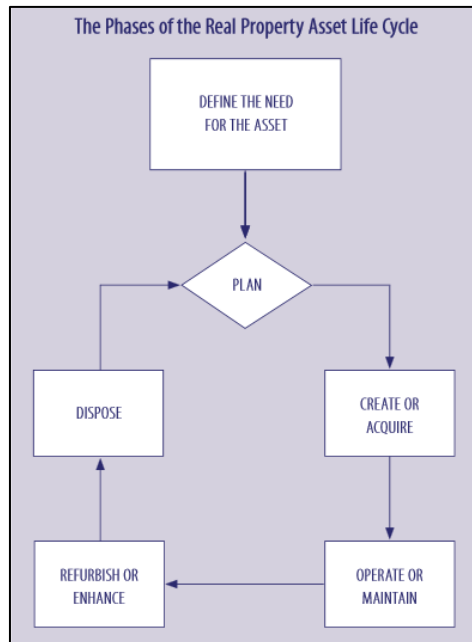




Asset Appreciation Discussion

Asset Management Overview

Asset management related to real property can be defined as “the process of creating value within the owner’s objectives through the acquisition, use and disposal of real property assets.” As outlined below, the process for asset management involves identifying the need and owner’s objectives for the requirement followed by five specific phases: planning, acquisition, operating and maintenance, refurbishment or enhancement and disposal.



Property held as an investment asset, much like other types of investments is expected to earn a rate of return on capital for the owner while some types of property may be held in order to serve or support the activities of the business occupying the property. Each of the phases of the property life cycle should be analyzed within the context of the property owner’s objectives.

It is generally known that winery properties have increased in value over a long term; however, given the relatively young age of the Ontario winery industry when compared to other global areas, it is challenging to indicate the extent to which these types of properties will increase in value going forward.

One can look to historical land values in order to gauge the increase in value associated with a winery site, but the increases in value associated to improvement components are more difficult to gauge. Costs to construct winery improvements are generally increasing year over year; therefore, with general routine repairs and maintenance, improvement components are assumed to increase in value together with the land component.

This document outlines historical farmland values in Ontario, historical vineyard values in the Niagara Region, specific winery re-sale examples throughout Ontario, and construction costs for various property types in the Niagara Region.



Farmland Values

Farm Credit Canada (FCC) produces an annual report known as the Farmland Values Report, which tracks and highlights average changes in farmland values provincially and nationally. FCC is Canada's leading agriculture lender, with a healthy portfolio of more than \$26 billion and 20 consecutive years of portfolio growth. FCC provides financing, insurance, software, learning programs and other business services to producers, agribusinesses and agri-food operations. The following information was taken from the most recent report, describing changes from January 1 to December 31, 2013.

Methodology

In 1985, FCC established a system with 245 benchmark farm properties to monitor variations in bareland values across Canada. These parcels represent the most prevalent classes of agriculture soil in each part of the country. Changes in value are weighted based on cultivated farmland per area.

FCC appraisers estimate market value using recent comparable sales. These sales must be arm's-length transactions. Once sales are selected, they're reviewed, analyzed and adjusted to the benchmark properties.

Land prices vary significantly between regions and provinces. That's why FCC measures provincial land value trends on a percentage basis. Reporting on the percentage change in value versus the average price per acre provides a more consistent national approach.

National trend

The average value of Canadian farmland increased 22.1% in 2013, with the majority of this increase occurring in the first half of the year. This is the highest national increase since FCC began reporting on farmland values in 1985. The second highest increase was 19.5% in 2012.

Ontario

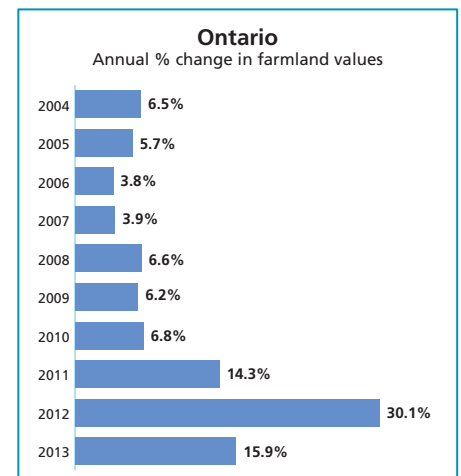
Ontario farmland values increased an average of 15.9% in 2013, following gains of 30.1% in 2012 and 14.3% in 2011. Much of this increase occurred in the first half of the year. Average farmland values in the province have continued to rise for 25 years.

The province saw a mix of transaction types, including land sales through real estate brokers, property auctions and the tender process. Ongoing low interest rates contributed to the market activity.

In some areas of southern Ontario, land with the most favourable soil types commanded high market demand.

The counties of Huron, Simcoe, Middlesex and Elgin led the province with the most significant increases. In other regions, land values levelled off, although demand remained relatively high. In several areas, the demand for farmland outweighed the available supply, driving up prices.

The need for a larger land base for manure management and cropland expansion fuelled demand from intensive livestock enterprises. Favourable crop yields and receipts also stimulated demand from cash crop producers for workable farmland. With prices for farmland typically higher in southern Ontario, some buyers acquired land in the northern regions at a lower price.





Vineyard Land Values Discussion

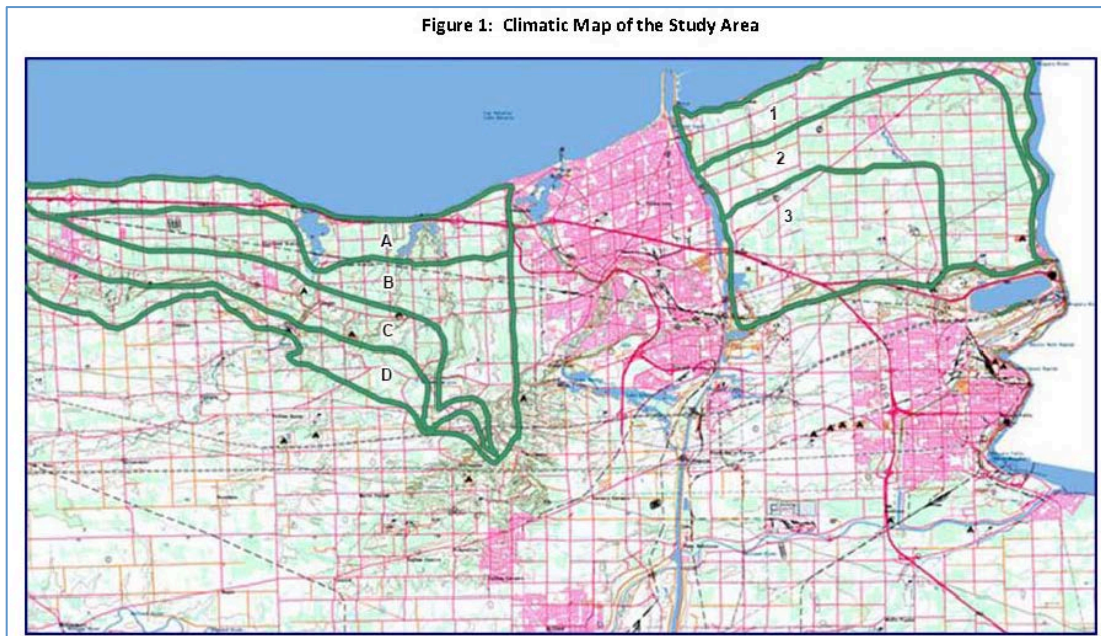
The following information was taken from an article entitled “The effect of the reinvention of Canada’s wine industry on land values in Ontario’s Niagara Region” by Lisa Campbell, AACI, P.App. The article studied the reinvention of Canada’s wine industry over the 24-year period of 1989 to 2012, and the effect that this industry’s history has had on the affected agricultural land values in the Niagara Region of Ontario over that time period.

Although Canada’s place in the world wine marketplace is quite small, grapes comprise Ontario’s highest farm gate value of any of its fruit industries on an annual basis, comprising 43% of the provincial farm gate value for commercial fruit production in 2012.

In 2013, grape sales exceeded \$100 million. Of the total 2013 production, 97% was reportedly used for the creation of wine products, with the remaining 3% used for juice, jams and other grape products. Ontario has numerous grape-growing locales, the largest of which is the Niagara Region, with approximately 13,600 acres of vineyards, or somewhat less than half of Canada’s total, according to the Grape Growers of Ontario.

Considerable events over this time period that have positively impacted the Niagara Region grape growing industry include the Free Trade Agreement (FTA) between the United States and Canada in 1988, the banning of labrusca grapes in the production of Ontario wine, and the closing of the CanGro canning factory in 2008 which reduced the demand for canning fruit crops.

Figure 1 is a map of the area affected by Niagara’s convection effect, i.e., the Study Area. Zones A to D in the Study Area are located in the Town of Lincoln, while Zones 1, 2 and 3 are located in the Town of Niagara-on-the-Lake. In Lincoln, two of the zones are well-moderated: Zone A, located in close proximity to the moderating influences of the Lake Ontario shore; and Zone D, located along the ‘Bench’ of the Escarpment, where cold air travels quickly down the gently sloping land along the Escarpment face, to rest further north on more level land.





It is noted that any sales of parcels with such exposure that were purchased for the construction of a winery were not included in the dataset. The selection of a winery site can also benefit from quasi-commercial exposure. Such exposure can increase commercial visibility, prestige and on-site sales. This can result in substantially higher unit values paid for these sites. Inclusion of parcels with good quasi-commercial exposure in the dataset would have unnecessarily skewed the study's results.

Thus, when all of the sales of vacant agricultural parcels that had taken place during the 1989-2012 timeframe within the Study Area were considered according to the above-noted parameters, 101 sales were included in the dataset. The parcels in the dataset range in size from 2.12 to 98.96 acres, with most of the sales being in the 15 to 98.96 acre range.

From this point, the weighted mean sale price per acre for each Zone in each year of the study period was derived using the aggregate of the adjusted sale prices paid in the year in each Zone divided by the aggregate number of acres sold in that Zone during the year. Throughout the remainder of the article, the weighted mean is referred to as the average annual sale price per acre. The average annual sale prices per acre in the Study Area's various zones are shown in the charts in Figures 2 and 3, which reference the portions of the Study Area located in Niagara-on-the-Lake and Lincoln respectively. The results of the study follow roughly five stages: 1989 to 1993, 1994 to 1997, 1998 to 2002, 2003 to 2008, and 2009 to 2012.

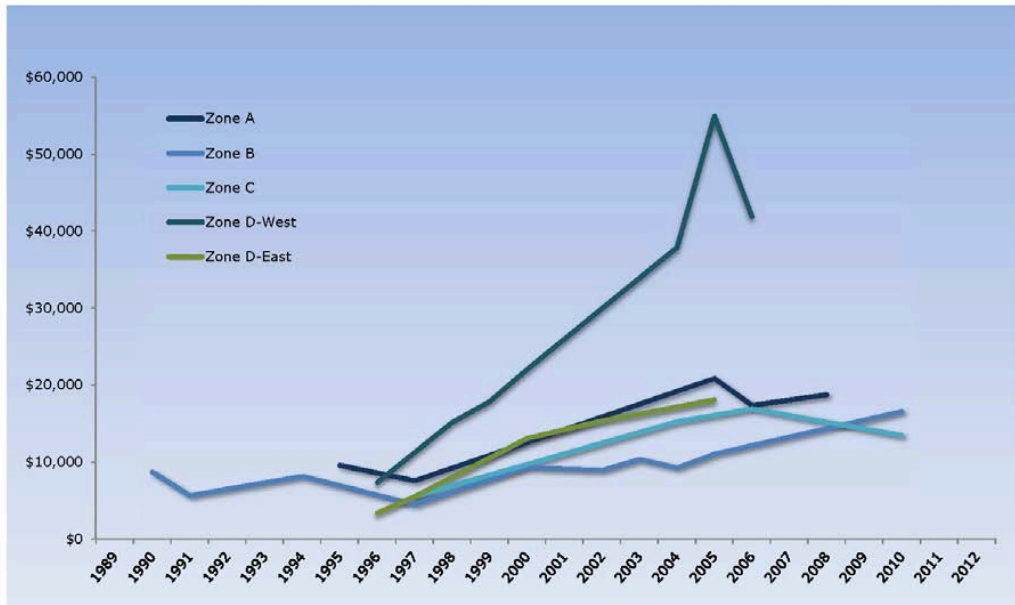
Figure 2: Niagara-on-the-Lake – Annual Average Sale Prices per Acre, Agricultural Land Suitable to the Cultivation of Grapes within the Study Area, 1989 to 2012





Figure 3:

Lincoln – Annual Average Sale Prices per Acre, Agricultural Land Suitable to the Cultivation of Grapes within the Study Area, 1989 to 2012



1989 to 1993

1989 to 1993 is chosen as the first study period due to the fact that the aforementioned vine removal program ended in 1993; therefore, during the entirety of this period, the grape industry is considered to have been in an early state of transition. During this period, the market for labrusca and hybrid grapes was significantly oversupplied. Very few sales of land suitable to the cultivation of grapes were noted during this time, with sale prices running from \$2,500 to \$8,500 per acre in the Study Area. The lowest rate of around \$2,500 per acre was noted in the somewhat climatically-moderated Zone 3 of Niagara-on-the-Lake, while parcels in the somewhat climatically-moderated area of Zone B in Lincoln sold at approximately \$5,500 to \$8,500 per acre. Unit values remained fairly consistent during this period – it appears that market participants had been recognizing an oversupply in the labrusca and hybrid grape market for some time, while the potential net incomes from vinifera grapes had not yet been recognized in the market. Meanwhile, Niagara winery growth was also in its early stages. Prior to 1989, approximately 10 wineries were in existence; throughout this period, another seven were opened, with 17 in existence by 1993.

1994 to 1997

From 1994 to 1997, the number of land sales increased, although the only substantial increase in unit values took place in the somewhat moderated area of Zone 2 in Niagara-on-the-Lake. This area saw unit values more than double as the average unit value of approximately \$3,000 per acre in 1993 rose to nearly \$8,000 per acre by 1997. During this period, the potential for revenue generation through vinifera planting was becoming more widely recognized. An increase in the number of land sales over the previous period was noted in almost all of Niagara's vinifera-growing areas. Two of the coldest climate zones in the Study Area (Zone B in Lincoln and Zone 3 in Niagara-on-the-Lake) had somewhat lower unit values than more moderated areas, for the most part. Also, one of the most moderated climate areas, Zone D (including both Zones D-West and D-East as illustrated in Figure 3), being generally termed the



'Bench' area in Lincoln, had unit values that were fairly consistent with those throughout the remainder of Lincoln. This is due to the fact that, prior to the reinvention of the wine industry, while the Bench area was thought to be scenic, it was considered to have limited revenue potential from an agricultural standpoint, as a result of its silty loam soils, sloping/rolling topography, and prevalence of non-arable ravine area. Winery start-up was quite slow-moving during this period, with only five wineries having started from 1994 to 1997.

1998 to 2002

1998 to 2002 saw substantial expansion in the area's wine industry, with 25 wineries opening their doors. Scarcity of land and recognition of potential revenue from the reinvented wine industry acted to drive prices up significantly. The increases were fairly consistent in all of the study's zones that had sales occurring throughout this time period. Zone 1 in Niagara-on-the-Lake, being considered to have some of the best-moderated meso-climates in the Study Area, almost doubled in unit values, with an average unit value of approximately \$8,000 per acre in 1997 rising to almost \$16,000 per acre in 2002. Unit values in Zone B in Lincoln, considered one of the less-moderated meso-climates, experienced a significant rise in unit values between 1997 and 2000, with rates remaining at this level thereafter, after having had fluctuating unit values throughout the previous periods. Likewise, Zone 3 in Niagara-on-the-Lake, considered one of the less-moderated meso-climates during this timeframe, experienced a dramatic increase in unit values. In 1997, the average unit value in Zone 3 was approximately \$3,000 per acre; by 2002, this rate had more than doubled. Meanwhile, the greatest rise in unit values was experienced in Zone D. Unit values in Zone D-West tripled between 1996 and 2000.

While having previously been considered a scenic area with limited agricultural revenue potential due to its topography, soils and prevalence of non-arable bush-covered land, this area had become the location of numerous wineries in a fairly small area, which increased the level of prestige in the area. Likewise, while Zone D-East did not have the prevalence of wineries, this area also saw unit values triple between 1997 and 2002, due to its highly climatically-moderated Bench locale. Thus, during this timeframe in the study, market participants were pushing prices of land considered suitable to this industry upwards at a brisk and consistent rate throughout all of the Study Area's various zones. The dataset indicates that, throughout this period, the market's perception of utility throughout the entire Niagara vinifera-growing region was rising quite dramatically.

2003 to 2008

Substantial change in the wine industry land market began during the spring of 2003, when it became apparent that a few very cold nights during the previous winter had resulted in the area industry's first substantial cold-derived crop loss. While some parcels received only vine bud damage, others suffered greater vine damage, some to the point of necessitating vine replacement. This was a significant blow to the young Niagara vinifera wine industry. Bud damage meant waiting until the following year for a crop. Vines with substantial damage at times had to be cut back to the base of the plant's stem, with a waiting period of 3-4 years until the vines would be back in full production. Vine replacement meant waiting a full 4-5 years until new vines would be in full production. A few enterprising parcel owners purchased and installed wind machines on their parcels, at an initial cost of \$30,000-35,000 each, not including operating costs. Although the presence of a wind machine could lower the potential of winter damage for an area of anywhere from 5-15 acres, the fact that this was the first year of substantial winter damage in the history of the reinvented industry resulted in many vineyard owners being somewhat reticent about purchasing this equipment. The Niagara wine industry had had the first of its widespread 'growing pains,' and was developing some hard-won maturity. Therefore, in the spring of 2003, approximately 15 years after the reinvention of the industry, the level of knowledge in the market regarding climatic location risk increased.



Then, during the late winter of 2004-05, nights even colder than those of the 2002-03 winter resulted in more substantial damage. This time, the crop loss experienced due to the winter damage was devastating. In total, the 2005 provincial overall yield of processed grapes declined 54% in 2005 versus 2004, mainly due to winter injury of the province's ±10 million vines at the time. The Niagara Region suffered its fair share of the devastation.

The sales statistics indicate that, during the 2003-08 time period, unit values continued to rise in most of the Study Area's zones (excepting Zone D-West in Lincoln) at much slower rates than during the previous time frame. This was likely due in part to the high levels of vine winter damage, which occurred in 2002-03 and 2004-05. In Niagara-on-the-Lake, the greatest amount of damage after these winters was found in Zone 3. Prior to these two winters, Zone 3 had been considered by many market participants to be a fairly viable location for the cultivation of sensitive vinifera grapes; this reasoning had been reflected in dramatically rising unit values throughout the 1997-2002 period. However, this area was considered less viable after the damage of these winters, due to the fact that the greatest amount of crop/vine loss had occurred in this Zone. The statistics indicate that, while Zone 2 (located adjacent to Zone 3) continued to rise in unit values per acre throughout the 2003 to 2008 period, unit values in Zone 3 rose at a slower rate. As a result, the difference in attainable unit values between these two zones became even more substantial than had previously been the case. Meanwhile, land values continued to rise fairly steadily throughout most of Lincoln during this time period, with the exception of Zone D-West (the westerly area of the Bench), which experienced a further near-doubling in its unit values from the prior period. The significant rise in the Zone D-West area during this time period was due to the fact that the Niagara wine industry was continuing to mature, with market demand for parcels with well-moderated climatic locations continuing to be good, and the fact that supply of land available for the planting of grapes in this now-prestigious locale had diminished substantially, with vacant arable land rarely being available in this area by 2005. Meanwhile, sales in Zone B indicate around a 20-25% rise in unit values from 2002 to 2005, with this trend continuing thereafter. Likewise, sales in Zone D-East indicate a 15-20% rise from 2002 to 2005. Interestingly, the data indicates Zones A and C as having more than doubled between 1997 and 2004/2005, although the greatest amount of this increase may have occurred during the 1998-2002 period, with the jump not being evident until 2004/2005 due to lack of sales in these areas during the earlier period. Overall, the trend lines indicate fairly consistent rises in unit values throughout this period in all of Lincoln's zones excepting Zone D-West.

As a result of the significant vine and bud damage that had occurred throughout the Niagara Region in the winters of 2002-03 and 2004-05, the installation of wind machines throughout the Study Area became much more prevalent. It is considered likely that, if the technological advance of wind machines in the reinvented Niagara wine industry had not taken place, winter cold risk would have had greater impact on unit values in the Study Area in the long term. In addition, the winter damage in 2002-03 and 2004-05 reportedly caused industry participants to redouble efforts at developing better farming practices. This aided in increasing vinifera farm profitability, and also most likely helped to buoy unit values.

2009 to 2012

During the most recent period of 2009 to 2012, a more mature land market was exhibited for the Niagara wine region, with land prices rising somewhat in Lincoln's Zone B and Niagara-on-the-Lake's Zone 2, while decreases were noted in Lincoln's Zone C and Niagara-on-the-Lake's Zone 3. However, during this period, there were some motivated vendors entering the market, due in part to the closing of the area's cannery in 2008 (this had been Canada's only fruit cannery east of British Columbia) and the receivership of a large cooperative winery in the area during the same year. This likely was, at least in part, the cause



of the variability in land prices during this period. In Lincoln, lack of supply of unplanted land along the west end of the 'Bench' resulted in no sales in Zone D-West during this time period.

Specific Winery Examples

Given the relatively young age of the wine industry in Ontario, there are limited re-sales of winery properties to gauge the increases in value over a long term holding period. Typically, properties are improved and modified over a long term, presenting challenges in terms of comparing between sales due to differences in site features. However, several sales were noted throughout Ontario that allows one to view increases in value over a long term (5 to 15 years).

Three sales are noted in the table below, featuring winery properties in Lincoln, London and Prince Edward County. Willow Heights Estate Winery in Lincoln and Bellamere Winery & Event Centre in London both showed similar increases in value over similar time frames, ranging from 15.70% to 18.39% per year. Carmela Estates Winery showed a substantially higher increase in value; however, the original sale in 2002 is not considered to represent a full consideration for the new winery improvements at the time of sale. Regardless, this sale still indicates strong growth over a long term period.

Winery operations include a wide range of revenue generating components, from the vineyard/grape growing to the end-product retail, with necessary timelines to produce stabilized revenues, likely in terms of years. The vineyard component is dependent on a cooperative growing environment, with variations in yields and start up times for new vines to produce quality grapes for harvest. The retail component also requires time to build a following for the business to drive strong sales growth. These facts, together with the sales shown below, contribute to the notion that winery property values can be thought of as long term asset appreciation versus a focus on net annual operating surplus.

Winery	Address	Sale Date	Sale Price	Lot Size (acres)	Sale Price / Acre	% Increase	No. Years	% Increase / Year
Willow Heights Estate Winery	3751 King St, Lincoln	07-Nov-08	\$ 750,000	8.93	\$ 83,987	172.73%	11	15.70%
		30-Jun-97	\$ 275,000		\$ 30,795			
Bellamere Winery & Event Centre	1260 Gainsborough Rd, London	01-Feb-13	\$3,250,000	14.02	\$ 231,812	165.52%	9	18.39%
		17-Feb-04	\$1,224,000		\$ 87,304			
Carmela Estates Winery	1186 Greer Rd, Prince Edward County	14-Apr-09	\$1,300,000	44.80	\$ 29,018	482.83%	7	68.98%
		14-Nov-02	\$ 223,050		\$ 4,979			



Cost of Construction

The following information was taken from Cost Construction Guides performed by Altus Group from 2010 to 2015. Altus Group compiles construction cost information for a wide range of property types, including residential, commercial and industrial uses, as well as site servicing.

The unit rates for the building types described are an average range only for that particular type of building. The unit rates assume that a level, open site exists with no restrictions from adjoining properties. It is assumed that stable soil conditions prevail. Average-quality finishes (unless otherwise stated), both to the exterior and interior, are also assumed. The unit costs outlined herein cover construction costs only. In all commercial developments, the project budget must also include development or “soft” costs.

The following tables outline average costs to build for office buildings and hotel buildings, as well as average site servicing costs. The cost information was adjusted from Greater Toronto Area costs for the Niagara Region. As noted in the tables, costs to build have generally been increasing over the last five year period, with site servicing costs also noted to be increasing.

Niagara Region - Average Cost to Build - Office Building under 5 Storeys				
	Average Cost to Build (\$/sf)			
	Low End	% Increase	High End	% Increase
2010	\$148		\$196	
2011	\$164	10.7%	\$217	10.8%
2012	\$165	0.3%	\$216	-0.5%
2013	\$172	4.1%	\$229	5.8%
2014	\$151	-12.1%	\$224	-2.3%
2015	\$156	3.4%	\$224	0.0%

Niagara Region - Average Cost to Build - Hotel Building (Budget)				
	Average Cost to Build (\$/sf)			
	Low End	% Increase	High End	% Increase
2010	\$122		\$164	
2011	\$133	8.7%	\$170	3.2%
2012	\$134	1.1%	\$170	0.2%
2013	\$135	1.0%	\$172	1.0%
2014	\$135	0.0%	\$172	0.0%
2015	\$135	0.0%	\$172	0.0%

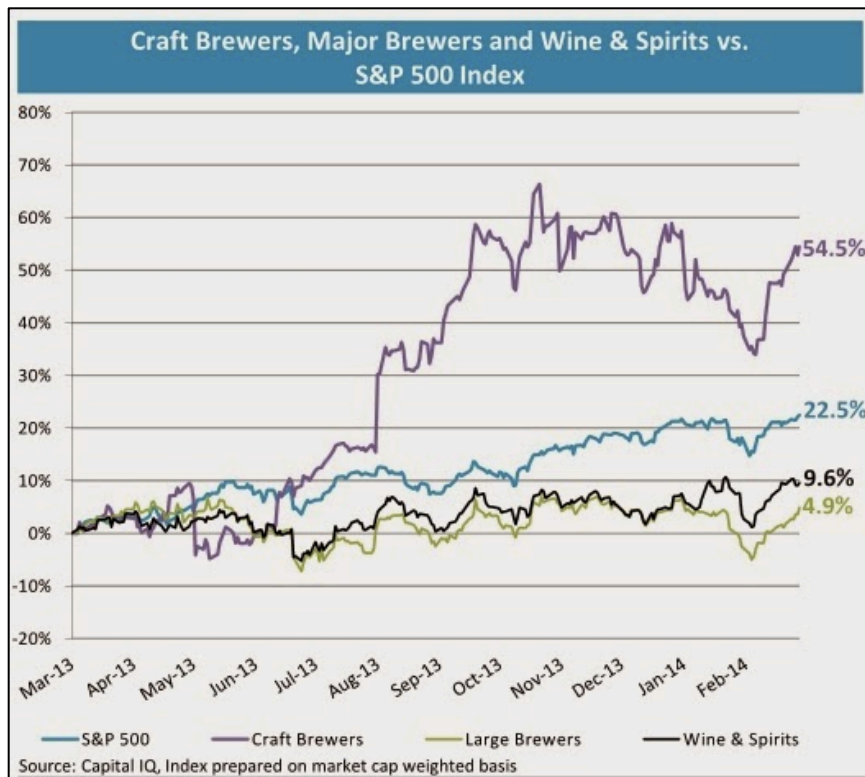
Niagara Region - Average Cost for Site Servicing - Commercial				
	Average Cost to Service (\$/acre)			
	Low End	% Increase	High End	% Increase
2010	\$169,070		\$277,932	
2011	\$177,550	5.0%	\$291,818	5.0%
2012	\$177,675	0.1%	\$292,108	0.1%
2013	\$179,920	1.3%	\$295,360	1.1%
2014	\$179,920	0.0%	\$295,360	0.0%
2015	\$179,920	0.0%	\$301,288	2.0%



Winery Valuation Discussion

The following information was taken from SVB on Wine, a wine blog written by Rob McMillan. Mr. McMillan is the Executive Vice President and Founder of the SVB Wine Division, Silicon Valley Bank (SVB), and specializes in banking to the US fine wine industry. SVB has \$36 billion in assets and more than 1,800 employees, providing commercial, international and private banking through locations worldwide.

Unique Premium Wine Company Factors



“Most luxury wine buyers are individuals or Private Equity firms who have a longer investment horizon versus public companies, and don't care about quarter to quarter results. They are in the business for the long run. Put in financial terms, the ROI of a luxury wine asset is negatively impacted by comparatively lower year over year earnings up front, but is then dominated by the amount and timing of the terminal multiple, or exit value of the investment.

Versus public wineries, there is a difference when it comes to premium and luxury wine companies because they are tied to terroir. The properties are always small, and value is often hidden from current earnings and instead housed in the increasing value of unique vineyards. That makes current returns less than competing investment choices, and the time horizon to see a real return in the wine business longer than almost all public companies can tolerate. In fact the landscape is littered with public company acquisitions of wineries and subsequent failures as the public company drives sales higher with grapes from increasingly variable sources, and/or spins off their vineyards acquired to improve current period ROA.”



Asset Appreciation Summary

As noted throughout this document, it is generally known that winery properties have increased in value over a long term; however, given the relatively young age of the Ontario winery industry when compared to other global areas, it is challenging to indicate the extent to which these types of properties will increase in value going forward.

This document outlined the following points, which all indicated some form of growth trends over a long term for all aspects of a winery, including land, vineyards, building improvements, and overall properties.

Historical farmland values in Ontario

The most recent annual Farmland Values Report produced by Farm Credit Canada (FCC) indicated Ontario farmland values increased an average of 15.9% in 2013, following gains of 30.1% in 2012 and 14.3% in 2011.

Historical vineyard values in the Niagara Region

Lisa Campbell's article on "The effect of the reinvention of Canada's wine industry on land values in Ontario's Niagara Region" indicated strong value growth for Niagara's vineyards from 1989 to 2012. The general increases in value for each time period are shown as follows:

- | | |
|---------------|---|
| 1989 to 1993: | Early stages of the industry, with unit values remaining fairly consistent |
| 1994 to 1997: | Zone 2 in Niagara-on-the-Lake sees unit values more than double;
Balance of the wine region is fairly consistent |
| 1998 to 2002: | Zone 1 in Niagara-on-the-Lake sees unit values almost double;
Zone 3 in Niagara-on-the-Lake sees unit values more than double;
Zones D West & East in Lincoln see unit values triple between 1996 and 2000 |
| 2003 to 2008: | Land values continue to rise, but at a slower pace due to vine winter damage;
Zone D-West in Lincoln sees unit values almost double
Zone B in Niagara-on-the-Lake sees unit values increase 20-25%
Zone D-East in Lincoln sees unit values increase 15-20% |
| 2009 to 2012: | Limited sales transactions coming out of the recession;
Zone B in Lincoln and Zone 2 in Niagara-on-the-Lake see modest increases in unit values |



Specific winery re-sale examples throughout Ontario

Given the relatively young age of the wine industry in Ontario, there are limited re-sales of winery properties to gauge the increases in value over a long term holding period. However, several sales were noted throughout Ontario that allows one to view increases in value over a long term (5 to 15 years).

Willow Heights Estate Winery, Lincoln, ON: 11 year period between sales, 15.70% increase per year

Bellamere Winery & Event Centre, London, ON: 9 year period between sales, 18.39% increase per year

Construction costs for various property types in the Niagara Region

Cost Construction Guides performed by Altus Group from 2010 to 2015 indicate the following increases in construction costs for various building types and site servicing in the Niagara Region:

Average Cost to Build 2010-2015	Office Building	5.4% to 14.3% increase
	Hotel Building	4.9% to 10.7% increase
	Site Servicing – Commercial	6.4% to 8.4% increase

Winery Industry Valuation Summary

Rob McMillan is the Executive Vice President and Founder of the SVB Wine Division, Silicon Valley Bank (SVB), and specializes in banking to the US fine wine industry. SVB has \$36 billion in assets and more than 1,800 employees, providing commercial, international and private banking through locations worldwide.

Mr. McMillan has indicated that:

“Most luxury wine buyers are individuals or Private Equity firms who have a longer investment horizon versus public companies, and don't care about quarter to quarter results. They are in the business for the long run. Put in financial terms, the ROI of a luxury wine asset is negatively impacted by comparatively lower year over year earnings up front, but is then dominated by the amount and timing of the terminal multiple, or exit value of the investment.”