ANDREW PELLER

— LIMITED —

MANAGEMENT'S DISCUSSION & ANALYSIS
For the three and nine months ended December 31, 2019

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, 2019 in comparison with those for the three and nine months ended December 31, 2018 for Andrew Peller Limited (the "Company" or "APL"). This discussion is prepared as of February 12, 2020 and should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes contained therein for the periods ended December 31, 2019 and 2018. 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, 2019 and March 31, 2018, is available on www.sedar.com. The financial years ending March 31, 2019 and March 31, 2020 are referred to as "fiscal 2019" and "fiscal 2020" 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 craft beverage alcohol products; 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 and international wine markets; market trends; reliance on key personnel; protection of its intellectual property rights; the economic environment; the regulatory requirements regarding producing, marketing, advertising, and labelling 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 and craft beverage alcohol products 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 Winery, Tinhorn Creek Vineyards, Gray Monk Estate Winery, Raven Conspiracy* and *Conviction*. Complementing these premium brands are a number of popularly priced varietal brands including *Peller Family Vineyards (*formerly, *Peller Estates French Cross* in Eastern Canada and *Peller Estates Proprietors Reserve* in Western Canada), *Copper Moon, Black Cellar* and *XOXO. Hochtaler, Domaine D'Or*, *Schloss Laderheim, Royal,* and *Sommet* are the Company's 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 craft beverage alcohol products, including *No Boats on Sunday* ciders*, Wayne Gretzky No. 99 Red Cask*, *No. 99 Ice Cask* and *99 Proof* Canadian Whiskies and *No. 99 Canadian Whisky Cream* products. The Company has also recently entered the craft beer market with the launch of its *No. 99 Premium Lager*. 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 vision is to *Pour Extraordinary into Everyday Life*. The Company believes it achieves this objective by delivering to its customers and consumers the highest quality branded wines, spirits, refreshments, beer and experiences at the best possible value. To meet this goal, the Company invests in improvements in the quality of grapes, wines, and other raw materials, its winemaking and distillation capabilities, sales and marketing initiatives, tourism and hospitality experiences, and its quality management programs.

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, Ontario independent retail locations and grocery outlets 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 November 8, 2019, the Company announced that it filed with the Toronto Stock Exchange ("TSX"), and the TSX has accepted, a notice of intention to make a normal course issuer bid (the "NCIB") permitting the Company to purchase for cancellation up to 1,799,733 of its outstanding class A non-voting shares ("Class A Shares") over a 12-month period, representing 5% of the 35,994,667 Class A Shares outstanding as of the close of trading on November 7, 2019.

On July 29, 2019 the City of Port Moody, British Columbia approved by-law amendments to permit the future development of lands owned by the Company that had held its first winery operations since 1961. Production was moved from the property to its Kelowna, B.C. facility in January 2006. Since that time the Company has engaged with the community and the City of Port Moody to produce a plan to transform the 217,000 square foot site into a mixed-use community.

On June 12, 2019, the Company's Board of Directors approved a 4.8% increase in common share dividends. The annual dividend on Class A Shares was increased to \$0.215 per share from \$0.205 per share and the dividend on Class B Shares was increased to \$0.187 per share from \$0.178 per share. The Company has consistently paid common share dividends since 1979 and has increased dividends every year for the past seven years. APL currently designates all dividends paid as "eligible dividends" for purposes of the *Income Tax Act* (Canada) unless indicated otherwise.

On April 26, 2019, the Company's Wayne Gretzky Estates introduced its expansion into the craft beer market with its new *No. 99 Premium Lager*. *No. 99 Premium Lager* has only four natural ingredients and is brewed locally in Ontario with Canadian Winter rye grain. The craft beer is available for sale across Ontario in LCBO stores, The Beer Store, Wayne Gretzky Estates, select Ontario restaurants, as well as Manitoba, Saskatchewan and the Maritimes. Further geographical expansion into Western Canada is planned for later this year.

On April 11, 2019, the Company announced the launch of the new *Peller Family Vineyards* brand supported by a comprehensive media campaign including television, digital, social, public relations and in-store programs, positioning *Peller Family Vineyards* as a signature for quality, approachable wine.

The Government of Ontario has announced its intention to modernize the rules for selling beverage alcohol in Ontario by expanding retail distribution in the province. This could represent a significant change to the retail landscape in Ontario with the goal of providing more convenience and choice to consumers. While there has not been a proposal by the Government of Ontario regarding implementation, the Company is working closely with its industry partners to mitigate the risks that this transition may have on its financial results.

Results of Operations

For the nine months ended December 31, **(in $000, except per share amounts)**	**2019**	2018
Sales	**$ 300,188**	$ 302,016
Gross margin	**130,700**	127,698
Gross margin (% of sales)	**43.5%**	42.3%
Selling and administrative expenses	**78,867**	81,377
EBITA	**51,833**	46,321
Adjusted EBITA	**53,309**	51,739
Interest	**6,269**	5,817
Net unrealized loss (gain) on derivative financial instruments	**(578)**	511
Other expenses	**1,133**	394
Adjusted earnings	**26,378**	27,931
Net earnings	**24,491**	21,874
Earnings per share – basic and diluted - Class A	**$ 0.57**	$ 0.51
Earnings per share – basic and diluted - Class B	**$ 0.49**	$ 0.44
Adjusted earnings per share – basic and diluted – Class A	**$ 0.60**	$ 0.65
Adjusted earnings per share – basic and diluted – Class B	**$ 0.52**	$ 0.56
Dividend per share – Class A (annual)	**$0.215**	$0.2050
Dividend per share – Class B (annual)	**$0.187**	$0.1783

Sales for the nine months ended December 31, 2019 were $300.2 million, slightly lower than prior year. The introduction of new products and solid performance across the majority of the Company's well established trade channels were offset by reduced sales in the personal winemaking market, increased competition from subsidized low-priced imported wines, and lower duty-free export sales due to trade and political disputes between Canada and China.

The Company defines gross margin as gross profit excluding amortization. Gross margin as a percentage of sales strengthened to 43.5% for the nine months ended December 31, 2019 compared to 42.3% in the first nine months of the prior year. Gross margin is benefiting from an increased focus on higher margin products and the positive impact of the Company's cost control initiatives. Management is continually focused on enhancing production efficiency and productivity and believes gross margin will remain strong for the foreseeable future.

On the acquisition of the three wineries purchased in October 2017, the Company recorded an increase of $10.4 million to inventory to represent the fair value of the goods acquired. This increase is being expensed over time to the consolidated statement of earnings as finished goods are sold, thus reducing gross margin. During the first nine months of fiscal 2020 the Company's gross margin was reduced by $1.5 million due to this adjustment compared to $5.2 million in the prior year.

Selling and administrative expenses were lower in the first nine months of fiscal 2020 compared to the prior year. Included in fiscal 2020 is the reduction of lease expenses of $2.3 million, due to the accounting treatment for lease obligations in accordance with IFRS 16, adopted on April 1, 2019 (see IFRS, Leases below). Prior year included advertising and promotion costs related to the launch of the Company's new *Peller Family Vineyards* brand and other new products and initiatives. Partially offsetting these reductions are one-time expenditures related to the Company's implementation of a new Enterprise Resource Planning (ERP) solution. As a percentage of sales, selling and administrative expenses improved to 26.3% for the first nine months of fiscal 2020 compared to 26.9% in the prior year.

Earnings before interest, amortization, net unrealized gains and losses on derivative financial instruments, other (income) expenses, and income taxes ("EBITA") were $51.8 million for the nine months ended December 31, 2019, up from $46.3 million in the prior year. EBITA strengthened due primarily to the improved gross margin and the lower selling and administrative costs in fiscal 2020. Adjusted EBITA, which excludes from EBITA one-time acquisition related charges, was $53.3 million for the nine months ended December 31, 2019 compared to $51.7 million in the prior year.

Interest and amortization expense increased in fiscal 2020 compared to the prior year due primarily to the lease obligations as mentioned above. Other expenses in fiscal 2020 include $1.0 million in one-time early retirement incentive programs resulting from recent plant operations succession planning.

The Company recorded a net unrealized non-cash gain in the first nine months of fiscal 2020 of $0.6 million related to mark-to-market adjustments on interest rate swaps and foreign exchange contracts compared to a loss of $0.5 million in the prior year. 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.

Net earnings for the first nine months of fiscal 2020 were $24.5 million or $0.57 per Class A Share compared to $21.9 million or $0.51 per Class A Share in the prior year. 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 $26.4 million for the nine months ended December 31, 2019 compared to $27.9 million in the prior year.

The Company believes that sales will grow over the long term due to strong positioning of key brands, the continued launch of new and innovative products in both its core wine business and in the new product categories, as well as overall growth in the Canadian beverage alcohol market.

Quarterly Performance

The following table outlines key quarterly highlights.

(in $000, except per share amounts)	Q3 20	Q2 20	Q1 20	Q4 19	Q3 19	Q2 19	Q1 19	Q4 18
Sales	101,597	103,375	95,216	79,780	103,152	103,323	95,541	79,817
Gross margin	41,968	46,311	42,421	31,310	42,133	44,284	41,281	32,811
Gross margin (% of sales)	41.3%	44.8%	44.6%	39.2%	40.8%	42.9%	43.2%	41.1%
EBITA	16,148	17,335	18,350	6,554	14,353	16,160	15,808	4,279
Interest	1,818	2,222	2,228	1,055	1,920	1,943	1,954	1,749
Adjusted EBITA	16,427	17,957	18,925	6,548	15,599	18,198	17,942	5,740
Net unrealized loss (gain) on financial instruments	(646)	(497)	565	1,168	1,478	(749)	(218)	(833)
Other expenses (income)	(57)	1,106	86	669	27	92	275	35
Adjusted earnings (loss)	7,815	8,716	9,848	1,477	7,761	10,446	9,724	(904)
Net earnings (loss)	8,056	7,643	8,791	84	5,432	8,894	7,548	(1,691)
E.P.S. – Class A basic & diluted	$0.19	$0.18	$0.20	$0.00	$0.13	$0.21	$0.18	$(0.04)
E.P.S. – Class B basic & diluted	$0.16	$0.15	$0.18	$0.00	$0.11	$0.18	$0.15	$(0.03)
Adjusted E.P.S – Class A basic & diluted	$0.18	$0.20	$0.23	$0.03	$0.18	$0.24	$0.23	$(0.02)
Adjusted E.P.S – Class B basic & diluted	$0.15	$0.17	$0.20	$0.03	$0.16	$0.21	$0.20	$(0.02)

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

Sales in the third quarter of fiscal 2020 were $101.6 million, slightly lower than prior year's third quarter. Sales were strengthened by solid performance across the majority of the Company's well established trade channels, offset by reduced sales in the personal winemaking market, increased competition from subsidized low-priced imported wines, and lower duty-free export sales due to trade and political disputes between Canada and China.

Gross margin for the three months ended December 31, 2019 strengthened to 41.3% of sales compared to 40.8% in the third quarter of fiscal 2019. Gross margin in fiscal 2020 is benefiting from an increased focus on higher margin products, and the positive impact of the Company's cost control initiatives.

Selling and administrative expenses decreased in the third quarter of fiscal 2020 compared to the prior year's third quarter due primarily to the reduction of lease expenses and reduced advertising and promotion as discussed above.

EBITA was $16.1 million for the three months ended December 31, 2019 compared to $14.4 million in the same quarter in fiscal 2019. The increase is due primarily to the higher gross margin and lower selling and administrative expenses. The Company recorded a net unrealized non-cash gain of $0.6 million in the third quarter of fiscal 2020 related to mark-to-market adjustments on interest rate swaps and foreign exchange contracts compared to a loss of $1.5 million in the third quarter of fiscal 2019.

Net earnings were $8.1 million or $0.19 per Class A share for the three months ended December 31, 2019 compared to $5.4 million or $0.13 per Class A Share in the third quarter of fiscal 2019. The Company generated adjusted earnings for the three months ended December 31, 2019 of $7.8 million which is consistent with the same period in the prior year.

Liquidity and Capital Resources

As at (in $000)	December 31, 2019	March 31, 2019
Current assets	**$ 204,020**	$ 196,700
Property, plant, and equipment	**221,863**	199,749
Intangibles	**19,557**	16,932
Goodwill	**53,638**	53,638
Total assets	**$ 499,078**	$ 467,019
Current liabilities	**$ 106,903**	$ 99,395
Long-term debt	**98,923**	106,879
Long-term derivative financial instruments	**398**	1,008
Lease obligations	**15,031**	-
Post-employment benefit obligations	**6,145**	4,657
Deferred income tax	**19,796**	20,329
Shareholders' equity	**251,882**	234,751
Total liabilities and shareholders' equity	**$ 499,078**	$ 467,019

The change in current assets as at December 31, 2019 compared to March 31, 2019 reflects an increase in inventory due to seasonal factors and the harvesting of grapes. Inventory is dependent on 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 wines 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. Included in current assets for the period ended December 31, 2019 was $1.3 million reflecting the value of the Company's production facility in Port Coquitlam Brtish Columbia which is being held for sale.

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 $13.5 million of accounts receivable with provincial liquor boards at December 31, 2019, 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 $3.0 million at December 31, 2019. Against these amounts an allowance for doubtful accounts of $0.2 million has been provided which the Company has determined based on assumptions about risk of default and expected loss rates.

Property, plant, and equipment increased at December 31, 2019 compared to the prior year-end due to the requirement to record all lease obligations on the balance sheet as discussed above and operational investments in the Company's facilities.

Intangibles increased at December 31, 2019 compared to the prior year-end largly due to the investment in a new ERP solution.

The change in current liabilities as at December 31, 2019 compared to March 31, 2019 reflects a decrease in accounts payable due to timing of invoices and payments offset by an increase in bank indebtedness and the change in accounting treatment for lease obligations.

Overall bank debt increased to $161.1 million at December 31, 2019 from $154.8 million at March 31, 2019. The increase is due to cash flows from operations in fiscal 2020 offset by regularly scheduled debt repayments. With the increase in debt, the Company's debt to equity ratio was 0.64:1 at December 31, 2019 compared to 0.66:1 at March 31, 2019. At December 31, 2019, the Company had unutilized debt capacity in the amount of $35.2 million on its operating facility and $110.0 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 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, 2019, the Company generated cash from operating activities, after changes in non-cash working capital items, of $21.5 million compared to $32.4 million in the prior year. Investing activities of $17.9 million in the first nine months of fiscal 2020 relate primarilty to capital expenditures to implement a new ERP and improve operations.

Financing activities for the nine months ended December 31, 2019 of $3.6 million included repurchase of class A shares under the NCIB, scheduled repayments of long-term debt, dividend payments, the principal repayment of lease obligations, and an increase in bank indebtedness.

Working capital as at December 31, 2019 was $97.1 million compared to $97.3 million at March 31, 2019. Shareholders' equity as at December 31, 2019 was $251.9 million or $5.70 per common share compared to $234.8 million or $5.31 per common share as at March 31, 2019. The increase in shareholders' equity was due to the net earnings in fiscal 2020, partially offset by the payment of dividends.

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, 2019**	March 31, 2019
Class A Shares	**35,947,267**	35,988,148
Class B Shares	**8,191,883**	8,198,994
Total	**44,139,150**	44,187,142

The total number of common shares repurchased for cancellation under the NCIB during the 3-month period ended December 31, 2019 amounted to 62,700 common shares, at a weighted average price of $11.95 per common share, for a total cash consideration of $750,000. For the 3-month period ended December 31, 2019, the Company's share capital was reduced by $45,000 and the remaining $705,000 was accounted for as a decrease in retained earnings.

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 consumers and customers. Over the long term the Company believes higher-priced premium wine and spirits sales will continue to grow in Canada, generating higher margins and increased profitability compared to its lower-priced products. The Company has also entered the spirits and craft beer categories, through its strategic alliance with Wayne Gretzky, and has introduced sangrias and ciders through its own brand labels.

The Company has focused its product development and sales and marketing initiatives by capitalizing on wine consumption trends 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 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 key brands through all of the Company's distribution channels will continue to receive increased marketing and sales support.

The Company expects to continue to invest in capital expenditures over the next five years to improve efficiencies, increase capacity, support its ongoing commitment to producing the highest-quality wines and spirits, and improve productivity.

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 craft beverage alcohol products are affected by general economic conditions and social trends such as changes in discretionary consumer spending and consumer confidence, future economic conditions, changes to Inter-Provincial trade laws, tax laws, the prices of its products and health trends. 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 sales 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. Fluctuating foreign currencies may have a positive or negative impact on gross margins, however, the Company believes the impact on gross margin will be largely offset by its continued ability to leverage scale and successful cost control initiatives to reduce other cost of goods sold. 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. The Company does not enter into foreign exchange contracts for trading or speculative purposes and contracts are reviewed periodically. As at December 31, 2019, the Company had locked in $7.5 million in U.S. dollar contracts at rates ranging between $1.31 and $1.32 Canadian, and $1.0 million in Australian dollar contracts averaging $0.90 Canadian. These contracts expire at various dates through February 2020. Based on the Company's forecasts for foreign currency purchases and the amount of foreign exchange forward contracts outstanding at December 31, 2019, each one percent change in the U.S. dollar, Euro and the Australian dollar exchange rates would not result in a material impact on the Company's net earnings.

The Company purchases glass, bag in box, tetra paks, and other components used for bottling and packaging. The largest component of packaging 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 markets 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 for consumer acceptance, loyalty, and shelf space. The 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.

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. The Company's 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 $000)	**2019**	2018	**2019**	2018
Net earnings	**$ 8,056**	$ 5,432	**$ 24,491**	$ 21,874
Add: Interest	**1,818**	1,920	**6,269**	5,817
Provision for income taxes	**2,904**	2,393	**8,350**	8,299
Amortization of plant and equipment used in production	**2,419**	1,893	**7,175**	5,658
Amortization of equipment and intangibles used in selling and administration	**1,654**	1,210	**4,993**	3,768
Net unrealized gains on derivative financial instruments	**(646)**	1,478	**(578)**	511
Other expenses	**(57)**	27	**1,133**	394
EBITA	**$ 16,148**	$ 14,353	**$ 51,833**	$ 46,321
Fair value adjustment for acquired inventory sold during the period	**279**	1,246	**1,476**	5,418
Adjusted EBITA	**$ 16,427**	$ 15,599	**$ 53,309**	$ 51,739

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 Month		Nine months	
(in $000)	**2019**	2018	**2019**	2018
Sales	**$ 101,597**	$ 103,152	**$ 300,188**	$ 302,016
Less: Cost of goods sold, excluding amortization	**59,629**	61,019	**169,488**	174,318
Gross margin	**$ 41,968**	$ 42,133	**$ 130,700**	$ 127,698
Gross margin (% of sales)	**41.3%**	40.8%	**43.5%**	42.3%

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 $000)	**2019**	2018	**2019**	2018
Net earnings	**$ 8,056**	$ 5,432	**$ 24,491**	$ 21,874
Net unrealized gains on derivative financial instruments	**(646)**	1,478	**(578)**	511
Other expenses	**(57)**	27	**1,133**	394
Fair value adjustment for acquired inventory sold during the period	**279**	1,006	**1,476**	5,178
Transaction costs	**-**	240	**-**	240
Income tax effect of the above	**183**	(423)	**(144)**	(267)
Adjusted earnings	**$ 7,815**	$ 7,761	**$ 26,378**	$ 27,931
Adjusted earnings per share – Class A	**$0.18**	$0.18	**$0.60**	$0.65
Adjusted earnings per share – Class B	**$0.15**	$0.16	**$0.52**	$0.56

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, 2019 and 2018, except as follows:

IFRS 16, Leases
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods covered by termination options) are only included in the lease term if the lease is reasonably certain to be extended (or terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

In determining the carrying amount of right-of-use assets and lease liabilities, the Company is required to estimate the incremental borrowing rate specific to each leased asset or portfolio of leased assets if the interest rate implicit in the lease is not readily determined. Management determines the incremental borrowing rate of each leased asset or portfolio of leased assets by using the companies specific risk portfolio, the security, term and value of the underlying leased asset, and the economic environment in which the leased asset operates in. The incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment.

Recently Adopted Accounting Policies
IFRS 16, Leases has been adopted effective April 1, 2019 which replaces IAS 17, Leases and Related Interpretations. IFRS 16 introduces a single, on-balance sheet accounting model for lessees that is similar to the former financing lease accounting, with limited exceptions for short-term leases or leases of low-value assets. Lessees recognize a right-of-use asset representing its rights to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessees also recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities. A lessee can choose to apply IFRS 16 using either a full retrospective or a modified retrospective approach. The Company has applied IFRS 16 using the modified retrospective approach, the simplified transition approach, without restating comparative amounts prior to the first adoption. The right-of-use assets and liabilities for property and equipment leases are measured on transition as if the new rules had always been applied. At the time of adoption, as at April 1, 2019, the Company recognized $17.9 million in new right-of-use assets and lease liabilities for its vineyard, building and machinery and equipment leases. Additional disclosures have been included in the condensed consolidated interim financial statements for the six month period ended December 31, 2019.

Leases are recognized as a right-of-use asset in property, plant and equipment and a corresponding lease liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the repayment of the principal portion of lease liability and the interest portion. The interest expense is charged to the condensed interim consolidated statement of earnings over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payment of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Payments associated with variable lease payments not based on an index or a rate, short-term leases and leases of low value assets are recognized on a straight-line basis as an expense in the condensed interim consolidated statement of earnings.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date, less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Right-of-use assets are subject to impairment.

Some property leases contain variable payment terms that are linked to sales generated from a store. For individual stores, up to 100% of lease payments are on the basis of variable payment terms. Variable lease payments are recognized in the condensed interim consolidated statement of earnings in the period in which the condition that triggers those payments occurs. A 1% increase in sales across all stores with such variable lease contracts would not result in a material change to the total lease payments.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

IAS 19, Employee Benefits has been amended to modify the guidance in connection with defined benefit plans and accounting for plan amendments, settlements, or curtailments. The amendments are effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments did not have a material impact on the consolidated financial statements.

IFRS 9, Financial Instruments has been amended to enable companies to measure at amortized cost some prepayable financial assets with negative compensation. The assets affected, that include some loans and debt securities, would otherwise have been measured at fair value through profit or loss. Financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation, may be measured at amortized cost or at fair value through other comprehensive income when eligibility conditions are met. The amendment to IFRS 9 also clarifies how to account for the modification of a financial liability. Most modifications of financial liabilities will result in immediate recognition of a gain or loss. The amendment is effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments did not have a material impact on the consolidated financial statements.

IFRIC Interpretation 23, Uncertainty over Income Tax Treatments, has been issued to clarify how to apply the recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty over income tax treatments. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2019. The adoption of this interpretation did not have any material impact on the consolidated financial statements.

Recently Issued Accounting Pronouncements

IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors have been amended to use a consistent definition of materiality throughout all accounting standards, clarify the explanation of the definition of material and incorporate some of the guidance in IAS 1 about immaterial information. The amendments are effective for annual periods beginning on or after January 1, 2020. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

IFRS 3, Business Combinations has been amended to improve the definition of a business. The amendments will help companies determine whether an acquisition made is of a business or a group of assets. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contributions to the ability to create outputs. The amendments are effective for annual periods beginning on or after January 1, 2020. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

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, 2019, 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, 2019

ANDREW PELLER LIMITED

Condensed Consolidated Balance Sheets

Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)	December 30 2019 $	March 31 2019 $
Assets		
Current Assets		
Accounts receivable	**29,884**	29,801
Inventory	**168,249**	160,537
Biological assets	**-**	1,736
Prepaid expenses and other assets	**4,612**	4,626
Assets held for sale (note 4)	**1,275**	-
	204,020	196,700
Property, plant, and equipment (note 2)	**221,863**	199,749
Intangible assets	**19,557**	16,932
Goodwill	**53,638**	53,638
	499,078	467,019
Liabilities		
Current Liabilities		
Bank indebtedness	**51,641**	38,175
Accounts payable and accrued liabilities	**36,158**	47,451
Dividends payable	**2,317**	2,212
Income taxes payable	**2,021**	1,477
Current portion of lease obligations (note 2)	**3,851**	-
Current portion of derivative financial instruments (note 8)	**371**	339
Current portion of long-term debt	**10,544**	9,741
	106,903	99,395
Long-term debt	**98,923**	106,879
Long-term derivative financial instruments (note 8)	**398**	1,008
Lease obligations (note 2)	**15,031**	-
Post-employment benefit obligations	**6,145**	4,657
Deferred income taxes	**19,796**	20,329
	247,196	232,268
Shareholders' Equity		
Capital stock (note 9)	**26,400**	26,330
Contributed surplus	**4,236**	2,737
Retained earnings	**226,652**	209,825
Accumulated other comprehensive loss	**(5,406)**	(4,141)
	251,882	234,751
	499,078	467,019

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, 2019 $	For the three months ended December 30, 2018 $	For the nine months ended December 31, 2019 $	For the nine months ended December 30, 2018 $
Sales	**101,597**	103,152	**300,188**	302,016
Cost of goods sold (note 5)	**59,629**	61,019	**169,488**	174,318
Amortization of plant and equipment used in production	**2,419**	1,893	**7,175**	5,658
Gross profit	**39,549**	40,240	**123,525**	122,040
Selling and administration (note 5)	**25,820**	27,780	**78,867**	81,377
Amortization of plant, equipment, and intangibles used in selling and administration	**1,654**	1,210	**4,993**	3,768
Interest	**1,818**	1,920	**6,269**	5,817
Net unrealized (gains) losses on derivative financial instruments (note 8)	**(646)**	1,478	**(578)**	511
Other (income) expense	**(57)**	27	**1,133**	394
Earnings before income taxes	**10,960**	7,825	**32,841**	30,173
Provision for (recovery of) income taxes				
Current	**2,952**	2,829	**8,439**	8,928
Deferred	**(48)**	(436)	**(89)**	(629)
	2,904	2,393	**8,350**	8,299
Net earnings for the period	**8,056**	5,432	**24,491**	21,874
Net earnings per share				
Basic				
Class A shares	**0.19**	0.13	**0.57**	0.51
Class B shares	**0.16**	0.11	**0.49**	0.44
Diluted				
Class A shares	**0.19**	0.13	**0.57**	0.51
Class B shares	**0.16**	0.11	**0.49**	0.44

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, 2019 $	For the three months ended December 30, 2018 $	For the nine months ended December 31, 2019 $	For the nine months ended December 30, 2018 $
Net earnings for the period	**8,056**	5,432	**24,491**	21,874
Items that are never reclassified to net earnings				
Net actuarial (losses) gains on post-employment benefit plans	**(75)**	(338)	**(1,710)**	471
Deferred income taxes	**19**	87	**445**	(123)
Other comprehensive (loss) income for the year	**(56)**	(251)	**(1,265)**	348
Net comprehensive income for the perioc	**8,000**	5,181	**23,226**	22,222

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, 2019 and 2018
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, 2018	26,097	1,673	196,713	(4,237)	220,246
Net earnings for the period	-	-	21,874	-	21,874
Net actuarial gains (net of deferred tax provision)	-	-	-	348	348
Net comprehensive income for the period	-	-	21,874	348	22,222
Issuance of class A non-voting shares	163	-	-	-	163
Share-based compensation (note 10)	-	739	-	-	739
Dividends (Class A $0.0513 per share, Class B $0.0446 per share)	-	-	(6,634)	-	(6,634)
Balance at December 31, 2018	26,260	2,412	211,953	(3,889)	236,736
Balance at April 1, 2019	26,330	2,737	209,825	(4,141)	234,751
Net earnings for the period	-	-	24,491	-	24,491
Net actuarial losses (net of deferred tax recovery)	-	-	-	(1,265)	(1,265)
Net comprehensive income for the period	-	-	24,491	(1,265)	23,226
Issuance of class A non-voting shares (note 10)	115	(115)	-	-	-
Repurchase and cancellation of class A non-voting shares (note 9)	(45)	-	(705)	-	(750)
Share-based compensation (note 10)	-	1,614	-	-	1,614
Dividends (Class A $0.0538 per share, Class B $0.0468 per share)	-	-	(6,959)	-	(6,959)
Balance at December 31, 2019	26,400	4,236	226,652	(5,406)	251,882

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, 2019 $	For the nine months ended December 30, 2018 $
Cash provided by (used in)		
Operating activities		
Net earnings for the period	**24,491**	21,874
Adjustments for:		
Loss on disposal of intangible assets	**215**	-
Loss on disposal of property and equipment	**-**	1
Amoritzation of plant, equipment and intangible assets	**12,168**	9,426
Interest expense	**6,269**	5,817
Provision for income taxes	**8,350**	8,299
Post-employment benefits	**(221)**	(396)
Net unrealized (gain) loss on derivative financial instruments	**(578)**	511
Share-based compensation	**1,353**	839
Interest paid	**(6,089)**	(5,600)
Income taxes paid	**(7,895)**	(9,687)
	38,063	31,084
Changes in non-cash working capital items related to operations (note 6)	**(16,541)**	1,281
	21,522	32,365
Investing activities		
Purchase of property, plant and equipment	**(13,943)**	(17,577)
Purchase of intangibles	**(4,006)**	(584)
	(17,949)	(18,161)
Financing activities		
Issue of class A non-voting shares	**-**	63
Repurchase of Class A shares	**(750)**	-
Increase (decrease) in bank indebtedness	**13,466**	(2,289)
Principal payments on lease obligations	**(2,102)**	-
Repayment of long-term debt	**(7,332)**	(5,620)
Dividends paid	**(6,855)**	(6,358)
	(3,573)	(14,204)
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 as issued by the International Accounting Standards Board ("IFRS") applicable to the preparation of condensed interim financial statements, including International Accounting Standard ("IAS") 34 – Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the years ended March 31, 2019 and 2018, which have been prepared in accordance with IFRS.

The note disclosures for these condensed interim consolidated financial statements only present material changes to the disclosure found in the Company's audited consolidated financial statements for the years ended March 31, 2019 and 2018. Changes to the Company's accounting policies from those disclosed in its consolidated financial statements for the years ended March 31, 2019 and March 31, 2018 are described in note 2 (B), recently adopted accounting pronouncements.

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

These condensed interim consolidated financial statements were approved by the Board of Directors on February 12, 2020.

(B) Recently adopted accounting pronouncements

IFRS 16, Leases
The IASB issued IFRS 16, Leases, which replaces IAS 17, Leases and Related Interpretations. On April 1, 2019, the Company adopted the new accounting standard using the modified retrospective method and therefore, comparative figures have not been restated, as permitted under the specific transitional provisions in the standard. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized in operating retained earnings at April 1, 2019.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessment on whether leases are onerous;
- The accounting for operating leases with a remaining lease term of less than 12 months as at April 1, 2019 as short term leases;

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

- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Company relied on its assessment made applying IAS 17 and IFRIC 4, Determining whether an Arrangement Contains a Lease.

The Company leases various vineyards, retail stores, offices, warehouses, equipment and vehicles. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Where the Company is a lessee, IFRS 16 resulted in recognition of most of its leases that were considered operating leases under IAS 17. This resulted in recognition of a right-of-use asset and a lease liability for the present value of the remaining future lease payments, discounted using the incremental borrowing rate at the date of initial application. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on April 1, 2019 was 5.01%.

Depreciation expense on the right-of-use asset and interest expense on the lease liability replaced the previously recognized operating lease expense. The impact of adopting this standard on the condensed interim consolidated statement of cash flow will be to present the principal repayment of lease liabilities in financing activities under IFRS 16, whereas previously payments for operating leases were presented in operating activities.

The adoption of this standard resulted in the recognition of right-of-use assets, in property, plant and equipment and lease liabilities amounting to $17,880 as of April 1, 2019. The difference between the undiscounted operating lease commitments of the Company as of March 31, 2019 and the discounted lease obligation of the Company as of April 1, 2019 is as follows:

	2019 **$**
Operating lease and royalty commitments disclosed as at March 31, 2019	37,072
Less: Royalties	(9,615)
Less: Leases with variable consideration	(4,181)
Less: Short term leases	(62)
Less: Low value leases	(189)
Undiscounted lease liability	23,025
Discounted using the lessee's incremental borrowing rate	17,880
Lease liability recognized as at April 1, 2019	**17,880**

Leases are recognized as a right-of-use asset in property, plant and equipment and a corresponding lease liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the repayment of the principal portion of lease liability and the interest portion. The interest expense is charged to the condensed interim consolidated statement of earnings over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payment of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Payments associated with variable lease payments not based on an index or a rate, short-term leases and leases of low value assets are recognized on a straight-line basis as an expense in the condensed interim consolidated statement of earnings.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date, less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Right-of-use assets are subject to impairment.

Leases are included as follows in the condensed interim consolidated balance sheet as at December 31, 2019:

	Vineyard land	**Buildings**	**Machinery and equipment**	**Total**
At April 1, 2019	$ 7,237	$ 9,170	$ 1,473	$ 17,880
Nine months ended December 31, 2019				
Additions	-	3,104	-	3,104
Amortization	(389)	(1,773)	(280)	(2,442)
Closing net carrying amount	$ 6,848	$ 10,501	$ 1,193	$ 18,542

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

The lease obligation transactions during the nine months were as follows:

Lease obligation	**2019**
	$
As at April 1, 2019	17,880
Additions	3,104
Repayments	(2,734)
Interest	632
As at December 31, 2019	**18,882**
Less: current portion of lease obligation	**3,851**
Lease obligation	**15,031**

The expense related to leases with variable consideration, short term leases and low value leases amounted to $713 for the three months ended December 31, 2019 and $2,071 for the nine months ended December 31, 2019. The total cash outflows relating to leases during the three month period ended December 31, 2019 were $1,646 and nine month period ended December 31, 2019 were $4,805.

Some property leases contain variable payment terms that are linked to sales generated from a store. For individual stores, up to 100% of lease payments are on the basis of variable payment terms. Variable lease payments are recognized in the condensed interim consolidated statement of earnings in the period in which the condition that triggers those payments occurs. A 1% increase in sales across all stores with such variable lease contracts would not result in a material change to the total lease payments.

Critical accounting estimates were made in determining the lease term and incremental borrowing rate. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

In determining the carrying amount of right-of-use assets and lease liabilities, the Company is required to estimate the incremental borrowing rate specific to each leased asset or portfolio of leased assets if the interest rate implicit in the lease is not readily determined. Management determines the incremental borrowing rate of each leased asset or portfolio of leased assets by using the companies specific risk portfolio, the security, term and value of the underlying leased asset, and the economic environment in which the leased asset operates in. The incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment.

IAS 19, Employee Benefits
This standard has been amended to modify the guidance in connection with defined benefit plans and accounting for plan amendments, settlements, or curtailments. The amendments are effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments did not have a material impact on the consolidated financial statements.

IFRS 9, Financial Instruments
This standard has been amended to enable companies to measure at amortized cost some prepayable financial assets with negative compensation. The assets affected, that include some loans and debt securities, would otherwise have been measured at fair value through profit or loss. Financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation, may be measured at amortized cost or at fair value through other comprehensive income when eligibility conditions are met. The amendment to IFRS 9 also clarifies how to account for the modification of a financial liability. Most modifications of financial liabilities will result in immediate recognition of a gain or loss. The amendment is effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments did not have a material impact on the consolidated financial statements.

IFRIC Interpretation 23, Uncertainty over Income Tax Treatments
An interpretation has been issued to clarify how to apply the recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty over income tax treatments. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2019. The adoption of this interpretation did not have any material impact on the consolidated financial statements.

(C) Recently issued accounting pronouncements

IAS 1, Presentation of Financial Statements; IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors
These standards have been amended to use a consistent definition of materiality throughout all accounting standards, clarify the explanation of the definition of material and incorporate some of the guidance in IAS 1 about immaterial information. The amendments are effective for annual periods beginning on or after January 1, 2020. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

IFRS 3, Business Combinations
This standard has been amended to improve the definition of a business. The amendments will help companies determine whether an acquisition made is of a business or a group of assets. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contributions to the ability to create outputs. The amendments are effective for annual periods beginning on or after January 1, 2020. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

3 Seasonality

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

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

4 Asset held for sale

During the year, the Company has listed for sale plant assets in Port Coquitlam, BC with a net book value of $1,275. This is a result of the consolidation of production assets, the Company intends to close the transaction in the first quarter of 2021 after operations have ceased.

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, 2019	For the three months ended December 31, 2018	For the nine months ended December 31, 2019	For the nine months ended December 31, 2018
Raw materials and consumables	$ 47,813	$ 48,840	$ 136,239	$ 140,174
Employee compensation and benefits	19,947	20,210	59,643	58,666
Advertising, promotion and distribution	7,059	8,622	21,181	24,966
Occupancy	2,672	3,421	7,992	9,485
Repairs and maintenance	2,120	1,990	6,202	5,394
Other external charges	5,838	5,716	17,098	17,010
	$ 85,449	$ 88,799	$ 248,355	$ 255,695

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, 2019	For the nine months ended December 31, 2018
Accounts receivable	$ (83)	$ 2,538
Inventory	(7,712)	2,046
Biological assets	1,736	1,901
Prepaid expenses and other assets	14	(330)
Accounts payable and accrued liabilities	(10,496)	(4,874)
	$ (16,541)	$ 1,281

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

7 Related parties and management compensation

The compensation expense recorded for directors and members of the Executive Management Team of the Company was $1,482 (2018 - $1,317) for the three months ended December 31, 2019 and $4,760 (2018 - $4,303) for the nine months ended December 31, 2019. The compensation expense consists of amounts that will primarily be settled within twelve months of being earned.

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, 2019	For the three months ended December 31, 2018	For the nine months ended December 31, 2019	For the nine months ended December 31, 2018
Unrealized (gains) losses on interest rate swaps	$ (662)	$ (42)	$ (668)	$ 166
Unrealized losses on foreign exchange forward contracts	16	1,520	90	345
	$ (646)	$ 1,478	$ (578)	$ 511

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

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

			December 31, 2019
	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	$ -	$ 683	$ -
Foreign exchange forward contracts liability	-	86	-

			March 31, 2019
	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	$ -	$ 1,351	$ -
Foreign exchange forward contracts asset	-	4	-

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

9 Normal course issuer bid

On November 8, 2019, the Company announced its normal course issuer bid to repurchase for cancellation up to 1,799,733 common shares, representing 5% of common shares issued and outstanding as at the close of markets on November 7, 2019, during the 12-month period from November 12, 2019 to November 12, 2020.

The total number of common shares repurchased for cancellation under the NCIB during the 3-month period ended December 31, 2019 amounted to 62,700 common shares, at a weighted average price of $11.95 per common share, for a total cash consideration of $750. For the 3-month period ended December 31, 2019, the Company's share capital was reduced by $45 and the remaining $705 was accounted for as a decrease to retained earnings.

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

10 Share based compensation

On September 13, 2017, the Company established a new share based compensation plan comprised of stock options, performance share units (PSUs) and deferred share units (DSUs). The impact of the share based compensation expense recorded for the nine months ended December 31, 2019 and 2018 is summarized as follows:

		For the nine months ended December 31, 2019		For the nine months ended December 31, 2018
735,300 stock options (March 31, 2019 – 436,467) (a)	$	599	$	508
221,216 performance share units (March 31, 2019 – 137,546) (b)		754		331
72,459 deferred share units (March 31, 2019 – 61,819) (c)		-		-
	$	1,353	$	839

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

The maximum number of shares that may be issued under all share based compensation arrangements implemented by the Company, including the stock option plan, the PSU plan and the DSU plan, may not exceed 10% of the total number of Class A non-voting common shares issued and outstanding from time to time. As at December 31, 2019, the Company had 3,338,023 Class A non-voting common shares reserved for issuance under the share based compensation arrangements.

a) Stock options

The Company has a stock option plan under which options to purchase Class A non-voting common shares may be granted to officers and employees of the Company. Options granted under the plan have an exercise price of not less than the volume weighted average trading price of the Class A non-voting common shares where they are listed for the five trading days prior to the date of the grant. Options granted vest in tranches, equally over a three-year period on each anniversary of the grant date, commencing on the first anniversary of the grant date.

	Number of options	Weighted average exercise price per share $
Balance – April 1, 2019	436,467	14.25
Options granted	319,900	14.14
Options forfeited	(21,067)	(14.40)
	735,300	14.20

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

The vested number of options outstanding as at December 31, 2019 is 284,705 (March 31, 2019 – 73,897).

For options granted during the three and nine months ended December 31, 2019, 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	\$3.97
Expected volatility [1]	23.34%
Dividend yield	1.34%
Risk-free interest rate	2.25%
Weighted average expected life in years	10

(1) Expected volatility was determined using historical volatility

b) PSU plan

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

	Number of units	**Grant date fair value per unit \$**
Balance – April 1, 2019	137,546	14.29
Units granted	87,980	14.14
Units forfeited	(4,310)	(14.92)
	221,216	14.22

No PSUs granted under the share based compensation plan have vested or been exercised as at December 31, 2019.

c) DSU plan

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

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

	Number of units	**Grant date fair value per unit $**
Balance – April 1, 2019	61,819	18.26
Units exercised	(6,320)	(18.22)
United issued	16,960	13.75
	72,459	17.21