Corby Distilleries Limited

Interim Consolidated Financial Statements

For the Three and Six Month Periods Ended
December 31, 2010 and 2009

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Affiliated with Pernod Ricard

CORBY DISTILLERIES LIMITED
Interim Management's Discussion and Analysis
December 31, 2010

The following Interim Management's Discussion and Analysis ("MD&A") dated February 9, 2011 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, 2010 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 9, 2011. 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 2011 (three months ended December 31, 2010) are against results for the second quarter of fiscal 2010 (three months ended December 31, 2009). 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 ("HWSL") (a private company) located in Windsor, Ontario. HWSL is a wholly owned subsidiary of international spirits and wine company, Pernod Ricard S.A. ("PR") (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 to 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 statements 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 statements of earnings.

Corby's portfolio of owned-brands include some of the most renowned brands in Canada, including Wiser’s Canadian whisky, Lamb’s rum, Polar Ice vodka and McGuinness liqueurs. Through its affiliation with PR, Corby also represents leading international brands such as ABSOLUT vodka, Chivas Regal, The Glenlivet and Ballantine’s Scotch whiskies, Jameson Irish whiskey, Beefeater gin, Malibu rum, Kahlúa liqueur, Mumm champagne, and Jacob’s Creek, Wyndham Estate, and Graffigna 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 72% 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 Montréal, Québec. Essentially all of Corby’s cooler production requirements are outsourced to an unrelated third-party located in Woodbridge, Ontario.

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 10 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 10-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 Alberta, where the retail sector is privatized. In this province, Corby ships products to a bonded warehouse that 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 purchase patterns in Canada through its member affiliation with the Association of Canadian Distillers (“ACD”), 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” which are measured both in volume (measured in nine-litre-case equivalents) and in retail value (measured in Canadian dollars).

Corby’s route to market for its international business primarily entails direct shipment of its products to international distributors, located mainly in the US 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 is, therefore, 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 typically tend to reflect the impact of seasonal fluctuations in that, generally, more shipments are made during those quarters.

Strategies and Outlook

Corby’s business strategies are designed to maximize sustainable long-term value growth, and thus deliver solid 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 from which to achieve its current and long-term objectives moving forward.

Management believes that having a focused brand prioritization strategy will permit it to capture market share in the segments and markets which are expected to deliver the most growth in value over the long term. Therefore, the Company's strategy is to focus its investments on, and leverage the long term growth potential of, its key 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, and facilitates Corby's marketing and sales teams' focus and resources allocation. Over the long term, management believes that effective execution of its strategy will result in value creation for shareholders.

In addition, management is convinced that innovation is key to seizing new profit and growth opportunities. Successful innovation can be delivered through a structured and efficient process as well as consistent investment on consumer insight and research and development ("R&D"). As far as R&D is concerned, the Company benefits from access to leading edge practices at Pernod Ricard's North American hub, which is located in Windsor, Ontario.

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

Current Market Environment

Indicators for the Canadian economy continue to be mixed. While there are signs of recovery in Canada, it appears that the recovery remains fragile. Employment rates in Canada have shown some improvement and are getting closer to pre-recession levels. However consumer confidence (based on the "Consumer Confidence Index", as reported by the Conference Board of Canada) remains relatively unchanged from a year ago.

Furthermore, while a strong Canadian dollar may benefit some parts of the economy, it tends to negatively affect the export-driven manufacturing sector, which is a key pillar of Ontario's economy and one of Corby's largest markets. Given these facts, there remains substantial uncertainty regarding the strength of economic growth in Canada in the months ahead.

The Company has a strong financial position, which has allowed it to better face the economic uncertainty. Of particular consideration are the following factors:

- Corby is a leader in the Canadian spirits market and has a long history of profitability and uninterrupted dividends;
- 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;
- Corby's largest customers are government-controlled LBs in each province, which greatly reduces the risk associated with the collection of accounts receivable;
- Corby has no long-term debt and, therefore, no financial or other covenants; and
- The Company has significant sources of liquidity via its $90.1 million currently on deposit in a cash management pool with PR's other Canadian affiliates.

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;
- Deterioration of the financial health of key suppliers;
- Impairment of goodwill and intangible assets; and
- Higher pension funding requirements.

Corby's financial results in recent quarters have been unfavourably impacted by what was only a short-term decline in consumer demand, and by an impairment charge recorded during the second quarter ended December 31, 2009 against its goodwill and intangible assets values. The other factors noted in the list above have not had a measurable impact on the Company. Management will continue to closely monitor the ongoing economic environment and take proactive measures, as necessary.

Brand Performance Review

Corby's portfolio of owned-brands 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 net earnings. Therefore, understanding each key brand is essential to understanding the Company's overall performance.

Shipment Volume and Sales Value Performance

The following chart summarizes the performance of Corby's owned-brands in terms of both shipment volume (as measured by shipments to customers in equivalent nine-litre cases) and shipment value (as measured by the change in sales revenue). The chart 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, 2010***	*Dec. 31, 2009*	*Shipment % Volume Change*	*Shipment % Value Change*	***Dec. 31, 2010***	*Dec. 31, 2009*	*Shipment % Volume Change*	*Shipment % Value Change*
Brand								
Wiser's Canadian whisky	**224**	238	(6%)	(4%)	**425**	419	1%	3%
Lamb's rum	**180**	198	(9%)	(6%)	**322**	353	(9%)	(7%)
Polar Ice vodka	**91**	99	(8%)	(8%)	**179**	189	(5%)	(4%)
Mixable liqueurs	**69**	74	(7%)	(6%)	**122**	119	3%	4%
Total Key Brands	**564**	609	(7%)	(6%)	**1,048**	1,080	(3%)	(1%)
All other Corby-owned brands	**169**	184	(8%)	(3%)	**368**	406	(9%)	(6%)
Total	**733**	793	(8%)	(5%)	**1,416**	1,486	(5%)	(2%)

As previously discussed in the "Strategies and Outlook" section of this MD&A, the Company has implemented a brand prioritization strategy that requires focused investments in 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.

As can be seen above, Corby's second quarter shipment performance lagged behind the prior year. Such differential is believed to be more a result of shifts in customer order patterns between the first and second quarters as domestic shipments over six months are more in-line with retail volumes. As such, year-to-date shipment volumes and value decreased 5% and 2%, respectively, when compared with the same six month period last year.

The decline in year to date shipments was largely due to unfavourable results from Seagram Coolers, which is currently the subject of a long-term rejuvenation strategy. The rejuvenation strategy included new packaging, flavour innovation, and increased advertising and promotional spend. It also included a rationalization of poor performing variants and this is in large part the reason for the volume decrease from the prior year. The plan is still in its infancy and while early indicators have been positive, re-building the brand will take time and ongoing commitment.

Excluding Seagram Coolers, shipment volumes were down 3%, primarily due to weaker than expected performance for Corby's key brands in the depressed BC spirits market and lower volumes in the US and UK markets. Economic conditions in BC continue to be challenging, however the Company continues to monitor the situation closely and is taking action to improve the performance of its brands.

International shipment volume and value for the six month period decreased 6% and 13%, respectively, when compared with the same six month period last year. Difficult economic conditions in the UK along with a saturated vodka market in the US have contributed to the volume decline. Corby's international sales have also been unfavourably impacted by the strengthening of the Canadian dollar relative to the US dollar ("USD") and UK pound sterling ("GBP").

Notwithstanding the above factors, the decline in shipment value was only 2%, compared to a 5% decline in volume. This is due to positive movements in both product and geographical mix, as gross margins on the Seagram Coolers brand and the export market tend to be lower than margins earned on the Company's core domestic spirits business. Furthermore, Corby's average selling prices in markets such as Ontario were higher compared to the same period last year.

Retail Volume and Retail Value Performance

It is 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 purchase patterns and trends. Retail sales data, as provided by the ACD, is set out in the following chart and is discussed throughout this MD&A. It should be noted that the retail sales information presented 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, 2010***	*Dec. 31, 2009*	*% Retail Volume Change*	*% Retail Value Change*	***Dec. 31, 2010***	*Dec. 31, 2009*	*% Retail Volume Change*	*% Retail Value Change*
Brand								
Wiser's Canadian whisky	**229**	235	(3%)	(1%)	**395**	393	0%	2%
Lamb's rum	**153**	156	(2%)	0%	**266**	273	(3%)	(1%)
Polar Ice vodka	**92**	93	(1%)	(1%)	**169**	170	(1%)	0%
Mixable liqueurs	**78**	79	(1%)	0%	**127**	129	(2%)	0%
Total Key Brands	**552**	563	(2%)	(1%)	**957**	965	(1%)	1%
All other Corby-owned brands	**185**	204	(9%)	(2%)	**392**	450	(13%)	(7%)
Total	**737**	767	(4%)	(1%)	**1,349**	1,415	(5%)	(1%)

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

The Canadian spirits market overall is showing some modest signs of recovery, as retail volumes increased 1% and retail value gained 2% on a six month comparison basis. However, categories such as Canadian whisky, white rum, and liqueurs, for which Corby's owned-brands are heavily weighted, continued to struggle with retail volumes decreasing in these categories by 2%, 4%, and 1% respectively.

Corby's total retail sales performance (as denoted above) includes Seagram Coolers. Excluding Seagram Coolers, Corby's spirit brands were down 2% in retail volumes, with retail value being virtually unchanged when compared to the same six month period last year. On a quarter over quarter comparison basis, Corby's spirit brands exhibited the same performance as that of the year-to-date results, as retail volumes decreased 2%, while retail value was virtually unchanged.

Summary of Corby's Key Brands

Wiser's Canadian Whisky

Corby's flagship brand, Wiser's Canadian whisky, experienced retail value growth of 2% while the Canadian whisky category as a whole declined by 1% over the six month period when compared with the same period last year. The brand continues to gain market share from both a volume and value perspective, at the expense of its direct competitors in Canada. The Company continued to build upon the brand's popular "Welcome to the Wiserhood" television campaign with a new television commercial which aired during the fall leading up to the holiday season.

Lamb's Rum

Lamb's rum, one of the top-selling rum families in Canada, saw its retail volumes decrease by 3% for the six months versus the same period last year while retail volumes for the rum segment in Canada increased 1%. The growth in the rum segment has been entirely driven by growth in the spiced and dark rum categories, while consumer consumption of white rum has been experiencing declines (-4% on a six month comparison basis). The Lamb's rum family has a significant amount of its volume weighted in white rum, and its performance is reflective of the decline in the category.

The Company has responded by launching a new Lamb's spiced rum variant across Canada (named Lamb's Black Sheep) as Corby looks to capitalize on the growing consumer demand in the spiced rum segment. The product was launched in fiscal 2010, and while it's still in the early stages of its life cycle, initial results and indicators continue to be positive with strong growth being experienced in key markets. Moreover, the brand's development was supported by a new media campaign which aired during the quarter ended December 31, 2010.

Polar Ice Vodka

Polar Ice vodka, which is among the top three largest vodka brands in Canada, experienced flat retail value sales while retail volumes declined 1% on a year to date comparison basis. The vodka category in Canada experienced an increase in retail value of 4%. While the brand's performance has improved in recent quarters, Polar Ice continues to face aggressive competition across most major markets, mainly in the form of price discounting by key competitors. Further impacting performance is the overall decline in the BC vodka market, where the brand has a significant portion of its volumes.

Mixable Liqueurs

Corby's portfolio of mixable liqueur brands consists of McGuinness liqueurs (which is Canada's largest mixable liqueur brand family), Meaghers liqueurs and De Kuyper liqueurs. Retail volume and value for the mixable liqueurs portfolio were in line with that of the same quarter last year, representing a significant improvement over trends in recent quarters. Corby's performance is consistent with the Canadian liqueur category as a whole, as the category in Canada experienced a 1% decline in volumes and flat retail value year over year. The liqueur segment is most affected 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 group includes various Corby brands, such as Seagram Coolers, Royal Reserve and Silk Tassel Canadian whiskies, and Red Tassel vodka. The decreased performance of this group can be attributed largely to Seagram Coolers, which makes up approximately one third of this group's total retail volumes.

Seagram Coolers experienced a decrease in retail volumes of 32% when compared with the same six month period last year. The decline is mainly the result of a reduction in the base number of products in an effort to focus on the brand's core product lines and core markets, as contemplated in a comprehensive plan to rejuvenate the brand. The rejuvenation plan was completed and implemented in the third quarter of 2010 and included label and packaging redesign, new flavour innovation, and advertising and promotional activities. The plan is focused on performance improvement over the long term, and as such, management continues to monitor results and make changes as necessary.

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, 2010 and 2009.

(in millions of Canadian dollars, except per share amounts)	*Three Months Ended*				*Six Months Ended*			
	Dec. 31, 2010	*Dec. 31, 2009*	*$ Change*	*% Change*	***Dec. 31, 2010***	*Dec. 31, 2009*	*$ Change*	*% Change*
Sales	**$ 40.4**	$ 42.4	$ (2.0)	(5%)	**$ 77.6**	$ 79.6	$ (2.0)	(3%)
Commissions[1]	**4.8**	4.5	0.3	7%	**9.1**	8.5	0.6	7%
Operating revenue	**45.2**	46.9	(1.7)	(4%)	**86.7**	88.1	(1.4)	(2%)
Cost of sales	**19.5**	20.4	(0.9)	(4%)	**37.4**	38.5	(1.1)	(3%)
Marketing, sales and administration	**12.4**	11.4	1.0	9%	**23.1**	21.8	1.3	6%
Amortization	**0.4**	0.4	-	0%	**0.9**	0.9	-	0%
Earnings from operations	**12.9**	14.7	(1.8)	(12%)	**25.3**	26.9	(1.6)	(6%)
Impairment charge	**-**	(11.5)	11.5	n/a	**-**	(11.5)	11.5	n/a
Interest income	**0.3**	0.1	0.2	200%	**0.6**	0.2	0.4	200%
Foreign exchange loss	**(0.2)**	(0.6)	0.4	(67%)	**(0.1)**	(0.4)	0.3	(75%)
Earnings before income taxes	**13.0**	2.7	10.3	381%	**25.8**	15.2	10.6	70%
Income taxes	**3.8**	1.6	2.2	138%	**7.6**	5.6	2.0	36%
Net earnings	**$ 9.2**	$ 1.1	$ 8.1	736%	**$ 18.2**	$ 9.6	$ 8.6	90%
Per common share								
- Basic net earnings	**$ 0.32**	$ 0.04	$ 0.28	700%	**$ 0.64**	$ 0.34	$ 0.30	88%
- Diluted net earnings	**$ 0.32**	$ 0.04	$ 0.28	700%	**$ 0.64**	$ 0.34	$ 0.30	88%

[1] *Amounts are presented net of representation rights amortization of $1.1 and $2.3 (2009 - $1.1 and $2.3).*

Overall Financial Results

Substantially impacting the comparative period's financial results was an impairment charge applied against the Company's goodwill and intangible assets associated with the Seagram Coolers brand. The impairment was recognized in the second quarter of last year. For more information regarding the impairment, please refer to the most recently prepared annual MD&A for the year-ended June 30, 2010.

Corby's year to date financial results show a 6% decline in earnings from operations over the same period in the prior year. This decline is mainly due to softer sales volumes experienced primarily in BC and increased advertising and promotional spend being invested behind the Company's key brands. Partially offsetting these factors were favourable movements in product and geographical mix, and to a lesser extent, favourable commodity price movements on certain of the Company's production inputs.

After excluding the effect the aforementioned impairment charge had on the comparative period, net earnings and earnings per share are down 4% on a year to date comparison basis. The impact of higher interest income combined with lower statutory income tax rates served to partially offset the impact of the factors affecting earnings from operations for the six months ended December 31, 2010.

Operating revenue

Second quarter operating revenue, consisting of sales and commissions, was $45.2 million compared to $46.9 million for the same period last year. For the six month period operating revenue was $86.7 million compared to $88.1 million for the same period last year.

As previously mentioned, the decline in operating revenue is on account of lower shipment volumes which were partially offset by favourable movements in both product and geographical sales mix in addition to higher average selling prices in certain provinces, such as Ontario.

The Company's flagship brand, Wiser's Canadian whisky, continued to make a positive impact on Corby's financial results as it gained market share and outpaced its category while having increased average selling prices. Shipment volumes of the Company's mixable liqueur brands (e.g., McGuinness, Meaghers, and De Kuyper) were also strong during the first six months of the fiscal year as the on-premise sector has shown signs of recovery.

However, international sales experienced further downward pressure as a result of the strengthening of the Canadian dollar relative to the USD and GBP. In addition, Seagram Coolers experienced a significant decline in volume during both the quarter and year to date periods when compared with the same periods last year.

Commissions increased 7% this quarter and year-to-date, or \$0.3 million and \$0.6 million respectively, when compared with the same periods last year. The following table highlights the primary components which comprise commissions:

	Three Months Ended				*Six Months Ended*			
(in millions of Canadian dollars)	***Dec. 31, 2010***	*Dec. 31, 2009*	*\$ Change*	*% Change*	***Dec. 31, 2010***	*Dec. 31, 2009*	*\$ Change*	*% Change*
Commission from PR brands	**\$ 4.9**	\$ 4.6	\$ 0.3	7%	**\$ 9.5**	\$ 9.0	\$ 0.5	6%
Commission from Agency brands	**1.0**	1.0	-	0%	**1.8**	1.8	-	0%
Less amortization of rep. rights	**(1.1)**	(1.1)	-	0%	**(2.2)**	(2.3)	0.1	(4%)
Commissions	**\$ 4.8**	\$ 4.5	\$ 0.3	7%	**\$ 9.1**	\$ 8.5	\$ 0.6	7%

The increased commissions were mainly due to a strong shipment volume performance from the PR brand portfolio, specifically ABSOLUT vodka, Jameson Irish whiskey, and the recently launched Graffigna wine brand.

Cost of sales

Cost of sales decreased 4% and 3% for the quarter and six month periods ended December 31, 2010, respectively, when compared with the same periods last year. The decreases are largely commensurate with the decline in shipment volumes. Gross margin remained relatively consistent on both a quarterly and year to date basis when compared with the same periods last year. Specifically, gross margin for the quarter was 51.7% versus 52.0% for the same quarter last year, and 51.8% on a year to date basis versus 51.6% for the same six month period last year. The slightly improved margin on a year to date basis can be attributed to the aforementioned positive movements in product and geographical sales mix as well as having experienced favourable commodity price movements on certain of the Company's production inputs. Offsetting this was increased costs associated with promotional activity at the retail level, some of which is classified net of sales.

Marketing, sales and administration

Marketing, sales and administration expenses were \$12.4 million, as compared to \$11.4 million during the same quarter last year, reflecting a 9% increase. The increase this quarter primarily reflects planned spending increases on new product launches and media activity. Sales and administrative costs remained consistent with that of the same period last year.

On a year to date basis, marketing, sales and administration expenses increased $1.3 million or 6%, primarily due to aforementioned factors impacting the quarter and increased costs related to the Company's employee future benefits plans. The costs associated with employee future benefit plans were unfavourably impacted by market related factors, specifically decreases in discount rates.

Interest income

Interest income increased $0.2 million for the quarter and $0.4 million year-to-date when compared with the same periods last year. The increased interest income was the combined result of increased market interest rates applicable to Corby's cash deposits in addition to the Company having higher average cash balances this period when compared to the same periods last year.

Income taxes

Income tax expense increased $2.2 million, when compared to the same quarter last year and increased $2.0 million on a year to date comparison basis. As denoted in the following chart, the comparative periods were significantly impacted by the tax effect of the Seagram Coolers impairment charge recognized in the second quarter of last year, combined with the impact of revaluing future income tax assets and liabilities as a result of the Ontario Government substantively enacting corporate tax rate decreases.

	Three Months Ended		*Six Months Ended*	
	Dec. 31, 2010	*Dec. 31, 2009*	***Dec. 31, 2010***	*Dec. 31, 2009*
Combined basic Federal and Provincial tax rates	**29%**	31%	**29%**	31%
Impact of non-cash impairment charge	**-**	54%	**-**	10%
Impact of substantively enacted rate decreases in Ontario	**-**	(27%)	**-**	(5%)
Other	**-**	-	**-**	1%
Effective tax rates	**29%**	58%	**29%**	37%

Liquidity and Capital Resources

Corby's sources of liquidity come from its deposits in cash management pools balance of $90.1 million as at December 31, 2010, along with cash generated by operating activities. The Company does not have any liabilities under short or long-term debt facilities.

Cash flows

(in millions of Canadian dollars)	*Three Months Ended* **Dec. 31, 2010**	*Dec. 31, 2009*	*$ Change*	*Six Months Ended* **Dec. 31, 2010**	*Dec. 31, 2009*	*$ Change*
Operating activities						
Net earnings, adjusted for non-cash items	**$ 10.8**	$ 11.7	$ (0.9)	**$ 21.7**	$ 22.2	$ (0.5)
Net change in non-cash working capital	**4.5**	(3.7)	8.2	**2.0**	(3.7)	5.7
	15.3	8.0	7.3	**23.7**	18.5	5.2
Investing activities						
Additions to capital assets	**(0.2)**	(0.6)	0.4	**(0.3)**	(0.6)	0.3
Deposits in cash management pools	**(11.1)**	(3.4)	(7.7)	**(15.4)**	(9.9)	(5.5)
	(11.3)	(4.0)	(7.3)	**(15.7)**	(10.5)	(5.2)
Financing activities						
Dividends paid	**(4.0)**	(4.0)	-	**(8.0)**	(8.0)	-
Net change in cash	**$ -**	$ -	$ -	**$ -**	$ -	$ -

Operating activities

Cash flows from operating activities were $15.3 million this quarter, representing an increase of $7.3 million when compared with the same quarter last year. The increased cash flow is primarily attributable to increases in accounts payable (due to inventory purchases and advertising and promotional activity) and other accrued liabilities. Moreover, the Company experienced an increase in customer collections this quarter when compared to the same quarter last year (due to timing of cash receipts from certain of the Company's provincial liquor board customers).

Year-to-date, the Company has generated $23.7 million of cash from operating activities, compared to $18.5 million during the same six month period last year. The $5.2 million increase in cash flow relates primarily to having a larger accounts payable balance (due to increased advertising and promotional activity) combined with favourable changes in the timing of corporate income tax instalments. Partially offsetting the increased cash flow was a decrease in collections from customers during the period (due to timing of cash receipts from certain of the Company's provincial liquor board customers).

Investing activities

Cash used for investing activities increased $7.3 million this quarter when compared with the same quarter last year. This was primarily due to Corby depositing a net $11.1 million in PR's cash management pool, which is $7.7 million more than what was deposited during the same three month period last year. The increased amount deposited is a direct result of the increased cash flow from operating activities. For more information regarding Corby's participation in a cash pooling arrangement, please refer to the "Related Party Transactions" section of this MD&A.

On a year-to-date basis, Corby used $15.7 million of its cash for investing activities, an increase of $5.2 million when compared to the same six month period last year. This was primarily due to Corby depositing a net $5.5 million more in cash management pools this period versus the same period last year. The increase in deposits is directly attributable to the increased cash flow provided by operating activities.

Financing activities

Cash used for financing activities was $4.0 million for the quarter and $8.0 million for the six month period just ended. These amounts are consistent with those used during the same periods last year, and reflect regular quarterly dividends being paid to shareholders.

Outstanding Share Data

There have been no changes in Corby's share data since June 30, 2010. As at February 9, 2011, 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 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, 2010.

Deposits in Cash Management Pools

Corby participates in a cash pooling arrangement under a Mirror Netting Service Agreement together with PR's other Canadian affiliates, the terms of which are administered by The Bank of Nova Scotia. The Mirror Netting Service 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 26, 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 Netting Service Agreement) for a three-year period ending October 1, 2011. Corby further agreed that, barring any unanticipated developments, until October 1, 2011 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 until October 1, 2011 without PR's prior approval.

Future Accounting Standards

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian 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 in regards to 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 includes a high-level assessment of the key areas where conversion to IFRS may have a significant impact or present a significant challenge. Six key areas were identified: IFRS 1 choices, employee benefits, impairment of assets, capital assets, income taxes, and financial statement presentation and disclosure.

The IFRS changeover is a significant undertaking for the Company. As such, the Company has engaged an external advisor, established a working team and 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 of five of the six key areas identified, and it continues to report its progress and results to the Audit Committee on a quarterly basis.

A qualitative summary of expected impacts is provided below. Note that identified differences have not yet been fully quantified. It is anticipated that quantified impacts will be available in time for the Company's reporting of its third quarter results in May 2011.

First-Time Adoption of IFRS (IFRS 1)

This standard sets out the protocol for converting a set of financial statements from another basis of preparation (e.g., Canadian GAAP) to IFRS. IFRS 1 generally requires that a first-time adopter apply IFRS accounting principles retrospectively to all periods presented in its first IFRS financial statements. IFRS 1 also provides certain mandatory and optional exemptions to the full retrospective application.

As Corby's ultimate parent company currently reports in accordance with IFRS, the Company is provided the option of using the carrying amount of assets and liabilities that would be included in PR's consolidated financial statements if no adjustments were made for consolidation procedures and for the effects of the business combination in which PR acquired its interest in Corby. Choosing this option simplifies Corby's conversion process and reduces the need for Corby to maintain two parallel sets of records in addition to providing other benefits. Therefore, Corby has decided to choose this option under IFRS 1. This decision impacts the optional exemptions for business combinations, employee benefits and capital assets. The individual accounting policy impacts are further described below.

Employee Benefits (IAS 19)
Corby has elected to adopt the measurement basis of its ultimate parent company, which is an option available under IFRS 1. Under IFRS, Corby will continue to utilize the "corridor" approach currently followed under Canadian GAAP.

- It is anticipated that, as at Corby's opening balance sheet date, conversion to IFRS will result in a decrease in accrued benefit asset, an increase in accrued benefit liability, and a decrease in equity.

- Subsequent to transition, it is anticipated that pension cost will be lower given the reduced amount of unrecognized net actuarial losses, which are a direct result of Corby adopting its ultimate parent company's measurement basis, as permitted under IFRS 1.

Impairment of Assets (IAS 36)
IFRS requires a one-step impairment test for identifying and measuring impairment: comparing an asset's carrying value to the higher of its value in use and fair value less cost to sell. Under Canadian GAAP, impairment is based on discounted cash flows only if an asset's undiscounted cash flows are below its carrying value. In addition, IFRS requires the reversal of previously recognized impairment losses when a change in circumstances indicates that the impairment has been reduced, other than for goodwill and indefinite-lived intangibles, while Canadian GAAP does not allow a reversal under any circumstances.

- Work is currently in progress to quantify the impact, if any, on Corby's opening balance sheet.

- Subsequent to transition, the one-step impairment test under IFRS may result in more frequent write-downs of assets, and reversals of previous write-downs may be required in future periods.

Capital Assets (IAS 16)
Corby has elected to adopt the measurement basis of its ultimate parent company, which is an option available under IFRS 1, and, currently, this measurement basis is essentially equivalent to that reported under Canadian GAAP. The Company has also opted to use the cost model to measure its assets subsequent to transition, which is consistent with current practice under Canadian GAAP. In addition, IFRS requires that major components of an asset be separately amortized, whereas Canadian GAAP is less explicit. The Company's assessment has not identified any significant differences in this area.

- It is not expected that there will be a substantial impact on the opening balance sheet, nor is it expected that amortization expense will differ substantially subsequent to the transition date.

Income Taxes (IAS 12)
The differences that exist between IFRS and Canadian GAAP for Corby relate primarily to changes as a result of adopting IFRS accounting policies in areas where such changes impact the timing and amount of temporary basis differences between accounting and taxation.

- The opening balance sheet will be impacted as future income tax assets and liabilities will be re-measured upon completion of the IFRS opening balance sheet.

- Subsequent to transition, the impact of adopting IAS12 will depend on the net amount of all differences in accounting policies.

Financial Statement Presentation and Disclosure
The Company has not yet completed its assessment of this area. However, based on information gathered to date, it is anticipated that disclosures will increase significantly when compared to those currently required by Canadian GAAP.

Overall, 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 a minimal 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 it will 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 2011**	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009
Operating revenue - net	**$ 45.2**	$ 41.5	$ 42.0	$ 32.2	$ 46.9	$ 41.1	$ 41.4	$ 34.0
Earnings from operations	**12.9**	12.5	9.4	6.8	14.7	12.2	10.1	7.2
Net earnings, excluding impairment	**9.2**	9.0	6.6	4.5	10.5	8.4	7.4	5.1
Net earnings	**9.2**	9.0	6.6	4.5	1.1	8.4	7.4	5.1
Basic EPS	**0.32**	0.32	0.23	0.16	0.04	0.30	0.26	0.18
Diluted EPS	**0.32**	0.32	0.23	0.16	0.04	0.30	0.26	0.18

The above chart demonstrates the seasonality of Corby's business, as sales are typically strong in the first and second quarter, while third-quarter sales (January, February and March) usually 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.

Also highlighted in the chart is the effect an impairment charge had on the Company's financial results in the second quarter of 2010. Specifically, the impairment charge had the effect of reducing net earnings by $9.4 million and reducing both basic and diluted earnings per share by $0.33. For more information related to the non-cash impairment charge, please refer to the most recently completed annual MD&A for the year ended June 30, 2010.

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, the Company's provincial LB customers have the ability to mandate changes that can lead to increased costs, as well as other factors that may impact financial results.

The Company continuously monitors the potential risk associated with any proposed changes to 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 that tend to have a higher consumption rate at these establishments, such as liqueurs. Corby offers a diverse portfolio of products across all major spirits categories and at 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 LBs 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, including manufacturing or inventory disruption, could impact product quality and availability. 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, 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 the 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 extremely competitive. Competitors may take actions to establish and sustain a 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 Netting Service 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 LBs, 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 on 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 through pricing over the long term.

Foreign Currency Exchange Risk

Foreign currency risk exists as the Company transacts business using foreign currencies, the most predominant of which are the USD and GBP. While the Company has exposure to other foreign currencies, it is not considered significant. Corby's USD exposure results from the fact that the Company's purchases from US-based suppliers typically exceed revenues from US-based customers. As such, a decline in the Canadian dollar versus the USD can have a negative impact on the Company's financial results. Corby's GBP exposure is predominantly the result of the Company selling its Canadian produced products directly to a UK-based distributor. As such, an increase in the Canadian dollar versus the GBP can have a negative impact on the

Company's financial results. The Company does not use derivatives to manage its exposure to foreign currency risk. However, 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 control 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 relationships with its third-party service providers.

Brand Reputation and Trademark Protection

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. The Company strives to mitigate such risks by selecting only those products from suppliers which strategically complement Corby's existing brand portfolio and by actively monitoring brand advertising and promotion activities. The Company registers trademarks, as applicable, while constantly watching for and responding to competitive threats, as necessary.

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 judgements and estimates including, but not limited to, projected future sales, earnings and capital investment; discount rates; and terminal growth rates. These judgements 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.

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, 2010		
Associated Brand	Associated Market	Goodwill	Intangibles	Total
Various PR brands	Canada	$ -	$ 48.8	$ 48.8
Seagram Coolers	Canada	0.9	7.7	8.6
Lamb's rum	United Kingdom	1.4	11.8	13.2
Meaghers and De Kuyper liqueurs	Canada	4.6	-	4.6
		$ 6.9	$ 68.3	$ 75.2

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 assets 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. Somewhat mitigating the impact of a potential market decline is the fact that the Company monitors its pension plan assets closely and follows strict guidelines to ensure that pension fund investment portfolios are diversified in-line with industry best practices. For further details related to Corby's defined benefit pension plans, please refer to Note 8 of the annual consolidated financial statements for the year ended June 30, 2010 and Note 9 of the interim consolidated financial statements for the three and six month periods ended December 31, 2010.

CORBY DISTILLERIES LIMITED
INTERIM CONSOLIDATED BALANCE SHEETS

(Unaudited)
(in thousands of Canadian dollars)

	December 31, 2010	December 31, 2009	June 30, 2010
ASSETS			
Current			
Deposits in cash management pools	**$ 90,062**	$ 72,579	$ 74,685
Accounts receivable	**30,770**	30,771	28,340
Income and other taxes recoverable	**-**	646	1,070
Inventories	**61,472**	55,376	60,502
Prepaid expenses	**627**	470	1,551
Future income taxes	**206**	234	135
	183,137	160,076	166,283
Capital assets	**14,679**	14,328	15,238
Employee future benefits	**12,053**	11,497	12,292
Goodwill (Note 4)	**6,857**	6,857	6,857
Intangible assets (Note 5)	**68,306**	73,599	70,571
	$ 285,032	$ 266,357	$ 271,241
LIABILITIES			
Current			
Accounts payable and accrued liabilities	**$ 20,720**	$ 17,299	$ 18,285
Income and other taxes payable	**932**	-	-
	21,652	17,299	18,285
Employee future benefits	**7,079**	6,469	6,748
Future income taxes	**5,130**	4,768	5,246
	33,861	28,536	30,279
SHAREHOLDERS' EQUITY			
Share capital	**14,304**	14,304	14,304
Retained earnings	**236,867**	223,517	226,658
	251,171	237,821	240,962
	$ 285,032	$ 266,357	$ 271,241

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, 2010	December 31, 2009	**December 31, 2010**	December 31, 2009
OPERATING REVENUE				
Sales	**$ 40,416**	$ 42,447	**$ 77,634**	$ 79,555
Commissions (Note 6)	**4,802**	4,485	**9,077**	8,495
	45,218	46,932	**86,711**	88,050
OPERATING COSTS				
Cost of sales	**19,513**	20,378	**37,398**	38,522
Marketing, sales and administration	**12,406**	11,422	**23,137**	21,787
Amortization	**434**	428	**868**	874
	32,353	32,228	**61,403**	61,183
EARNINGS FROM OPERATIONS	**12,865**	14,704	**25,308**	26,867
OTHER INCOME AND EXPENSES				
Impairment charge (Note 7)	**-**	(11,510)	**-**	(11,510)
Interest income	**307**	117	**549**	240
Foreign exchange loss	**(190)**	(584)	**(84)**	(459)
Gain (loss) on disposal of capital assets	**7**	-	**(4)**	3
	124	(11,977)	**461**	(11,726)
EARNINGS BEFORE INCOME TAXES	**12,989**	2,727	**25,769**	15,141
INCOME TAXES (Note 8)				
Current	**4,020**	4,312	**7,775**	8,099
Future	**(213)**	(2,729)	**(187)**	(2,520)
	3,807	1,583	**7,588**	5,579
NET EARNINGS	**$ 9,182**	$ 1,144	**$ 18,181**	$ 9,562
BASIC EARNINGS PER SHARE	**$ 0.32**	$ 0.04	**$ 0.64**	$ 0.34
DILUTED EARNINGS PER SHARE	**$ 0.32**	$ 0.04	**$ 0.64**	$ 0.34
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, 2010	December 31, 2009	**December 31, 2010**	December 31, 2009
NET EARNINGS	**$ 9,182**	$ 1,144	**$ 18,181**	$ 9,562
OTHER COMPREHENSIVE INCOME	**-**	-	**-**	-
COMPREHENSIVE INCOME	**$ 9,182**	$ 1,144	**$ 18,181**	$ 9,562

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, 2010	December 31, 2009
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	**$ 226,658**	$ 221,927
Net earnings	**18,181**	9,562
Dividends	**(7,972)**	(7,972)
Balance, end of period	**$ 236,867**	$ 223,517
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, 2010	December 31, 2009	**December 31, 2010**	December 31, 2009
OPERATING ACTIVITIES				
Net earnings	**$ 9,182**	$ 1,144	**$ 18,181**	$ 9,562
Items not affecting cash				
Amortization	**1,567**	1,577	**3,133**	3,190
Impairment charge (Note 7)	**-**	11,510	**-**	11,510
(Gain) loss on disposal of capital assets	**(7)**	-	**4**	(3)
Future income taxes	**(213)**	(2,729)	**(187)**	(2,520)
Employee future benefits	**246**	188	**570**	431
	10,775	11,690	**21,701**	22,170
Net change in non-cash working capital balances	**4,539**	(3,695)	**1,961**	(3,699)
Cash flows provided by operating activities	**15,314**	7,995	**23,662**	18,471
INVESTING ACTIVITIES				
Additions to capital assets	**(252)**	(582)	**(330)**	(649)
Proceeds from disposition of capital assets	**11**	-	**17**	3
Deposits in cash management pools	**(11,087)**	(3,427)	**(15,377)**	(9,853)
Cash flows used in investing activities	**(11,328)**	(4,009)	**(15,690)**	(10,499)
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	**$ 307**	$ 117	**$ 549**	$ 240
Income taxes paid	**$ 3,117**	$ 3,811	**$ 6,395**	$ 7,689

See accompanying notes to interim consolidated financial statements

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2010 AND DECEMBER 31, 2009
(in thousands of Canadian dollars, except per share amounts)
(*Unaudited)*

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 follow the same accounting policies and methods of application with those used in the preparation of the audited annual consolidated financial statements for the year ended June 30, 2010.

The consolidated financial statements of the Company 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, 2010.

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. FUTURE ACCOUNTING STANDARDS

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian 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 in regards to 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.

The Company expects the transition to IFRS to impact accounting, financial reporting, internal control over financial reporting, disclosure controls and procedures, taxes, and information systems and processes. The Company has established a transition plan to ensure the timely conversion to IFRS.

3. DEPOSITS IN CASH MANAGEMENT POOLS

The Company participates in a cash pooling arrangement under a Mirror Netting Service Agreement together with Pernod Ricard's other Canadian affiliates, the terms of which are administered by The Bank of Nova Scotia. Pernod Ricard ("PR") is Corby's ultimate parent company. The Mirror Netting Service 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.

3. DEPOSITS IN CASH MANAGEMENT POOLS (continued)

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, 2010.

4. GOODWILL

	June 30, 2010	Impairment	December 31, 2010	June 30, 2009	Impairment	December 31, 2009
Associated brand:						
Seagram Coolers	**$ 971**	**$ -**	**$ 971**	$ 3,970	$ (2,999)	$ 971
Lamb's International	**1,410**	**-**	**1,410**	1,410	-	1,410
Meaghers and De Kuyper	**4,476**	**-**	**4,476**	4,476	-	4,476
	$ 6,857	**$ -**	**$ 6,857**	$ 9,856	$ (2,999)	$ 6,857

Please refer to Note 7 for more information regarding the impairment recognized in the comparative period ending December 31, 2009.

5. INTANGIBLE ASSETS

		Movements in the period			
	June 30, 2010	Amortization	Impairment	PR Brand Disposals	December 31, 2010
Long-term representation rights	**$ 51,032**	**$ (2,265)**	**$ -**	**$ -**	**$ 48,767**
Trademarks and licenses	**19,539**	**-**	**-**	**-**	**$ 19,539**
	$ 70,571	**$ (2,265)**	**$ -**	**$ -**	**$ 68,306**

		Movements in the period			
	June 30, 2009	Amortization	Impairment	PR Brand Disposals	December 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

As depicted in the above chart, intangible assets are comprised of long-term representation rights and trademarks and licences. Trademarks and licences represent the value of trademarks and licences of businesses acquired. These intangible assets are deemed to have an indefinite life and are, therefore, not amortized. Trademarks and licences 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 7 for additional information regarding the impairment charge recognized in the comparative period ending 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 that began on October 1, 2006, and is scheduled to expire on September 30, 2021.

5. INTANGIBLE ASSETS (continued)

In the comparative period ending December 31, 2009, 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 presented 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 brand in May 2009 and the Tia Maria brand in October 2009.

6. COMMISSIONS

Commissions for the three and six month periods ended December 31, 2010, are reported net of long-term representation rights amortization in the amount of $1,133 and $2,265 (2009 – $1,149 and $2,316).

7. IMPAIRMENT CHARGE

The comparative period ending December 31, 2009 includes a non-cash impairment charge against the Company's goodwill and intangible assets balances related to its Seagram Coolers brand as outlined in the following chart:

	December 31, 2009
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

For further information regarding the impairment, readers are encouraged to read the most recently prepared annual financial statements for the year ended June 30, 2010.

8. INCOME TAXES

	For the Three Months Ended		*For the Six Months Ended*	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Combined basic Federal and Provincial tax rates	**29%**	31%	**29%**	31%
Impact of non-cash impairment charge	**-**	54%	**-**	10%
Impact of substantively enacted rate decreases in Ontario	**-**	(27%)	**-**	(5%)
Other	**-**	-	**-**	1%
Effective tax rates	**29%**	58%	**29%**	37%

9. EMPLOYEE FUTURE BENEFITS

The Company has recorded a charge to earnings in the three and six month periods ended December 31, 2010 of $993 and $1,987, respectively (2009 - $851 and $1,702, 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, 2010 totaled $552 and $1,065, respectively (2009 - $529 and $1,035, respectively).

Beginning July 1, 2010, employees hired on or after this date, will no longer be offered enrolment into the Company's defined benefit pension plans. Instead, the Company will now provide these employees a defined contribution pension plan. To become eligible, most employees must first accrue one year of service before joining the new plan. As at December 31, 2010, there were no active participants enrolled in this new defined contribution plan.

10. 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's financial results are fully reported as "Commissions" on the interim consolidated statements of earnings. There are no intersegment revenues. Therefore, a chart detailing operational results by segment has not been provided as no additional meaningful information would result.

OFFICES

Executive Office
225 King Street West
Suite 1100
Toronto, Ontario
M5V 3M2
Tel: 416.479.2400

Registered Office
225 King Street West
Suite 1100
Toronto, Ontario
M5V 3M2
Tel: 416.479.2400

Distillery
950 Chemin des Moulins
Montréal, Québec
H3C 3W5
Tel: 514.878.4611

Sales Offices
225 King Street West
Suite 1100
Toronto, Ontario
M5V 3M2
Tel: 416.479.2400

950 chemin des Moulins
Montréal, Québec
H3C 3W5
Tel: 514.871.9090

102 Chain Lake Drive
Suite 228,
Halifax, Nova Scotia
B3S 1A7
Tel: 902.445.0705

10455-172 Street NW
Edmonton, Alberta
T5S 1K9
Tel: 780.442.9000

13353 Commerce Parkway
Unit 2168
Richmond, British Columbia
V6V 3A1
Tel: 604.276.8121

2825 Saskatchewan Drive
Unit 202
Regina, Saskatchewan
S4T 1H3
Tel: 306.586.6546

FOR MORE INFORMATION

Corby Distilleries Limited

R. Patrick O'Driscoll
President and Chief Executive Officer

Thierry R.J.M. Pourchet
Vice-President and Chief Financial Officer

Tel: 416.479.2400

www.corby.ca

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