in non-cash working capital items related to operations (note 5)	**(16,230)**	(12,099)
	13,957	16,721
Investing activities		
Proceeds from disposal of property, plant and equipment	**175**	20
Purchase of property, plant and equipment	**(16,408)**	(6,517)
	(16,233)	(6,497)
Financing activities		
Increase (decrease) in bank indebtedness	**7,405**	(2,462)
Issuance of long-term debt	**3,000**	-
Repayment of long-term debt	**(3,000)**	(3,078)
Deferred financing costs	**(194)**	(96)
Dividends paid	**(4,935)**	(4,588)
	2,276	(10,224)
Increase (decrease) in cash during the period	**-**	-
Cash, beginning of period	**-**	-
Cash, end of period	-	-

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

1 Nature of operations

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

2 Significant accounting policies

(A) Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of condensed interim financial statements, including International Accounting Standard ("IAS") 34 – Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the years ended March 31, 2016 and 2015, 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, 2016 and 2015. Changes to the Company's accounting policies from those disclosed in its consolidated financial statements for the years ended March 31, 2016 and March 31, 2015 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 8, 2017.

(B) Recently adopted 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. The new requirements were adopted effective April 1, 2016. The adoption of these amendments did not have a significant impact on the consolidated financial statements.

(C) Recently issued accounting pronouncements

In January 2016, the IASB issued an amendment to IAS 7 – Statement of Cash Flows, introducing additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of the amendments on the consolidated financial statements.

In January 2016, the IASB issued amendments to IAS 12 – Income Taxes to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. The amendments are effective for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of the amendments on the consolidated financial statements.

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. In April 2016, the IASB has amended IFRS 15 to clarify the guidance on identifying performance obligations, licenses of intellectual property and principal versus agent. The amendments also provide additional practical expedients on transition. The standard is effective for first interim periods within annual periods beginning on or after January 1, 2018. The Company is currently evaluating the potential impact of adopting this amended standard.

In January 2016, the IASB issued IFRS 16 – Leases, which will replace IAS 17 – Leases and related Interpretations. The new standard will be effective for fiscal years beginning on or after January 1, 2019, with early adoption permitted provided the Company has adopted IFRS 15 – Revenue from Contracts with Customers. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all leases contracts, and record it on the statement of financial position, except with respect to lease contracts that meet limited exception criteria. Given that the Company has significant contractual obligations in the form of operating leases under IAS 17, there will be a material increase to both assets and liabilities upon adoption of IFRS 16, and material changes to the timing of recognition of expenses associated with the lease arrangements. The Company is analyzing the new standard to determine the impact of adopting this standard.

3 Seasonality

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

(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, 2016	For the three months ended December 31, 2015	For the nine months ended December 31, 2016	For the nine months ended December 31, 2015
Raw materials and consumables	$ 49,371	$ 48,140	$ 138,727	$ 132,880
Employee compensation and benefits	16,514	14,834	47,199	43,826
Advertising, promotion and distribution	6,965	7,187	18,088	20,466
Occupancy	2,450	2,890	8,538	8,361
Repairs and maintenance	1,968	1,869	5,143	4,543
Other external charges	4,894	4,410	13,344	12,715
	$ 82,162	$ 79,330	$ 231,039	$ 222,791

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, 2016	For the nine months ended December 31, 2015
Accounts receivable	$ (6,685)	$ (4,302)
Inventory	(10,755)	(4,907)
Biological assets	1,196	1,129
Prepaid expenses and other assets	(887)	131
Accounts payable and accrued liabilities	901	(4,150)
	$ (16,230)	$ (12,099)

6 Related parties and management compensation

The compensation expense recorded for directors and members of the Executive Management Team of the Company was $2,544 (2015 - $1,364) for the three months ended December 31, 2016 and $5,316 (2015 - $3,970) for the nine months ended December 31, 2016. 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 December 30, 2016, the company amended its debt facilities to extend the maturity date from July 31, 2020 to July 31, 2021 and update the applicable margin based on the Company's leverage. The Company is subject to certain financial covenants, one of which is permitted capital expenditures. The annual capital expenditure limit increased to $20,000 from $17,000 with the amended agreement.

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 accounts payable and accrued liabilities 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 on derivative financial instruments are comprised of:

	For the three months ended December 31, 2016	For the three months ended December 31, 2015	For the nine months ended December 31, 2016	For the nine months ended December 31, 2015
Unrealized gains on foreign exchange forward contracts	$ 185	$ 443	$ 1,002	$ 492
Unrealized gains on interest rate swaps	683	82	1,041	429
	$ 868	$ 525	$ 2,043	$ 921

(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, 2016
Asset/liability		**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	$	-	$	1,133	$	-
Foreign exchange forward contracts liability		-		124		-

						March 31, 2016
Asset/liability		**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	$	-	$	2,174	$	-
Foreign exchange forward contracts liability		-		1,126		-

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

9 Capital stock

At the Annual and Special Meeting of Shareholders held on September 9, 2016, the Company's Class B shareholders approved a three-for-one share split for both the Company's Class A and Class B common shares. The additional shares were issued on October 14, 2016 to shareholders of record on September 23, 2016. The Company recorded the effect of the share split retroactively to all disclosures of share capital and per share amounts.

As a result, as at December 31, 2016 and March 31, 2016, there were 33,581,487 Class A shares issued and outstanding and 9,012,123 Class B shares issued and outstanding.