Andrew Peller Limited

Condensed Interim Consolidated Financial Statements

June 30, 2020

ANDREW PELLER LIMITED

Condensed Consolidated Balance Sheets

Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)	June 30 2020 $	March 31 2020 $
Assets		
Current Assets		
Accounts receivable	**33,054**	34,096
Inventory	**163,149**	170,779
Biological assets	**4,955**	1,951
Prepaid expenses and other assets	**4,581**	3,998
Income taxes receivable	**-**	1,232
Derivative financial instruments (note 7)	**41**	783
Assets held for sale	**1,275**	1,275
	207,055	214,114
Property, plant, and equipment	**218,448**	221,100
Intangible assets	**28,164**	25,067
Goodwill	**53,638**	53,638
	507,305	513,919
Liabilities		
Current Liabilities		
Bank indebtedness	**54,815**	58,114
Accounts payable and accrued liabilities	**42,823**	53,821
Dividends payable	**2,288**	2,288
Income taxes payable	**1,213**	-
Lease obligations	**4,125**	3,018
Derivative financial instruments (note 7)	**1,722**	1,604
Long-term debt	**12,311**	11,615
	119,297	130,460
Long-term debt	**92,373**	95,515
Long-term derivative financial instruments	**1,802**	1,932
Lease obligations	**14,020**	14,802
Post-employment benefit obligations	**5,058**	3,649
Deferred income taxes	**21,186**	22,038
	253,736	268,396
Shareholders' Equity		
Capital stock	**26,014**	26,014
Contributed surplus	**5,020**	4,834
Retained earnings	**227,179**	218,263
Accumulated other comprehensive loss	**(4,644)**	(3,588)
	253,569	245,523
	507,305	513,919

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

ANDREW PELLER LIMITED

Condensed Consolidated Statements of Earnings

Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)	For the three months ended June 30, 2020 $	For the three months ended June 30, 2019 $
Sales	**98,440**	95,216
Cost of goods sold (note 4)	**55,713**	52,795
Amortization of plant and equipment used in production	**2,601**	1,867
Gross profit	**40,126**	40,554
Selling and administration (note 4)	**20,157**	24,071
Amortization of plant, equipment, and intangibles used in selling and administration	**1,653**	2,123
Interest	**2,039**	2,228
Net unrealized loss on derivative financial instruments (note 7)	**730**	565
Other expense	**685**	86
Earnings before income taxes	**14,862**	11,481
Provision for (recovery of) income taxes		
Current	**4,139**	2,788
Deferred	**(481)**	(98)
	3,658	2,690
Net earnings for the period	**11,204**	8,791
Net earnings per share		
Basic		
Class A shares	**0.26**	0.20
Class B shares	**0.23**	0.18
Diluted		
Class A shares	**0.26**	0.20
Class B shares	**0.23**	0.18

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 June 30, 2020 $	For the three months ended June 30, 2019 $
Net earnings for the period	**11,204**	8,791
Items that are never reclassified to net earnings		
Net actuarial losses on post-employment benefit plans	**(1,427)**	(985)
Deferred income taxes	**371**	256
Other comprehensive loss for the year	**(1,056)**	(729)
Net comprehensive income for the period	**10,148**	8,062

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 three months ended June 30, 2020 and 2019

Unaudited

These financial statements have not been reviewed by our auditors

(in thousands of Canadian dollars)

	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
	$	$	$	$	$
Balance at April 1, 2019	26,330	2,737	209,825	(4,141)	234,751
Net earnings for the period	-	-	8,791	-	8,791
Net actuarial losses (net of deferred tax recovery)	-	-	-	(729)	(729)
Net comprehensive income for the period	-	-	8,791	(729)	8,062
Issuance of class A non-voting shares	115	(115)	-	-	-
Share-based compensation (note 8)	-	592	-	-	592
Dividends (Class A $0.0538 per share, Class B $0.0468 per share)	-	-	(2,320)	-	(2,320)
Balance at June 30, 2019	26,445	3,214	216,296	(4,870)	241,085
Balance at April 1, 2020	26,014	4,834	218,263	(3,588)	245,523
Net earnings for the period	-	-	11,204	-	11,204
Net actuarial losses (net of deferred tax recovery)	-	-	-	(1,056)	(1,056)
Net comprehensive income for the period	-	-	11,204	(1,056)	10,148
Share-based compensation (note 8)	-	186	-	-	186
Dividends (Class A $0.0538 per share, Class B $0.0468 per share)	-	-	(2,288)	-	(2,288)
Balance at June 30, 2020	26,014	5,020	227,179	(4,644)	253,569

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 three months ended June 30, 2020 $	For the three months ended June 30, 2019 $
Cash provided by (used in)		
Operating activities		
Net earnings for the period	11,204	8,791
Adjustments for:		
Loss on disposal of plant, equipment and intangible assets	597	215
Amortization of plant, equipment, and intangible assets	4,254	3,990
Interest expense	2,039	2,228
Provision for income taxes	3,658	2,690
Post-employment benefits	(18)	(115)
Net unrealized loss on derivative financial instruments	730	565
Share-based compensation	-	331
Interest paid	(1,970)	(2,155)
Income taxes paid	(13)	(4,391)
	20,481	12,149
Changes in non-cash working capital items related to operations (note 5)	(3,131)	(1,807)
	17,350	10,342
Investing activities		
Purchase of property, plant and equipment	(1,602)	(4,454)
Purchase of intangibles	(6,814)	(172)
	(8,416)	(4,626)
Financing activities		
Decrease in bank indebtedness	(3,299)	(349)
Principal payments on lease obligations	(832)	(640)
Repayment of long-term debt	(2,515)	(2,515)
Dividends paid	(2,288)	(2,212)
	(8,934)	(5,716)
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, craft beer and wine related products. The Company's products are produced and sold predominantly in Canada. The Company is incorporated under the Canada Business Corporations Act and is domiciled in Canada. The address of its head office is 697 South Service Road, Grimsby, Ontario, L3M 4E8.

In March 2020, the World Health Organization characterized the outbreak of the novel strain of coronavirus, specifically identified as COVID-19, as a global pandemic. This resulted in governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business, resulting in a global economic slowdown. Equity markets have experienced significant volatility and weakness and governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. While the Company is deemed an essential service, there is significant uncertainty as to the likely effects this outbreak will have on the business, which may, among other things, negatively impact customers and their demand for the Company's products, its supply chain, lease agreements as well as covenants and banking agreements.

The outbreak may also have an effect on the future collectability of certain receivables, recoverability of property, plant and equipment, goodwill and intangible assets, as well as fair value of derivatives. As the duration and impact of the COVID-19 outbreak or the efficacy of the government and Bank of Canada interventions are not known at this time, it is not possible to reliably estimate the length and severity of these developments or quantify the impact this pandemic may have on the financial results and condition of the Company in future periods. In response to COVID-19, the Company has implemented working practices to address potential impacts to its operations, employees and customers and will take further measures in the future, if required. The company is actively managing its administrative costs, inventory, bank indebtedness and long-term debt balances in order to comply with lenders covenants.

As at June 30, 2020 there have been no significant reductions to the assumptions used to test for goodwill impairment for the year ended March 31, 2020 including discount rate, projected cash flows, gross profit percentage, and growth rate beyond period of projected cash flows and therefore, there were no indicators of impairment at June 30, 2020.

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, 2020 and 2019, 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, 2020 and 2019. Changes to the Company's accounting policies from those disclosed in its consolidated financial statements for the years ended March 31, 2020 and 2019 are described in note 2 (B), recently adopted accounting pronouncements.

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

These condensed interim consolidated financial statements were approved by the Board of Directors on August 5, 2020.

(B) Recently adopted accounting pronouncements

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

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

(C) Recently issued accounting pronouncements

IFRS 16, Leases
This standard has been amended to provide lessees with an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. This amendment is effective for annual periods beginning on or after June 1, 2020. At this time, the Company has not received rent concessions related to COVID-19 and therefore, this amendment is not expected to have a significant impact on the consolidated financial statements.

IAS 1, Presentation of Financial Statements, and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors
This standard has been amended to clarify the classification of liabilities as current or non-current. This amendment is effective for annual periods beginning on or after January 1, 2022. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

IAS 16, Property, Plant and Equipment
This standard has been amended to prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its

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

intended use, clarify that an entity is "testing whether the asset is functioning properly" when it assesses the technical and physical performance of the asset and require certain related disclosures. The amendments are effective for annual periods beginning on or after January 1, 2022. The Company has not yet assessed the impact of the amendments on the consolidated financial statements.

IAS 37, Provisions
This standard has been amended to clarify that, before a separate provision for an onerous contract is established, an entity recognizes an impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract and to clarify the meaning of costs to fulfil a contract. The amendments are effective for annual periods beginning on or after January 1, 2022. The Company has not yet assessed the impact of the amendments on the consolidated financial statements.

IFRS 9, Financial Instruments
This standard has been amended to address which fees should be included in the 10% test for derecognition of financial liabilities. This amendment is effective for annual periods beginning on or after January 1, 2022. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

3 Seasonality

The second and third quarters of the Company's fiscal year are historically the largest due to increased activity at the Company's estate properties and increased consumer purchasing of the Company's products during the holiday season. However, the COVID-19 pandemic may cause unusual fluctuations in the Company's results and consequently, quarterly results for fiscal 2021 may not follow historical trends.

4 Expenses

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

	For the three months ended June 30, 2020	For the three months ended June 30, 2019
Raw materials and consumables	$ 43,413	$ 40,514
Employee compensation and benefits	18,997	18,838
Advertising, promotion and distribution	4,813	6,599
Occupancy	2,341	4,075
Repairs and maintenance	872	1,742
Other external charges	5,434	5,098
	$ 75,870	$ 76,866

(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 three months ended June 30, 2020	For the three months ended June 30, 2019
Accounts receivable	$ 1,042	$ (3,299)
Inventory	7,630	5,887
Biological assets	(3,004)	(2,341)
Prepaid expenses and other assets	(583)	347
Accounts payable and accrued liabilities	(8,216)	(2,401)
	$ (3,131)	$ (1,807)

6 Related parties and management compensation

The compensation expense recorded for directors and members of the Executive Management Team of the Company was $1,314 (2019 - $1,779) for the three months ended June 30, 2020 and includes an expense reversal of $411 due to the forfeiture of certain share based compensation awards. 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 the carrying value because the variable interest rate is comparable to market rates. The fair value of the interest rate swaps used to fix the interest rate on long-term debt is included in the current and long-term derivative financial instruments in the condensed consolidated balance sheets.

The fair value of foreign exchange forward contracts is determined based on the difference between the contract rate and the forward rate at the date of valuation and is included in the current portion of derivative financial instruments in the condensed consolidated balance sheets.

The fair value of interest rate swaps is determined based on the difference between the fixed interest rate in the contract that will be paid by the Company and the forward curve of the floating interest rates that are expected to be paid by the counterparty. The fair values of foreign exchange forward contracts and the interest rate swaps are adjusted to reflect any changes in the Company's or the counterparty's credit risk.

Fair value estimates are made at a specific point in time, using available information about the instrument. These estimates are subjective in nature and often cannot be determined with precision.

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

The net unrealized loss on derivative financial instruments are comprised of:

	For the three months ended June 30, 2020	For the three months ended June 30, 2019
Unrealized (gains) losses on interest rate swaps	$ (12)	$ 348
Unrealized losses on foreign exchange forward contracts	742	217
	$ 730	$ 565

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.

			June 30, 2020
	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)
Interest rate swap liability	$ -	$ 3,524	$ -
Foreign exchange forward contracts asset	-	41	-

			March 31, 2020
	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)
Interest rate swap liability	$ -	$ 3,536	$ -
Foreign exchange forward contracts asset	-	783	-

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

(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 three months ended June 30, 2020 and 2019 is summarized as follows:

	For the three months ended June 30, 2020	For the three months ended June 30, 2019
641,731 stock options (March 31, 2020 – 765,200) (a)	$ (23)	$ 170
186,876 performance share units (March 31, 2020 – 219,876) (b)	23	161
92,299 deferred share units (March 31, 2020 – 72,459) (c)	-	-
	$ -	$ 331

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 June 30, 2020, 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, 2020	765,200	14.19
Options forfeited	(123,469)	(14.47)
	641,731	14.14
Exercisable	211,788	13.37

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

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, 2020	219,876	14.20
Units forfeited	(33,000)	(15.45)
	186,876	14.00
Exercisable	44,444	11.76

Awards granted September 21, 2017 and November 13, 2017 vested March 31, 2020 and, based on the achievement of the performance condition, 44,444 shares have vested.

c) DSU plan

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

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

	Number of units	**Grant date fair value per unit $**
Balance – April 1, 2020	72,459	17.19
Units issued	19,840	9.48
	92,299	15.53