ANDREW PELLER
— LIMITED —

MANAGEMENT'S DISCUSSION & ANALYSIS
For the three and nine months ended December 31, 2017

The following management's discussion and analysis ("MD&A") provides a review of corporate developments, results of operations, and financial position for the three and nine months ended December 31, 2017 in comparison with those for the three and nine months ended December 31, 2016 for Andrew Peller Limited (the "Company" or "APL"). This discussion is prepared as of February 7, 2018 and should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes contained therein for the three and nine months ended December 31, 2017 and 2016. Additional information relating to the Company, including the audited annual consolidated financial statements, MD&A and Annual Information Form for the years ended March 31, 2017 and March 31, 2016, is available on www.sedar.com. The financial years ending March 31, 2019, March 31, 2018 and March 31, 2017 are referred to as "fiscal 2019", "fiscal 2018" and "fiscal 2017" respectively. All dollar amounts are expressed in Canadian dollars unless otherwise indicated.

FORWARD-LOOKING INFORMATION

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

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

Overview

The Company is a leading producer and marketer of quality wines in Canada. With wineries in British Columbia, Ontario, and Nova Scotia, the Company markets wines produced from grapes grown in Ontario's Niagara Peninsula, British Columbia's Okanagan and Similkameen Valleys, and from vineyards around the world. The Company's award-winning premium and ultra-premium Vintners' Quality Alliance ("VQA") brands include *Peller Estates, Trius, Thirty Bench*, *Wayne Gretzky, Sandhill, Red Rooster, Black Hills Estate, Tinhorn Creek, Gray Monk Estates, Raven Conspiracy* and *Conviction*. Complementing these premium brands are a number of popularly priced varietal brands including *Peller Estates French Cross* in Eastern Canada, *Peller Estates Proprietors Reserve* in Western Canada, *Copper Moon, Black Cellar* and *XOXO. Hochtaler, Domaine D'Or, Schloss Laderheim, Royal,* and *Sommet* are our key value priced brands. The Company imports wines from major wine regions around the world to blend with domestic wine to craft these quality and value priced brands. The Company also produces wine based liqueurs and cocktails under the brand *Panama Jack* and a craft cider called *No Boats on Sunday*. In October 2016, the Company launched its new *Wayne Gretzky No. 99 Red Cask* Canadian Whisky in certain markets across Canada and in 2017, expanded the Spirits portfolio with *No. 99 Ice Cask*, *99 Proof* and *No. 99 Canadian Whisky Cream* products. With a focus on serving the needs of all wine consumers, the Company produces and markets premium personal winemaking products through its wholly-owned subsidiary, Global Vintners Inc. ("GVI"), the recognized leader in personal winemaking products. GVI distributes products through over 170 Winexpert authorized retailers and more than 500 independent retailers across Canada, with additional distributors in the United States, the United Kingdom, New Zealand, Australia, and China. GVI's award-winning premium and ultra-premium winemaking brands include *Selection, Vintners Reserve, Island Mist, KenRidge, Cheeky Monkey, Traditional Vintage* and *Cellar Craft*. The Company owns and operates 101 well-positioned independent retail locations in Ontario under The Wine Shop, Wine Country Vintners, and Wine Country Merchants store names. The Company also operates Andrew Peller Import Agency and The Small Winemaker's Collection Inc., importers and marketing agents for premium wines from around the world.

The Company's mission is to *Pour Extraordinary into Everyday Life*. The Company does this by delivering to its customers and consumers the highest quality wines, spirits, refreshments and experiences at the best possible value. To meet this goal, the Company invests in improvements in the quality of grapes, wines and spirits raw materials, its winemaking and distillation capabilities, sales and marketing initiatives, tourism and hospitality experiences, and its quality management programs. Furthermore, the Company's wine portfolio covers the complete spectrum of price levels within the Canadian wine market. Over the long term the Company believes premium wine and spirits sales will continue to grow in Canada and these products generate higher prices and increased profitability compared to lower-priced products.

The Company is focused on initiatives to reduce costs and enhance its production efficiencies through a continual review of its operations and cost structure with a view to enhancing profitability. The Company continues to expand and strengthen its distribution through provincial liquor boards, the Ontario independent retail locations under The Wine Shop, Wine Country Vintners, and Wine Country Merchants store names, estate wineries, restaurants, and other licensed establishments. This distribution network is supported by enhanced sales, marketing, and promotional programs. From time to time the Company also evaluates the potential for acquisitions and partnerships, both in Canada and internationally, to further complement its product portfolio and market presence.

Recent Events

On October 10, 2017, the Company acquired 100% of the operating assets of Black Hills Estate Winery (Black Hills) for cash consideration of approximately $31.3 million. Black Hills generates annual revenue of approximately $6 million and employs approximately 16 people. The results of operations from October 10, 2017 have been included in the condensed interim consolidated financial statements for the period.

On October 1, 2017, the Company acquired 100% of the common shares of Gray Monk Cellars Ltd. (Gray Monk) and certain operating assets held by related parties for consideration of approximately $36.4 million, of which $17.3 million was funded in cash and $19.1 million was funded by the issuance of 1,579,670 Class A non-voting common shares. The consideration transferred has increased by $1.9 million, from $34.5 million to $36.4 million due to the appreciation of the Company's Class A non-voting shares from September 8, 2017, the date the share purchase agreement was signed, to October 1, 2017, the date the acquisition closed. Gray Monk generates annual revenue of approximately $11 million and employs approximately 50 people. The results of operations from October 1, 2017 have been included in the condensed interim consolidated financial statements for the period.

On October 1, 2017, the Company acquired 100% of the common and preferred shares of Tinhorn Creek Vineyards Ltd. (Tinhorn) for cash consideration of approximately $28.9 million. Tinhorn generates annual revenue of approximately $7 million and employs approximately 50 people. The results of operations from October 1, 2017 have been included in the condensed interim consolidated financial statements for the period.

On June 7, 2017, the Company's Board of Directors approved a 10.3% increase in common share dividends for shareholders of record on June 30, 2017 payable on July 7, 2017. The annual dividend on Class A Shares was increased to $0.1800 per share from $0.1632 per share and the dividend on Class B Shares was increased to $0.1565 per share from $0.1420 per share. The Company has consistently paid common share dividends since 1979 and has increased dividends every year for the past five years. APL currently designates all dividends paid as “eligible dividends” for purposes of the *Income Tax Act* (Canada), unless indicated otherwise.

On June 7, 2017, the Company officially opened its new Wayne Gretzky Estate Winery and Craft Distillery in Niagara-on-the-Lake, Ontario. Located on land adjacent to the Company’s Trius Winery, the 15,000 square foot facility includes a winery, craft distillery, barrel aging cellars, tasting rooms, retail and hospitality facilities, all surrounded by landscaping and vineyards. The Company established its strategic alliance with the Wayne Gretzky Estate Winery in 2011, and has generated significant growth in their brands to where their wines are now among the top-ten VQA best sellers across Canada.

On November 17, 2016, the Company’s Board of Directors announced that Mr. Randy A. Powell had been appointed President of the Company effective November 28, 2016. With his appointment, Mr. Powell resigned from the Company’s Board of Directors and its Committees. The Board of Directors also announced that, effective November 17, 2016, Mr. John Peller was appointed the new Board Chair and has retained his position as Chief Executive Officer of the Company.

Results of Operations

For the nine months ended December 31, **(in $000, except per share amounts)**	**2017**	2016 (1)
Sales	**$ 284,080**	$ 270,311
Gross margin	**117,514**	102,829
Gross margin (% of sales)	**41.4%**	38.0%
Selling and administrative expenses	**68,933**	63,557
Interest	**3,596**	2,265
EBITA	**48,581**	39,272
Adjusted EBITA	**51,485**	40,381
Net unrealized gain on derivative financial instruments	**(567)**	(2,043)
Other (income) expenses	**(3,877)**	135
Adjusted earnings	**30,207**	23,749
Net earnings	**31,808**	24,340
Earnings per share – basic and diluted - Class A	**$0.76**	$0.59
Earnings per share – basic and diluted - Class B	**$0.66**	$0.51
Adjusted earnings per share – basic and diluted – Class A	**$0.72**	$0.57
Adjusted earnings per share – basic and diluted – Class B	**$0.63**	$0.50
Dividend per share – Class A (annual)	**$0.1800**	$0.1632
Dividend per share – Class B (annual)	**$0.1565**	$0.1420

[1] Adjusted EBITA, Adjusted earnings and Adjusted earnings per share figures have been restated to conform to the current year’s presentation

Sales in the first nine months of fiscal 2018 increased 5.1% compared to the same period in fiscal 2017 due to organic growth across the majority of the Company’s products and trade channels, selective price increases in certain trade channels implemented in the second quarter of the year, and the contribution during the third quarter from the acquisition of three estate wineries completed in early October 2017. The three acquisitions contributed $5.0 million in sales in the third quarter of fiscal 2018. Not including the contribution from the recent acquisitions, the Company generated organic growth of 3.2% through the nine months ended December 31, 2017.

The Company defines gross margin as gross profit excluding amortization. Gross margin as a percentage of sales improved to 41.4% for the nine months ended December 31, 2017 compared to 38.0% in the prior year. Gross margin in fiscal 2018 is benefiting from selective pricing increases, the discontinuation of lower performing products, increased focus on higher margin products and the positive impact of the Company's cost control initiatives. During the third quarter of fiscal 2018, the Company recorded a charge of $1.9 million to increase cost of goods sold to reflect the fair value of finished goods inventory acquired from the new wineries that had been sold since the acquisition dates. Management is continually focused on efforts to enhance production efficiency and productivity, as well as developing synergies from the addition of the three new wineries acquired in October 2017.

Selling and administrative expenses for the nine months ended December 31, 2017 included $1.5 million of expenses due to the addition of the three new wineries, as well as increased costs related to the opening of the new Wayne Gretzky Estate Winery and Craft Distillery and increased marketing support for new launches across the Company's product portfolio. Also included in selling and administrative expenses is $1.0 million in one-time professional fees related to the acquisitions. This is comparable to the $1.1 million charged in the nine month period ended December 31, 2016 for professional fees related to a strategic acquisition that was not completed. In fiscal 2017, selling and administrative expenses also included $1.3 million in post-retirement benefits for certain employees retiring during the year. The Company continues to increase its investment in its sales and marketing programs, while remaining focused on ensuring a strong return on these investments.

Earnings before interest, amortization, net unrealized gains and losses on derivative financial instruments, other (income) expenses, and income taxes ("EBITA"), were $48.6 million for the nine months ended December 31, 2017 compared to $39.3 million in the prior year. The three acquisitions contributed approximately $1.2 million in EBITA in the third quarter of fiscal 2018. The remaining increase is primarily due to the increase in sales and gross margin in fiscal 2018, partially offset by the increase in selling and administrative expenses in the current year. Adjusted EBITA was $51.5 million for the nine months ended December 31, 2017 compared to $40.4 million for the same period of fiscal 2017.

Interest expense increased through the first nine months of fiscal 2018 compared to the prior year due primarily to long-term debt incurred to complete the three acquisitions in October 2017 and the write-off of $0.4 million in unamortized deferred financing fees related to the prior banking agreement that was amended and restated on September 29, 2017.

The Company recorded net unrealized non-cash gains in the first nine months of fiscal 2018 and fiscal 2017 related to mark-to-market adjustments on interest rate swaps and foreign exchange contracts. The Company has elected not to apply hedge accounting and accordingly the change in fair value of these financial instruments is reflected in the Company's consolidated statement of earnings each reporting period. These instruments are considered to be effective economic hedges and have enabled management to mitigate the short-term volatility of changing foreign exchange and interest rates.

Other income in the third quarter of fiscal 2018 includes a one-time gain of $4.2 million on the acquisitions.

Adjusted earnings, defined as net earnings not including net unrealized gains and losses on derivative financial instruments, other (income) expenses, non-recurring, non-operating (gains) and losses and the related income tax effect, were $30.2 million for the nine months ended December 31, 2017 compared to $23.7 million in the prior year. Net earnings for the nine months ended December 31, 2017 were $31.8 million or $0.76 per Class A Share compared to $24.3 million or $0.59 per Class A Share in the prior year.

The Company believes that sales will continue to grow going forward due to strong positioning of key brands, the continued launch of new and innovative products in the Canadian wine, cider and spirits markets, continued growth in new wine-related markets, and the contribution from the three estate wineries acquired in October 2017.

The Company has exposure to foreign currency risk as purchases of bulk wine and concentrate are made in U.S. dollars, Australian dollars and Euros. Fluctuating foreign currencies may have a positive or negative impact on gross margins. Management believes the impact on gross margin will be largely offset by the Company's continued ability to leverage scale and successful cost control initiatives to reduce distribution, operating and packaging expenses and raw material cost savings. The Company also uses foreign exchange forward contracts to protect against changes in foreign currency rates and, as at December 31, 2017, had locked in $6.7 million in U.S. dollar contracts at rates averaging $1.27 Canadian. These contracts expire at various dates through May 31, 2018.

Quarterly Performance

The following table outlines key quarterly highlights.

(in $000, except per share amounts)	Q3 18	Q2 18	Q1 18	Q4 17 (1)	Q3 17 (1)	Q2 17 (1)	Q1 17	Q4 16
Sales	103,583	91,857	$88,640	$72,295	$94,048	$88,357	$87,906	$74,170
Gross margin	43,217	38,693	35,604	28,326	35,042	33,644	34,143	25,160
Gross margin (% of sales)	41.7%	42.1%	40.2%	39.2%	37.3%	38.1%	38.8%	33.9%
EBITA	17,833	16,290	14,458	5,865	11,886	12,583	14,803	3,614
Adjusted EBITA	20,175	16,852	14,458	5,865	12,167	13,411	14,803	3,614
Net unrealized (gain) loss on financial instruments	(216)	(285)	(66)	(189)	(868)	(1,128)	(47)	2,479
Other expenses (income)	(4,092)	70	145	(15)	52	56	27	21
Adjusted earnings	12,402	9,556	8,249	1,859	7,741	7,450	8,558	191
Net earnings (loss)	14,391	9,226	8,191	2,010	8,137	7,630	8,573	(1,659)
E.P.S. – Class A basic & diluted	$0.33	$0.22	$0.20	$0.05	$0.20	$0.18	$0.21	$(0.04)
E.P.S. – Class B basic & diluted	$0.29	$0.19	$0.18	$0.04	$0.17	$0.16	$0.18	$(0.04)
Adjusted E.P.S – Class A basic & diluted	$0.29	$0.23	$0.20	$0.05	$0.19	$0.18	$0.20	$(0.04)
Adjusted E.P.S – Class B basic & diluted	$0.25	$0.20	$0.17	$0.05	$0.16	$0.16	$0.18	$(0.04)

1 Adjusted EBITA, Adjusted earnings and Adjusted EPS figures have been restated to conform to the current year's presentation

The third quarter of the Company's fiscal year is historically the strongest due to increased consumer purchasing of the Company's products during the holiday season.

Sales in the third quarter of fiscal 2018 increased 10.1% compared to the same quarter of fiscal 2017 due primarily to the contribution of the three new estate wineries acquired in early October 2017, selective price increases in certain trade channels implemented in the second quarter of the year, and strong organic growth across most of the Company's trade channels. The three acquisitions contributed $5.0 million in sales in the third quarter of fiscal 2018. Not including the contribution from the recent acquisitions, the Company generated organic revenue growth of approximately 4.8% through the three months ended December 31, 2017.

Gross margin for the three months ended December 31, 2017 was 41.7% of sales compared to 37.3% in the third quarter of fiscal 2017. The increase in gross margin is attributable to improved product mix, increased pricing and raw material and packaging costs savings. During the third quarter of fiscal 2018, the Company recorded a charge of approximately $1.9 million to increase cost of goods sold to reflect the fair value of finished goods inventory acquired from the new wineries that had been sold since the acquisition dates.

Selling and administrative expenses increased in the third quarter of fiscal 2018 by $1.5 million due to the addition of three new wineries acquired in October 2017 as well as an increase in marketing activities and support for recent new product launches. Included in selling and administrative expenses in the third quarter of 2018 is $0.5 million in professional services fees and transition costs related to the three acquisitions discussed above. During the third quarter of fiscal 2017, selling and administrative expenses included $0.3 million for professional services fees related to a strategic acquisition that was not completed and $1.3 million in costs relating to post-retirement benefits for certain executive employees retiring in fiscal 2017.

Other income in the third quarter of fiscal 2018 includes a one-time gain of approximately $4.2 million on the acquisitions. Interest expenses increased in the third quarter of fiscal 2018 due primarily to long-term debt incurred to complete the three acquisitions in October 2017.

EBITA increased to $17.8 million for the three months ended December 31, 2017 from $11.9 million in the same quarter in fiscal 2017 primarily due to the increased sales and improved gross margin. Adjusted EBITA was $20.2 million for the three months ended December 31, 2017 compared to $12.2 million for the three months ended December 31, 2016.

The Company generated adjusted earnings for the three months ended December 31, 2017 of $12.4 million compared to adjusted earnings of $7.7 million in the same prior year period. Net earnings were $14.4 million or $0.33 per Class A Share for the three months ended December 31, 2017 compared to net earnings of $8.1 million or $0.20 per Class A Share in the third quarter of fiscal 2017.

Liquidity and Capital Resources

As at (in $000)	**December 31, 2017**	March 31, 2017
Current assets	**$ 199,835**	$ 160,567
Property, plant, and equipment	**185,205**	118,838
Intangibles	**18,186**	10,600
Goodwill	**53,638**	37,473
Total assets	**$ 456,864**	$ 327,478
Current liabilities	**$ 86,649**	$ 81,742
Long-term debt	**118,698**	46,678
Long-term derivative financial instruments	**265**	642
Post-employment benefit obligations	**5,812**	5,279
Deferred income tax	**23,407**	15,820
Shareholders’ equity	**222,033**	177,317
Total liabilities and shareholders’ equity	**$ 456,864**	$ 327,478

The changes to the Company’s balance sheet as at December 31, 2017 compared to March 31, 2017 relate primarily to the acquisition of three estate wineries completed in early October 2017 as described in the notes to the condensed interim consolidated financial statements.

Of the overall increase in inventory at December 31, 2017 compared to March 31, 2017, approximately $23.5 million relates to inventory from the three wineries acquired in October 2017. The remaining increase in inventory is due to a larger grape harvest than the prior year and an increase in spirits on hand due to new market and product launches. The Company continues to benefit from improved information technology systems introduced to monitor and control the Company’s supply chain. These systems include improvements to the Company’s ability to manage supply shortages and excesses. Inventory is dependent on the increase of domestically grown grapes that are used in the sale of premium and ultra-premium wines that are held for a longer period than imported wine. These grapes are typically aged for one to three years before they are sold. The cost of producing wine from domestically grown grapes is also significantly higher than wine purchased on international markets.

Accounts receivable are predominantly with provincial liquor boards and, to a lesser extent, licensed establishments and independent retailers of consumer made wine products. The Company had $20.4 million of accounts receivable with provincial liquor boards at December 31, 2017, all of which is expected to be collectible. The balance represents amounts due from licensees, export customers, and independent retailers of consumer made wine products. The amount of accounts receivable that was 30 days past due was $1.9 million at December 31, 2017. Against these amounts an allowance for doubtful accounts of $0.1 million has been provided which the Company has determined represents a reasonable estimate of amounts that may not be collectible.

Property, plant and equipment increased by approximately $60.9 million as at December 31, 2017 compared to the prior year end due to investments in the three estate wineries acquired in October 2017. Other capital expenditures during the nine month period ended December 31, 2017 relate to finalization of the new Wayne Gretzky Estate Winery and Craft Distillery opened on June 7, 2017 and other operational investments at the Company’s Ontario production facilities.

As part of the acquisitions of the three estate wineries, the Company recorded intangible assets of $8.1 million, relating to brands and customer lists, and goodwill of $16.2 million.

On September 29, 2017, the Company amended and restated its debt facilities. Amendments include a revised maturity date of September 29, 2022, revised financial covenants and updated applicable margins based on the Company's leverage. Additionally, the total borrowing limit was increased to $310 million and separated into two facilities: a revolving, non-amortizing facility with a borrowing limit of $90 million to be used for day-to-day operations, distributions and capital expenditures and a revolving, amortizing investment facility with a borrowing limit of $220 million to be used for acquisitions or capital expenditures. Each draw on the investment facility is subject to a new amortization schedule and required annual repayments increase over the term of the loan. The initial draw on the investment facility was used to refinance the previous operating and capital term loans and fund the acquisitions of the three British Columbia premium estate wineries in early October 2017. Monthly principal repayments of $0.5 million are required on the revolving, amortizing investment facility based on the initial draw. At December 31, 2017, the applicable margin was 1.90% (March 31, 2017 – 1.25%).

Overall bank debt increased to $167.1 million at December 31, 2017 compared to $87.7 million at March 31, 2017. The increase in bank debt is due primarily to $79.0 million drawn on the Company's credit facility related to the above-mentioned estate winery acquisitions. The increase in bank debt has been partially offset by the strong earnings in fiscal 2018, the positive impact of working capital management, and regularly scheduled debt repayments. With the increase in debt, the Company's debt to equity ratio increased to 0.75:1 at December 31, 2017 compared to 0.49:1 at March 31, 2017. At December 31, 2017, the Company had unutilized debt capacity in the amount of approximately $49.0 million on its operating facility and $93.1 million on its investment facility.

Management expects to generate sufficient cash flow from operations to meet its debt servicing, principal payment, and working capital requirements over both the short and the long-term through increased profitability and strong management of working capital and capital expenditures. The Company regularly reviews all of its assets to ensure appropriate returns on investment are being achieved and that they fit with the Company's long-term strategic objectives.

For the nine months ended December 31, 2017, the Company generated cash from operating activities, after changes in non-cash working capital items, of $18.5 million compared to $14.0 million in the prior year. Investing activities were $111.0 million in the first nine months of fiscal 2018 compared to $16.2 million in the prior year. The increase in fiscal 2018 includes $96.6 million related to the acquisition of the three estate wineries in October 2017. The remaining investing activities related to capital expenditures to improve operations, as well as costs incurred related to the completion of the new Wayne Gretzky Estate Winery and Craft Distillery, which officially opened on June 7, 2017.

Financing activities for the nine months ended December 31, 2017 include a $79.0 million increase in long-term debt and $19.1 million in the issuance of Class A non-voting shares related to the acquisition of the three estate wineries in October 2017.

Working capital as at December 31, 2017 increased to $113.2 million compared to $78.8 million at March 31, 2017. The increase in working capital is due to increases in inventory and accounts receivable, which have been partially offset by increases in current debt. Shareholders' equity as at December 31, 2017 was $222.0 million or $5.03 per common share compared to $177.3 million or $4.16 per common share as at March 31, 2017. The increase in shareholders' equity is due to the issuance of Class A Shares to fund a portion of the purchase price for one of the acquired wineries and strong net earnings, partially offset by the payment of dividends and net actuarial losses on post-employment benefit plans.

Common Shares Outstanding

The Company is authorized to issue an unlimited number of Class A and Class B Shares. Class A Shares are non-voting and are entitled to a dividend in an amount equal to 115% of any dividend paid or declared on Class B Shares. Class B Shares are voting and convertible into Class A Shares on a one-for-one basis.

Shares outstanding	**December 31, 2017**	March 31, 2017
Class A Shares	**35,161,157**	33,581,487
Class B Shares	**9,012,123**	9,012,123
Total	**44,173,280**	42,593,610

On October 2, 2017 the Company issued approximately 1.6 million Class A Shares to fund a portion of the purchase price for one of the acquisitions.

Strategic Outlook and Direction

Andrew Peller Limited is committed to a strategy of growth that focuses on the expansion of its core business as a producer and marketer of quality wines and wine related products through concentrating on and developing leading brands that meet the needs of our consumers and customers. The Company has also entered the spirits category, through its strategic alliance with Wayne Gretzky, and has introduced sangrias and ciders through its own brand labels.

As discussed above, in October 2017 the Company completed the acquisition of three estate wineries in British Columbia with combined sales of approximately $24.5 million in their last fiscal years, generating approximately $8.2 million in combined normalized EBITA. Management believes the three acquired businesses will add in the range of approximately $30.0 million to $35.0 million in average annual sales within the next five years. With this growth, and taking into account the cost and operating synergies management expects to achieve in its Western Canadian operations as a result of the acquisitions, the Company believes the acquisitions will generate more than $15.0 million in annual EBITA to the portfolio over this same five year period.

The three acquired wineries contributed $5.0 million in sales, $1.2 million in EBITA and $0.6 million in net earnings for the third quarter of fiscal 2018. This resulted in an additional $0.01 per Class A share, which was offset by the dilution impact of the additional shares issued. As such, the earnings per share impact for the third quarter of fiscal 2018 was $nil. On acquisition, the Company recorded an increase of $10.4 million to finished goods inventory to represent the fair value of the goods acquired. This increase will be released to the consolidated statement of earnings as the finished goods are sold, thus reducing gross margin. During the third quarter of fiscal 2018, the Company's gross margin was reduced by $1.9 million as a result of this adjustment. It is expected that most finished goods acquired will be sold within one year of the acquisitions, and as such, the fair value adjustment will continue to be dilutive into fiscal 2019. Furthermore, one-time transaction and transition costs and restructuring costs, of which $1.0 million was expensed in the first nine months of fiscal 2018, will also have a dilutive impact on earnings per share in fiscal 2018 and fiscal 2019. The impact of these items reduced earnings per share by approximately $0.07 per Class A Share for the nine month period ended December 31, 2017. Additional interest expense on debt used to fund the acquisitions and higher amortization on acquired assets also have a dilutive impact. This dilution has been off-set by the one-time gain of $4.2 million in the third quarter of fiscal 2018 on the acquisitions.

The market for wine in Canada continues to grow due to a movement toward the consumption of wine by young consumers who have adopted wine as their beverage of choice, an aging population that favours the more sophisticated experience that wine offers, and the reported health benefits of moderate wine consumption. The Company has focused its product development and sales and marketing initiatives by capitalizing on the trend of increased wine consumption and expects to see continued sales growth. The Company will continue to closely monitor its costs and will react quickly to changes to risks and opportunities in the marketplace.

The Company will continue to launch wine and other craft alcohol brands in the future and increase its use of differentiated package formats. The Company will also expand product offerings outside the traditional table wine segment, into other alcoholic beverages, where it is able to leverage its detailed knowledge of growth opportunities in the Canadian market. The Company will also make packaging design changes that are more appealing to its target markets and are consistent with its initiative to be more environmentally friendly. Increased focus will be made on coordination between the Company's business-to-consumer trade channels to provide customers with a more intimate awareness of its broad product portfolio. New product launches and directed focus to support key brands through all of the Company's distribution channels will continue to receive increased marketing and sales support in fiscal 2018 and fiscal 2019.

The Company expects to increase its investments in capital expenditures over the next five years to increase capacity, support its ongoing commitment to producing the highest-quality wines and spirits, and improve productivity. The Company also expects to invest an additional $20.0 million to $25.0 million in the next five years in vineyards and operations in Western Canada to support the three recent acquisitions. Improvements to enhance the coordination throughout its supply chain have been implemented recently and benefits have begun to accrue. Investments made over the past few years are expected to continue to result in increased sales and improved profitability.

The Company plans to dedicate further resources towards rectifying unfair trade barriers and taxes by continuing to work closely with other members of the Canadian wine industry and the Canadian and provincial governments.

The Company anticipates it will continue to generate increased sales going forward while also increasing gross margin as a result of product pricing, raw material cost savings and production efficiencies. The costs of foreign denominated purchases may impact gross margin percentage as foreign exchange rates remain volatile. Furthermore, mandatory increases in minimum wages will also impact operating and selling and administrative expenses.

The Company's product portfolio covers the complete spectrum of price levels within the Canadian wine market. While there may be an increase in purchases of ultra-premium wine, this is expected to be offset by a slight decrease in sales of blended varietal wine. In addition, the Company will be accelerating its efforts to generate production efficiencies and reduce overhead costs to enhance its overall profitability.

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

Risks and Uncertainties

The Company's sales of wine and spirits are affected by general economic conditions such as changes in discretionary consumer spending and consumer confidence, future economic conditions, changes to Inter-Provincial trade laws, tax laws, and the prices of its products. A steep and sustained decline in economic growth may cause a lower demand for the Company's products. Such general economic conditions could impact the Company's sales through the Company's estate wineries, distillery and restaurants, direct sales through licensed establishments, and export sales through duty free shops. The Company believes that these effects would likely be temporary and would not have a significant impact on financial performance.

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

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

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

Foreign exchange risk exists on the purchases of bulk wine and concentrate that are primarily made in United States dollars, Euros, and Australian dollars. The Company's strategy is to hedge approximately 50% - 80% of its foreign exchange requirements throughout the fiscal year and to regularly review its on-going requirements. APL enters into a series of foreign exchange contracts as a hedge against movements in U.S. dollar, Euro and Australian dollar exchange rates. The Company does not enter into foreign exchange contracts for trading or speculative purposes. These contracts are reviewed periodically. Based on the Company's forecasts for foreign currency purchases and the amount of foreign exchange forward contracts outstanding at December 31, 2017, each one percent change in the value of the U.S. dollar, Euro or the Australian dollar would not have a material impact on the Company's net earnings.

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

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

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

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

Recently, Alberta Premier Notley announced a ban on wine imports from the province of BC. Sales of BC produced wine in Alberta accounts for approximately 7% of the Company's annual consolidated revenue. The total impact on the Company's sales will depend on the length of the government's ban and shift in consumer preference, if any. We are reviewing the implications of the ban to establish alternatives so we can continue to serve our loyal consumers in Alberta.

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

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

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

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

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

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

Non-IFRS Measures

The Company utilizes EBITA (defined as earnings before interest, amortization, net unrealized gains and losses on derivative financial instruments, other (income) expenses, and income taxes) and Adjusted EBITA (EBITA before non-recurring expenses such as acquisition transaction and transition costs) to measure its financial performance. EBITA and Adjusted EBITA are not recognized measures under IFRS; however, management believes that EBITA and Adjusted EBITA are useful supplemental measures to net earnings as these measures provide readers with an indication of earnings available for investment prior to debt service, capital expenditures, and income taxes, as well as provide an indication of recurring earnings compared to prior periods.

The Company calculates EBITA and Adjusted EBITA as follows.

For the three and nine months ended December 31,	Three Months		Nine Months	
(in $000)	**2017**	2016 [(1)]	**2017**	2016 [(1)]
Net earnings	**$ 14,391**	$ 8,137	**$ 31,808**	$ 24,340
Add: Interest	**1,656**	702	**3,596**	2,265
Provision for income taxes	**3,046**	1,441	**9,526**	7,298
Amortization of plant and equipment used in production	**1,728**	1,599	**5,109**	4,786
Amortization of equipment and intangibles used in selling and administration	**1,320**	823	**2,986**	2,491
Net unrealized gains on derivative financial instruments	**(216)**	(868)	**(567)**	(2,043)
Other (income) expenses	**(4,092)**	52	**(3,877)**	135
EBITA	**$ 17,833**	$ 11,886	**$ 48,581**	$ 39,272
Acquisition transaction and transition costs	**468**	281	**1,030**	1,109
Fair value adjustment for acquired inventory sold during the period	**1,874**	-	**1,874**	-
Adjusted EBITA	**$ 20,175**	$ 12,167	**$ 51,485**	$ 40,381

[1] Adjusted EBITA figures have been restated to conform to the current year's presentation

Readers are cautioned that EBITA and Adjusted EBITA should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of the Company's performance or to cash flows from operating, investing, and financing activities as a measure of liquidity and cash flows.

The Company also utilizes gross margin (defined as sales less cost of goods sold, excluding amortization) as calculated below.

For the three and nine months ended December 31,	Three Months		Nine Months	
(in $000)	**2017**	2016	**2017**	2016
Sales	**$ 103,583**	$ 94,048	**$ 284,080**	$ 270,311
Less: Cost of goods sold, excluding amortization	**60,366**	59,006	**166,566**	167,482
Gross margin	**$ 43,217**	$ 35,042	**$ 117,514**	$ 102,829
Gross margin (% of sales)	**41.7%**	37.3%	**41.4%**	38.0%

The Company calculates adjusted earnings and adjusted earnings per share as follows.

For the three and nine months ended December 31,	Three Months		Nine Months	
(in $000)	**2017**	2016 [(1)]	**2017**	2016 [(1)]
Net earnings	**$ 14,391**	$ 8,137	**$ 31,808**	$ 24,340
Net unrealized gains on derivative financial instruments	**(216)**	(868)	**(567)**	(2,043)
Other expenses (income)	**(4,092)**	52	**(3,877)**	135
Acquisition transaction and transition costs	**468**	281	**1,030**	1,109
Fair value adjustment for acquired inventory sold during the period	**1,874**	-	**1,874**	-
Income tax effect of the above	**(23)**	139	**(61)**	208
Adjusted earnings	**$ 12,402**	$ 7,741	**$ 30,207**	$ 23,749
Adjusted earnings per share – Class A	**$0.29**	$0.19	**$0.72**	$0.57
Adjusted earnings per share – Class B	**$0.25**	$0.16	**$0.63**	$0.50

[1] Adjusted earnings and Adjusted earnings per share figures have been restated to conform to the current year's presentation

The Company's method of calculating EBITA, adjusted EBITA, gross margin, adjusted earnings and adjusted earnings per share may differ from the methods used by other companies and accordingly, may not be comparable to the corresponding measures used by other companies.

Financial Statements and Accounting Policies

The Company's consolidated financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 – Interim Financial Reporting.

Critical Accounting Estimates

During the year management is required to make estimates and assumptions that are inherently uncertain. These estimates can vary with respect to the level of judgment involved and ultimately the impact that these estimates may have on the Company's financial statements. Estimates are deemed to be critical when a different estimate could reasonably be used or where changes are reasonably likely to occur which could materially affect the Company's financial position or financial performance. The Company's critical accounting estimates remain unchanged from those disclosed in the notes to the audited consolidated financial statements for the year ended March 31, 2017 and 2016, except as noted below.

Recently Adopted Accounting Policies

Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred by the Company is measured as the fair value of assets transferred and equity instruments issued at the date of completion of the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at fair value at the acquisition date. The excess of the consideration transferred over the fair value of the net assets acquired is recorded as goodwill. If the consideration transferred is less than the share of the net assets acquired, the difference is recognized directly in the consolidated statement of earnings as a gain on acquisition. Results of operations of a business acquired are included in the Company's consolidated financial statements from the date of the business acquisition. Acquisition costs incurred are expensed and included in selling and administrative expenses.

For each business combination, the Company measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values. The determination of fair value requires the Company to make assumptions, estimates and judgments regarding future events. The allocation process is inherently subjective and impacts the amounts assigned to individual identifiable assets and liabilities, including the fair value of finished goods inventory, long-lived assets, the recognition and measurement of any unrecorded intangible assets and the final determination of the amount of goodwill or gain on acquisition. The inputs to the exercise of judgments include legal, contractual, business and economic factors. As a result, the purchase price allocation impacts the Company's reported assets and liabilities and future net earnings due to the impact on future cost of goods sold, amortization and impairment tests.

Share based compensation

The Company can grant stock options, performance share units (PSUs) and deferred share units (DSUs) to employees under its share based compensation plan. All share based compensation arrangements are equity-settled in Class A non-voting common shares.

Equity-settled share based payments to employees are measured at the fair value of the equity instrument granted. An option valuation model (Black-Scholes) is used to fair value stock options issued to employees on the date of grant. The volume weighted average trading price of the Class A non-voting common shares for the five trading days prior to the date of the grant is used to determine the fair value of the equity-based share units issued to participants.

The grant date fair value of equity-settled share based awards is recognized as compensation expense with a corresponding increase in equity reserves over the related service period provided to the Company. The total amount of expense recognized in profit or loss is determined by reference to the fair value of the options granted or share awards, which factors in the number of options expected to vest. Equity-settled share based payment transactions are not remeasured once the grant date fair value has been determined, except in cases where the share based payment is linked to non-market performance conditions. Stock options vest in tranches (graded vesting) and accordingly, the expense is recognized in vesting tranches. PSUs vest in full at the end of the third fiscal year after the date of grant and accordingly, the expense is recognized evenly over the vesting period.

Compensation expense is recognized over the applicable vesting period by increasing contributed surplus based on the number of awards expected to vest. At the end of each reporting period, the Company revises its estimates of the number of awards that are expected to vest based on the non-market performance vesting conditions. The Company recognizes the impact of the revision to original estimates, if any, in the condensed consolidated statement of earnings, with a corresponding adjustment to contributed surplus.

Statement of cash flows

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 were effective for annual periods beginning on or after January 1, 2017. The new requirements were adopted effective April 1, 2017. The adoption of these amendments did not have a significant impact on the consolidated financial statements.

Income taxes

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 were effective for annual periods beginning on or after January 1, 2017. The new requirements were adopted effective April 1, 2017. The adoption of these amendments did not have a significant impact on the consolidated financial statements.

Recently Issued Accounting Pronouncements

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; however, it is not expected to have a significant impact on the consolidated financial statements.

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 in the process of evaluating the potential impact this new guidance will have on the Company's consolidated financial statements. The Company has not completed this evaluation and therefore, cannot conclude whether the guidance will have a significant impact on the consolidated financial statements at this time. However, based on preliminary work completed, the Company is considering the implications the new standard may have on its agency wine businesses, presentation of certain customer related trade spending, as well as the timing of recognition of certain promotional discounts, which are areas that could potentially be impacted by the adoption of the new guidance.

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 on 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.

Evaluation of Disclosure Controls and Procedures and Internal Control over Financial Reporting
To comply with National Instrument 52-109 ("NI 52-109") the Company's management, under the supervision of, and with the participation of the CEO and CFO, have designed and maintained the Company's disclosure controls and procedures as required in Canada by "National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings".

For the nine months ended December 31, 2017, there have been no material changes in the Company's internal controls over financial reporting or changes to disclosure controls and procedures that materially affected or were likely to affect, the Company's internal control systems.

Andrew Peller Limited

Condensed Interim Consolidated Financial Statements

December 31, 2017

ANDREW PELLER LIMITED

Condensed Consolidated Balance Sheets

Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)	December 2017 $	March 31 2017 $
Assets		
Current Assets		
Accounts receivable	**36,337**	26,973
Inventory	**159,949**	129,088
Biological assets	**-**	1,400
Prepaid expenses and other assets	**3,549**	3,106
	199,835	160,567
Property, plant, and equipment	**185,205**	118,838
Intangibles	**18,186**	10,600
Goodwill	**53,638**	37,473
	456,864	327,478
Liabilities		
Current Liabilities		
Bank indebtedness (note 9)	**41,046**	36,620
Accounts payable and accrued liabilities	**33,427**	36,260
Dividends payable	**1,935**	1,690
Income taxes payable	**2,672**	2,348
Current portion of derivative financial instruments (note 8)	**236**	418
Current portion of long-term debt (note 9)	**7,333**	4,406
	86,649	81,742
Long-term debt (note 9)	**118,698**	46,678
Derivative financial instruments (note 8)	**265**	642
Post-employment benefit obligations	**5,812**	5,279
Deferred income taxes	**23,407**	15,820
	234,831	150,161
Shareholders' Equity		
Capital stock	**26,097**	6,967
Contributed surplus (note 10)	**255**	-
Retained earnings	**200,339**	174,193
Accumulated other comprehensive loss	**(4,658)**	(3,843)
	222,033	177,317
	456,864	327,478

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, 2017 $	For the three months ended December 31, 2016 $	For the nine months ended December 31, 2017 $	For the nine months ended December 31, 2016 $
Sales	**103,583**	94,048	**284,080**	270,311
Cost of goods sold (note 5)	**60,366**	59,006	**166,566**	167,482
Amortization of plant and equipment used in production	**1,728**	1,599	**5,109**	4,786
Gross profit	**41,489**	33,443	**112,405**	98,043
Selling and administration (note 5)	**25,384**	23,156	**68,933**	63,557
Amortization of plant, equipment, and intangibles used in selling and administration	**1,320**	823	**2,986**	2,491
Interest	**1,656**	702	**3,596**	2,265
Net unrealized gains on derivative financial instruments (note 8)	**(216)**	(868)	**(567)**	(2,043)
Other (income) expenses (note 4)	**(4,092)**	52	**(3,877)**	135
Earnings before income taxes	**17,437**	9,578	**41,334**	31,638
Provision for income taxes				
Current	**2,993**	1,306	**9,371**	6,614
Deferred	**53**	135	**155**	684
	3,046	1,441	**9,526**	7,298
Net earnings for the period	**14,391**	8,137	**31,808**	24,340
Net earnings per share				
Basic				
Class A shares	**0.33**	0.20	**0.76**	0.59
Class B shares	**0.29**	0.17	**0.66**	0.51
Diluted				
Class A shares	**0.33**	0.20	**0.76**	0.59
Class B shares	**0.29**	0.17	**0.66**	0.51

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, 2017 $	For the three months ended December 31, 2016 $	For the nine months ended December 31, 2017 $	For the nine months ended December 31, 2016 $
Net earnings for the period	**14,391**	8,137	**31,808**	24,340
Items that are never reclassified to net earnings				
Net actuarial gains (losses) on post-employment benefit plans	**(940)**	2,088	**(1,102)**	114
Deferred income taxes	**245**	(543)	**287**	(30)
Other comprehensive income (loss) for the period	**(695)**	1,545	**(815)**	84
Net comprehensive income for the period	**13,696**	9,682	**30,993**	24,424

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, 2017 and 2016

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, 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
Balance at April 1, 2017	6,967	-	174,193	(3,843)	177,317
Net earnings for the period	-	-	31,808	-	31,808
Net actuarial losses (net of deferred tax recovery)	-	-	-	(815)	(815)
Net comprehensive income for the period	-	-	31,808	(815)	30,993
Issuance of class A non-voting shares (note 4)	19,130	-	-	-	19,130
Share-based compensation (note 10)	-	255	-	-	255
Dividends (Class A $0.1350 per share, Class B $0.1174 per share)	-	-	(5,662)	-	(5,662)
Balance at December 31, 2017	26,097	255	200,339	(4,658)	222,033

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, 2017 $	For the nine months ended December 31, 2016 $
Cash provided by (used in)		
Operating activities		
Net earnings for the period	**31,808**	24,340
Adjustments for:		
Gain on acquisition of subsidiaries (note 4)	**(4,164)**	-
Loss (gain) on disposal of property and equipment	**35**	(174)
Amortization of plant, equipment, and intangible assets	**8,095**	7,277
Interest expense	**3,596**	2,265
Provision for income taxes	**9,526**	7,298
Post-employment benefits	**(569)**	(547)
Deferred income	**-**	(102)
Net unrealized gain on derivative financial instruments	**(567)**	(2,043)
Share-based compensation	**255**	-
Interest paid	**(2,805)**	(2,373)
Income taxes paid	**(9,161)**	(5,754)
	36,049	30,187
Changes in non-cash working capital items related to operations (note 6)	**(17,539)**	(16,230)
	18,510	13,957
Investing activities		
Acquisition of subsidiaries (note 4)	**(96,592)**	-
Proceeds from disposal of property, plant and equipment	**-**	175
Purchase of property, plant and equipment	**(14,077)**	(16,408)
Purchase of intangibles	**(323)**	-
	(110,992)	(16,233)
Financing activities		
Issue of class A non-voting shares	**19,130**	-
Increase in bank indebtedness	**4,388**	7,405
Drawings of long-term debt	**79,000**	3,000
Repayment of long-term debt	**(3,397)**	(3,000)
Deferred financing costs	**(1,222)**	(194)
Dividends paid	**(5,417)**	(4,935)
	92,482	2,276
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, spirits 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, 2017 and 2016, 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, 2017 and 2016. Changes to the Company's accounting policies from those disclosed in its consolidated financial statements for the years ended March 31, 2017 and March 31, 2016 are described in note 2 (B), significant accounting policies.

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 7, 2018.

(B) Significant accounting policies

Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred by the Company is measured as the fair value of assets transferred and equity instruments issued at the date of completion of the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at fair value at the acquisition date. The excess of the consideration transferred over the fair value of the net assets acquired is recorded as goodwill. If the consideration transferred is less than the net assets acquired, the difference is recognized directly in the condensed consolidated statement of earnings as a gain on acquisition. Results of operations of a business acquired are included in the Company's consolidated financial statements from the date of the business acquisition. Acquisition costs incurred are expensed and included in selling and administrative expenses.

For each business combination, the Company measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values. The determination of fair value requires the Company to make assumptions, estimates and judgments regarding future events. The allocation process is inherently subjective and impacts the amounts assigned to individual identifiable assets and liabilities, including the fair value of finished goods inventory, long-lived assets, the recognition and measurement of any unrecorded intangible assets and the final determination of the amount of goodwill or gain on acquisition. The inputs to the exercise of judgments include legal, contractual, business and economic factors. As a result, the purchase price allocation impacts the Company's reported assets and liabilities and future net earnings due to the impact on future cost of goods sold, amortization and impairment tests.

Share based compensation

The Company grants stock options and performance share units (PSUs) to employees under its share based compensation plan. All share based compensation arrangements are equity-settled in Class A non-voting common shares.

Equity-settled share based payments to employees are measured at the fair value of the equity instrument granted. An option valuation model (Black-Scholes) is used to fair value stock options issued to employees on the date of grant. The volume weighted average trading price of the Class A non-voting common shares for the five trading days prior to the date of the grant is used to determine the fair value of the equity-based share units issued to participants.

The grant date fair value of equity-settled share based awards is recognized as compensation expense with a corresponding increase in equity reserves over the related service period provided to the Company. The total amount of expense recognized in profit or loss is determined by reference to the fair value of the options granted or share awards, which factors in the number of options expected to vest. Equity-settled share based payment transactions are not remeasured once the grant date fair value has been determined, except in cases where the share based payment is linked to non-market performance conditions. Stock options vest in tranches (graded vesting) and accordingly, the expense is recognized in vesting tranches. PSUs vest in full at the end of the third fiscal year after the date of grant and accordingly, the expense is recognized evenly over the vesting period.

Compensation expense is recognized over the applicable vesting period by increasing contributed surplus based on the number of awards expected to vest. At the end of each reporting period, the Company revises its estimates of the number of awards that are expected to vest based on the non-market performance vesting conditions. The Company recognizes the impact of the revision to original estimates, if any, in the condensed consolidated statement of earnings, with a corresponding adjustment to contributed surplus.

Statement of cash flows

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 were effective for annual periods beginning on or after January 1, 2017. The new requirements were adopted effective April 1, 2017. The adoption of these amendments did not have a significant impact on the consolidated financial statements.

Income taxes

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 were effective for annual periods beginning on or after January 1, 2017. The new requirements were adopted effective April 1, 2017. The adoption of these amendments did not have a significant impact on the consolidated financial statements.

(C) Recently issued accounting pronouncements

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; however, it is not expected to have a significant impact on the consolidated financial statements.

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 in the process of evaluating the potential impact this new guidance will have on the Company's consolidated financial statements. The Company has not completed this evaluation and therefore, cannot conclude whether the guidance will have a significant impact on the consolidated financial statements at this time. However, based on preliminary work completed, the Company is considering the implications the new standard may have on its agency wine businesses, presentation of certain customer related trade spending, as well as the timing of recognition of certain promotional discounts, which are areas that could potentially be impacted by the adoption of the new guidance.

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 on 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.

4 Acquisitions

During the three and nine month periods ended December 31, 2017, the Company made the following acquisitions:

- On October 1, 2017, the Company acquired 100% of the common shares of Gray Monk Cellars Ltd. (Gray Monk) and certain operating assets held by related parties for consideration of $36,384, of which $17,254 was funded in cash and $19,130 was funded by the issuance of 1,579,670 Class A non-voting common shares. Gray Monk generates annual revenue of approximately $11 million and employs approximately 50 people. The results of operations from October 1, 2017 have been included in these condensed interim consolidated financial statements.

- On October 1, 2017, the Company acquired 100% of the common and preferred shares of Tinhorn Creek Vineyards Ltd. (Tinhorn) for cash consideration of $28,880. Tinhorn generates annual revenue of approximately $7 million and employs approximately 50 people. The results of operations from October 1, 2017 have been included in these condensed interim consolidated financial statements.

- On October 10, 2017, the Company acquired 100% of the operating assets of Black Hills Estate Winery (Black Hills) for cash consideration of $31,328. Black Hills generates annual revenue of approximately $6 million and employs approximately 16 people. The results of operations from October 10, 2017 have been included in these condensed interim consolidated financial statements.

These acquisitions have been accounted for as business combinations.

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

The following table summarizes the amounts paid or payable at the dates of the acquisitions and the preliminary allocation of the purchase prices to the identifiable assets acquired and liabilities assumed based on management's estimate of the fair values:

	Gray Monk Cellars	**Tinhorn Creek Vineyards Ltd.**	**Black Hills Estate Winery**	**Total**
Assets acquired				
Cash	$ 24	$ -	$ -	$ 24
Receivables	934	468	-	1,402
Inventories	11,882	7,977	3,619	23,478
Current portion of biological assets	312	-	-	312
Prepaid expenses and other assets	71	107	12	190
	13,223	8,552	3,631	25,406
Property, plant and equipment	20,356	27,459	13,036	60,851
Intangible assets - brand	2,440	1,439	2,560	6,439
Intangible assets - customer lists	-	-	1,680	1,680
Goodwill	5,190	-	10,975	16,165
	41,209	37,450	31,882	110,541
Liabilities assumed				
Debt	-	62	-	62
Accounts payable and accrued liabilities	1,358	532	-	1,890
Income taxes payable	114	-	-	114
Deferred income taxes	3,353	3,812	554	7,719
	4,825	4,406	554	9,785
Net assets acquired	**$ 36,384**	**$ 33,044**	**$ 31,328**	**$ 100,756**
Total purchase consideration	**$ 36,384**	**$ 28,880**	**$ 31,328**	**$ 96,592**
Gain on acquisition	**$ -**	**$ (4,164)**	**$ -**	**$ (4,164)**

Recognized goodwill reflects the value assigned to expected future synergies and an assembled workforce within the companies. The gain on acquisition relating to the purchase of Tinhorn was a result of the limited number of market participants with the resources to acquire the assets and business of this scale. The gain on acquisition has been recorded as other income (expense) in the condensed interim consolidated financial statements.

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

5 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, 2017	For the three months ended December 31, 2016	For the nine months ended December 31, 2017	For the nine months ended December 31, 2016
Raw materials and consumables	$ 50,601	$ 49,371	$ 137,755	$ 138,727
Employee compensation and benefits	17,122	16,514	48,830	47,199
Advertising, promotion and distribution	7,709	6,965	20,574	18,088
Occupancy	3,150	2,450	8,644	8,538
Repairs and maintenance	2,178	1,968	4,973	5,143
Other external charges	4,990	4,894	14,723	13,344
	$ 85,750	$ 82,162	$ 235,499	$ 231,039

6 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, 2017	For the nine months ended December 31, 2016
Accounts receivable	$ (7,962)	$ (6,685)
Inventory	(7,292)	(10,755)
Biological assets	1,712	1,196
Prepaid expenses and other assets	(253)	(887)
Accounts payable and accrued liabilities	(3,744)	901
	$ (17,539)	$ (16,230)

7 Related parties and management compensation

The compensation expense recorded for directors and members of the Executive Management Team of the Company was $2,056 (2016 - $2,544) for the three months ended December 31, 2017 and $3,993 (2016 - $5,316) for the nine months ended December 31, 2017. When the share based compensation plan was approved in September as described in note 10, the previous cash based incentive plan was discontinued. This resulted in the reversal of the year to date accrual of $757 during the nine months ended December 31, 2017. 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)

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 bank indebtedness and long-term debt is equivalent to its 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 gains on derivative financial instruments are comprised of:

	For the three months ended December 31, 2017	For the three months ended December 31, 2016	For the nine months ended December 31, 2017	For the nine months ended December 31, 2016
Unrealized gains (losses) on foreign exchange forward contracts	$ 599	$ 185	$ (57)	$ 1,002
Unrealized gains (losses) on interest rate swaps	(383)	683	624	1,041
	$ 216	$ 868	$ 567	$ 2,043

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.

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

			December 31, 2017
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	-	436	-
Foreign exchange forward contracts liability	-	65	-

			March 31, 2017
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	$ -	$ 1,060	$ -
Foreign exchange forward contracts liability	-	8	-

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

9 Bank indebtedness and Long-term debt

On September 29, 2017, the Company amended and restated its debt facilities. Amendments include a revised maturity date of September 29, 2022, revised financial covenants and updated applicable margins based on the Company's leverage. Additionally, the total borrowing limit was increased to $310,000 and separated into two facilities: a revolving, non-amortizing facility with a borrowing limit of $90,000 to be used for day-to-day operations, distributions and capital expenditures and a revolving, amortizing investment facility with a borrowing limit of $220,000 to be used for acquisitions or capital expenditures. Each draw on the investment facility is subject to a new amortization schedule and required annual repayments increase over the term of the loan. The initial draw on the investment facility was used to refinance the previous operating and capital term loans and to fund acquisitions. Monthly principal repayments of $535 are required on the revolving, amortizing investment facility based on the initial draw. At December 31, 2017, the applicable margin was 1.90% (March 31, 2017 – 1.25%).

Unamortized financing costs relating to the refinanced facilities of $435 as at September 29, 2017 were expensed to interest expense in the condensed consolidated statement of earnings. Financing costs of $1,222 were incurred to amend the debt facilities and these costs will be amortized over the new term of the loan.

On October 31, 2017, the Company terminated its existing swap agreements and entered into a new swap agreement 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.

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

Bank indebtedness

	December 31, 2017	March 31, 2017
Balance outstanding	$ 41,046	$ 36,620
Committed until	September 29, 2022	July 31, 2021
Borrowing limit	$ 90,000	$ 90,000
Interest rate	CDOR + 1.90%	CDOR + 1.25%

Long-term debt

	December 31, 2017	March 31, 2017
Revolving, amortizing loan - Investment facility	$ 126,860	$ -
Term loan - Operating facility	-	48,333
Term Loan - Capital facility	-	2,925
Other	319	319
	127,179	51,577
Less: Financing costs	1,148	493
	126,031	51,084
Less: Current portion	7,333	4,406
	$ 118,698	$ 46,678

10 Share based compensation

On September 13, 2017, the Company established a new share based compensation plan and on September 21, 2017 and November 13, 2017 granted stock options and PSUs to certain employees and key management personnel. As at December 31, 2017, the Company had 3,358,149 Class A non-voting common shares reserved for issuance under the share based compensation arrangements.

a) Stock Options

Each share option issuance under the plan specifies the period during which the share option thereunder is exercisable and the date the share option will expire. All issued options expire after ten years from the grant date. The exercise price of each option will not be less than the volume weighted average trading price of the Class A non-voting common shares 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.

The Company's stock options transactions during the three and nine months ended December 31, 2017 were as follows:

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

	Number of options		Weighted average exercise price $
Balance outstanding - March 31, 2017	-	$	-
Granted on September 21, 2017	252,300	$	11.66
Granted on November 13, 2017	17,600	$	12.80
Forfeited on November 17, 2017	(1,900)	$	11.66
Balance outstanding - December 31, 2017	268,000	$	11.73

The stock options granted on September 21, 2017 expire on September 21, 2027. The stock options granted November 13, 2017 expire on November 13, 2027.

For options granted during the three and nine months ended December 31, 2017, 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	\$3.41
Expected volatility (1)	30.43%
Dividend yield	1.75%
Risk-free interest rate	1.00%
Weighted average expected life in years	10

(1) Expected volatility was determined using historical volatility

During the three and nine months ended December 31, 2017, the Company recorded stock-based compensation expense and a corresponding increase to contributed surplus related to stock options of \$132 and \$153 respectively (three and nine months ended December 31, 2016 – \$nil).

No stock options granted under the share based compensation plan have vested or been exercised as at December 31, 2017.

b) PSU plan

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 for each employee that is granted PSUs 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.

The Company's PSU transactions during the three and nine months ended December 31, 2017 were as follows:

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

	Number of options		Fair value per unit $
Balance outstanding - March 31, 2017	-	$	-
Granted on September 21, 2017	76,280	$	11.66
Granted on November 13, 2017	4,690	$	12.80
Forfeited on November 17, 2017	(560)	$	11.66
Balance outstanding - December 31, 2017	80,410	$	11.73

During the three and nine months ended December 31, 2017, the Company recorded stock-based compensation expense and a corresponding increase to contributed surplus related to PSUs of $88 and $102 respectively (three and nine months ended December 31, 2016 – $nil).

No PSUs granted under the share based compensation plan have vested or been exercised as at December 31, 2017.

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"John E. Peller"
John E. Peller
Chairman
February 7, 2018

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