CORBY

Corby Distilleries Limited

Interim Consolidated Financial Statements

For the Three and Six Month Periods Ended
December 31, 2009 and 2008

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Affiliated with Pernod Ricard

CORBY DISTILLERIES LIMITED
Interim Management's Discussion and Analysis
December 31, 2009

The following Interim Management's Discussion and Analysis ("MD&A") dated February 10, 2010 should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes as at and for the three and six month periods ended December 31, 2009 prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

This MD&A contains forward-looking statements, including statements concerning possible or assumed future results of operations of Corby Distilleries Limited ("Corby" or the "Company"). Forward-looking statements typically are preceded by, followed by or include the words "believes", "expects", "anticipates", "estimates", "intends", "plans" or similar expressions. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions, including, but not limited to: the impact of competition; consumer confidence and spending preferences; regulatory changes; general economic conditions; and the Company's ability to attract and retain qualified employees. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. These factors are not intended to represent a complete list of the factors that could affect the Company. Additional factors are noted elsewhere in this MD&A.

This document has been reviewed by the Audit Committee of Corby's Board of Directors and contains certain information that is current as of February 10, 2010. Events occurring after that date could render the information contained herein inaccurate or misleading in a material respect. Corby will provide updates to material forward-looking statements, including in subsequent news releases and its interim management's discussion and analyses filed with regulatory authorities as required under applicable law. Additional information regarding Corby, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

The Company's fiscal year end is June 30th. Unless otherwise indicated, all comparisons of results for the second quarter of fiscal 2010 (three months ended December 31, 2009) are against results for the second quarter of fiscal 2009 (three months ended December 30, 2008). All dollar amounts are in Canadian dollars unless otherwise stated.

Business Overview

Corby is a leading Canadian manufacturer and marketer of spirits and importer of wines. Corby's national leadership is sustained by a diverse brand portfolio which allows the Company to drive profitable organic growth with strong, consistent cash flows. Corby is a publicly-traded company, with its shares listed on the Toronto Stock Exchange under the symbols "CDL.A" (voting Class A common shares) and "CDL.B" (non-voting Class B common shares). Corby's voting Class A common shares are majority-owned by Hiram Walker & Sons Limited (a private company) located in Windsor, Ontario. Hiram Walker & Sons Limited ("HWSL") is a wholly-owned subsidiary of international spirits and wine company, Pernod Ricard S.A. (a French public limited company) which is headquartered in Paris, France. Therefore, throughout the remainder of this MD&A, Corby refers to HWSL as its parent, and Pernod Ricard S.A. ("PR") as its ultimate parent. Affiliated companies are those that are also subsidiaries of PR.

The Company derives its revenues from the sale of its owned-brands as well as earning commission income from the representation of selected non-owned brands in the Canadian market place. Revenue from Corby's owned-brands are denoted as "Sales" on the consolidated statement of earnings and while it predominantly consists of sales made to each of the provincial liquor boards in Canada, it also includes sales to international markets. Commission income earned from the representation of non-owned brands is denoted as "Commissions" on the consolidated statement of earnings.

Corby's portfolio of owned-brands include some of the most renowned brands in Canada, including Wiser's Canadian whiskies, Lamb's rum, Polar Ice vodka, McGuinness liqueurs and Seagram Coolers. Through its affiliation with PR, Corby also represents leading international brands such as ABSOLUT vodka, Chivas Regal, The Glenlivet and Ballantine's scotches, Jameson Irish whiskey, Beefeater gin, Malibu rum, Kahlúa liqueur, Mumm champagne, and Jacob's Creek and Wyndham Estate wines. In addition to representing PR's brands in Canada, Corby also provides representation for certain selected unrelated third-party brands ("Agency brands") when they fit within the Company's strategic direction and, thus, complement Corby's existing brand portfolio.

The Company sources approximately 73% of its spirits production requirements from HWSL at its production facilities in Windsor, Ontario, with the balance of Corby's spirits production being sourced from the Company's owned-plant in Montreal, Quebec. Essentially all of Corby's cooler production requirements are outsourced to an unrelated third-party located in Dorval, Quebec.

In September 2006, PR and Corby agreed upon terms for the continuation of production of Corby's owned brands by PR at HWSL's production facility in Windsor, Ontario for the next ten years, expiring September 2016. Corby and PR further agreed that Corby will manage PR's business interests in Canada, including HWSL's production facility, during that same ten year period.

In most provinces, Corby's route to market in Canada entails shipping its products to government controlled liquor boards ("LBs"). The LBs then sell directly, or control the sale of, beverage alcohol products to end consumers. The exception to this model is in Alberta, where the retail sector has been privatized. In this province, Corby ships products to a bonded warehouse which is managed by a government appointed service provider, who is responsible for warehousing and distribution into the retail channel.

Corby's shipment patterns to the LBs will not always exactly match short-term consumer purchase patterns. However, given the importance of monitoring consumer consumption trends over the long term, the Company stays abreast of consumer purchasing patterns in Canada through its member affiliation with the Association of Canadian Distillers, which tabulates and disseminates consumer purchase information it receives from the LBs to its industry members. Corby refers to this data throughout this MD&A as "retail sales" and it is measured in both volume (measured in nine litre equivalents) and retail value (measured in Canadian dollars).

Corby's route to market for its international business primarily requires direct shipment of its products to international distributors, located primarily in the USA and UK markets. International sales typically account for less than 10% of Corby's total annual sales. Distributors sell to various local wholesalers and retailers who in turn sell directly to the consumer. Reliable consumer purchase data is not readily available for these international markets, and therefore, is not discussed in this MD&A.

Corby's operations are typically subject to seasonal fluctuations in that the retail holiday season generally results in an increase in consumer purchases over the course of October, November and December. Further, the summer months traditionally result in higher consumer purchases of spirits as compared to the winter and spring months. As a result, the Company's first and second quarter of each fiscal year tend to typically reflect the impact of seasonal fluctuations in that more shipments are typically made during those quarters.

Strategies and Outlook

Corby's business strategies are designed to maximize *value* growth and, thus, deliver exceptional profit, while continuing to produce strong and consistent cash flows from operating activities. The Company's portfolio of owned and represented brands provides an excellent platform to achieve its current and long-term objectives moving forward.

The Company believes that having a focused brand prioritization strategy will permit it to capture value in those segments and markets where consumers continue to demonstrate their willingness to trade up to premium brands. Therefore, the Company's strategy is to focus its investments and leverage the long-term growth potential of its key brands, while emphasizing less on smaller or non-strategic brands. As a result, Corby will continue to invest behind its brands to promote its premium offerings where it makes the most sense and drives the most value for shareholders.

Brand prioritization requires an evaluation of each brand's potential to deliver upon this strategy. Particular focus has been given to evaluate the strategic importance of the Company's representation of third-party brands, and as a result, Corby has permitted certain of its representation contracts to expire, thus allowing Corby's marketing and sales teams to focus on maximizing value creation within the brand prioritization strategy. The Company believes that effective execution of its strategy will result in value creation for shareholders.

The Company is a strong advocate of social responsibility, especially with respect to its sales and promotional activities. Corby will continue to promote responsible consumption of its products in its activities. The Company stresses its core values throughout its organization, including that of value creation, social responsibility, tradition, substance over style and character above all.

Current Market Environment

While there are signs that the global economy is stabilizing, there is still uncertainty as to the sustainability and pace of any recovery. The bank of Canada has indicated the economic recovery, which is in its early stages, has been almost entirely driven by government stimulus and monetary policy, and as a result; the expectation is that it will be a long road to sustainable economic growth. Of particular concern is the high rate of unemployment in Canada and its impact on consumer demand in the near term. As a result, the Company is expecting the difficult economic conditions to continue for the foreseeable future.

However, it should be noted that over the past several years, the Company has strengthened its operations and financial position, which should allow it to better face an economic downturn. Of particular consideration are the following factors:

- Corby has no long-term debt and, therefore, no financial or other covenants;
- The Company has significant sources of liquidity via its $72.6 million currently on deposit in a cash management pool with PR's other Canadian affiliates;
- Corby's largest customers are government-controlled liquor boards in each province, thus, greatly reducing risk associated with collection of accounts receivable;
- The Company has an exceptionally diverse and strong brand portfolio, which is well positioned to meet consumer tastes across spirit categories at a wide range of price points; and
- Corby is a leader in the Canadian spirits market and has a long history of profitability and uninterrupted dividends.

Moreover, the spirits business in Canada has historically been less affected by economic slowdowns than other consumer and manufacturing businesses. However, no business is completely immune to a slowdown in the economy. As a result, Corby closely monitors its exposure to the following potential risks, which could impact future profitability and cash flows, so it can be in a position to proactively respond should any of the following materialize:

- Long term decline in the level of spirits consumption by consumers;
- Deteriorating financial health of key suppliers;
- Valuation of goodwill and intangible assets; and
- Higher pension funding requirements.

To date, Corby's financial results have been unfavourably impacted by what is believed to be only a short-term decline in consumer demand, and has also recorded an impairment charge against its goodwill and intangible asset values related specifically to the Seagram Coolers brand. Further information related to the impairment charge can be found in the "Significant Event" section of this MD&A.

The other factors noted in the list above have not had a measurable impact on the Company. Management will continue to monitor closely the ongoing economic environment and take proactive measures, as necessary.

Brand Performance Review

Corby's portfolio of owned-brands typically accounts for more than 80% of the Company's total operating revenue. Included in this portfolio are its key brands: Wiser's Canadian whisky, Lamb's rum, Polar Ice vodka, and Corby's mixable liqueur brands. The sales performance of these key brands significantly impacts Corby's earnings and, therefore, understanding each key brand is essential to understand the Company's overall performance.

Shipment Volume and Sales Value Performance

The following chart summarizes the performance of Corby's key brands in terms of both shipment volume (as measured by shipments to customers in equivalent nine litre cases) and sales value (as measured by the change in sales revenue). The chart below includes results for sales in both Canada and international markets. Specifically, the Wiser's, Lamb's and Polar Ice brands are also sold to international markets, particularly in the US and UK. International sales typically account for less than 10% of Corby's total annual sales.

BRAND PERFORMANCE CHART - INCLUDES BOTH CANADIAN AND INTERNATIONAL SHIPMENTS

	Three Months Ended				*Six Months Ended*			
Volumes (in 000's of 9L cases)	***Dec. 31, 2009***	*Dec. 31, 2008*	*Shipment % Volume Change*	*Shipment % Value Change*	***Dec. 31, 2009***	*Dec. 31, 2008*	*Shipment % Volume Change*	*Shipment % Value Change*
Brand								
Wiser's Canadian whisky	**238**	220	8%	10%	**419**	426	(2%)	0%
Lamb's rum	**198**	194	2%	3%	**353**	371	(5%)	(3%)
Polar Ice vodka	**99**	116	(15%)	(12%)	**189**	226	(16%)	(14%)
Mixable liqueurs	**74**	76	(3%)	(5%)	**119**	139	(14%)	(14%)
Total Key Brands	**609**	606	0%	2%	**1,080**	1,162	(7%)	(5%)
All other Corby-owned brands	**184**	201	(8%)	(9%)	**406**	457	(11%)	(11%)
Total	**793**	807	(2%)	0%	**1,486**	1,619	(8%)	(6%)

As previously discussed in the "Strategies and Outlook" section of this MD&A, the Company has implemented a premiumization strategy which requires focused investments on key brands and in key markets, with the long-term objective of maximizing value growth. This strategy is designed to leverage the long-term growth potential of Corby's key brands, while emphasizing less on smaller and less profitable brands.

The above chart demonstrates that Corby experienced a challenging first half to its fiscal year, with year-to-date shipment volumes decreasing 8%, when compared to the same six month period last year. However, Corby's second quarter results demonstrated marked improvement, as the Company's key brands reversed a significant portion of the volume declines seen in the first quarter.

The decline in first quarter sales was partially due to more difficult economic and marketplace conditions, which lead to lower consumer purchases of Corby products. However, other factors also included later ordering patterns by some of the company's customers in advance of the holiday season, the impact of the June 2009 LCBO strike threat, and also the fact that first quarter volumes were being compared against relatively high comparatives.

A more comparable base is evident when analyzing Corby's second quarter sales, as some of the factors mentioned above were normalized.

On an overall year-to-date basis, certain markets within Canada have experienced softer than expected market conditions, specifically the provinces of Alberta and British Columbia. Year-to-date results in Ontario have also been negatively impacted by a challenging economic landscape, and further amplified by the impact of a threatened labour disruption occurring in June 2009. The threatened labour disruption had the effect of advancing shipments into Corby's fourth quarter of fiscal 2009, which would otherwise have been expected to occur in the first quarter of fiscal 2010, thus negatively impacting Corby's year-to-date results.

International market conditions have remained difficult, with shipment value decreasing 15% on a year-to-date comparative basis. The decreased performance in international markets is mainly due to competitive challenges for Polar Ice vodka in the US market, coupled with higher comparatives in the previous year, as Corby's first quarter of fiscal 2009 included volumes associated with the launch of Polar Ice vodka flavours in the US market. Volumes for Wiser's Deluxe and Lamb's rum, however, have demonstrated resiliency despite challenging market conditions in the US and UK, respectively.

Retail Volume and Retail Value Performance

As Corby does not ship its products directly to consumers, it is also of critical importance to understand the performance of Corby's brands at the retail level in Canada. Analysis of performance at the retail level provides insight with regards to consumers' current purchasing patterns and trends, which may differ from trends seen in Corby's shipment patterns to the various retail outlets in Canada. Retail sales data, as provided by the Association of Canadian Distillers, has been provided in the following chart. It should be noted that the retail sales information depicted does not include international retail sales of Corby owned-brands, as this information is not readily available. International sales typically account for less than 10% of Corby's total annual sales.

RETAIL SALES FOR THE CANADIAN MARKET ONLY[1]

	Three Months Ended				*Six Months Ended*			
Volumes (in 000's of 9L cases)	***Dec. 31, 2009***	*Dec. 31, 2008*	*% Retail Volume Change*	*% Retail Value Change*	***Dec. 31, 2009***	*Dec. 31, 2008*	*% Retail Volume Change*	*% Retail Value Change*
Brand								
Wiser's Canadian whisky	**235**	228	3%	3%	**393**	390	1%	1%
Lamb's rum	**156**	158	(1%)	(1%)	**273**	281	(3%)	(2%)
Polar Ice vodka	**93**	102	(9%)	(8%)	**170**	183	(7%)	(6%)
Mixable liqueurs	**77**	83	(7%)	(7%)	**126**	136	(7%)	(7%)
Total Key Brands	**561**	571	(2%)	(1%)	**962**	990	(3%)	(2%)
All other Corby-owned brands	**202**	217	(7%)	(6%)	**440**	477	(8%)	(6%)
Total	**763**	788	(3%)	(2%)	**1,402**	1,467	(4%)	(3%)

[1] *Refers to sales at the retail store level in Canada, as provided by the Association of Canadian Distillers.*

As denoted in the chart above, retail volumes have declined 3% this quarter, when compared against the same quarter last year with the decline mainly being due to negative market conditions in British Columbia and Alberta.

Trends over the past year have shown a shift in consumption patterns as consumers are purchasing fewer products from certain discretionary spirit categories, such as liqueurs, when compared to the spirit staples such as vodka, whisky, and rum. Furthermore, the overall decline in consumer spending has resulted in more at-home consumption, as consumers are trending away from consumption at licensed establishments, such as bars and restaurants.

Corby's own portfolio of brands mostly reflects this shift in consumer consumption pattern, as evidenced by the performance of its mixable liqueurs brands, while the Company's whisky, and rum brands continue to demonstrate resilience from both a retail volume and retail value perspective. The vodka category as a whole continues to fare well, albeit growth in recent months has slowed markedly. However, the Company's Polar Ice vodka brand has experienced challenges in recent months, and is discussed further below in the "Summary of Corby's Key Brands" section of this MD&A.

Summary of Corby's Key Brands

Wiser's Canadian Whisky

Corby's flagship brand, Wiser's Canadian whisky, has continued to perform exceptionally well despite a challenging economy, and continues to gain market share at the expense of its direct competitors in Canada from both a volume and value perspective. Specifically, the brand increased its retail volumes 3% during the quarter just ended, which included the critical holiday selling period. On a year-to-date basis, the brand grew by 1% in both retail volume and value, while the Canadian whisky segment as a whole declined 3%.

The Company continued to invest strongly behind the brand during the holiday season, which is a key selling period for whisky and specifically, maintained its investment behind the brand's highly successful media and television campaign entitled "Welcome to the Wiserhood". This campaign has proven to be highly impactful from a consumer perspective and has also received critical acclaim, having been recently awarded two gold medals at the prestigious Canadian Marketing Awards ("Best Promotion for Consumer Products" and "Best Integrated Campaign for Consumer Products"). The company intends on continuing to build upon the success of this campaign to expand Wiser's market leading position.

Lamb's Rum

Lamb's rum, one of the top selling rum families in Canada, saw its retail volumes on a year-to-date basis decrease by 3%, when compared to the same six month period last year. The rum segment in Canada as a whole experienced a retail volume increase of 1%. The brand continues to experience competitive pressures in its category as consumer demand for dark rums and spiced variants has grown in recent years.

In response the Company has launched a Lamb's spiced rum variant in select Canadian provinces and the UK market (entitled "Lamb's Black Sheep" and "Lamb's Spiced", respectively), as the Company looks to capitalize on the growing consumer demand in the spiced rum segment. While the product is still in the very early phase of its life cycle, early results and indicators have been very positive.

The Company has also taken other actions to improve brand performance, such as introducing updated packaging and increasing the level of investments in core markets.

Polar Ice Vodka

Polar Ice vodka, which is among the top three largest vodka brands in Canada, has experienced a very challenging start to the fiscal year, as year-to-date retail sales volumes decreased 7%, when compared to the same six month period last year. The performance to date is reflective of challenging market conditions as the brand faced increased pressure from its key competitors across most major markets, mainly in the form of aggressive price discounting. Also contributing to the negative performance this year is the downturn in the on-premise sector where the brand is well represented. The vodka category in Canada experienced a slight increase in retail volumes of only 1%, which is demonstrative of a marked slowdown in this dynamic and competitive category.

Performance in the US market is also suffering due to a saturated competitive environment and the negative impact of the depreciation of the US dollar on the brand's gross margins. It should be noted that the comparative period also included additional volumes associated with the launch of Polar Ice flavours in both the US and Canadian markets.

Mixable Liqueurs

Corby's portfolio of mixable liqueur brands consist of McGuinness liqueurs (which is Canada's largest mixable liqueur brand family), Meaghers liqueurs, and De Kuyper liqueurs. The Company's mixable liqueur portfolio experienced a 7% decrease in retail sales volumes, while shipment volumes decreased 14% on a year-to-date comparison basis. The decline in shipment volumes is partially attributable to the impact of the aforementioned threat of a labour disruption at the LCBO in June 2009. However, the performance of Corby's liqueur brands is relatively consistent with the challenges experienced by the overall liqueur category in the Canadian market, in which retail volumes decreased 5% on a year-to-date comparison basis. The liqueur segment as a whole is most effected by the decline in consumer spending, particularly as it relates to consumption at licensed establishments, such as bars and restaurants.

All Other Corby-owned Brands

This category includes various Corby brands, some of which are smaller or less strategic in nature than Corby's key brands. The Company's strategy is to focus its investments and leverage the long-term growth potential of its key brands, while emphasizing less on smaller and non-strategic brands. The decreased performance of this category can be attributed to the overall brand prioritization strategy, in addition to the challenging economic conditions.

Significant Event

Corby Reports a Non-Cash Impairment Charge

In accordance with Canadian accounting principles, the Company recorded a non-cash impairment charge of $11.5 million (after-tax impact of $9.4 million) against its goodwill and intangible assets balances related to its Seagram Coolers brand during the quarter ended December 31, 2009. The Seagram Coolers business in Canada was acquired by Corby on September 29, 2006. The brand had initially been quite successful and achieved the internal goals and objectives management had set for it. However, over the past two years, the brand underperformed relative to its competitive set due to aggressive competition from both category leaders as well as new entrants in adjacent categories.

As a result, the Company revised its long-term outlook to reflect changes in expectations for the brand and accordingly has estimated that the fair value of the associated goodwill and intangible assets has fallen below its recorded carrying amounts. As such, net earnings in both the three and six month periods ended December 31, 2009, include the after-tax impact of the non-cash impairment charge of $9.4 million, or $0.33 per share. Management remains committed to the Seagram Coolers brand and is pursuing several strategic avenues with the aim of maximizing the potential of this valuable asset.

Non-GAAP Financial Measure

Corby defines "Earnings from Operations" as earnings before impairment, interest income, foreign exchange, gains or losses on disposal of capital assets, and income taxes. This non-GAAP financial measure has been included in this MD&A as it is a measure management believes is useful in measuring the company's operating performance.

However, Earnings from Operations is not a measure recognized by GAAP and it does not have a standardized meaning prescribed by GAAP. Therefore Earnings from Operations may not be comparable to similar measures presented by other issuers. Investors are cautioned that Earnings from Operations should not be construed as alternatives to net earnings as determined in accordance with GAAP as indicators of performance.

A reconciliation of Earnings from Operations to net earnings can be found below, in the "Financial and Operating Results" section of this MD&A.

Financial and Operating Results

The following table presents a summary of certain selected consolidated financial information of the Company for the three and six month periods ended December 31, 2009 and 2008.

	Three Months Ended				Six Months Ended			
(in millions of Canadian dollars, except per share amounts)	***Dec. 31, 2009***	*Dec. 31, 2008*	*$ Change*	*% Change*	***Dec. 31, 2009***	*Dec. 31, 2008*	*$ Change*	*% Change*
Sales	**$ 42.4**	$ 42.8	$ (0.4)	(1%)	**$ 79.6**	$ 84.6	$ (5.0)	(6%)
Commissions[1]	**4.5**	5.0	(0.5)	(10%)	**8.5**	9.3	(0.8)	(9%)
Operating revenue	**46.9**	47.8	(0.9)	(2%)	**88.1**	93.9	(5.8)	(6%)
Cost of sales	**20.4**	23.1	(2.7)	(12%)	**38.5**	43.3	(4.8)	(11%)
Marketing, sales and administration	**11.4**	12.5	(1.1)	(9%)	**21.8**	23.9	(2.1)	(9%)
Amortization	**0.4**	0.3	0.1	33%	**0.9**	0.7	0.2	29%
Earnings from operations	**14.7**	11.9	2.8	24%	**26.9**	26.0	0.9	3%
Impairment charge	**(11.5)**	-	(11.5)	n/a	**(11.5)**	-	(11.5)	n/a
Interest income	**0.1**	0.6	(0.5)	(83%)	**0.2**	1.1	(0.9)	(82%)
Foreign exchange loss	**(0.6)**	(0.7)	0.1	(14%)	**(0.4)**	(0.8)	0.4	(50%)
Gain on disposal of capital assets	**-**	0.3	(0.3)	(100%)	**-**	0.2	(0.2)	(100%)
Earnings before income taxes	**2.7**	12.1	(9.4)	(78%)	**15.2**	26.5	(11.3)	(43%)
Income taxes	**1.6**	4.0	(2.4)	(60%)	**5.6**	8.6	(3.0)	(35%)
Net earnings	**$ 1.1**	$ 8.1	$ (7.0)	(86%)	**$ 9.6**	$ 17.9	$ (8.3)	(46%)
Per common share								
- Basic net earnings	**$ 0.04**	$ 0.28	$ (0.24)	(86%)	**$ 0.34**	$ 0.63	$ (0.29)	(46%)
- Diluted net earnings	**$ 0.04**	$ 0.28	$ (0.24)	(86%)	**$ 0.34**	$ 0.63	$ (0.29)	(46%)

(1) *Amounts are presented net of representation rights amortization of $1.1 and $2.3 (2008 - $1.2 and $2.3).*

Overall Financial Results

Corby's second quarter financial results were significantly impacted by the aforementioned non-cash impairment charge of $11.5 million (or $9.4 million on an after-tax basis) applied against the Company's goodwill and intangible assets associated with the Seagram Cooler brand (for more information regarding the impairment charge, please refer to the "Significant Event" section of this MD&A).

After removing the effect of the aforementioned non-cash impairment charge, Corby's second quarter financial results were positive, with earnings from operations improving 24% when compared with the same three month period last year, and improving 3% on a year-to-date comparison basis as the combined effect of better product mix, strategic price increases, the positive impact of the appreciating Canadian dollar on input costs, and tight management of discretionary expenses have served to offset the negative impact of a decline in shipment volumes.

Net earnings improved 30% this quarter (after removing the impact of the non-cash impairment charge) and increased 6% on a year-to-date comparison basis. This performance was the result of the aforementioned items affecting earnings from operations, but also included a one-time non-cash gain of $0.7 million recognized as a result of the Ontario Government's decision to substantively enact decreases to its future corporate income tax rates, which served to offset the negative impact of lower market rates being earned on the Company's cash balances.

Operating revenue

Operating revenue, consisting of sales and commissions, declined 2% on a quarter over quarter basis, and decreased 6% on a year-to-date comparison basis. Sales revenue represents revenue earned from the sale of Corby owned-brands, while commissions are earned from the representation of PR brands in the Canadian market, and to a lesser extent, through the representation of a select number of Agency brands.

Sales for the three month period ended December 31, 2009 experienced a slight decrease of $0.4 million (or -1%), when compared with the same period last year. The decrease in sales can be explained by a 2% decrease in shipment volumes being offset by an increase in average prices and better product mix as the decline in shipments was mainly attributable to the US market, where the Company earns lower margins. Furthermore, the Company is now subject to higher rates of excise tax (which began July 1, 2009) on certain of its Canadian whisky brands, which had the effect of reducing sales by $0.4 million this quarter when compared with the same three month period last year.

Sales for the six month period ended December 31, 2009 decreased $5.0 million when compared with the same period last year. The decrease in sales was primarily volume driven, with shipments being 8% lower than the same period last year, and as a secondary factor, the negative impact associated with the aforementioned increase in excise tax the Company is now subject to on certain of its Canadian whisky products (year-to-date impact of $0.6 million). This has been partially offset by a 2% increase in average selling prices.

The decreased volume was primarily driven by difficult market conditions, particularly in the provinces of Alberta and British Columbia. These markets are being impacted by a combination of reduced consumer demand, de-stocking in the private retail channel, and aggressive competition. As a secondary factor, shipments to the Ontario market have also been negatively impacted by the effect of a threatened labour disruption in June 2009, which served to accelerate some orders and shipments into the fourth quarter of fiscal 2009, which typically would have been made in the first half of fiscal 2010. Lastly, the six months ended December 31, 2009 are being compared against a relatively high base in the comparative period, as Canada only entered into a consumer based recession during the second quarter of the prior year.

The following table highlights the change in commissions:

	Three Months Ended				*Six Months Ended*			
(in millions of Canadian dollars)	***Dec. 31, 2009***	*Dec. 31, 2008*	*$ Change*	*% Change*	***Dec. 31, 2009***	*Dec. 31, 2008*	*$ Change*	*% Change*
Commission from PR brands	**$ 4.6**	$ 4.8	$ (0.2)	(4%)	**$ 9.0**	$ 8.9	$ 0.1	1%
Commission from Agency brands	**1.0**	1.4	(0.4)	(29%)	**1.8**	2.7	(0.9)	(33%)
Less amortization of rep. rights	**(1.1)**	(1.2)	0.1	(8%)	**(2.3)**	(2.3)	-	0%
Commissions	**$ 4.5**	$ 5.0	$ (0.5)	(10%)	**$ 8.5**	$ 9.3	$ (0.8)	(9%)

Commissions earned from the representation of PR brands in Canada were relatively consistent on both a quarter over quarter and year-to-date comparison basis. The current year results include an extra three months of commissions from the ABSOLUT vodka brand (which Corby began representing on October 1, 2008), which has served to offset a decline in commissions on other PR brands. This decline is primarily the result of the same factors which have affected shipment volumes on Corby's owned brands (difficult market conditions in Western Canada, destocking in the private retail channel, combined with the effect the aforementioned threatened labour disruption in Ontario). As a secondary factor, Corby ceased to represent Tia Maria in October 2009 as a result of PR's disposal of this brand.

Commission income from Agency brands has declined by $0.5 million and $0.9 million on a three and six month comparison basis, respectively. The decrease is the result of the comparative period including commissions from brands which are no longer represented by Corby.

Cost of sales

Cost of sales for the quarter was $20.4 million compared to $23.1 million for the same period last year. Gross margin for the quarter was 52.0%, as compared with 46.1% for the same three month period last year. The significant increase in gross margin is the result of the combined effect of the appreciating Canadian dollar (which serves to reduce input costs), better product mix (lower sales in the US and of Seagram Coolers, both of which earn lower gross margins than the domestic spirits business), and increased average selling prices on key brands in certain markets. The impact of these items was partially offset by increased rates of excise tax being applied to certain of the Company's Canadian whisky brands.

Cost of sales for the six month period ended December 31, 2009 was $38.5 million, representing a decrease of 11% when compared with the same six month period last year. The decrease was largely commensurate with the 8% decrease in shipment volumes during the period, partially offset by the impact of the aforementioned factors impacting the three month period described above.

Marketing, sales and administration

Marketing, sales and administration expenses were $11.4 million this quarter, as compared to $12.5 million during the same quarter last year. The $1.1 million decrease reflects reduced spending on both marketing and administrative costs this period versus last. The reduced marketing expenditure reflects the inclusion of production costs associated with the Wiser's media campaign in the prior period while the reduction in administrative expenses is due the combination of management's increased focus on cost control and the inclusion of some non-recurring expenses in the comparative period, which were associated with obtaining the right to represent the ABSOLUT brand in Canada.

On a year-to-date basis, marketing, sales and administration expenses declined $2.1 million or 9%, when compared to the same six month period last year. The decrease was the result of the aforementioned factors impacting the three month period, however, also includes a reduction of costs due to the comparative period including non-recurring costs associated with the Company's head office move, which occurred in the first quarter of fiscal 2009.

Income taxes

Corby's effective tax rates differ substantially from the basic Federal and Provincial rates due to the following:

	Three Months Ended		*Six Months Ended*	
	Dec. 31, 2009	*Dec. 31, 2008*	***Dec. 31, 2009***	*Dec. 31, 2008*
Combined basic Federal and Provincial tax rates	**31%**	32%	**31%**	32%
Impact of non-cash impairment charge	**54%**	0%	**10%**	0%
Impact of substantively enacted rate decreases in Ontario	**(27%)**	0%	**(5%)**	0%
Other	**0%**	1%	**1%**	1%
Effective tax rates	**58%**	33%	**37%**	33%

As denoted in the previous chart, Corby's effective tax rates during the three and six month periods ended December 31, 2009, were substantially impacted by the effect of a non-cash impairment charge and the impact of the Ontario government's decision to substantively enact decreases in its future income tax rates.

The impairment charge was recorded during the quarter and relates specifically to the Company's Seagram Coolers brand and its associated goodwill and intangible asset balances (readers are encouraged to refer to the "Significant Event" section of this MD&A for further information). The Ontario government's decision to substantively enact future rate decreases required the Company to revalue its future income tax assets and liabilities at the new lower rates. As a result, Corby recognized a one-time reduction of its future income tax expense of $0.7 million during the quarter.

Liquidity and Capital Resources

Corby's sources of liquidity come from its deposits in cash management pools balance of $72.6 million as at December 31, 2009, along with cash generated by operating activities. The Company does not have any liabilities under short or long-term debt facilities.

Cash flows

	Three Months Ended			Six Months Ended		
(in millions of Canadian dollars)	***Dec. 31, 2009***	*Dec. 31, 2008*	*$ Change*	***Dec. 31, 2009***	*Dec. 31, 2008*	*$ Change*
Operating activities						
Net earnings, adjusted for non-cash items	**$ 11.7**	$ 8.8	$ 2.9	**$ 22.2**	$ 20.3	$ 1.9
Net change in non-cash working capital	**(3.7)**	4.8	(8.5)	**(3.7)**	(2.5)	(1.2)
	8.0	13.6	(5.6)	**18.5**	17.8	0.7
Investing activities						
Additions to capital assets	(0.6)	(1.3)	0.7	(0.6)	(2.3)	1.7
Proceeds from disposition of capital assets	-	0.5	(0.5)	-	0.5	(0.5)
Draws from (deposits in) cash management pools	(3.4)	(8.8)	5.4	(9.9)	(8.0)	(1.9)
	(4.0)	**(9.6)**	**5.6**	**(10.5)**	**(9.8)**	**(0.7)**
Financing activities						
Dividends paid	**(4.0)**	(4.0)	-	**(8.0)**	(8.0)	-
Net change in cash	**$ -**	$ -	$ -	**$ -**	$ -	$ -

Operating activities

Cash flows used in operating activities were $8.0 million this quarter as compared with $13.6 million during the same quarter last year. The growth in net earnings, adjusted for non-cash items, was more than offset by an increased investment in non-cash working capital. The increased investment in working capital balances can be largely attributed to timing of cash receipts from certain of the Company's provincial liquor board customers and timing of payments on account of trade payables. Reduced pension contributions this quarter when compared to the same quarter last year were also a factor.

Year-to-date cash flows from operating activities decreased $0.7 million when compared with the same six month period last year. The growth in net earnings, adjusted for non-cash items, was largely offset by increased investment in non-cash working capital. The increased investment in working capital balances can be largely attributed to a source of cash being generated from changes in accounts receivable balances being more than offset by a use of cash associated with changes in trade payables. Reduced pension contributions during the first half of the year when compared to the same period last year was also a significant factor.

Investing activities

Cash used for investing activities decreased $5.6 million this quarter when compared with the same quarter last year. This was primarily due to Corby depositing a net $3.4 million in cash management pools, which is $5.4 million less than what was deposited during the same three month period last year.

On a year-to-date basis, the Company used $10.5 million of its cash for investing activities, which was up $0.7 million when compared to the same six month period last year. The Company's investments in capital assets decreased $1.7 million, largely reflecting the fact that last year's results included capital asset additions related to the relocation of the Company's head office building.

Financing activities

Cash used for financing activities was $4.0 million this quarter, consistent with the amount used during the same quarter last year. The $4.0 million reflects regular quarterly dividends being paid to shareholders.

On a year-to-date basis, cash used for financing activities was $8.0 million, and is equal to the amount used during the same period last year. The $8.0 million reflects regular quarterly dividends being paid to shareholders.

Outstanding Share Data

There have been no changes in Corby's share data since June 30, 2009. As at February 10, 2010, Corby had 24,274,320 Voting Class A common shares and 4,194,536 Non-Voting Class B common shares outstanding. There are no options outstanding.

Related Party Transactions

Transactions in the Normal Course of Operations

Corby engages in a significant number of transactions with its parent company, its ultimate parent and various affiliates. Specifically, Corby renders services to its parent company, its ultimate parent, and affiliates for the marketing and sale of beverage alcohol products in Canada. Furthermore, Corby sub-contracts the large majority of its distilling, maturing, storing, blending, bottling and related production activities to its parent company. A significant portion of Corby's bookkeeping, record keeping services, data processing and other administrative services are also outsourced to its parent company.

The companies operate under the terms of agreements which became effective on September 29, 2006. These agreements provide the Company with the exclusive right to represent PR's brands in the Canadian market for 15 years, as well as providing for the continuing production of certain Corby brands by PR at its production facility in Windsor, Ontario for 10 years. Corby also manages PR's business interests in Canada, including the Windsor production facility. Certain officers of Corby have been appointed as directors and officers of PR's Canadian entities, as approved by Corby's Board of Directors.

In addition to the aforementioned agreements, Corby signed an agreement on September 26, 2008 with its ultimate parent to be the exclusive Canadian representative for the ABSOLUT vodka, Level vodka, and Plymouth gin brands, for a five year term expiring October 1, 2013. These brands were acquired by PR subsequent to the original representation rights agreement dated September 29, 2006.

All of the above-noted transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. For further details regarding the above agreements, readers are encouraged to refer to the most recently prepared annual MD&A and annual financial statements for the year ended June 30, 2009.

Deposits in Cash Management Pools

Corby participates in a cash pooling arrangement under a Mirror Netting Service Agreement ("Mirror Agreement") together with PR's other Canadian affiliates, the terms of which are administered by The Bank of Nova Scotia. The Mirror Agreement acts to aggregate each participant's net cash balance for purposes of having a centralized cash management function for all of PR's Canadian affiliates, including Corby.

Corby accesses these funds on a daily basis and has the contractual right to withdraw these funds or terminate these cash management arrangements upon providing five days written notice.

Other Contractual Obligations

As part of the agreement with PR signed on September 29, 2008, Corby agreed to parameters governing certain of its obligations and continuing business practices. Specifically, Corby agreed that it would continue to participate in the existing cash pooling arrangement (i.e., the Mirror Agreement) for a three-year period ending October 1, 2011. Corby further agreed that, barring any unanticipated developments, regular dividends will be paid quarterly, on the basis of an annual amount equal to the greater of 50% of net earnings per share in the preceding fiscal year ended June 30, and $0.56 per share. In addition, it was agreed that Corby would not declare any special dividends, repurchase shares or make acquisitions or capital investments outside the normal course of business without PR's prior approval.

Accounting Standards – Implemented in Fiscal 2010

Financial Statement Concepts

Effective July 1, 2009, the Company applied the amendments to Section 1000 "Financial Statement Concepts", which clarify the criteria for recognition of an asset and the timing of expense recognition, specifically deleting the guidance permitting the deferral of costs. The new requirements are effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2008. The Company applied the amendments to Section 1000 in conjunction with Section 3064 "Goodwill and Intangible Assets" which is further described below. The adoption of this standard had no impact on the Company's financial statements or note disclosures.

Goodwill and Intangible Assets

Effective July 1, 2009, the Company implemented new accounting standard, Section 3064 "Goodwill and Intangible Assets", which is effective for fiscal years beginning on or after October 1, 2008. This standard replaces the existing Section 3062 "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". The new standard prescribes new methods for recognizing, measuring, presenting and disclosing goodwill and intangible assets, with the objective of eliminating the practice of deferring costs that do not meet the definition and recognition criteria of assets. The new standard is equivalent to the corresponding provisions of International Financial Reporting Standards ("IFRS") IAS 38, "Intangible Assets". The adoption of this standard had no impact on the Company's financial statements or note disclosures.

Future Accounting Standards

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, however there are significant differences on recognition, measurement, and disclosures. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter of fiscal 2012 for which current and comparative information will be prepared under IFRS.

In response, the Company created a transition plan and established a timeline for the execution and completion of the conversion project to guide Corby toward its reporting deadlines. The transition plan included a high-level assessment of the key areas where conversion to IFRS may have a significant impact or present a significant challenge. As a result of this assessment, six key areas were identified and include employee future benefits, impairment analysis, IFRS 1 choices, capital assets, income taxes, and financial statement presentation and disclosure. Work completed to date indicates that changes in accounting policies will be required and are likely to materially impact the Company's consolidated financial statements.

The Company has engaged an external advisor and established a working team, held multiple IFRS training sessions tailored specifically to Corby for finance employees, members of management and the Audit Committee. The IFRS team has performed detailed assessments on half of the six key areas identified, and continues to report its progress and results to the Audit Committee on a quarterly basis.

The transition plan remains on-track and the Company believes it is well positioned to transition to IFRS in accordance with the timelines mandated by the AcSB. The work completed to date suggests that there will be minimal to no impact on the Company's business activities, IT systems, disclosure controls and procedures, and internal controls over financial reporting. However, these preliminary conclusions may change as Corby continues to progress through its transition plan and considers any new IFRS developments leading up to the Company's changeover date.

The company will continue to execute the transition in accordance with its plan, and also continue to monitor standards development as issued by the International Accounting Standards Board and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of its adoption of IFRS.

Selected Quarterly Information

Summary of Quarterly Financial Results

(in millions of Canadian dollars, except per share amounts)	**Q2 2010**	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008
Operating revenue - net	**$ 46.9**	$ 41.1	$ 41.4	$ 34.0	$ 47.8	$ 46.1	$ 39.6	$ 33.0
Earnings from operations	**14.7**	12.2	10.1	7.2	11.9	14.2	8.4	8.1
Net earnings	**1.1**	8.4	7.4	5.1	8.1	9.8	6.0	6.0
Basic EPS	**0.04**	0.30	0.26	0.18	0.28	0.35	0.21	0.21
Diluted EPS	**0.04**	0.30	0.26	0.18	0.28	0.35	0.21	0.21

The above chart demonstrates the seasonality of Corby's business, as sales are typically higher in the first and second quarter, while third quarter sales (i.e., January, February and March) typically decline after the end of the retail holiday season. Fourth quarter sales typically increase again with the onset of warmer weather, as consumers tend to increase their consumption levels during the summer season.

The above chart also highlights the aforementioned effect an impairment charge had upon the Company's Q2 2010 financial results. Specifically, the impairment charge had the effect of reducing net earnings $9.4 million, and reduced both basic and diluted earnings per share by $0.33. For more information related to the non-cash impairment charge, please refer to the "Significant Event" section of this MD&A.

Internal Controls Over Financial Reporting

The Company maintains a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

In addition, the CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting, and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be designed effectively can provide only reasonable assurance with respect to financial reporting and financial statement preparation.

There were no changes in internal control over financial reporting during the Company's most recent interim period that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Risks & Risk Management

The Company is exposed to a number of risks in the normal course of its business that have the potential to affect its operating and financial performance.

Industry and Regulatory

The beverage alcohol industry in Canada is subject to government policy, extensive regulatory requirements and significant rates of taxation at both the federal and provincial levels. As a result, changes in the government policy, regulatory and/or taxation environments within the beverage alcohol industry may affect Corby's business operations, including changes in market dynamics or changes in consumer consumption patterns.

In addition, certain Canadian whiskies are subject to an increased rate of excise duty effective July 1, 2009. This increase is the result of legislation passed by the federal government on May 2, 2006, which served to increase the rate of excise duty on spirits by 5.7%. It is estimated that the application of these higher excise duty rates will reduce Corby's annual sales by approximately $1.3 million, and translate to a reduction of net earnings of $0.9 million. It is not anticipated that these higher excise rates can be passed on to consumers through higher prices in the near term.

The Company continuously monitors the potential risk associated with any proposed changes in its government policy, regulatory and taxation environments and, as an industry leader, actively participates in trade association discussions relating to new developments.

Consumer Consumption Patterns

Beverage alcohol companies are susceptible to risks relating to changes in consumer consumption patterns. Consumer consumption patterns are affected by many external influences, not the least of which is the current economic outlook and overall consumer confidence in the stability of the economy as a whole. The overall decline in consumer spending has resulted in more at home consumption, as consumers are trending away from consumption at licensed establishments, such as bars and restaurants. As a result, the industry is experiencing declines in product categories which tend to have a higher consumption rate at these establishments, such as liqueurs. Corby offers a diverse portfolio of products across all major spirit categories and various price points, which complements consumer desires and offers exciting innovation.

Distribution / Supply Chain Interruption

The Company is susceptible to risks relating to distributor and supply chain interruptions. Distribution in Canada is largely accomplished through the government-owned provincial liquor boards and, therefore, an interruption (e.g., labour strike) for any length of time may have a significant impact on the Company's ability to sell its products in a particular province and or market.

Supply chain interruptions could impact product quality and availability, including manufacturing or inventory disruption. The Company adheres to a comprehensive suite of quality programs and proactively manages production and supply chains to mitigate any potential risk to consumer safety or Corby's reputation and profitability.

Environmental Compliance

Environmental liabilities may potentially arise when companies are in the business of manufacturing products and, thus, are required to handle potentially hazardous materials. As Corby outsources the majority of its production, including all of its storage and handling of maturing alcohol, the risk of environmental liabilities has been reduced to an acceptably low level. In addition, Corby's owned-production facility follows strict industry guidelines for proper use and / or disposal of hazardous materials to further reduce environmental risks. Corby currently has no significant recorded or unrecorded environmental liabilities.

Industry Consolidation

In recent years, the global beverage alcohol industry has experienced a significant amount of consolidation. Industry consolidation can have varying degrees of impact, and in some cases may even create exceptional opportunities. Either way, management believes that the Company is well positioned to deal with this or other changes to the competitive landscape in Canada.

Competition

The Canadian beverage alcohol industry is also extremely competitive. Competitors may take actions to establish and sustain competitive advantage. They may also affect Corby's ability to attract and retain high quality employees. The Company's long heritage attests to Corby's strong foundation and successful execution of its strategies. Being a leading Canadian beverage alcohol company helps facilitate recruitment efforts. Corby appreciates and invests in its employees to partner with them in achieving corporate objectives and creating value.

Credit Risk

Credit risk arises from deposits in cash management pools held with PR via Corby's participation in the Mirror Agreement (as previously described in the "Related Party Transactions" section of this MD&A), as well as credit exposure to customers, including outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the Company's financial assets. The objective of managing counter party credit risk is to prevent losses in financial assets. The Company assesses the credit quality of its counter-parties, taking into account their financial position, past experience and other factors. As the large majority of Corby's accounts receivable balances are collectable from government-controlled liquor boards, management believes the Company's credit risk relating to accounts receivable is at an acceptably low level.

Exposure to Interest Rate Fluctuations

The Company does not have any short or long-term debt facilities. Interest rate risk exists as Corby earns market rates of interest on its deposits in cash management pools. An active risk management program does not exist, as management believes that changes in interest rates would not have a material impact to Corby's financial position over the long-term.

Exposure to Commodity Price Fluctuations

Commodity risk exists, as the manufacture of Corby's products requires the procurement of several known commodities such as grains, sugar and natural gas. The Company strives to partially mitigate this risk through the use of longer term procurement contracts where possible. In addition, subject to competitive conditions, the Company may pass on commodity price changes to consumers via pricing over the long-term.

Foreign Currency Exchange Risk

Foreign currency risk exists, as the Company sources a proportion of its production requirements in foreign currencies, specifically the United States dollar. Partially mitigating this risk is the fact that the Company also sells certain of its goods in the same foreign currencies. As purchases from US-based suppliers typically exceed revenues from US-based customers, a decline in the Canadian dollar versus the US dollar can have a negative impact on the Company's financial results. In addition, and subject to competitive conditions, changes in foreign currency rates may be passed on to consumers through pricing over the long-term.

Third Party Service Providers

The Company is reliant upon-third party service providers in respect of certain of its operations. It is possible that negative events affecting these third-party service providers could, in turn, negatively impact the Company. While the Company has no direct influence over how such third-parties are managed, it has entered into contractual arrangements to formalize these relationships. In order to minimize operating risks, the Company actively monitors and manages its relationship with its third-party service providers.

Brand Reputations

The Company promotes nationally branded, non-proprietary products, as well as proprietary products. Damage to the reputation of any of these brands, or to the reputation of any supplier or manufacturer of these brands, could negatively impact consumer opinion of the Company or the related products, which could have an adverse impact on the financial performance of the Company.

Valuation of Goodwill and Intangible Assets

Goodwill and intangible assets account for a significant amount of the Company's total assets. Goodwill and intangible assets are subject to impairment tests which involve the determination of fair value. Inherent in such fair value determinations are certain judgments and estimates, including but not limited to, projected future sales, earnings and capital investment, discount rates, and terminal growth rates. These judgments and estimates may change in the future due to uncertain competitive market and general economic conditions, or as the Company makes changes in its business strategies. Given the current state of the economy, certain of the aforementioned factors affecting the determination of fair value may be impacted, and as a result the Company's financial results may be adversely affected.

During the second quarter ended December 31, 2009, Corby recognized a $11.5 million non-cash impairment charge against its goodwill and intangible asset balances related to the Seagram Coolers brand. For more information regarding the impairment charge, please refer to the "Significant Event" section of this MD&A.

The following chart summarizes Corby's goodwill and intangible assets and details the amounts associated with each brand (or basket of brands) and market:

		Carrying Values as at December 31, 2009		
Associated Brand	Associated Market	Goodwill	Intangibles	Total
Various PR brands	Canada	$ -	$ 54.1	$ 54.1
Seagram Coolers	Canada	1.0	7.7	8.7
Lamb's rum	United Kingdom	1.4	11.8	13.2
Meaghers and De Kuyper liqueurs	Canada	4.5	-	4.5
		$ 6.9	$ 73.6	$ 80.5

Therefore, economic factors (such as consumer consumption patterns) specific to these brands and markets, are primary drivers of the risk associated with their respective goodwill and intangible asset valuations.

Employee Future Benefits

The Company has certain obligations under its registered and non-registered defined benefit pension plans and other post-retirement benefit plan. There is no assurance that the Company's benefit plans will be able to earn the assumed rate of return. New regulations and market-driven changes may result in changes in the discount rates and other variables, which would result in the Company being required to make contributions in the future that differ significantly from estimates. An extended period of depressed capital markets and low interest rates could require the Company to make contributions to these plans in excess of those currently contemplated which, in turn, could have an adverse impact on the financial performance of the Company. For further details related to Corby's defined benefit pension plans, readers are encouraged to refer to the most recently prepared annual MD&A and annual financial statements for the year ended June 30, 2009.

CORBY DISTILLERIES LIMITED
INTERIM CONSOLIDATED BALANCE SHEETS

(Unaudited)
(in thousands of Canadian dollars)

		December 31, 2009		December 31, 2008		June 30, 2009
ASSETS						
Current						
Deposits in cash management pools	**$**	**72,579**	$	66,548	$	62,726
Accounts receivable		**30,771**		27,125		28,640
Income and other taxes recoverable		**646**		-		1,478
Inventories		**55,376**		53,123		53,987
Prepaid expenses		**470**		539		1,582
Future income taxes		**234**		514		551
		160,076		147,849		148,964
Capital assets		**14,328**		13,409		14,553
Employee future benefits		**11,497**		9,315		11,382
Goodwill (Note 6)		**6,857**		9,856		9,856
Intangible assets (Note 7)		**73,599**		87,761		85,420
	$	**266,357**	$	268,190	$	270,175
LIABILITIES						
Current						
Accounts payable and accrued liabilities	**$**	**17,299**	$	22,710	$	20,416
Income and other taxes payable		**-**		1,146		-
		17,299		23,856		20,416
Employee future benefits		**6,469**		5,631		5,923
Future income taxes		**4,768**		7,004		7,605
		28,536		36,491		33,944
SHAREHOLDERS' EQUITY						
Share capital		**14,304**		14,304		14,304
Retained earnings		**223,517**		217,395		221,927
		237,821		231,699		236,231
	$	**266,357**	$	268,190	$	270,175

See accompanying notes to interim consolidated financial statements

CORBY DISTILLERIES LIMITED
INTERIM CONSOLIDATED STATEMENTS OF EARNINGS

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

	For the Three Months Ended		*For the Six Months Ended*	
	December 31, 2009	December 31, 2008	**December 31, 2009**	December 31, 2008
OPERATING REVENUE				
Sales	**$ 42,447**	$ 42,821	**$ 79,555**	$ 84,627
Commissions (Note 8)	**4,485**	4,969	**8,495**	9,226
	46,932	47,790	**88,050**	93,853
OPERATING COSTS				
Cost of sales	**20,378**	23,066	**38,522**	43,278
Marketing, sales and administration	**11,422**	12,503	**21,787**	23,870
Amortization	**428**	332	**874**	659
	32,228	35,901	**61,183**	67,807
EARNINGS FROM OPERATIONS	**14,704**	11,889	**26,867**	26,046
OTHER INCOME AND EXPENSES				
Impairment charge (Note 4)	**(11,510)**	-	**(11,510)**	-
Interest income	**117**	599	**240**	1,082
Foreign exchange loss	**(584)**	(685)	**(459)**	(784)
Gain on disposal of capital assets	**-**	279	**3**	195
	(11,977)	193	**(11,726)**	493
EARNINGS BEFORE INCOME TAXES	**2,727**	12,082	**15,141**	26,539
INCOME TAXES (Note 10)				
Current	**4,312**	3,574	**8,099**	8,433
Future	**(2,729)**	456	**(2,520)**	229
	1,583	4,030	**5,579**	8,662
NET EARNINGS	**$ 1,144**	$ 8,052	**$ 9,562**	$ 17,877
BASIC EARNINGS PER SHARE	**$ 0.04**	$ 0.28	**$ 0.34**	$ 0.63
DILUTED EARNINGS PER SHARE	**$ 0.04**	$ 0.28	**$ 0.34**	$ 0.63
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	**28,468,856**	28,468,856	**28,468,856**	28,468,856
Diluted	**28,468,856**	28,468,856	**28,468,856**	28,468,856

See accompanying notes to interim consolidated financial statements

CORBY DISTILLERIES LIMITED
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)
(in thousands of Canadian dollars)

	For the Three Months Ended		*For the Six Months Ended*	
	December 31, 2009	December 31, 2008	**December 31, 2009**	December 31, 2008
NET EARNINGS	**$ 1,144**	$ 8,052	**$ 9,562**	$ 17,877
OTHER COMPREHENSIVE INCOME	**-**	-	**-**	-
COMPREHENSIVE INCOME	**$ 1,144**	$ 8,052	**$ 9,562**	$ 17,877

See accompanying notes to interim consolidated financial statements

CORBY DISTILLERIES LIMITED
INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited)
(in thousands of Canadian dollars)

	For the Six Months Ended	
	December 31, 2009	December 31, 2008
SHARE CAPITAL		
Balance, beginning of period	**$ 14,304**	$ 14,304
Transactions, net	**-**	-
Balance, end of period	**$ 14,304**	$ 14,304
RETAINED EARNINGS		
Retained earnings, beginning of period	**$ 221,927**	$ 207,490
Net earnings	**9,562**	17,877
Dividends	**(7,972)**	(7,972)
Balance, end of period	**$ 223,517**	$ 217,395
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of period	**$ -**	$ -
Other comprehensive income for the period	**-**	-
Balance, end of period	**$ -**	$ -

See accompanying notes to interim consolidated financial statements

CORBY DISTILLERIES LIMITED
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)
(in thousands of Canadian dollars)

	For the Three Months Ended		For the Six Months Ended	
	December 31, 2009	December 31, 2008	**December 31, 2009**	December 31, 2008
OPERATING ACTIVITIES				
Net earnings	**$ 1,144**	$ 8,052	**$ 9,562**	$ 17,877
Items not affecting cash				
Amortization	**1,577**	1,503	**3,190**	3,001
Impairment charge (Note 4)	**11,510**	-	**11,510**	-
Gain on disposal of capital assets	**-**	(279)	**(3)**	(195)
Future income taxes	**(2,729)**	456	**(2,520)**	229
Employee future benefits	**188**	(935)	**431**	(572)
	11,690	8,797	**22,170**	20,340
Net change in non-cash working capital balances	**(3,695)**	4,798	**(3,699)**	(2,510)
Cash flows provided by operating activities	**7,995**	13,595	**18,471**	17,830
INVESTING ACTIVITIES				
Additions to capital assets	**(582)**	(1,320)	**(649)**	(2,384)
Proceeds from disposition of capital assets	**-**	516	**3**	521
Deposits in cash management pools	**(3,427)**	(8,805)	**(9,853)**	(7,995)
Cash flows used in investing activities	**(4,009)**	(9,609)	**(10,499)**	(9,858)
FINANCING ACTIVITY				
Dividends paid	**(3,986)**	(3,986)	**(7,972)**	(7,972)
Cash flows used in financing activity	**(3,986)**	(3,986)	**(7,972)**	(7,972)
NET CHANGE IN CASH	**-**	-	**-**	-
CASH, BEGINNING OF PERIOD	**-**	-	**-**	-
CASH, END OF PERIOD	**$ -**	$ -	**$ -**	$ -
SUPPLEMENTAL CASH FLOW INFORMATION				
Interest received	**$ 117**	$ 599	**$ 240**	$ 1,082
Income taxes paid	**$ 3,811**	$ 4,057	**$ 7,689**	$ 9,072

See accompanying notes to interim consolidated financial statements

CORBY DISTILLERIES LIMITED
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2009 AND DECEMBER 31, 2008
(in thousands of Canadian dollars, except per share amounts)

1. BASIS OF PRESENTATION

These unaudited interim consolidated financial statements (the "financial statements") have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of Corby Distilleries Limited and its subsidiaries ("Corby" or the "Company"). These financial statements do not include all disclosures required by Canadian GAAP for annual financial statements and therefore should be read in conjunction with the most recently prepared annual financial statements for the year ended June 30, 2009.

The interim financial statements should not be taken as indicative of the performance to be expected for the full year due to the seasonal nature of the spirits business. Corby's operations are typically subject to seasonal fluctuations in that the retail holiday season generally results in an increase in consumer purchases over the course of October, November and December. Further, the summer months traditionally result in higher consumer purchases of spirits as compared to the winter and spring months. As a result, the Company's first and second quarter of each fiscal year tend to reflect the impact of seasonal fluctuations in that more shipments are typically made during those quarters.

2. CHANGE IN ACCOUNTING POLICIES

These financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements for the year ended June 30, 2009, except as noted below.

Financial Statement Concepts

Effective July 1, 2009, the Company applied the amendments to Section 1000 "Financial Statement Concepts", which clarify the criteria for recognition of an asset and the timing of expense recognition, specifically deleting the guidance permitting the deferral of costs. The new requirements are effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2008. The Company applied the amendments to Section 1000 in conjunction with Section 3064 "Goodwill and Intangible Assets" which is further described below. The adoption of this standard had no impact on the Company's financial statements or note disclosures.

Goodwill and Intangible Assets

Effective July 1, 2009, the Company implemented new accounting standard, Section 3064 "Goodwill and Intangible Assets", which is effective for fiscal years beginning on or after October 1, 2008. This standard replaces the existing Section 3062 "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". The new standard prescribes new methods for recognizing, measuring, presenting and disclosing goodwill and intangible assets, with the objective of eliminating the practice of deferring costs that do not meet the definition and recognition criteria of assets. The new standard is equivalent to the corresponding provisions of International Financial Reporting Standards ("IFRS") IAS 38, "Intangible Assets". The adoption of this standard had no impact on the Company's financial statements or note disclosures.

3. FUTURE ACCOUNTING STANDARDS

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises will be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, however there are significant differences on recognition, measurement, and disclosures. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter of fiscal 2012 for which current and comparative information will be prepared under IFRS.

In response, the Company created a transition plan and established a timeline for the execution and completion of the conversion project to guide Corby toward its reporting deadlines. The transition plan included a high-level assessment of the key areas where conversion to IFRS may have a significant impact or present a significant challenge. As a result of this assessment, six key areas were identified and include employee future benefits, impairment analysis, IFRS 1 choices, capital assets, income taxes, and financial statement presentation and disclosure. Work completed to date indicates that changes in accounting policies will be required and are likely to materially impact the Company's consolidated financial statements.

The Company has engaged an external advisor and established a working team, held multiple IFRS training sessions tailored specifically to Corby for finance employees, members of management and the Audit Committee. The IFRS team has performed detailed assessments on half of the six key areas identified, and continues to report its progress and results to the Audit Committee on a quarterly basis.

The transition plan remains on-track and the Company believes it is well positioned to transition to IFRS in accordance with the timelines mandated by the AcSB. The work completed to date suggests that there will be minimal to no impact on the Company's business activities, IT systems, disclosure controls and procedures, and internal controls over financial reporting. However, these preliminary conclusions may change as Corby continues to progress through its transition plan and considers any new IFRS developments leading up to the Company's changeover date.

The company will continue to execute the transition in accordance with its plan, and also continue to monitor standards development as issued by the International Accounting Standards Board and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of its adoption of IFRS.

4. IMPAIRMENT CHARGE

During the quarter, the Company recorded a non-cash impairment charge against its goodwill and intangible assets balances related to its Seagram Coolers brand as outlined in the following chart:

Intangible assets	$	8,511
Goodwill		2,999
Impairment charged against goodwill and intangible assets		11,510
Income tax effect		(2,128)
Net earnings impact of impairment charge	$	9,382
Basic and diluted earnings per share impact of impairment charge	$	0.33

4. IMPAIRMENT CHARGE (continued)

The Seagram Coolers business in Canada was acquired by Corby on September 29, 2006. The brand had initially been quite successful and achieved the internal goals and objectives management had set for it. However, over the past two years, the brand underperformed relative to its competitive set due to aggressive competition from both category leaders as well as new entrants in adjacent categories.

As a result, the Company revised its long-term outlook to reflect changes in expectations for the brand and accordingly has estimated that the fair value of the associated goodwill and intangible assets has fallen below its recorded carrying amounts. As such, an impairment charge of $11,510 was recorded during the quarter. Management remains committed to the Seagram Coolers brand and is pursuing several strategic avenues with the aim of maximizing the potential of this valuable asset.

5. DEPOSITS IN CASH MANAGEMENT POOLS

Corby participates in a cash pooling arrangement under a Mirror Netting Service Agreement ("Mirror Agreement") together with PR's other Canadian affiliates, the terms of which are administered by The Bank of Nova Scotia. The Mirror Agreement acts to aggregate each participant's net cash balance for purposes of having a centralized cash management function for all of PR's Canadian affiliates, including Corby.

Corby accesses these funds on a daily basis and has the contractual right to withdraw these funds or terminate these cash management arrangements upon providing five days written notice. For further information on these balances, readers are encouraged to read the Company's most recently prepared annual financial statements for the year-ended June 30, 2009.

6. GOODWILL

	Jun. 30, 2009	Impairments	Dec. 31, 2009
Associated brand:			
Seagram Coolers	$ 3,970	$ (2,999)	$ 971
Lamb's rum International	1,410	-	1,410
Meaghers and De Kuyper liqueurs	4,476	-	4,476
	$ 9,856	$ (2,999)	$ 6,857

	Jun. 30, 2008	Impairments	Dec. 31, 2008
Associated brand:			
Seagram Coolers	$ 3,970	$ -	$ 3,970
Lamb's rum International	1,410	-	1,410
Meaghers and De Kuyper liqueurs	4,476	-	4,476
	$ 9,856	$ -	$ 9,856

Please refer to Note 4 for more information regarding the Seagram Cooler's goodwill impairment recognized during the quarter ended December 31, 2009.

7. INTANGIBLE ASSETS

	Jun. 30, 2009	Movements in the period: Amortization	Impairments	PR Brand Disposals	Dec. 31, 2009
Long-term representation rights	$ 57,370	$ (2,316)	$ -	$ (994)	$ 54,060
Trademarks and licenses	28,050	-	(8,511)	-	19,539
	$ 85,420	$ (2,316)	$ (8,511)	$ (994)	$ 73,599

	Jun. 30, 2008	Movements in the period: Amortization	Impairments	PR Brand Disposals	Dec. 31, 2008
Long-term representation rights	$ 62,053	$ (2,342)	$ -	$ -	$ 59,711
Trademarks and licenses	28,050	-	-	-	28,050
	$ 90,103	$ (2,342)	$ -	$ -	$ 87,761

As depicted in the above chart, intangible assets are comprised of long-term representation rights, and trademarks and licenses. Trademarks and licenses represent the value of trademarks and licenses of businesses acquired. These intangible assets are deemed to have an indefinite life and therefore are not amortized. Trademarks and licenses are tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the assets might be impaired. Please refer to Note 4 for more information regarding the impairment recognized during the quarter ended December 31, 2009.

Long-term representation rights represent the cost of the Company’s exclusive right to represent PR’s brands in Canada. These representation rights are carried at cost, less accumulated amortization. Amortization is provided for on a straight-line basis over the 15 year term of the agreement which began October 1, 2006, and is scheduled to expire on September 30, 2021.

During the period, PR compensated Corby as a result of PR’s decision to dispose of the Wild Turkey bourbon and Tia Maria coffee liqueur brands, and thus early terminate Corby’s representation of these brands in Canada. The compensation received is depicted in the above chart under the heading “PR Brand Disposals”. The amount of compensation was calculated in accordance with a prescribed formula contained in the representation agreement and was accounted for as a reduction of Corby’s original cost. Corby ceased representation of the Wild Turkey and Tia Maria brands in May 2009 and October 2009, respectively. The resulting impact of lost commissions on Corby’s fiscal 2010 net earnings is estimated to be less than $220.

8. COMMISSIONS

Commissions for the three and six month periods ended December 31, 2009 are reported net of long-term representation rights amortization in the amount of $1,149 and $2,316, respectively (2008 - $1,171 and $2,342, respectively).

9. EMPLOYEE FUTURE BENEFITS

The Company has recorded a charge to earnings in the three and six month periods ended December 31, 2009 of $851 and $1,702, respectively (2008 - $842 and $1,683, respectively) to reflect the expense associated with its employee future benefit plans. Actual cash payments for the three and six month periods ended December 31, 2009 totaled $529 and $1,035, respectively (2008 - $1,636 and $1,937, respectively).

10. INCOME TAXES

Corby's effective tax rates differ substantially from the basic Federal and Provincial rates due to the following:

	Three Months Ended		*Six Months Ended*	
	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2008
Combined basic Federal and Provincial tax rates	31%	32%	31%	32%
Impact of non-cash impairment charge	54%	0%	10%	0%
Impact of substantively enacted rate decreases in Ontario	(27%)	0%	(5%)	0%
Other	0%	1%	1%	1%
Effective tax rates	58%	33%	37%	33%

As denoted in the above chart, Corby's effective tax rates during the three and six month periods ended December 31, 2009, were substantially impacted by the effect of a non-cash impairment charge and the impact of the Ontario government's decision to substantively enact decreases in its future income tax rates.

The impairment charge was recorded during the quarter and relates specifically to the Company's Seagram Coolers brand and its associated goodwill and intangible asset balances (please refer to Note 4 for more information regarding the impairment). The Ontario government's decision to substantively enact future rate decreases required the Company to revalue its future income tax assets and liabilities at the new lower rates. As a result, Corby recognized a one-time reduction of its future income tax expense of $700 during the quarter.

11. SEGMENT INFORMATION

Corby has two reportable segments: "Case Goods" and "Commissions". Corby's Case Goods segment derives its revenue from the production and distribution of its owned beverage alcohol brands. Corby's portfolio of owned brands include some of the most renowned and respected brands in Canada, including Wiser's rye whiskies, Lamb's rum and Polar Ice vodka. Corby's Commissions segment earns commission income from the representation of non-owned beverage alcohol brands in Canada. Corby represents leading international brands such as ABSOLUT vodka, Chivas Regal, The Glenlivet and Ballantine's scotches, Jameson Irish whiskey, Beefeater gin, Malibu rum, Kahlua liqueur, Mumm champagne, and Jacob's Creek and Wyndham Estate wines.

The Commissions segment has no assets or liabilities. Its financial results are fully reported as "commissions" on the interim consolidated statement of earnings and there are no intersegment revenues. Therefore, a chart detailing operational results by segment has not been provided as no additional meaningful information would result.

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