ANDREW PELLER
LIMITED

MANAGEMENT'S DISCUSSION & ANALYSIS
For the three and nine months ended December 31, 2021

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, 2021, in comparison with those for the three and nine months ended December 31, 2020, for Andrew Peller Limited (the "Company" or "APL"). This discussion is prepared as of February 9, 2022 and should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes contained therein for the period ended December 31, 2021 and 2020. Additional information relating to the Company, including the audited annual consolidated financial statements and Annual Information Form for the years ended March 31, 2021, and March 31, 2020, is available on www.sedar.com. The financial years ending March 31, 2022, and March 31, 2021 are referred to as "fiscal 2022" and "fiscal 2021" 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; 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*, *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 and seltzers, and various beer, spirits and cream whisky products under the *Wayne Gretzky No. 99* brand. 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 200 authorized retailers and more than 400 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 *Winexpert, Vine Co., Apres, LE, Passport Series, On the House, Wild Grapes, DIY My Wine Co., Island Mist* and *Niagara Mist*. 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, grocery outlets and e-commerce platform 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 September 28, 2021, the Company completed the sale of its Port Coquitlam, British Columbia property and related assets for total proceeds of approximately $8.8 million, net of transaction costs, and generated a realized gain on sale of $7.5 million or $0.21 per Class A share.

On June 16, 2021, the Company's Board of Directors approved a 10% increase in common share dividends. The annual dividend on Class A Shares was increased to $0.246 per share and the dividend on Class B Shares was increased to $0.214. The Company has consistently paid common share dividends since 1979. APL currently designates all dividends paid as "eligible dividends" for purposes of the Income Tax Act (Canada) unless indicated otherwise.

On March 4, 2021, the Company announced its notice of intention to make a normal course issuer bid had been approved by the Toronto Stock Exchange. Under the issuer bid the Company can purchase for cancellation up to 1,773,896 of its outstanding Class A non-voting shares, representing 5% of the Class A shares outstanding at the time, over the ensuing twelve months. As of February 9, 2022, the Company purchased 598,600 Class A non-voting common shares, at a weighted average price of $8.70 per Class A non-voting common share, for a total cash consideration of $5.2 million.

On February 26, 2021, the Company announced it had acquired The Riverbend Inn and Vineyard in Niagara-on-the-Lake, Ontario. This historic and well-located property, containing 17 acres of prime vineyards and a 21-room hotel and restaurant, is situated directly adjacent to the Company's Peller Estates Winery. The Company paid $10.0 million for 100% ownership of the assets and the property. Due to the COVID-19 pandemic, the Inn was closed during fiscal 2021, and re-opened in June 2021 when the government-mandated lockdown in Ontario was lifted.

The COVID-19 pandemic has continued to impact the financial results of the Company as government-mandated closures of restaurants and hospitality businesses and restricted international travel remained in place for part of the nine month period ended December 31, 2021. The pandemic has also continued to impact consumer purchasing patterns resulting in fluctuations in the Company's results. Uncertainty resulting from the ongoing pandemic will continue to depend on future developments, including the duration of the pandemic and its impact on the overall economy and related advisories and restrictions.

Results of Operations

For the nine months ended December 31, (in $000, except per share amounts)	**2021**	2020
Sales	**$ 295,106**	$ 313,911
Gross margin	**115,963**	128,430
Gross margin (% of sales)	**39.3%**	40.9%
Selling and administrative expenses	**76,145**	67,198
EBITA	**39,818**	61,232
Interest	**7,175**	5,489
Net unrealized (gain) loss on derivative financial instruments	**(1,784)**	361
Gain on sale of land and property	**(7,518)**	-
Gain on debt modification and financing fees	**-**	(2,312)
Other expenses	**264**	1,029
Adjusted earnings	**11,821**	33,133
Net earnings	**19,487**	34,114
Earnings per share – Class A basic	**$0.46**	$0.80
Earnings per share – Class B basic	**$0.40**	$0.70
Dividend per share – Class A (annual)	**$0.246**	$0.215
Dividend per share – Class B (annual)	**$0.214**	$0.187

Sales for the nine months ended December 31, 2021 were $295.1 million, down 6.0% from the prior year. When the pandemic was announced, the Company saw an increase in sales through the first several months of fiscal 2021 as a result of changes in consumer purchasing patterns and uncertainty around trade channels for alcoholic beverages remaining open. Additionally, provincial liquor stores in Ontario were closed on Mondays for the majority of fiscal 2021, resulting in an increase in sales at the Company's retail locations. As the pandemic eases, sales in these channels have normalized when compared to prior year. Government-mandated closures of restaurants and hospitality businesses were lifted in June 2021 with restrictions on capacity remaining in place throughout the nine month period ended December 31, 2021. As a result, the recovery in the restaurant and hospitality industries continues to lag when compared to the retail industry. The Company expect sales in the previously closed and restricted trade channels to gradually increase as the pandemic eases and consumers return to pre-pandemic activities.

The Company defines gross margin as gross profit excluding amortization. Gross margin as a percentage of sales was 39.3% for the nine months ended December 31, 2021 compared to 40.9% in the prior year. Gross margin has declined in fiscal 2022 due to higher imported wine costs and other raw material costs, increased global supply chain costs due to the COVID-19 pandemic, and increased co-packing costs related to the Company's new and growing refreshment beverage categories. We are implementing price increases in the fourth quarter of fiscal 2022 that are expected to partially offset inflationary pressures on margin. We are also assessing fulsome cost savings initiatives to mitigate against increasing supply chain costs.

Selling and administrative expenses increased for the first nine months of fiscal 2022 as the Company increased staffing and marketing expenses in preparation for more normal markets returning as the impact of the COVID-19 pandemic eases. During the first six months of fiscal 2021, the Company laid off a significant part of its workforce due to government-mandated closures and reduced advertising and promotional spending to conserve cash in response to the pandemic. In addition, certain start-up costs were incurred in fiscal 2022 related to the acquisition of the Riverbend Inn and Vineyard, which opened on June 19, 2021. As a percentage of sales, selling and administrative expenses were 25.8% through the first nine months of fiscal 2022 compared to 21.4% in the prior year. As the pandemic eases and activity in the hospitality, licensee and export channels increases, the Company expects selling and administrative expenses will trend to pre-pandemic levels as a percentage of sales.

Earnings before interest, amortization, gain on sale of land and property, net unrealized gains and losses on derivative financial instruments and deferred financing fees, other (income) expenses, and income taxes ("EBITA") were $39.8 million for the nine months ended December 31, 2021 compared to $61.2 million in the prior year. The decline in EBITA in fiscal 2022 is due to lower sales, reduced gross margin and higher administrative and selling expenses compared to the prior year.

Interest expense in fiscal 2022 increased compared to the prior year due higher debt levels resulting primarily from capital investments in the Company's operations and properties, as well as a decrease in cash from operations.

The Company recorded a net unrealized non-cash gain in the first nine months of fiscal 2022 of $1.8 million related to mark-to-market adjustments on interest rate swaps and foreign exchange contracts compared to an unrealized net loss of $0.4 million in the prior year. The change is due to gains on interest rate swaps and foreign exchange contracts. The Company has elected not to apply hedge accounting and accordingly the change in fair value of these financial instruments is reflected in the Company's consolidated statement of earnings each reporting period. These instruments are considered to be effective economic hedges and are expected to mitigate the short-term volatility of changing foreign exchange and interest rates.

On September 28, 2021 the Company recorded a realized gain of $7.5 million on the sale of its Port Coquitlam, British Columbia property and related assets.

The Company amended and restated its debt facilities on December 8, 2020. Management assessed the amendments and determined that these amendments constituted a modification of long-term debt resulting in a gain on modification of $2.9 million for the three and nine months ended December 31, 2020, offset by financing costs of $0.6 million.

Net earnings for the nine months ended December 31, 2021 were $19.5 million or $0.46 per Class A Share compared to $34.1 million or $0.80 per Class A Share in the prior year. Adjusted earnings, defined as net earnings not including the gain on sale of land and property, net unrealized gains and losses on derivative financial instruments, other (income) expenses, and the related income tax effect were $11.8 million for the nine months ended December 31, 2021 compared to $33.1 million in the prior year.

Quarterly Performance

The following table outlines key quarterly highlights.

(in $000, except per share amounts)	Q3 22	Q2 22	Q1 22	Q4 21	Q3 21	Q2 21	Q1 21	Q4 20
Sales	103,485	99,224	92,397	79,126	111,060	104,410	98,440	82,118
Gross margin	36,294	42,408	37,261	28,089	41,537	44,165	42,727	35,550
Gross margin (% of sales)	35.1%	42.7%	40.3%	35.5%	37.4%	42.3%	43.4%	43.3%
EBITA	12,084	15,821	11,913	1,815	16,223	22,438	22,570	9,668
Interest	2,424	2,478	2,273	2,619	1,637	1,813	2,039	1,839
Gain on debt modification and financing fees	-	-	-	-	(2,312)	-	-	-
Net unrealized (gain) loss on financial instruments	(359)	(1,037)	(388)	(495)	170	(540)	730	1,984
Gain on sale of land and property	-	(7,518)	-	-	-	-	-	-
Other expenses (income)	(103)	26	341	742	148	195	685	634
Adjusted earnings (loss)	2,765	5,801	3,255	(6,145)	8,159	12,419	12,553	1,196
Net earnings (loss)	3,107	13,090	3,290	(6,328)	10,236	12,674	11,204	(996)
E.P.S. – Class A basic	$0.07	$0.31	$0.08	$(0.15)	$0.24	$0.30	$0.26	$(0.02)
E.P.S. – Class B basic	$0.06	$0.27	$0.07	$(0.13)	$0.21	$0.26	$0.23	$(0.02)

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 has, and may continue to cause fluctuations in the Company's results and consequently, quarterly results may not follow historical trends.

Sales for the three months ended December 31, 2021 were 6.8% lower than the prior year's third quarter as retail sales have normalized when compared to prior year as the pandemic eases and consumer purchasing patterns change. Government-mandated closures of restaurants and hospitality businesses were lifted in June 2021 with restrictions on capacity remaining in place throughout the nine month period ended December 31, 2021, and as a result, sales in these channels have increased in the third quarter of fiscal 2022 when compared with the third quarter of fiscal 2021.

Gross margin was 35.1% in the third quarter of fiscal 2022, compared to 37.4% for the third quarter of fiscal 2021 as raw material and supply chain costs have increased when compared to prior year. Selling and administrative expenses increased as a percentage of sales for the three months ended December 31, 2021 compared to the prior year's third quarter as activity in the restaurant and hospitality channels has increased as the pandemic eases. In the third quarter of fiscal 2021, the Company amended and restated its debt facilities and as a result, recorded a $2.3 million gain as described above. Net earnings for the three months ended December 31, 2021 were $3.1 million or $0.07 per Class A Share compared to $10.2 million or $0.24 per Class A Share in the third quarter of fiscal 2021. Adjusted earnings, defined as net earnings not including the realized gain on the property sale, net unrealized gains and losses on derivative financial instruments, other (income) expenses, and the related income tax effect were $2.8 million for the three months ended December 31, 2021 compared to $8.2 million in the prior year.

Liquidity and Capital Resources

As at (in $000)	**December 31, 2021**	**March 31, 2021**
Current assets	**$ 227,618**	$ 225,302
Property, plant, and equipment	**223,479**	223,931
Intangible assets	**41,556**	39,650
Goodwill	**53,638**	53,638
Total assets	**$ 546,291**	$ 542,521
Current liabilities	**$ 45,670**	$ 54,618
Long-term debt	**180,379**	174,544
Long-term derivative financial instruments	**-**	717
Lease obligations	**12,534**	13,987
Post-employment benefit obligations	**2,870**	3,316
Deferred income taxes	**30,895**	29,765
Shareholders' equity	**273,943**	265,574
Total liabilities and shareholders' equity	**$ 546,291**	$ 542,521

The change in current assets as at December 31, 2021 compared to March 31, 2021 reflects an increase in cash on hand due to the net proceeds from the sale of the Port Coquitlam property, a decrease in accounts receivable due to the timing of sales, and higher levels of inventory due to the timing of bulk wine and grape receipts. 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.

Accounts receivable are predominantly with provincial liquor boards and, to a lesser extent, licensed establishments and independent retailers of personal winemaking products. The Company had $12.6 million of accounts receivable with provincial liquor boards at December 31, 2021, all of which is expected to be collectible. The balance represents amounts due from licensees, export customers, and independent retailers of personal winemaking products. The amount of accounts receivable that was 30 days past due was $1.2 million at December 31, 2021. Against these amounts an expected credit loss of $0.2 million has been provided which the Company has determined based on a reasonable estimate of lifetime expected credit losses for trade receivable.

Property, plant and equipment and intangible assets at December 31, 2021 and 2020 includes investments in the Company's properties and operations, partially offset by amortization.

The change in current liabilities as at December 31, 2021 compared to March 31, 2021 is due primarily to a decrease in accounts payable due to the timing of invoices and payments.

Overall bank debt increased to $180.4 million at December 31, 2021 from $174.5 million at March 31, 2021, due to a reduction in cash from operations and increased investment in the Company's properties and operations. The Company's debt to equity ratio was 0.66:1 at December 31, 2021, which is consistent with March 31, 2021. At December 31, 2021, the Company had unutilized debt capacity in the amount of $167.3 million on its operating facility.

On November 10, 2021, the Company amended and restated its credit agreement with its lenders to amend its interest charge coverage ratio financial covenant for the three-month period ending December 31, 2021. On December 22, 2021, the Company's obtained a waiver from its lenders in connection with the financial covenants of its credit agreement for the fiscal quarter ending December 31, 2021. Furthermore, on February 9, 2022, the Company amended its credit agreement to amend financial covenants for reporting periods subsequent to December 31, 2021.

Management expects to generate sufficient cash flow from operations to meet its debt servicing and working capital requirements over both the short and long-term through continued profitability and strong management of working capital and prioritization of 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, 2021, the Company generated cash from operating activities, after changes in non-cash working capital items, of $21.9 million compared to $41.6 million in the prior year. Investing activities include $8.8 million in net proceeds from the sale of the Port Coquitlam property.

Financing activities for the nine months ended December 31, 2021 include the payment of dividends, principal repayment of lease obligations and the purchase of Class A shares under the Company's approved issuer bid.

Working capital at December 31, 2021 was $181.9 million compared to $170.7 million at March 31, 2021. Shareholders' equity at December 31, 2021 was $273.9 million or $6.35 per common share compared to $265.6 million or $6.08 per common share at March 31, 2021.

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, 2021**	March 31, 2021
Class A Shares	**34,978,011**	**35,525,639**
Class B Shares	**8,144,183**	**8,144,183**
Total	**43,122,194**	**43,669,822**

On March 4, 2021 the Company announced its notice of intention to make a normal course issuer bid had been approved by the Toronto Stock Exchange. Under the bid the Company can purchase for cancellation up to 1,773,896 of its outstanding Class A non-voting shares, representing 5% of the Class A shares outstanding, over the ensuing twelve months. As of February 9, 2022, the Company has purchased 598,600 Class A shares to date in fiscal 2022 at a weighted average price of $8.70 per share for a total of $5.2 million.

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 ciders and seltzers through its own brand labels.

The Company has focused its product development and sales and marketing initiatives by capitalizing on alcohol 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.

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

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 new product categories, as well as overall growth in the Canadian beverage alcohol market. The Company expects to continue to invest in capital expenditures to improve efficiencies, increase capacity, support its ongoing commitment to producing the highest-quality wines and spirits, and improve productivity.

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. During the nine months ended December 31, 2021, the COVID-19 pandemic has continued to impact consumer purchasing patterns resulting in fluctuations in the Company's results, however, the Company continues to generate operating cash flows to meet short-term working capital needs. The impact of the outbreak on the financial results of the Company will continue to depend on future developments, including the duration and spread of the outbreak and its impact on the overall economy and related advisories and restrictions. It is not possible to reliably estimate the length and severity of these developments and conclusively quantify the impact 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. At present, the Company has not identified any material continuity risks specifically associated with COVID-19.

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.

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. When environmental risks such as wildfires occur, the Company's viticultural teams have internal processes to ensure Company's vineyards are protected. This may include the use of technology and fire suppression activities. The Company's winemaking teams are also able to monitor the quality of the grapes and use enhanced processing technology to minimize the risk of smoke taint. APL has also 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, 2021, the Company has forward foreign currency contracts to buy $16.5 million US at rates ranging between $1.23 and $1.26 and $1.1 million AUD at a rate of $1.00. These contracts mature at various dates to September 2022. Based on the Company's forecasts for foreign currency purchases and the amount of foreign exchange forward contracts outstanding at December 31, 2021, each one percent change in the respective foreign currency 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. 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 fourth 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 fourth-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 fourth 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, gain on sale of land and property, net unrealized gains and losses on derivative financial instruments, other (income) expenses, and income taxes) to measure its financial performance. EBITA is not recognized measures under IFRS; however, management believes that EBITA is a useful supplemental measure to net earnings as it provides readers with an indication of earnings available for investment prior to debt service, capital expenditures, and income taxes, as well as providing an indication of recurring earnings compared to prior periods.

The Company calculates EBITA as follows.

For the three and nine months ended December 31,	Three Months		Nine Months	
(in $000)	**2021**	2020	**2021**	2020
Net earnings	**$ 3,107**	$ 10,236	**$ 19,487**	$ 34,114
Add: Interest	**2,424**	1,637	**7,175**	5,489
Provision for income taxes	**1,588**	2,019	**6,380**	9,512
Amortization of plant and equipment used in production	**2,283**	2,657	**6,893**	7,874
Amortization of equipment and intangibles used in selling and administration	**3,144**	1,668	**8,921**	5,165
Net unrealized (gains) losses on derivative financial instruments	**(359)**	170	**(1,784)**	361
Gain on debt modification	**-**	(2,312)	**-**	(2,312)
Gain on sale of land and property	**-**	**-**	**(7,518)**	**-**
Other expenses (income)	**(103)**	148	**264**	1,029
EBITA	**$12,084**	$ 16,223	**$ 39,818**	$ 61,232

Readers are cautioned that 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 utilizes gross margin (defined as sales less cost of goods sold, excluding amortization) as calculated below.

For the three and nine months ended December 31,	Three Months		Nine Months	
(in $000)	**2021**	2020	**2021**	2020
Sales	**$ 103,485**	$ 111,060	**$ 295,106**	$ 313,911
Less: Cost of goods sold, excluding amortization	**67,191**	69,523	**179,143**	185,481
Gross margin	**$ 36,294**	$ 41,537	**$ 115,963**	$ 128,430
Gross margin (% of sales)	**35.1%**	37.4%	**39.3%**	40.9%

The Company calculates adjusted earnings as follows:

For the three and nine months ended December 31,	Three Months		Nine Months	
(in $000)	**2021**	2020	**2021**	2020
Net earnings	**$ 3,107**	$ 10,236	**$ 19,487**	$ 34,114
Net unrealized (gains) losses on derivative financial instruments	**(359)**	170	**(1,784)**	361
Other expenses (income)	**(103)**	148	**264**	1,029
Gain on debt modification	**-**	(2,312)	**-**	(2,312)
Gain on sale of land and property	**-**	**-**	**(7,518)**	**-**
Fair value adjustment for acquired inventory sold during the period	-	-	-	302
Income tax effect of the above	**120**	(83)	**1,372**	(361)
Adjusted earnings	**$ 2,765**	$ 8,159	**$ 11,821**	$ 33,133

The Company's method of calculating EBITA, gross margin, and Adjusted earnings 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 condensed interim 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 years ended March 31, 2021 and 2020.

Recently adopted 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 has not had an impact on the consolidated financial statements.

London Inter-bank Offered Rate (LIBOR) reform with amendments to IFRS 9, IFRS 7, Financial Instruments: Disclosures and IFRS 16.
In August 2020, the IASB issued Interest Rate Benchmark Reform Phase 2 (the Reform Phase 2), which complemented the Reform Phase 1 and amended various standards requiring interest rates or interest rate calculations. The Reform Phase 2 provides guidance on the impacts on the financial statements after the LIBOR reform and its replacement with alternative benchmark rates. The amendments are effective for annual periods beginning on or after January 1, 2021. The adoption of these amendments did not have a significant impact on the consolidated financial statements.

Recently issued accounting pronouncements
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 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.

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 depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events

after the reporting date. The amendment also clarifies the meaning of settlement of a liability. This amendment is effective for annual periods beginning on or after January 1, 2023. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

IAS 12, Income Taxes
This standard has been amended to require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. 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, the Company's management, under the supervision of, and with 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, 2021, there have been no material changes in the Company's internal controls over financial reporting or changes to disclosure controls and procedures that materially affect or were likely to affect, the Company's internal control systems.