Andrew Peller Limited

Condensed Interim Consolidated Financial Statements

December 31, 2018

ANDREW PELLER LIMITED

Condensed Consolidated Balance Sheets

Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)	December 31 2018 $	March 31 2018 $
Assets		
Current Assets		
Accounts receivable	**28,868**	31,406
Inventory	**158,108**	160,154
Biological assets	**-**	1,901
Prepaid expenses and other assets	**4,731**	4,401
Current portion of derivative financial instruments (note 7)	**-**	152
	191,707	198,014
Property, plant, and equipment	**197,119**	188,191
Intangible assets	**17,155**	17,733
Goodwill	**53,638**	53,638
Derivative financial instruments (note 7)	**-**	204
	459,619	457,780
Liabilities		
Current Liabilities		
Bank indebtedness	**45,035**	47,324
Accounts payable and accrued liabilities	**28,181**	33,404
Dividends payable	**2,211**	1,935
Income taxes payable	**2,016**	2,775
Current portion of derivative financial instruments (note 7)	**63**	24
Current portion of long-term debt	**9,741**	8,135
	87,247	93,597
Long-term debt	**109,213**	116,257
Long-term derivative financial instruments (note 7)	**116**	-
Post-employment benefit obligations	**4,273**	5,140
Deferred income taxes	**22,034**	22,540
	222,883	237,534
Shareholders' Equity		
Capital stock	**26,260**	26,097
Contributed surplus (note 8)	**2,412**	1,673
Retained earnings	**211,953**	196,713
Accumulated other comprehensive loss	**(3,889)**	(4,237)
	236,736	220,246
	459,619	457,780

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, 2018 $	For the three months ended December 31,2017 $	For the nine months ended December 31, 2018 $	For the nine months ended December 31,2017 $
Sales	**103,152**	103,583	**302,016**	284,080
Cost of goods sold (note 4)	**61,019**	60,366	**174,318**	166,566
Amortization of plant and equipment used in production	**1,893**	1,728	**5,658**	5,109
Gross profit	**40,240**	41,489	**122,040**	112,405
Selling and administration (note 4)	**27,780**	25,384	**81,377**	68,933
Amortization of plant, equipment, and intangibles used in selling and administration	**1,210**	1,320	**3,768**	2,986
Interest	**1,920**	1,656	**5,817**	3,596
Net unrealized losses (gains) on derivative financial instruments (note 7)	**1,478**	(216)	**511**	(567)
Other expense (income)	**27**	(4,092)	**394**	(3,877)
Earnings before income taxes	**7,825**	17,437	**30,173**	41,334
Provision for (recovery of) income taxes				
Current	**2,829**	2,993	**8,928**	9,371
Deferred	**(436)**	53	**(629)**	155
	2,393	3,046	**8,299**	9,526
Net earnings for the period	**5,432**	14,391	**21,874**	31,808
Net earnings per share				
Basic				
Class A shares	**0.13**	0.33	**0.51**	0.76
Class B shares	**0.11**	0.29	**0.44**	0.66
Diluted				
Class A shares	**0.13**	0.33	**0.51**	0.76
Class B shares	**0.11**	0.29	**0.44**	0.66

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, 2018 $	For the three months ended December 31,2017 $	For the nine months ended December 31, 2018 $	For the nine months ended December 31,2017 $
Net earnings for the period	**5,432**	14,391	**21,874**	31,808
Items that are never reclassified to net earnings				
Net actuarial (losses) gains on post-employment benefit plans	**(338)**	(940)	**471**	(1,102)
Deferred income taxes	**87**	245	**(123)**	287
Other comprehensive income (loss) for the period	**(251)**	(695)	**348**	(815)
Net comprehensive income for the period	**5,181**	13,696	**22,222**	30,993

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, 2018 and 2017

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, 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	19,130				19,130
Share-based compensation	-	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
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 8)	-	739	-	-	739
Dividends (Class A $0.1538 per share, Class B $0.1337 per share)	-	-	(6,634)	-	(6,634)
Balance at December 31, 2018	26,260	2,412	211,953	(3,889)	236,736

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

ANDREW PELLER LIMITED

Condensed Consolidated Statements of Cash Flows

Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)	For the nine months ended December 31, 2018 $	For the nine months ended December 31,2017 $
Cash provided by (used in)		
Operating activities		
Net earnings for the period	**21,874**	31,808
Adjustments for:		
Gain on acquisition of subsidiaries	**-**	(4,164)
Loss on disposal of property and equipment	**1**	35
Amortization of plant, equipment, and intangible assets	**9,426**	8,095
Interest expense	**5,817**	3,596
Provision for income taxes	**8,299**	9,526
Post-employment benefits	**(396)**	(569)
Net unrealized losses (gains) on derivative financial instruments	**511**	(567)
Share-based compensation	**839**	255
Interest paid	**(5,600)**	(2,805)
Income taxes paid	**(9,687)**	(9,161)
	31,084	36,049
Changes in non-cash working capital items related to operations (note 5)	**1,281**	(17,539)
	32,365	18,510
Investing activities		
Acquisition of subsidiaries	**-**	(96,592)
Purchase of property, plant and equipment	**(17,577)**	(14,077)
Purchase of intangibles	**(584)**	(323)
	(18,161)	(110,992)
Financing activities		
Issue of class A non-voting shares	**63**	19,130
Increase (decrease) in bank indebtedness	**(2,289)**	4,388
Drawings of long-term debt	**-**	79,000
Repayment of long-term debt	**(5,620)**	(3,397)
Deferred financing costs	**-**	(1,222)
Dividends paid	**(6,358)**	(5,417)
	(14,204)	92,482
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, 2018 and 2017, 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, 2018 and 2017. Changes to the Company's accounting policies from those disclosed in its consolidated financial statements for the years ended March 31, 2018 and March 31, 2017 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 6, 2019.

(B) Recently adopted accounting pronouncements

IFRS 9, Financial Instruments

In July 2014, the IASB issued an amended IFRS 9, Financial Instruments - Classification and Measurement of Financial Assets and Financial Liabilities. IFRS 9 replaces IAS 39, Financial Instruments - Recognition and Measurement. In addition, IFRS 7, Financial Instruments - Disclosures is amended to include additional disclosure requirements on transition to IFRS 9. The amendments were effective for annual periods beginning on or after January 1, 2018. The standard uses a single approach based on how an entity manages its financial instruments to determine whether a financial asset is measured at amortized cost or fair value and 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 new requirements were adopted effective April 1, 2018. The adoption of these amendments did not have a significant impact on the condensed interim consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers

During May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which supersedes IAS 18, Revenue, and IAS 11, Construction Contracts. The Company adopted the requirements of IFRS 15 on April 1, 2018, using the modified retrospective method as permitted by IFRS 15.

The adoption of IFRS 15 did not result in any adjustments or in any change in the recognition of revenues compared to prior periods and therefore, no comparative figures have been restated.

IFRS 15 is based on the principle that revenue is recognized when control of a good or service is transferred to a customer. A five-step recognition model is used to apply the standard as follows:

1. Identify the contract(s) with the customer;
2. Identify the separate performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to separate performance obligations; and
5. Recognize revenue when (or as) each performance obligation is satisfied.

Under IFRS 15, revenue is derived from the sale of goods and is recognized at a point in time when the performance obligation is fulfilled. For sales to consumers through retail stores, winery restaurants, and estate wineries, the performance obligation is deemed fulfilled when the product is purchased. For sales transactions with provincial liquor boards, licensee retail stores, and wine kit retailers, the Company's performance obligation is fulfilled when the product is shipped from the Company's distribution facilities.

Excise taxes collected on behalf of the federal government, licensing fees, and levies paid on wine sold through the Company's independent retail stores in Ontario, product returns, breakage, promotional and advertising allowances, and discounts provided to customers are deducted from the selling price to determine the transaction price at which revenue is recognized. Expected product returns and breakage are estimated based on historical actuals as a percentage of sales.

Deferred revenue represents amounts paid by customers in advance of the purchase of products which typically takes the form of pre-loaded gift cards. The amounts received are recorded as deferred revenue within accounts payable and accrued liabilities on the condensed consolidated balance sheets. Once a gift card is redeemed to make a purchase, the liability is relieved, and revenue is recognized.

The Company also enters into arrangements with third parties for the sale of products to customers. When the terms of the arrangement are such that the Company is acting as an agent of the third party, revenue is recognized in the amount of the commission to which the Company is entitled in exchange for arranging for the third party to provide its goods to customers.

(C) Recently issued accounting pronouncements

IFRS 16, Leases

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 lease 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.

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

Amendments to 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 Company has not yet assessed the impact of the amendments on the consolidated financial statements.

Amendments to 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 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 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.

4 Expenses

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

	For the three months ended December 31, 2018	For the three months ended December 31, 2017	For the nine months ended December 31, 2018	For the nine months ended December 31, 2017
Raw materials and consumables	$ 48,840	$ 50,601	$ 140,174	$ 137,755
Employee compensation and benefits	20,210	17,122	58,666	48,830
Advertising, promotion and distribution	8,622	7,709	24,966	20,574
Occupancy	3,421	3,150	9,485	8,644
Repairs and maintenance	1,990	2,178	5,394	4,973
Other external charges	5,716	4,990	17,010	14,723
	$ 88,799	$ 85,750	$ 255,695	$ 235,499

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

5 Non-cash working capital items

The change in non-cash working capital items related to operations is comprised of the change in the following items:

	For the nine months ended December 31, 2018	For the nine months ended December 31, 2017
Accounts receivable	$ 2,538	$ (7,962)
Inventory	2,046	(7,292)
Biological assets	1,901	1,712
Prepaid expenses and other assets	(330)	(253)
Accounts payable and accrued liabilities	(4,874)	(3,744)
	$ 1,281	$ (17,539)

6 Related parties and management compensation

The compensation expense recorded for directors and members of the Executive Management Team of the Company was $1,317 (2017 - $1,085) for the three months ended December 31, 2018 and $4,303 (2017 - $3,022) for the nine months ended December 31, 2018. The compensation expense consists of amounts that will primarily be settled within twelve months of being earned.

7 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.

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

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 losses (gains) on derivative financial instruments are comprised of:

	For the three months ended December 31, 2018	For the three months ended December 31, 2017	For the nine months ended December 31, 2018	For the nine months ended December 31, 2017
Unrealized losses (gains) on foreign exchange forward contracts	$ (42)	$ (599)	$ 166	$ 57
Unrealized losses (gains) on interest rate swaps	1,520	383	345	(624)
	$ 1,478	$ (216)	$ 511	$ (567)

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, 2018
	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	$ -	$ 165	$ -
Foreign exchange forward contracts liability	-	14	-

			March 31, 2018
	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 asset	$ -	$ 180	$ -
Foreign exchange forward contracts asset	-	152	-

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

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

8 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, 2018 and 2017 is summarized as follows:

	For the nine months ended December 31, 2018	For the nine months ended December 31, 2017
440,167 stock options (March 31, 2018 – 241,600) (a)	$ 508	$ 153
138,220 performance share units (March 31, 2018 – 72,750) (b)	331	102
64,960 deferred share units (March 31, 2018 – 69,559) (c)	-	-
	$ 839	$ 255

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, 2018, the Company had 3,348,326 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, 2018	241,600	11.74
Options granted – September 12, 2018	195,400	17.21
Options forfeited – September 12, 2018	(1,700)	(11.66)
Options exercised – September 29, 2018	(5,333)	(11.66)
Options granted – November 7, 2018	10,200	14.89
	440,167	14.24

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

The vested number of options outstanding as at December 31, 2018 is 74,630 (March 31, 2018 – nil).

For options granted during the three months ended December 31, 2018, 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	$4.57
Expected volatility (1)	26.75%
Dividend yield	1.34%
Risk-free interest rate	2.00%
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, 2018	72,750	11.74
Units granted – September 12, 2018	62,890	17.21
Units forfeited – September 12, 2018	(500)	(11.66)
Units granted – November 7, 2018	3,080	14.89
	138,220	14.30

No PSUs granted under the share based compensation plan have vested or been exercised as at December 31, 2018.

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.

	Number of units	**Grant date fair value per unit $**
Balance – April 1, 2018	69,559	18.25
Units exercised – September 12, 2018	(4,599)	(18.37)
	64,960	18.24