



## Andrew Peller Ltd. Class 'A' (TSX:ADW/A) (Formerly Andrés Wines Limited)

### THE COMPANY

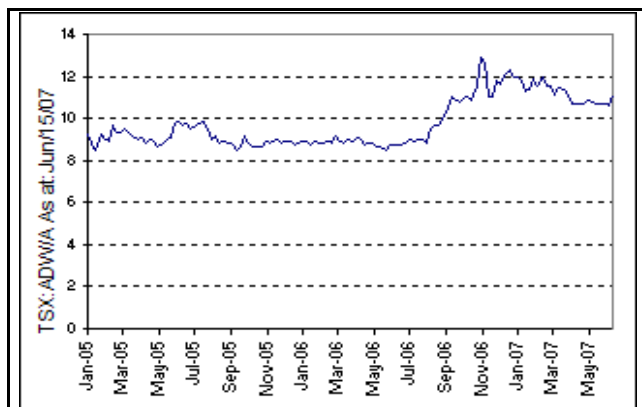
Andrés Wines is a leading producer and marketer of quality wines in Canada. It is the second largest Canadian domestic wine company and it offers for sale wines produced from grapes grown in Ontario's Niagara Peninsula, British Columbia's Okanogan Valley and other vineyards around the world. Andrés can be recognized by its award-winning premium wines, Peller Estates and Hillebrand Estates but it also carries popular priced brands such as Hochtaler, Domaine D'or, as well as its newest product, Vineyard Mist.

To completely service all segments of the wine market, Andrés also produces and markets wine kit products through Brew King and Vineco International. In addition, it owns The Wine Shoppe, an independent wine retailer in Ontario with more than 100 outlets.

### FINANCIAL DATA

	2005	2006	2007
Earnings per Share (\$)	0.59	0.42	0.65
Price to Earnings (times)	18.9	26.4	17.1
Dividend (\$)	0.21	0.25	0.30
Dividend Yield (%)	1.93	2.28	2.70
Book Value (\$)	5.82	6.02	6.41
Price to Book Value (times)	1.91	1.84	1.73
Historic financial data adjusted to reflect 3 for 1 stock split			

### HISTORICAL SHARE PRICES



### WHY ABC FUNDS BOUGHT ANDREW PELLER

Andrés Wines' share price has fallen from \$16.50 in July 1999 to a current price of \$12.25. This decline is largely due to the illiquidity of the shares, its limited float, and the fact that it is an out-of-favour small capitalization company that is perceived to be an old economy stock. But there are other reasons for the recent share price weakness. For instance, its decline is partly due to various competitive factors prevalent in the industry. The LCBO has become intensely competitive over the past few years with additional stores and aggressive marketing strategies. In addition, there has been an increased market share of lower priced imported products. However, with the recent stabilization of these competitive factors and Andrés revitalized marketing strategy, the company's shares, we believe, are positioned for capital appreciation. In the meantime, the stock provides a hefty dividend yield of 5.26% and is currently trading at an 11¼% discount to its December 1999 book value of \$13.81.

The potential performance catalyst for Andrés is its repositioning strategy in the wine market. Andrés has identified the current trends dominating the wine industry and has sculpted its strategy around those trends. Future growth in wine consumption will primarily be driven by favourable demographic changes with the baby boomers. This age group has exhibited higher disposable incomes with a more leisurely lifestyle, leading to increased consumption of premium wine brands. Recognizing this consumption adjustment Andrés has chosen to aggressively promote premium brands in the domestic market place. As well, increased agri-tourism has aided the company in promoting its premium brands. Also working in the favour of Andrés Wines are the perceived health benefits of wine consumption.

We have found President and CEO, John Peller, and his team to be very innovative. Rather than allowing the changing industry and increased competition to bring on its demise, Andrés has taken the opportunity to serve all the needs of wine consumers. Andrés has entered the home winemaking sector through its acquisitions of Vineco and Brew King. Another opportunity for growth is direct delivery to restaurants. This relatively new concept was implemented in the second quarter of 1999. It will lead to cost reductions and improved distribution. Andrés owns 103 Wine Shoppe stores which also provides excellent product distribution.

We believe that Andrés Wines has positioned itself to take advantage of changing trends in the wine industry. The company has been bold in penetrating all aspects of the wine business in order to protect itself from an industry downturn. All in all, we believe that Andrés will provide superior long-term growth.

## UPDATES

Andrés Wines reported strong first quarter results for fiscal 2000, reinforcing our belief that it is a fundamentally solid company. Omitting the Quebec operations, which were sold in 1999, sales rose 13.4% to \$32 million from the prior year's first quarter and earnings per fully diluted share were \$0.21 versus \$0.17 in the comparable quarter of 1998.

The financial strength of the company has continued to improve with a significant reduction in debt and an increase in book value to \$13.79 per share. Andrés, recognizing the value its company holds implemented a share buyback program in June. The company may purchase 10% or 289,289 of its Class A non-voting shares and 5% or 50,457 of its Class B voting shares.

Supporting Andrés sound fundamentals is the company's focus on its repositioning strategy. The company has identified that as baby boomers grow older they lead a more leisurely lifestyle with a higher disposable income. These changing demographics have guided Andrés strategy to focus on its premium wine products. This has proven to be successful with the results of the first quarter demonstrating higher sales and market share for the company's premium wines across Canada.

As a sidepoint, it is very interesting to note that in early 1998 Andrés traded at \$25 with comparable earnings per share. Yet, over the past two years the company having improved its balance sheet, increased its book value and initiated a significant share repurchase plan, the stock at its current \$12, is trading at half of its early 1998 market valuation.

With Andrés low valuation of 0.9 times book value, a 5.3% dividend yield, its improving financials and strong management team, we feel that Andrés has all the attributes to exhibit long-term growth and ultimately significant share price appreciation.

ABC Funds  
August 31, 2000

---

Andrés Wines continues to contend with the stiff pricing competition that the import wines have introduced into the Canadian marketplace. As a result, Andrés second quarter earnings per share of \$0.12 were significantly weaker than the \$0.23 reported in the same quarter of 1999. We were pleased to see Andrés' volume growth exceed the average of the Canadian market. But the low priced import wines sold by the LCBO and tough export restrictions, along with poor summer weather contributed to Andrés relatively flat quarterly sales growth.

On a more positive note, Andrés balance sheet remains strong with debt declining and a book value of \$13.75. The potential catalysts that could turn Andrés stock price around are more favourable import/export laws or even a takeover.

ABC Funds  
November 24, 2000

---

Although Andrés Wines endured a particularly challenging third quarter, there is some light at the end of the tunnel. A major roadblock has been cleared with the recent removal of importation barriers on Canadian ice wine into Europe. President and CEO, John Peller estimates that this has opened up a market worth about \$25 million a year. This news is particularly refreshing as Andrés Wines' first quarter results were once again negatively impacted by the increased market share of low-priced, subsidized imported wines into Canada.

Despite lackluster performance last quarter, Andrés managed to increase its book value to \$14.06. We find the newfound potential to expand into Europe with its ice wine products to be very encouraging. Positive industry trends such as this and its focus on higher margin goods will strengthen Andrés business and potentially be the catalyst its stock price needs to move forward.

ABC Funds  
April 27, 2001

---

Andrés Wines is entering its fortieth year in the business and, despite continued competitive pressures, has managed to maintain profitability. The company reported first quarter 2002 earnings per share (before the proceeds from the sale of its Quebec joint venture) of \$0.29 versus \$0.22 in the same quarter of 2001. While sales for the quarter were down slightly, the continued emphasis on production efficiencies and the increased sales of its higher margin premium and ultra-premium VQA wines contributed to its better than comparable earnings.

Moreover, Andrés financial position remains strong. Since fiscal 2000, working capital has increased to \$20.5 million from \$14.8 million, long term debt to equity was reduced to 24.8% from 26.4% and its book value has increased to \$14.30. While largely ignored by analysts due to its small float, we feel, nonetheless, that Andrés will eventually reap the benefits of its improving

## UPDATES (cont'd)

fundamentals, cost cutting initiatives and a more favourable Canadian wine market in the future.

ABC Funds  
August 22, 2001

---

Looking ahead, Andrés Wines holds a bright and promising future. Its second quarter results were indicative of this. Sales rose 4.2%, which transpired into earnings per share of \$0.18, a 46.8% improvement over its comparable quarter. Andrés improved profitability was primarily generated from the 19.7% increase in its high margin premium and ultra-premium VQA wines.

Admittedly, Andrés has not achieved these results without difficulty. However, the wine industry continues to grow domestically and globally in accordance with favourable demographics, lifestyle changes and health choices. In turn, it has become an increasingly competitive global market. Consequently, Andrés was forced to become aggressive and innovative with its sales and marketing strategies.

Andrés has managed to augment its market presence through penetrating multiple trade channels, building two award-winning estate wineries and increasing export sales. Additionally, the company has built a strong presence in two growing markets within the industry, the refreshment category and the home wine kits.

Andrés has worked hard to establish a secure position in the wine industry. As a result Andrés balance sheet is strong with a debt to equity ratio of 28%. Also, its book value has increased to \$14.32 per share and with its \$0.644 dividend, Andrés shares provide a 4.2% yield. This Value Favourite continues to show promise, as such we expect its share price to improve in the future.

December 14, 2001  
ABC Funds

---

Andrés Wines reported improved third quarter results to December 31, 2001. This was primarily due to increased sales of its premium and ultra-premium Peller Estates and Hillebrand Estates brands.

Gross margin as a percentage of sales increased to 39.6% from 38.1% with net earnings for the quarter improving to \$2.8 million or 60¢ a share from \$2.2 million or 46¢ per share. Andrés continued to strengthen its balance sheet in the third quarter with working capital increasing to \$27.7 million versus \$20.2 million a year earlier. Shareholders equity also advanced to almost \$70.0 million or \$14.77 per share versus \$66.1 million or \$14.06 per share the previous year.

With the Company's strategy of focusing on higher-margin premium and ultra-premium wines, Andrés is able to increase its profitability. This, we believe, will enhance its investment visibility and ultimately its share price.

May 31, 2002  
ABC Funds

---

On October 22, 2002 Andres Wines Limited announced results for the second quarter of fiscal 2002. Sales grew 8.3% to \$36.6 million in the second quarter and 6.7% to \$70.7 million in the first half of 2002. Profit growth was even more impressive, as net earnings per Class A share increased 21% to \$0.23 in the most recent quarter from \$0.19 in the comparable period last year. Year to date, earnings grew 15.5%, excluding last year's unusual gain from the sale of the Company's interest in a Quebec winery, to \$0.56 per share. John Peller, President and CEO, indicated on the conference call that all segments of the business made a positive contribution to the good financial performance.

We were pleased to see that revenue growth did not come at the expense of profitability. In fact, management's strategic focus on higher-margin Peller Estates, Hillebrand Estates and Trius brands, combined with falling grape prices, led to an increase in the gross margin from 37.4% to 39.4%. Further, the Company refinanced \$25 million of long-debt with a lower cost term facility, which will reduce interest costs going forward.

Andres' financial position remains solid, with a ratio of long-term debt to equity of 0.34 to 1 and a book value of \$15.09 per share. The Company continues to pay a dividend of \$0.644, which yields approximately 3.75% at current price levels. Andres Wines' improving profitability and solid balance sheet did not go unnoticed by the market and the stock appreciated almost 6% following the earnings announcement.

ABC Funds  
October 25, 2002

## UPDATES (cont'd)

Andres Wines' focus on premium wines has produced "premium" results for the company once again. Sales in the third quarter of fiscal 2003 rose 9% to \$44.2 million compared to \$40.6 million last year. This sales growth translated into a 34% increase in net earnings of \$0.83 per share compared to \$0.62 per share.

On the company's third quarter results, John Peller, President and CEO commented, "Over the past ten years, our sales have grown at a compound rate of over 15%, with more than half of this increase coming from our innovative sales and marketing programs." It is evident that the company's creative selling techniques have been a crucial part of its success while operating in a very challenging marketplace, which has been plagued with foreign competition as well as other external factors.

With this in mind, it seems that the Ontario wine industry is going to have to clear yet another hurdle, the extreme winter weather that the province suffered this season past. It has been reported that Ontario vineyards will produce much less wine this year due to the coldest winter in nine years. In fact, it can take up to two years for a vineyard to recover from a damaged grape crop.

Nevertheless, Andres remains a solid value play, trading at 1.2 times its \$15.33 book value and yields 3.6%. The company is expected to report its year-end results in June.

May 30, 2003  
ABC Funds

---

Yesterday, Andres Wines Limited reported results for fiscal 2004, ended March 31, 2004. Revenue grew to \$155.9 million from \$147.9 million, an increase of 5.4%. Growth was attributed to the premium and ultra-premium segments of the market, as sales of Peller Estates wines rose 12% for the year. Although exports of ice wines and wine kits are a small percentage of sales, volumes were up 20% for the year. Management guided to "similar strong growth in fiscal 2005" through the expansion of various sales channels and the launch of new wines.

The success of the Company's higher margin brands, such as Peller Estates, Trius and Hillebrand Estates, resulted in the twelfth consecutive quarter of gross margin improvement. For the full year gross profits were 41.8% of sales compared to 40.4% in fiscal 2003. Selling and administrative expenses as a percentage of sales increased to 29.3% from 27.8% as the Company stepped up its marketing and promotional activities. This translated into market share growth, for the first time in ten or twelve years, to 31.5% from 31%. At the bottom line earnings came in at \$1.65 per share compared to \$1.50 per share for fiscal 2003.

Andres Wines currently trades at only 1.3 times its book value of \$16.52 and 13 times fiscal 2004 earnings. The Company pays a quarterly dividend of \$0.161 or \$0.644 per Class A share on an annualized basis, which yields almost 3%. With the Company's focus on the premium and ultra-premium segments of a recovering global wine industry, we expect that the stock will continue to reward patient investors.

June 11, 2004  
ABC Funds

---

Our last update on Andres Wines covered the Company's year-end results, ended March 31, 2004. Since then Andres has reported solid growth in each of the first two quarters of fiscal 2005. In the first quarter, sales rose 12.6% to \$40.3 million from \$35.8 million the previous year. Earnings per Class A share increased to \$0.39 from \$0.36 in the year ago period. In the second quarter, sales rose 8.9% to \$42.8 million from \$39.2 million in the comparable period a year ago. Earnings per Class A share increased to \$0.37 from \$0.30 in the second quarter of fiscal 2004. The balance sheet remains clean, with over \$30 million in working capital; book value has grown to \$16.91 per share. The Company continues to pay an annual dividend \$0.644, which yields 2.3% at current price levels.

Andres Wines' shares have strengthened over 25% since the release of the second quarter results on November 2, 2004. Investors seem to finally recognize that the shift in consumer tastes toward premium and ultra-premium wines mean better margins for the Company. The gross margin has improved consistently over the past three years and for the first six months of fiscal 2005 reached 42.9% compared to 40.4% in the same period last year. Better margins on higher quality wines lead in turn to greater cash flow. Year to date, cash from operations has increased 75% to \$8.4 million. Either a dividend increase or another acquisition, similar to the Winexpert purchase, would continue the positive momentum into 2005.

January 7, 2005  
ABC Funds

## UPDATES (cont'd)

We have not updated our Andres Wines commentary for some time and we thought it appropriate that we do so.

Over the past year Andres made a few acquisitions to bolster its positioning as a premium and ultra-premium wine maker. Thirty Bench Winery, including 70 acres of vineyards, gives the Company a solid presence in the Niagara-on-the-Lake wine region. Red Rooster Winery, situated in the Okanagan Valley, bolsters the Company's operations in British Columbia. Finally, Cascadia, a producer of premium wines, craft beers and spirits, allows the Company to consolidate its operations into one facility in Kelowna. Andres subsequently sold the assets and brands of Cascadia's spirits division for \$5.8 million.

Andres Wines reported decent results for the first nine months of its current fiscal year, ended December 31. The Company reported revenue of \$163.3 million compared to \$130.7 million in the comparable period a year ago. Gross profit totaled \$67.9 million compared to \$56.3 million, but the gross margin in the current period declined slightly to 41.6% from 43.0% in the first nine months of the previous fiscal year. Basic and diluted earnings per Class A share were \$1.51 versus \$1.69. The Company suggested that the decline in earnings was related to increases in the cost of grapes and other raw materials. Selling and administrative expenses also increased due to the acquisitions mentioned above.

Even after the acquisitions Andres has a solid balance sheet with working capital of \$40 million and a debt to equity ratio of 1 to 1. Over the first nine months of the current fiscal year, the Company generated \$11.9 million of cash flow from operations. This is sufficient to fulfill debt obligations and make dividend payments. The stock pays \$0.644 per Class A share, which yields 2.45% at current price levels.

On a final note, it has come to light that a former non-executive employee allegedly misappropriated funds, estimated to be in the range of \$3 to \$7 million, over several years. The Company stated that the alleged misappropriation will not have any material impact on the Company's financial position or results. In addition, it is expected that insurance policies will cover a portion of any loss. Although unfortunate, we don't believe there will be any lingering impact on the stock and controls are in place to prevent it from happening again.

June 9, 2006

ABC Funds

---

Investors may have noticed a few key developments since our last update on Andres Wines. At the annual meeting, held on September 20, 2006, shareholders approved a three for one stock split of both the Company's Class A and Class B shares in an effort to improve the liquidity of the stock. Shareholders also approved a resolution to change the name of the Company to Andrew Peller Limited to "honour the entrepreneurial spirit of the Company's founder, Andrew Peller". The name also creates a direct link to the Company's well-recognized Peller Estates family of wines, including the Andrew Peller Signature Series, the Private Reserve Series, the Limited Edition Founder's Series and several others.

In addition to these corporate developments, financial results for the fourth quarter and fiscal 2007 (ended March 31, 2007), were released late last week. Sales increased 7.8% to \$228.2 million from \$211.8 million in 2006. Earnings before interest, taxes, and amortization (EBITA) increased 20.8% to \$27.7 million in fiscal 2007 compared to \$22.9 million in fiscal 2006. If we adjust for an accounting charge in fiscal 2006, EBITA increased a still-meaningful 8.8% for the year. Net earnings for the year were \$9.5 million or \$0.65 per Class A share, an increase of 7.3% from fiscal 2006, once the above mentioned charge is excluded. On the back of the solid financial results, the Company increased its common share dividend for the second year in a row. The annual dividend on the Class A shares was increased 19% to \$0.30, which yields approximately 2.7% at current price levels.

Although the stock is trading at a premium to the Company's book value of \$6.41, we think the shares are still an attractive investment. Replicating this business would require purchasing offices, distribution warehouses, retail locations, wineries and, most importantly, vineyards. You would then have to spend years building brand awareness with customers. In fact, it would probably be easier to purchase the entire Company than build the business from scratch. Investors may recall Constellation Brands' \$1.5 billion takeover of Vincor International. The all-cash transaction valued Vincor at 13 times EBITDA. We recognize that applying this multiple to Andrew Peller is perhaps aggressive since it is a much smaller company and, as far as we know, is not up for sale. However, this metric would imply a value of \$17.00 per share compared to today's trading price of \$11.10.

ABC Funds

June 15, 2007