

**ANDREW PELLER LIMITED**

**ANDREW PELLER LIMITÉE**

**ANNUAL INFORMATION FORM**

**JUNE 15, 2016**

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## FORWARD-LOOKING INFORMATION

Certain statements in this Annual Information Form (“AIF”) may contain “forward-looking statements” within the meaning of applicable securities laws, including the “safe harbour” provisions of the *Securities Act* (Ontario) with respect to Andrew Peller Limited (“APL” or the “Company”) and its subsidiaries. Such statements include, but are not limited to, statements about the growth of the business in light of the Company’s acquisitions; its launch of new premium wines, sales trends in foreign markets; its supply of domestically grown grapes, and current economic conditions. These statements are subject to certain risks, assumptions and uncertainties that could cause actual results to differ materially from those included in the forward-looking statements. The words “believe”, “plan”, “intend”, “estimate”, “expect” or “anticipate” and similar expressions, as well as future or conditional verbs such as “will”, “should”, “would” and “could” and similar verbs often identify forward-looking statements. We have based these forward-looking statements on our current views with respect to future events and financial performance. With respect to forward-looking statements contained in this AIF, APL has made assumptions and applied certain factors regarding, among other things: future grape, glass bottle and wine prices; the Company’s ability to obtain grapes, imported wine, glass and its ability to obtain other raw materials; fluctuations in the U.S./Canadian, Euro/Canadian, and Australian/Canadian dollar exchange rates; its ability to market products successfully to its anticipated customers; the trade balance within the domestic Canadian wine market; market trends; reliance on key personnel; protection of the Company’s intellectual property rights; the economic environment; the regulatory requirements regarding producing, marketing, advertising and labelling its products; the regulation of liquor distribution and retailing in Ontario; and the impact of increasing competition.

These forward-looking statements are also subject to the risks and uncertainties discussed in the “Risks and Uncertainties” section and elsewhere in this AIF and other risks detailed from time to time in the publicly filed disclosure documents of APL which are available at [www.sedar.com](http://www.sedar.com). Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions which could cause actual results to differ materially from those conclusions, forecasts or projections anticipated in these forward-looking statements. Because of these risks, uncertainties and assumptions, you should not place undue reliance on these forward-looking statements. The Company’s forward-looking statements are made only as of the date of this AIF, and except as required by applicable law, APL undertakes no obligation to update or revise these forward-looking statements to reflect new information, future events or circumstances, or otherwise.

All information contained in this document is given as at March 31, 2016 unless otherwise indicated.

## CORPORATE STRUCTURE

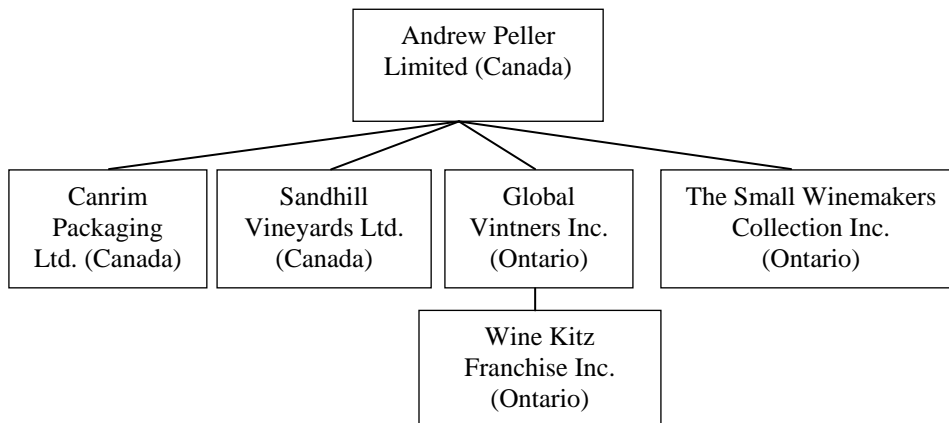
### Incorporation

Andrew Peller Limited was incorporated under the laws of Canada by Letters Patent dated the 7th day of April, 1965 and as amended from time to time by Supplementary Letters Patent. The Company was continued under a Certificate of Continuance dated the 30th day of October, 1978, pursuant to Sections 181 and 261 of the *Canada Business Corporations Act*. On June 30, 1994, the Company amalgamated with Hillebrand Estates Winery Limited under Section 185 of the *Canada Business Corporations Act*. On April 1, 2003 the Company amalgamated with Andrés Wines (B.C.) Ltd. and Andrés Wines Atlantic Ltd. under Section 185 of the *Canada Business Corporations Act*. On April 1, 2006, the Company amalgamated with its wholly-owned subsidiary, Cascadia Brands Inc. (“Cascadia”), and Cascadia’s wholly-owned subsidiaries Calona Wines Limited, 3126854 Canada Ltd. (formerly, International Potter Distilling Corporation), and 4309693 Canada Inc. (formerly, Arctica Distilling Corporation) under Section 185 of the *Canada Business Corporations Act* under the name Andrés Wines Ltd./Les Vins Andrés Ltée. On April 1, 2007, the Company amalgamated with its wholly-owned subsidiaries, 4384792 Canada Inc. (formerly, 1639199 Ontario Inc.), Grady Wine Marketing Inc., and Forbes Fraser Wines Ltd. under Section 185 of the *Canada Business Corporations Act*. On April 1, 2007, Winexpert Inc., 4384806 Canada Inc. (formerly, Wine Not Inc.), and Vineco International Products Ltd., amalgamated under Section 185 of the *Canada Business Corporations Act* to form 4384814 Canada Inc., a new wholly-owned subsidiary of the Company. On March 31, 2009, 4384814 Canada Inc. changed its name to Global Vintners Inc. On April 1, 2012, the Company amalgamated with Rocky Ridge Vineyards Inc. under Section 185 of the *Canada Business Corporations Act*. On March 18, 2014, Wine Kitz Franchise Inc. purchased Wine Kitz Atlantic Limited, which operated a Wine Kitz master franchise in Atlantic Canada. Wine Kitz Atlantic Limited is a dormant company that will be amalgamated with Wine Kitz Franchise Inc. in fiscal 2017.

The Company operates under the name Andrew Peller Limited/Andrew Peller Limitée. The authorized capital of the Company consists of an unlimited number of Preference Shares, issuable in one or more series, of which 33,315 are designated as Preference Shares, Series A, an unlimited number of Class A Shares (non-voting) and an unlimited number of Class B Shares (voting). The Company’s head and registered office is located at 697 South Service Road, Grimsby, Ontario, L3M 4E8.

## Subsidiaries

The following is APL's structure, including its significant subsidiaries as of the fiscal year ended March 31, 2016 and their jurisdiction of incorporation. All subsidiaries are wholly owned.



## GENERAL DEVELOPMENT OF THE BUSINESS

The Company is engaged in the production, bottling and marketing of wines in Canada. The Company imports bottled premium wines from around the world and markets them through Andrew Peller Import Agency ("API"), and The Small Winemakers Collection Inc. ("SWM"). Vineco International Products, Winexpert, and Wine Kitz divisions of Global Vintners Inc. ("GVI") are producers of wine kits and related accessories for the home winemaking market.

Canada has joined other leading wine producing countries in the development of a body of regulations and standards for 100% Canadian content wines known as the Vintners Quality Alliance ("VQA") system. The VQA system oversees the regulation of the premium wine industry in Canada and has become recognized throughout the world as the appellation system for Canadian wines that meet strict standards of excellence.

The market for wine in Canada has continued to grow due to increased consumption by young consumers who have more recently adopted wine as their beverage of choice, the widely reported health benefits of moderate wine consumption and a movement towards an increased consumption of wine made by an aging population who favour the more sophisticated experience that wine offers.

These events have precipitated significant change in the Canadian wine industry. In order to succeed in this new environment, the Company has undertaken strategic growth initiatives to emerge as a leading participant in the Canadian wine market. Over the past three years, certain events have influenced the general development of APL's business.

The Company continuously reviews its blended, premium, and ultra-premium portfolio of wines to ensure its brands are well positioned for growth in the growing Canadian wine industry. To meet this goal the Company invests in improvements in the quality of grapes and wines, its winemaking capabilities, sales and marketing initiatives, and its quality management programs. The Company continues to expand and strengthen its distribution through provincial liquor boards, the Ontario independent retail locations under The Wine Shop, Wine Country Vintners, and Wine Country Merchants store names, estate wineries, restaurants, and other licensed establishments. This distribution network is supported by enhanced sales, marketing, and promotional programs. From time to time the Company also evaluates the potential for acquisitions and partnerships, both in Canada and internationally, to further complement its product portfolio and market presence.

On September 4, 2015 the Company announced that it had filed planning documents for the development of the new Wayne Gretzky Estate Winery and Craft Distillery in Niagara-on-the-Lake, Ontario. Located on land adjacent to the Company's Trius Winery, the proposed 15,000 square foot facility will include a winery, craft distillery, barrel aging cellars, tasting rooms, retail and hospitality facilities, all surrounded by landscaping and vineyards. The new winery is expected to open in the spring of 2017 and will add to the significant investments the Company has made in its Peller Estates, Trius, Thirty Bench, Sandhill and Red Rooster estate wineries.

## NARRATIVE DESCRIPTION OF THE BUSINESS

### General

As at March 31, 2016, the Company is Canada's second largest producer and marketer of wines, with leading brands in all segments of the market in Canada. With wineries in British Columbia ("B.C."), Ontario, and Nova Scotia, the Company markets wines produced from grapes grown in Ontario's Niagara Peninsula, B.C.'s Okanagan and Similkameen Valleys, and from vineyards around the world. The Company's award-winning premium and ultra-premium VQA brands include *Peller Estates*, *Trius*, *Thirty Bench*, *Wayne Gretzky*, *Sandhill*, *Conviction* and *Red Rooster*. Complementing these premium brands are a number of popularly priced varietal brands including *Peller Estates French Cross* in Eastern Canada, *Peller Estates Proprietors Reserve* in Western Canada, *Copper Moon*, *Black Cellar*, *XOXO*, and *skinnygrape*. *Hochtaler*, *Domaine D'Or*, *Schloss Laderheim*, *Royal*, and *Sommet* are our key value priced brands. The Company imports wines from major wine regions around the world to blend with domestic wine to craft these popularly priced and value priced brands. With a focus on serving the needs of all wine consumers, the Company produces and markets premium personal winemaking products through its wholly-owned subsidiary, GVI, the recognized leader in personal winemaking products. GVI distributes products through over 170 Winexpert and Wine Kitz authorized retailers and more than 600 independent retailers across Canada, the United States, the United Kingdom, New Zealand, Australia, and China. GVI's award-winning premium and ultra-premium winemaking brands include *Selection*, *Vintners Reserve*, *Island Mist*, *KenRidge*, *Cheeky Monkey*, *Traditional Vintage* and *Cellar Craft*. The Company owns and operates 100 well-positioned independent retail locations in Ontario under *The Wine Shop*, *Wine Country Vintners*, and *Wine Country Merchants* store names. The Company also owns API based in Vancouver and SWM based in Ontario; both of these wine agencies are importers of premium wines from around the world and are marketing agents for these fine wines. The Company's products are sold predominantly in Canada with a focus on export sales for its icewine and personal winemaking products.

Thirty Bench vineyard and winery is a small estate winery that produces VQA wines under the *Benchmark* and *Reserve* brands.

Red Rooster winery is a small estate winery that produces brands under the *Red Rooster* label.

### Business Strategy

The Company is committed to a strategy of growth that focuses on the expansion of its core business as a producer and marketer of quality wines through concentrating on and developing leading brands that meet the needs of its customers. This strategy is supported by sophisticated sales, marketing, promotional, and distribution programs, as well as by an on-going review of opportunities in the market to launch new brands that meet the needs of customers. The Company will continue to explore opportunities in international markets to distribute its wines. In addition, the Company continues to seek out potential acquisitions that support its strategic direction and meet its growth and investment return criteria.

### Sales

The Company's net sales for the year ended March 31, 2016 were \$334.3 million.

The Company's net sales volume is seasonal with highest volumes in the third quarter. Net sales and percentage of sales by quarter were as follows:

Quarter	2016		2015	
	\$ millions	%	\$ millions	%
First	83.1	25	79.5	25
Second	85.2	26	82.8	26
Third	91.8	27	84.6	27
Fourth	74.2	22	68.8	22
Total	334.3	100	315.7	100

### Principal Products

The Company offers products across many segments of the wine market including: value blended table wines (<\$8/750ml bottle), value priced sparkling and fortified wines (<\$8/750ml bottle), as well as popular priced varietal wines (\$8-12/750ml bottle). The wines in each of these price segments are a blend of international and domestic wines. The Company also makes a range of 100% domestic VQA wines including entry level VQA wines (\$10-15), premium priced VQA wines (\$15-20), and super-premium VQA wines (>\$20/bottle). The super-premium VQA segment includes high end table wine, icewine, and sparkling wines. The Company also produces three import brands where the wine is 100% from the country of origin: *Franciscan* is a value priced California wine offered for sale in Western Canada and *VIVO* is a mainstream priced Chilean wine which is listed in Atlantic Canada and Western Canada. The LCBO does not list domestically bottled import wines. *Verano*, a premium priced Spanish wine at the \$15/bottle price point, is being withdrawn from the few markets it was listed in by the Company due to lower

than desired sales performance.

The Company's two largest wine brands, *Peller Estates French Cross/Proprietors Reserve Varietals* and *Copper Moon*, are the 2<sup>nd</sup> and 3<sup>rd</sup> largest wine brands in English Canada in both volume and dollars. Both brands continued to out-perform year ago sales at +5% and +1% respectively. *Peller Estates French Cross/Proprietors Reserve* is a stronger brand in the East while *Copper Moon* in a stronger brand in the West. Copper Moon ran a successful 2 month contest at LSGP in B.C. & Alberta last year with the prize being a Copper Moon surf board. The contest drove large in store displays and over 5,000 entries – all entries were received online with a text to win option and 41% of people entered with their phones. The Copper Moon Facebook page received over 270 Likes directly as a result of this contest.

After 2 ½ years in the market, the *Black Cellar* brand is now the Company's 5<sup>th</sup> largest and fastest growing brand with growth of +41% versus year ago. The brand is positioned at a higher price point than *Peller Estates French Cross/Proprietors Reserve Varietals* and *Copper Moon* and offers a sweeter taste profile to appeal to the younger consumers. Sampling efforts have been very success in attracting new users to the brand and line extensions into larger size formats are also driving volume growth.

*Peller Estates French Cross/Proprietors Reserve* blends ("Peller Blends"), *Domaine D'or*, and *Hochtaler* compete in the value blended segment and all fall within the Company's top 10 brand list. *Peller Blends* experienced slight growth over year ago, *Hochtaler* sales remained flat while sales for *Domaine D'or* declined slightly due to some lost listings. Other key brands that the Company has in the value blended segment are *Royal*, *Baby Canadian*, *Schloss Laderheim*, *Sommet*, and *Baby Duck*. The Company also sells value priced fortified wines including *Fine Old Sherry* and *Kelly's*, a fortified aperitif wine. Constellation launched Bodacious into the blended wine segment two years ago with good success. In response, APL launched *Unreserved* in the back half of fiscal 2016 in B.C., Alberta and Nova Scotia. The brand was supported with strong social media support in the West using the recent ABC TV show Bachelorette star Kaitlyn Bristowe. This resulted in *Unreserved* having the highest Instagram followers for a wine brand globally. In order to set the brand up for stronger success, including a listing at the LCBO and other Atlantic markets, the label was modified to a more Millennial appealing look which is just hitting shelves now.

In the low calorie/low alcohol segment, the Company competes with the *skinnygrape* brand. Brand volume is now split evenly between table wine and spritzers which are sold in single serve bottles in a 4-pack carrier. Fiscal 2016 saw the successful expansion of *skinnygrape spritzers* to the Alberta market. Poor margins do not allow the Company to expand spritzers into B.C. – but the spritzers are now available in all other markets in English Canada.

The Company continued to invest in growing its VQA portfolio and had three brands in the top 15 VQA brand list for English Canada. *Peller Estates Family Series* is the Company's largest VQA brand and was the 6<sup>th</sup> largest VQA brand in English Canada in fiscal 2016. The brand continues to be found on many restaurant wine lists across the country. In fiscal 2016, this brand was offered in 16L BIB format to restaurants in Ontario. There are currently 37 restaurants that offer *Peller Family Series* wine on tap through this new format. At the *Peller Estates* winery in Niagara on the Lake, the May long weekend Food Truck Event sold out again and the 2<sup>nd</sup> annual Country Music event attracted a younger consumer to the winery. The opening of the 10 Below Icewine Lounge, made entirely of ice, to showcase the Company's prestigious Peller Estates icewines, was an overwhelming success with visitors. An integrated multichannel Peller Estates 10 Below promotion resulted in over 1.5 million social media impressions and a 15% increase in tourism on the shoulder seasons.

*Wayne Gretzky Wine* is the 10<sup>th</sup> largest VQA brand in English Canada and was one of the fastest growing VQA brands in fiscal 2016 with growth of 16% over the previous year. The Company is entering the craft spirits market in fiscal 2017 with the launch of *Wayne Gretzky Whisky* in the LCBO and in Alberta in September 2016. Construction of the *Wayne Gretzky Winery and Distillery* is underway. It will be located beside the Company's Trius winery, with an expected opening date of April 2017. The extension of the Gretzky brand, from Canadian wine into Canadian whisky, is a natural direction to take the brand due to Gretzky's status as a Canadian icon.

*Red Rooster Winery* was the 15<sup>th</sup> largest VQA brand in English Canada driven by strong distribution growth in Alberta. Two Red Rooster sub-brands, Hen House and The Coop, were listed in select accounts in the West and are performing well.

*Trius*, a well-respected premium VQA brand sold in Ontario, was impacted by the Ontario VQA short crop in fiscal 2016. Sales remained flat versus year ago on reduced volume as price promotion was pulled off all SKUs that were impacted by the short crop. The flagship offering within the portfolio, Trius Red, continued to experience strong growth at +10% in the LCBO versus the prior year despite less promotional support. Trius was invited to pour its Trius Red wine and Trius Sparkling wine at a celebrity pre-Oscar party in Hollywood in March 2016 and this experience was leveraged in Canada through social media and in print advertising. The Trius winery, in Niagara on the Lake, expanded its offering in experiential events with the addition of a Rock in the Vineyard concert in July 2015. Movies in the Vineyard, which were held every Friday in June, were sold out in fiscal 2016 and the Jazz and Blues in the Vineyard Concert Series continued to attract solid crowds. In partnership with LCBO Vintages, a sold out Trius winemakers dinner was held at Montcito restaurant in Toronto last May. Barrel samples of the Trius

Red 25<sup>th</sup> vintage were poured for the attendees - a “raw and unfiltered” look at the Trius Red V14 in progress and the LCBO executive provided feedback that it was one of the best winemaker’s dinners they had ever attended.

*Sandhill* produces VQA wines made from a single vineyard to offer a wine that delivers a more distinctive wine experience. The brand had another strong growth year with growth of +8% versus year ago. The brand did a market test in Alberta, offering two of its wines in a 19.5L stainless steel keg, to get premium wine-on-tap listings in restaurants. Several Alberta restaurants have moved to this trendy way to offer wine to their consumers. The *Sandhill Urban Winery* in Kelowna, British Columbia completed its second year in market with increased visitation versus year ago. New winery events were the biggest revenue driver with growth in both corporate group business and individual tourism. Retail transactions and average spend also improved versus prior year through new events like Salsa nights and connecting with the local travel industry.

*Thirty Bench Winemakers*, a smaller Ontario VQA brand, from a boutique winery on the *Beamsville Bench*, grew ahead of the market at +8% versus year ago. The *Winemakers Riesling* offering, which sells for \$18.95, is a strong Vintages Essentials listing at the LCBO and grew an incredible 83% in the LCBO this year due to strong support from the LCBO featuring the gold medal awards the product won. To celebrate Thirty Bench winning Best Small Winery of the year for Canada and winemaker Emma Gardner winning Best Ontario winemaker, a celebratory sold out consumer dinner was held at Holt Renfrew in Toronto in November 2015.

Two new VQA brands were launched by the Company in fiscal 2016. *Raven* was launched nationally, with a Niagara and an Okanagan offering, and was met with early consumer and customer success. It leverages the trend towards deep, dark, sweeter, robust red wine with the millennial consumer, The *Calona Vineyards* wine brand in B.C. is over 75 years old and the *Calona Vineyards VQA Artist Series* brand was replaced by *Conviction by Calona Vineyards* during the back half of fiscal 2016. The brand name “*Conviction*” pays tribute to the original founders of Calona Wines, an industrialist, a priest and a financier, who shared a conviction for creating an extraordinary VQA wine from the Okanagan.

In the premium VQA sparkling segment *Peller Estates Ice Cuvée*, *Ice Cuvée Rosé*, *Trius Brut Rose*, and *Showcase Sparkling* wines remain popular offerings in the Company’s premium wine channels with *Peller Estates Ice Cuvée* also available in the LCBO.

*Andrew Peller* wine is sold in 24 countries internationally with the majority of the sales being icewine. Sales remain strong in the export channel due to relationships with key global partners, increased flights to China from major Canadian airports and favourable currency exchange rates. We are honoured to have been named Canadian Wine Producer of the Year at the International Wine and Spirits Competition in the UK. More than 30 Michelin Star restaurants have chosen Peller Estates Icewine, including top renowned culinary establishments such as Gordon Ramsay, Joël Robuchon and Hakkasan. Our Company’s icewines continue to be sold by some of the world’s finest retailers including Selfridges, Harrods and Harvey Nichols, in London, England and are served on board cruise ships such as Celebrity in the US and P&O and Cunard in Europe. Our wines are offered inflight through Air Canada business class as well as in Montreal’s Maple Leaf Lounge. As the result of the brand’s outstanding reputation around the globe, Peller Estates Executive Chef Jason Parsons and Sous Chef Maurice Desharnais were exclusively invited by Jumeirah Emirates Towers Hotel in Dubai to lead their month long Canadian Culinary festival featuring our wine expertly matched with our winery cuisine.

VQA brands in Eastern Canada received a total of 142 awards in fiscal 2016: 1 Platinum; 33 Gold; 61 Silver; 39 Bronze; and 3 Lieutenant Governor Awards. The most prestigious accolade received was the “*Small Winery of the Year*” award won by Thirty Bench at the 2015 National Wine Align Awards. The competition is judged by an extensive panel of the most respected wine writers and critics, retail buyers, Master of Sommelier and Masters of Wines in Canada. The Canadian Small Winery of the Year award is the highest distinction a winery can receive in the Canadian wine industry. Driving this win was the platinum award for the 2013 Thirty Bench Triangle Riesling. Thirty Bench winemaker Emma Garner was also awarded the coveted distinction of *2015 Winemaker of the Year* at the Ontario Wine awards and the 2013 Andrew Peller Signature Series Sauvignon Blanc won *White wine of the Year* from the same competition. Trius also had a stellar year. The winery received “*Best Ontario Winery of the Year*” from the Ontario Wine Awards competition. Trius Sparkling was awarded the *Best Canadian Sparkling* at the Champagne & Sparkling Wine World Championship, in London UK. The winners of the *Lieutenant Governor Awards for Excellence in Ontario Wines* were: 2013 Peller Estates Signature Series Sauvignon Blanc, 2013 Peller Estates Private Reserve Gamay Noir, 2013 and the Thirty Bench SL Riesling Wild Cask.

VQA brands in Western Canada won a total of 179 medals this past year. Sandhill did well with over 65 awards for the portfolio. The Sandhill Small Lots portfolio brought home a platinum award for the Sandhill Small Lots Syrah (platinum awards are only awarded to the top 1% of wines) and four Sandhill wines received double gold/best in class at the 2015 Okanagan Spring Wine Festival. Under the Red Rooster portfolio, the Red Rooster classic lineup did well with awards as did the new brands, Coop and Hen House. The Red Rooster portfolio won over 60 awards in total this year. Red Rooster’s Hen House not only won awards for the wine but also received both Gold and Silver awards on the label design. The most prestigious wine

under the Red Rooster portfolio this year was the 2014 Red Rooster Reserve Syrah which won the 2015 Lieutenant Governor's Award of Excellence. The newly released Raven "Deep Dark" Red won medals in 3 of the 4 competitions it was entered into in the past three months and, not to be forgotten the newly released Conviction wines have already won 8 awards since launch in the third quarter of fiscal 2016.

The production process to produce each of these wines involves the preparation of product, packaging, and shipping to customers. The nature of the process and the production inputs required vary by brand. The required liquid production inputs include purchased domestic grapes, grapes harvested from APL owned vineyards, and bulk wine purchased both in Canada and on international markets. The finished product is packaged in glass bottles and bag in box format in the Grimsby, Kelowna and Truro facilities. Co-packers are used to bottle wine in the tetra pak format, 19.5L stainless steel kegs format while *skinnygrape* spritzers are co-packed at Delta in single serve-serve slim-line PET bottles.

The Company's brand portfolio was distributed mainly through retailers of wine and wine-related products. Key sales channels include all liquor boards across English Canada, privately owned wine stores in B.C. and Alberta, 97 corporately owned retail stores in Ontario called *The Wine Shop*, two retail stores in Niagara on the Lake called *Wine Country Vintners* and one store in Toronto called *Wine Country Merchants*. The Company also sells wine to licensed restaurants and wine kits to private wine kit retailers. VQA wines are also sold in the Estate Wineries in Eastern and Western Canada and delivered directly to restaurants in B.C. and Ontario. The Company offers wine club memberships for Peller Estates, Trius, Thirty Bench, Sandhill and Red Rooster where select wines and recipes are sent directly to the consumers' homes each month or quarter. In fiscal 2016, the Company's wine club sales were flat with plans to drive new memberships in fiscal 2017 through increased training of sales staff at the winery. The communication piece included in the Peller Estates and Trius wine delivery package was enhanced in both quality and photography content this year to improve the experience of our Wine Club members. Direct to home sales declined 13% as the Company's e-offers were impacted by constrained wine supply on popular SKUs and the need to move away from price discounting due to both supply issues and LCBO concerns.

Fiscal 2016 saw a further shift in moving towards selling wine within grocery stores in English Canada with Ontario announcing in March that wine will be in some groceries stores by the fall of this year. Many details are still to be worked out so it is expected that this will be a slow process. Quebec has had a long standing practice of selling beer, as well as Quebec-bottled wine in grocery stores. Alberta privatized liquor sales in the 1990s, but grocery stores were not allowed to stock beer and wine inside the store so Alberta grocery chains opened their own liquor stores, right next to their grocery stores. Four years ago, the Nova Scotia Liquor board opened up a few government liquor stores within grocery stores, but nothing new has happened recently, and most government run liquor stores are already attached to grocery stores. Small pilot projects selling wine in grocery stores are still in place in Manitoba and New Brunswick and the Company is participating in these pilot projects. The B.C. government introduced legislation allowing for the sale of VQA wines in grocery stores starting April 2015. The Save On Foods grocery chain now has 7 VQA licenses in B.C. and plans to purchase more. The Company has had strong sales performance in B.C. Save On Foods stores. Sobey's is the other main grocery chain interested in offering VQA wine in B.C. and has purchased 4 licenses to date and also plan to purchase more licenses.

### **Trademarks**

The Company uses a number of significant trademarks which are owned by the Company or its subsidiaries. Significant trademarks include *Andrés Wines*, *Andrew Peller Limited*, *Peller Estates*, *Round Petal Wines*, *Trius*, *Thirty Bench*, *Red Rooster*, *Sandhill*, *Wayne Gretzky Estates*, *Wayne Gretzky Okanagan*, *Calona Vineyards*, *Crush*, *Domaine D'Or*, *Hochtaler*, *French Cross*, *Royal*, *XOXO*, *Black Cellar*, *Copper Moon*, *skinnygrape*, *Panama Jack*, *Schloss Laderheim*, *Franciscan*, *Baby Canadian*, *Baby Duck*, *Verano*, *Wine Country Vintners* and *The Wine Shop*. Several trademark battles around the use of the word "skinny" were resolved in the last year with the Company keeping two other Company's wanting to use the term "skinny" out of the Canadian market. *SkinnyGirl* from Beam, which focuses more on cocktails than on wine and *skinnygrape* are the only two brands authorized to use the "skinny" term in the beverage alcohol market in Canada. New trademarks added in fiscal 2016 included *Conviction* and *Raven* for the VQA portfolio and *Unreserved* for the non-VQA portfolio. As part of the kit business, key trademarks include: *Vintners Reserve*, *California Connoisseur*, *European Select*, *Winexpert*, *Cheeky Monkey*, *KenRidge*, *Niagara Mist*, *Cellar Craft*, *World Vineyard*, *Selection*, *Island Mist* and *Legacy*. Trademarks are important in the marketing and sale of wine and it is the Company's policy to vigorously protect its trademarks.

### **Other Intangible Properties**

The Company has approximately 250 authorized retailer agreements in place relating to the distribution of home winemaking products across Canada.



## Properties

The following table sets forth information regarding the Company's principal properties and wineries as at March 31, 2016.

<u>Location</u>	<u>Size</u>	<u>Use</u>	<u>Nature of Interest</u>	<u>Capacity</u> <sup>(2)</sup>
Port Moody, British Columbia	4.9 acres	N/A	Owned <sup>(1) (3)</sup>	N/A
Port Coquitlam, British Columbia	20,000 sq. ft.	Wine Kit Production	Owned <sup>(1)</sup>	85,000
Port Coquitlam, British Columbia	10,000 sq. ft.	Warehouse, Office	Leased	N/A
Vancouver, British Columbia	6,700 sq. ft.	Office	Leased	N/A
Oliver, British Columbia	124 acres	Vineyard	Owned <sup>(1)</sup>	N/A
Oliver, British Columbia	72 acres	Vineyard	Leased	N/A
Oliver, British Columbia	307 acres	Vineyard	Leased	N/A
Kelowna, British Columbia	160,000 sq. ft.	Winery & Office	Owned <sup>(1)</sup>	185,000
Penticton, British Columbia	9,000 sq. ft.	Winery	Owned <sup>(1)</sup>	500
Cawston, British Columbia	75 acres	Vineyard	Owned <sup>(1)</sup>	N/A
Stoney Creek, Ontario	111,852 sq. ft.	Warehouse	Leased	N/A
Grimsby, Ontario	141,000 sq. ft. on 26 acres	Winery & Offices	Owned <sup>(1)</sup>	190,000
Ontario – 100 retail stores, various locations	Each retail store ranges from 180 sq. ft. to 1,000 sq. ft.	Retail	Leased	N/A
Beamsville, Ontario	33 acres	Vineyard	Leased	N/A
Beamsville, Ontario	4,996 sq. ft. 57 acres	Winery, Retail Vineyard	Owned <sup>(1)</sup>	550
St. Catharines, Ontario	28,000 sq. ft.	Wine Kit Production	Owned <sup>(1)</sup>	90,000
St. Catharines, Ontario	45,000 sq. ft.	Warehouse	Leased	N/A
Niagara-on-the-Lake, Ontario (Peller Estates)	40,000 sq. ft. on 40 acres	Winery, Vineyard Tour Centre, Retail, Offices	Owned <sup>(1)</sup>	8,000
Niagara-on-the-Lake, Ontario (Trius Winery at Hillebrand)	53,000 sq. ft. on 13 acres	Winery, Vineyard Tour Centre, Retail, Offices	Owned <sup>(1)</sup>	8,000
Niagara-on-the-Lake, Ontario	21 acres	Vineyard	Owned <sup>(1)</sup>	N/A
Niagara-on-the-Lake, Ontario	70 acres	Vineyard	Owned <sup>(1)</sup>	N/A
Niagara-on-the-Lake, Ontario	100 acres	Vineyard	Owned <sup>(1)</sup>	N/A
Truro, Nova Scotia	47,000 sq. ft.	Winery and Offices	Owned <sup>(1)</sup>	38,000

(1) Company owned properties have been provided as security for the Company's loan facilities.

(2) All production capacities reflect hectolitres per year.

(3) The Port Moody location was closed during December 2005 and was expropriated by the City in 2013 for five years as it is being used as a staging ground for the Green Line LRT development.

## Raw Materials

The Company purchases its raw materials, including grapes, wine, juice, concentrate, glass bottles, and other packaging materials from a wide range of suppliers from around the world.

In Ontario and B.C. grapes are purchased from a number of growers under supply contracts with the Company. In Ontario the Company is required to purchase grape tonnage to meet minimum legal requirements. Grape prices are negotiated annually between Ontario based producers and the Grape Growers' Marketing Board, while in British Columbia, grape prices are negotiated between the Company and individual growers. In B.C. the industry uses weighted average from the previous vintage as the basis for these negotiations. Grapes purchased in Ontario and B.C. are used primarily for the Ontario and B.C. markets, respectively.

In November 1997 the Company purchased 213 acres of prime grape-growing land in Niagara-on-the-Lake that has been developed with premium classical European ("vinifera") grape varieties such as Merlot, Cabernet Sauvignon, and Cabernet Franc. In 1998 the Company developed a 70 acre vineyard in Cawston, B.C. The Company's acquisition of Thirty Bench winery included 57 acres of some of the most highly regarded vineyards on the Beamsville Bench area of the Niagara region. The acquisition of Cascadia Brands in 2005 included 157 acres of vineyards along the Black Sage Road area in the south Okanagan Valley in B.C. This land was comprised of 2 parcels; 84 acres owned and 67 acres of vineyards leased from the Osoyoos Indian Band through 2029. During 2010 the Company sold approximately 6 acres of the owned vineyard to Burrowing Owl Vineyards Ltd. In November 2006 the Company leased 307 acres of prime grape growing land in the Oliver area of the Okanagan Valley in B.C. and planted a 294 acre vineyard. The lease has a term of 30 years expiring on October 31, 2036. Site preparation began during 2006 with planting occurring during 2007 and 2008. The Company's investment in vineyards has

helped to ensure it has a high quality and consistent supply of grapes grown in Canada. Niagara-on-the-Lake, the Beamsville Bench, and the Okanagan and Similkameen Valleys in B.C. are four of the best locations in the world for the production of premium vinifera grapes.

The Company has entered into a number of contracts with over 75 grape growers in Ontario and B.C. to ensure that a continuous supply of grapes is available. The contract terms vary from one to twelve years in duration and mature at varying times up to and including the 2027 harvest. The commitments to purchase grapes grown in Canada are approximately \$35.5 million per year.

To complement grapes purchased in Ontario and B.C. and to meet consumer demand in all regions of the country, the Company purchased wine, juice, and concentrate from suppliers around the world, primarily in Australia, Chile, South Africa, Spain and the United States. The Company has entered into advance purchase contracts with foreign suppliers to purchase imported wine through 2018. These contracts to purchase wine are approximately \$1 million to \$4 million per year.

The Company utilized various packaging materials, including glass bottles, bag in box, barrels, tetra paks, prisms, kegs, corks, capsules, labels, and cartons in the bottling and packaging of its wines. Glass bottles represented a significant component of the total cost of goods sold. The Company entered into an agreement with O-I Canada Corp. to purchase the majority of its glass requirements that expired on October 31, 2015. The Company is currently in the process of negotiating a glass supply agreement with O-I Canada Corp. for a three year term. The Company enters into annual contracts with other domestic glass suppliers to ensure continuity of supply for high volume brands. The Company has entered into a glass supply contract with Saxco Canada Co. for premium imported glass from Italy and France. Supply risk is mitigated by carrying increased inventories of select bottles.

The Company considers its sources of supply to be adequate.

## **Other Principal Contracts**

### *Credit Facilities*

On April 28, 2014 the Company completed a refinancing with its existing bank group and entered into a \$165.0 million syndicated loan facility. The syndicated loan facility is comprised of a \$90.0 million revolving operating loan, a \$60.0 million non-revolving term facility and a \$15.0 million non-revolving term facility that can be drawn on for the purposes of making capital expenditures. The terms of the debt facilities require monthly principal repayments until maturity of \$0.3 million. Interest is based on the one to six-month CDOR rates plus an applicable margin based on the Company's leverage.

On August 7, 2015, the Company amended its debt facilities to extend the maturity date from April 28, 2019 to July 31, 2020 and reduce the applicable margin based on the Company's leverage, as defined by the amended credit agreement. As at March 31, 2016, the applicable margin was 1.25%.

On May 14, 2014, the Company entered into an interest rate swap in order to fix the interest rate on the entire amount outstanding on the term loan at 2.16%, plus applicable margin from September 1, 2015 to April 26, 2019. The Company's previous interest rate swap that fixed the interest rate on the term loan at 3.18%, plus applicable margin matured on August 31, 2015. On December 2, 2015, the Company entered into a new interest rate swap with an effective date of April 30, 2019 and a termination date of July 31, 2020 to fix the interest rate on the term loan at 1.65%, plus applicable margin, until maturity.

The Company and its subsidiaries have provided their assets as security for these loans.

### *Foreign Exchange Contracts*

The Company uses foreign exchange forward contracts to protect against changes in foreign currency rates and as at March 31, 2016, the Company has forward foreign currency contracts to buy US\$19.5 million at rates averaging \$1.36, EUR3.0 million at rates averaging \$1.51 and AU\$4.1 million at rates averaging \$0.96. These contracts mature at various dates to December 2016.

### *Retail Store Leases*

The Company has operating leases in place for its network of 100 *The Wine Shop, Wine Country Vintners, and Wine Country Merchants* retail store locations. These leases have terms that range from one year to six years in length.

### *Okanagan Valley Lease*

On November 1, 2006 The Company entered into a 30 year lease with Covert Farms Ltd. for 307.1 acres of land in the Okanagan Valley in B.C. The lease expires on October 31, 2036.

## **Employees**

As at March 31, 2016, the Company had a total of 1,134 employees, of whom 56 full and part-time employees were covered by a union contract and approximately 476 were full or part-time employees of *The Wine Shop*, *Wine Country Vintners*, and *Wine Country Merchants* chain of retail stores.

The union contract in Kelowna, B.C. is covered by a contract with the Brewery, Winery and Distillery Workers, Local 300. The Kelowna contract was renegotiated on June 1, 2013. The contract expired on May 31, 2016 and renegotiations are currently ongoing.

## **Competition**

The wine industry in Canada is intensely competitive based on quality, price, brand recognition, and distribution. The Company competes with a large number of domestic and international wine producers. The Company's competitors range in size from large, well established national and multi-national corporations to small "farm gate" wineries that are limited to selling only wine produced from vineyards that they own or control. The Company competes on the basis of providing value through a balance of quality and price, brand recognition, and distribution.

The Company is the second largest winery in Canada with a market share in English Canada of 14.4% (+0.3% versus past year) for the 12 month rolling period ending February, 2016. The Company's significant domestic competitors in Canada are Constellation Canada, Canada's largest winery with a market share of 15.5% (+0.6%) and Mission Hill, part of the Mark Anthony Group, with a share of 2.3% (-0.1%). The Company's largest import competitors are Gallo with a share of 6.2% (+0.2%), Treasury with a share of 5.6% (-0.4%) and Constellation Import with a share of 5.3% (+0.2%).

## **Regulation**

The business of the Company is extensively regulated by provincial legislation which governs the manufacture and sale of beverage alcohol. Provincial liquor authorities issue licences for the manufacture and sale of beverage alcohol in each province. Provincial regulations govern the pricing, packaging, labelling, advertising, production, and distribution of products manufactured by licensed wineries, breweries, and distilleries. The Company is in compliance in all material respects with provincial legislation that regulates the manufacture and sale of beverage alcohol. The Company is also in material compliance with all provincial and federal legislation relating to environmental regulations.

The Company is subject to environmental regulation at the federal, provincial, and municipal levels. The Company is committed to addressing environmental matters and to continually improving its environmental performance. Environmental highlights are presented to the Board of Directors quarterly and environmental improvements are incorporated into the business planning cycle.

Environmental performance is monitored internally with a focus on reducing waste, improving processes, and sourcing new recycling streams while meeting environmental laws and regulation. In fiscal 2016, several sites were assessed by a third party environmental engineering company for process improvements pertaining to water, natural gas and electricity usage and for waste reduction opportunities. Projects were identified and implemented in all categories and specific reduction targets were set. These projects were among those awarded the 2016 Clean50 – Top 15 project awards at the Clean 50 Summit. In fiscal 2016, the Company announced that its GVI subsidiary had been recognized by Clean50 as one of its Top 15 Projects for GVI's innovative approach to environmental sustainability. The award-winning project has identified opportunities to save significant amounts of water, electricity and natural gas while at the same reducing the use of approximately 27 hectares of vineyards to produce the same quantity of finished product. The sustainability measures implemented to date are expected to result in savings of approximately \$0.3 million annually with a payback on investment within only 1.2 months of implementation.

The Company is also subject to local by-laws with respect to wastewater discharge at each of its production facilities and works in partnership with various levels of government to obtain all required environmental permits. APL has implemented measures to reduce wastewater at the source and is actively experimenting with innovative and sustainable ways to reduce biological oxygen demand. The Company continues to invest in environmental infrastructure related to water, air, utilities and waste to ensure that regulations and environmental standards are met and that the Company's targeted reduction in environmental impact is achieved. A 2016 infrastructure improvement project secured the Fortis BC 2016 Efficiency In Action Award.

In fiscal 2015, a third party sustainability audit was conducted at our Kelowna Winery and Sandhill retail store. This audit resulted in a silver certification for APL. An additional Sustainable Winegrowing in BC audit will be conducted in fiscal 2017.

## **Risks and Uncertainties**

The Company's sales of wine are affected by general economic conditions such as changes in discretionary consumer spending and consumer confidence, future economic conditions, tax laws, and the prices of its products. A steep and sustained decline in economic growth may cause a lower demand for the Company's products. Such general economic

conditions could impact the Company's sales through the Company's estate wineries and restaurants, direct sales through licensed establishments, and export sales through duty free shops. APL believes that these effects would likely be temporary and would not have a significant impact on financial performance.

The Company operates in a highly regulated industry with requirements regarding the production, distribution, marketing, advertising, and labelling of wine. These regulatory requirements may inhibit or restrict the Company's ability to maintain or increase strong consumer support for and recognition of its brands and may adversely affect APL's business strategies and results of operations. Privatization of liquor distribution and retailing has been implemented in varying degrees across the country. The possibility of privatization in Ontario remains a risk to the Company through its impact on the Company's retail operations. The provincial government has stated that, should it consider privatization, it would engage in a consultation process and would acknowledge the special role of Ontario's wine industry.

In February 2016, the Government of Ontario's Premier Advisory Council completed its review of the beverage alcohol retailing and distribution system in Ontario. The recommendations will result in issuance of 150 licenses over the next ten years to allow for the sale of both imported and domestic wine in grocery stores. Initially, 70 licenses will be issued, 35 of which will allow for the sale of imported and domestic wine. The Company will have immediate access to these stores as an extension to its current distribution channel of independent retail stores. The remaining 35 licenses will carry only VQA wine for an initial period of three years, during which the Company will not have access to sell in these stores. After the three-year period, these licenses will automatically permit the sale of all wine. The Company has also committed to move at least 14 of its 100 independent retail locations to inside the main aisles of the grocery store by May 2017. These stores will be co-located next to beer and will also feature other Ontario VQA wines. The Company is not required to move its remaining independent retail locations and licenses will not be granted to grocery stores where the Company already has a winery retail store. This project is still in its early stages and at this point the Company doesn't anticipate material impact as the increase in sales due to being located in the stores is expected to compensate for potential lost sales due to providing shelf space to other wineries and higher tax rates imposed on these locations.

The Canadian wine market continues to be the target of low-priced imported wines from regions and countries that subsidize wine production and grape growing as well as providing sizeable export subsidies. Many of these countries and regions prohibit or restrict the sale of imported wine in their own domestic markets. The Company, along with other members of the Canadian wine industry, are working with the Canadian government to rectify these unfair trade practices.

The Company operates in a highly competitive industry and the dollar amount and unit volume of sales could be negatively impacted by its inability to maintain or increase prices, changes in geographic or product mix, a general decline in beverage alcohol consumption, or the decision of retailers or consumers to purchase competitive products instead of the Company's products. Retailer and consumer purchasing decisions are influenced by, among other things, the perceived absolute or relative overall value of the Company's products, including their quality or pricing compared to competitive products. Unit volume and dollar sales could also be affected by purchasing, financing, operational, advertising, or promotional decisions made by provincial agencies and retailers which could affect supply of or consumer demand for, the Company's products. APL could also experience higher than expected selling and administrative expenses if it finds it necessary to increase the number of its personnel, advertising, or promotional expenditures to maintain its competitive position.

APL expects to increase its sales of its premium wines in Canada principally through the sale of VQA wines, and as a result, is dependent on the quality and supply of domestically grown premium quality grapes. If any of the Company's vineyards or the vineyards of our grape suppliers experience certain weather variations, natural disasters, pestilence, other severe environmental problems, or other occurrences, APL may not be able to secure a sufficient supply of grapes, a situation which could result in a decrease in production of certain products from those regions and/or result in an increase in costs. In the past, where there has been a significant reduction in domestically sourced grapes, the Government of Ontario, in conjunction with the Ontario Grape Growers Marketing Board, have agreed to temporarily increase the blending of imported wines which would enable the Company to continue to supply products to the market. The inability to secure premium quality grapes could impair the ability of the Company to supply certain wines to its customers. The Company has developed programs to ensure it has access to a consistent supply of premium quality grapes and wine. The price of grapes is determined through negotiations with the Ontario Grape Growers Marketing Board in Ontario and with independent growers in British Columbia.

Foreign exchange risk exists on the purchases of bulk wine and concentrate that are primarily made in United States dollars, Euros, and Australian dollars. The Company's strategy is to hedge approximately 50% - 80% of its foreign exchange requirements throughout the fiscal year and to regularly review its on-going requirements. The Company has entered into a series of foreign exchange contracts as a hedge against movements in U.S. dollar, Euro and Australian dollar exchange rates. The Company does not enter into foreign exchange contracts for trading or speculative purposes. These contracts are reviewed periodically. Based on the Company's forecasts for foreign currency purchases and the amount of foreign exchange forward contracts outstanding at March 31, 2016, each one percent change in the value of the U.S. dollar, Euro and Australian

dollar will not have a material impact on the Company's net earnings.

The Company purchases glass, bag in box, tetra paks, and other components used in the bottling and packaging of wine. The largest component in the packaging of wine is glass, of which there are few domestic or international suppliers. There is currently only one commercial supplier of glass in Canada that is able to supply glass to APL's specifications. Any interruption in supply could have an adverse impact on the Company's ability to supply its markets. APL has taken steps to reduce its dependence on domestic suppliers through the development of relationships with several international producers of glass and through carrying increased inventory of selected bottles.

The wine industry and the domestic and international market in which the Company operates are consolidating. This has resulted in fewer, but larger, competitors who have increased their resources and scale. The increased competition from these larger market participants may affect the Company's pricing strategies and create margin pressures resulting in potentially lower revenues. Competition also exerts pressure on existing customer relationships which may affect APL's ability to retain existing customers and increase the number of new customers. The Company has worked to improve production efficiencies, selectively increase pricing to increase gross margin, and implement a higher level of promotion and advertising activity to combat these initiatives. APL and other wine industry participants also generally compete with other alcoholic beverages like beer and spirits for consumer acceptance, loyalty, and shelf space. No assurance can be given that consumer demand for wine, and premium wine products, will continue at current levels in the future.

Federal and provincial governments impose excise and other taxes on beverage alcohol products which have been subject to change. Significant increases in excise and other taxes on beverage alcohol products could materially and adversely affect the Company's financial condition or results of operations. Federal and provincial governmental agencies extensively regulate the beverage alcohol products industry concerning such matters as licensing, trade practices, permitted and required labelling, advertising, and relations with consumers and retailers. Certain federal and provincial regulations also require warning labels and signage. New or revised regulations or increased licensing fees, requirements, or taxes could also have a material adverse effect on the Company's financial condition or results of operations.

The Company's future operating results also depend on the ability of its officers and other key employees to continue to implement and improve its operating and financial systems and manage the Company's significant relationships with its suppliers and customers. The Company is also dependent upon the performance of its key senior management personnel. The Company's success is linked to its ability to identify, hire, train, motivate, promote, and retain highly qualified management. Competition for such employees is intense and there can be no assurances that the Company will be able to retain current key employees or attract new key employees.

The Company has defined benefit pension plans. The expense and cash contributions related to these plans depend on the discount rate used to measure the liability to pay future benefits and the market performance of the plan assets set aside to pay these benefits. A pension committee reviews the performance of plan assets on a regular basis and has a policy to hold diversified investments. Nevertheless, a decline in long-term interest rates or in asset values could increase the Company's costs related to funding the deficit in these plans.

The competitive nature of the wine industry internationally has resulted in the discounting of retail prices of wine in key markets such as the United States and the United Kingdom. The Company does not believe that significant price discounting will occur in Canada beyond current levels.

The Company considers its trademarks, particularly certain brand names and product packaging, advertising, and promotion design and artwork to be of significant importance to its business and ascribes a significant value to these intangible assets. The Company relies on trademark laws and other arrangements to protect its proprietary rights. There can be no assurance that the steps taken by APL to protect its intellectual property rights will preclude competitors from developing confusingly similar brand names or promotional materials. The Company believes that its proprietary rights do not infringe upon the proprietary rights of third parties, but there can be no assurance in this regard.

As an owner and lessee of property, the Company is subject to various federal and provincial laws relating to environmental matters. Such laws provide that the Company could be held liable for the cost of removal and remediation of hazardous substances on its properties. The failure to remedy any situation that might arise could lead to claims against the Company. A perceived failure to maintain high ethical, social, and environmental standards could have an adverse effect on the Company's reputation.

The success of the Company's brands depends upon the positive image that consumers have of those brands. Contamination of APL's products, whether arising accidentally or through deliberate third-party action, or other events that harm the integrity or consumer support for those brands could adversely affect their sales. Contaminants in raw materials purchased from third parties and used in the production of the Company's products or defects in the fermentation process could lead to low product quality as well as illness among, or injury to, consumers of the products and may result in reduced sales of the affected brand or all of the Company's brands.

## **DIVIDEND POLICY**

The Company's Class A Shares (non-voting) ("Class A Shares") are entitled to a dividend in an amount equal to 115% of any dividends paid or declared on Class B Shares (voting) ("Class B Shares"). On June 2, 2016 the Board of Directors approved a 9% increase in common share dividends. The quarterly dividend on Class A Shares increased to 12.25 cents and on Class B Shares to 10.65 cents. On June 3, 2015 the Company announced a 7.1% increase in common share dividends. The quarterly dividend on Class A Shares increased to 11.25 cents and on Class B Shares to 9.78 cents. On June 4, 2014 the Company announced a 5% increase in common share dividends. The quarterly dividend on Class A Shares increased to 10.50 cents and on Class B Shares to 9.125 cents. On June 5, 2013 the Company announced an 11% increase in common share dividends. The quarterly dividend on Class A Shares increased to 10.00 cents and on Class B Shares to 8.70 cents. On June 8, 2011 the quarterly dividend on Class A Shares increased to 9.00 cents and on Class B Shares 7.85 cents. Prior to that date, the quarterly dividend rates were 8.25 cents per Class A Share and 7.20 cents per Class B Share. The Company's dividend payments are reviewed annually by the board of directors.

## **DESCRIPTION OF CAPITAL STRUCTURE**

The authorized share capital of the Company consists of an unlimited number of Preference Shares, issuable in one or more series, of which 33,315 are designated as Preference Shares, Series A, an unlimited number of Class A Shares and an unlimited number of Class B Shares. The only classes of shares of APL that are issued and outstanding are Class A Shares and Class B Shares. The only shares of the Company which are entitled to vote on matters set out in the notice of meeting of security holders are the Class B Shares. On March 31, 2016 the Company had outstanding 3,004,041 Class B Shares without nominal or par value, each carrying the right to one vote per share, and 11,193,829 Class A Shares. On February 23, 2016, the Company entered into a private agreement to purchase, for cancellation, 100,000 Class A Non-Voting Shares pursuant to an order of the Ontario Securities Commission exempting the Company from the issuer bid requirements contained in the *Securities Act* (Ontario). The purchase price for the shares was \$2,254,150, representing \$22.54 per share. The purchase was completed on March 10, 2016. Neither the Class A Shares nor the Class B Shares may be subdivided, consolidated, reclassified, or otherwise changed unless contemporaneously therewith the other class of shares is subdivided, consolidated, reclassified or otherwise changed in the same manner and in the same proportion. In the event of liquidation, dissolution, or a winding-up of the Company, all of the Company's property and assets available for distribution to the holders of Class A Shares and Class B Shares shall be paid or distributed equally, share for share, to the holders of Class A Shares and Class B Shares, respectively. In the event a takeover bid is made for Class B Shares, the holders of Class A Shares have no right to participate on such takeover bid.

As described above, Class A Shares are non-voting securities and are entitled to a dividend in an amount equal to 115% of any dividend paid or declared on Class B Shares. Class B Shares are voting securities and convertible into Class A Shares on a one-for-one basis.

## MARKET FOR SECURITIES

The Class A Shares (stock symbol “ADW.A”) and Class B Shares (stock symbol “ADW.B”) are listed and posted for trading on the Toronto Stock Exchange.

The monthly volume of trading and price ranges of the Class A Shares and Class B Shares on the Toronto Stock Exchange over fiscal 2016 are as follows:

### Class A Shares (non-voting)

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Close</u>	<u>Volume</u>
<b>2015</b>	\$	\$	\$	
April	16.25	15.42	16.00	85,909
May	16.94	15.85	16.45	126,773
June	18.37	16.10	17.85	110,225
July	18.48	17.50	18.13	84,002
August	18.47	16.85	18.03	122,049
September	18.60	17.71	18.18	216,786
October	18.39	17.80	18.20	95,714
November	18.99	17.73	18.99	181,812
December	20.71	19.00	20.49	110,756
<b>2016</b>				
January	22.72	19.91	22.45	216,436
February	23.87	21.00	23.40	209,751
March	30.50	23.01	29.45	490,904

### Class B Shares (voting)

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Close</u>	<u>Volume</u>
<b>2015</b>	\$	\$	\$	
April	21.30	19.95	20.50	5,555
May	22.20	20.60	22.20	513
June	22.30	19.95	21.40	3,830
July	22.30	21.25	21.25	2,026
August	22.00	20.15	20.15	2,975
September	22.00	20.00	21.32	1,903
October	23.40	21.00	23.40	630
November	23.25	21.42	23.00	3,500
December	25.30	23.00	25.30	1,230
<b>2016</b>				
January	26.26	23.95	26.26	20,195
February	27.28	25.25	27.28	2,900
March	34.00	26.00	32.32	10,491

## DIRECTORS AND OFFICERS

The names, provinces of residence, and principal occupation of the directors of the Company and the period during which each director has served on the Board of Directors are as follows:

<u>Name and Province of Residence</u>	<u>Principal Occupation</u>	<u>Director Since</u>
MARK W. COSENS <sup>(1) (2) (3)</sup> Ontario, Canada <i>Kilbride Capital Partners is a private management advisory firm</i>	Managing Director Kilbride Capital Partners	2001
LORI C. COVERT <sup>(3)</sup> Nova Scotia, Canada	Corporate Director	1993
RICHARD D. HOSSACK, PhD <sup>(1) (2)</sup> Ontario, Canada <i>Hossack and Associates Limited is a management consulting firm.</i>	President Hossack and Associates Limited	2004
PERRY J. MIELE <sup>(1) (2)</sup> Ontario, Canada <i>Beringer Capital is a company experienced in a broad range of disciplines including operations, finance, new business, and strategy.</i>	Chairman & Managing Partner Beringer Capital	2010
A. ANGUS PELLER, M.D. <sup>(3)</sup> Ontario, Canada <i>Medcan Health Management Inc. is a health management company.</i>	Senior Medical Consultant Medcan Health Management Inc.	1991
JOHN E. PELLER Ontario, Canada	President and Chief Executive Officer Andrew Peller Limited	1989
JOHN F. PETCH, Q.C. LLD <sup>(2)</sup> Ontario, Canada	Vice Chairman of the Board Andrew Peller Limited Chair Emeritus of the Governing Council of the University of Toronto Barrister and Solicitor	1998
RANDY A. POWELL <sup>(1) (2) (4)</sup> Ontario, Canada <i>Southpier Capital is a venture capital company exclusively focused on branded consumer goods and services</i>	Founding Partner Southpier Capital	2010
BRIAN J. SHORT <sup>(1) (3)</sup> Ontario, Canada	Corporate Director	2003

(1) Member of Audit, Finance, and Risk Committee

(2) Member of Governance and Human Resources Committee

(3) Member of Pension Committee

(4) Chairman of the Board of Directors

Each term is three years and there are a maximum of three such terms for a total of nine years of service on the Board. At its discretion, the Board may extend the limit beyond the maximum if circumstances warrant.

## Officers Who Are Not Directors

The names and provinces of residence of the executive officers of the Company who are not directors and the position and principal occupation of each of them with the Company are as follows:

<u>Name and Province of Residence</u>	<u>Principal Occupation</u>
ANTHONY M. BRISTOW Ontario, Canada	Chief Operating Officer
BRIAN D. ATHAIDE Ontario, Canada	Chief Financial Officer and Executive Vice President, Human Resources & IT
BRENDAN P. WALL Ontario, Canada	Executive Vice President, Operations
SHARI A. NILES Ontario, Canada	Executive Vice President, Marketing
GREGORY J. BERTI Ontario, Canada	Vice President, Government Relations and Export
COLIN M. CAMPBELL British Columbia, Canada	Vice President, Sales, Western Canada
JAMES H. COLE Ontario, Canada	Vice President, Retail and Estate Wine Group
ERIN L. ROONEY Ontario, Canada	Vice President, Sales, Eastern Canada and Agency

There are no existing or potential conflicts of interest between any director or officer of the Company or its subsidiaries and the



Company and its subsidiaries. There are no cease trade orders (or similar orders) involving any director or officer and there are no other penalties, sanctions, insolvency, or bankruptcy proceedings outstanding. During the past five years, each of the officers of the Company has had the same or similar principal occupation with the Company or the organization indicated, except: Ms. Rooney who, prior to May 2013 was Vice President, Sales at S.C. Johnson, Mr. Campbell who, prior to May 2013 was Sales Director – Western Canada, Mr. Berti who, prior to May 2013 was Vice-President, Estate Wines and Export, Mr. Cole, who prior to May 2013 was Vice President, Retail., and Mr. Athaide who, prior to January 2015 was Finance Director and Chief Financial Officer of Proctor and Gamble Eastern Europe and Central Asia.

The directors and executive officers of APL as a group beneficially own, or control or direct, directly or indirectly, 1,998,066 Class B Shares, being approximately 66.6% of the issued and outstanding Class B Shares of the Company.

## **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the Company's Class A Shares (non-voting) and Class B Shares (voting) is Computershare Investor Services Inc. with its head office in Toronto where the registers of transfers for the Company's securities are located.

## **INTERESTS OF EXPERTS**

The audited financial statements of the Company for the year ended March 31, 2016 filed with the Canadian securities administrators are audited by PricewaterhouseCoopers LLP, Chartered Professional Accountants. PricewaterhouseCoopers LLP has reported that they are independent of the Company in accordance with the rules of professional conduct of the Chartered Professional Accountants of Ontario.

## **REPORT OF THE AUDIT COMMITTEE**

The text of the Audit, Finance, and Risk committee's charter is attached as Schedule "A" to this AIF.

The Audit, Finance, and Risk Committee (the "Audit Committee") is composed entirely of independent directors. The five members of the Audit Committee for the year ended March 31, 2016 were Brian J. Short (Chairman), Mark W. Cosens, Richard D. Hossack, Perry J. Miele, and Randy A. Powell. All members of the Audit Committee are considered by the Board to be financially literate by way of their business experience and educational background. The following is a brief summary of the education and experience that is relevant to the performance of their responsibilities as Audit Committee members:

### **Audit Committee Member**

### **Relevant Education and Experience**

Brian J. Short	Mr. Short retired as the Senior Vice-President and Chief Financial Officer of Dover Industries Limited. Mr. Short holds a Bachelor of Arts degree from Waterloo Lutheran University.
Mark W. Cosens	Mr. Cosens is the Managing Director at Kilbride Capital Partners and a former Managing Director of Korn/Ferry International, specializing in industrial, energy, and financial services. Prior to joining Korn/Ferry International, Mr. Cosens held several positions in the investment and commercial banking industry. Mr. Cosens holds a Bachelor of Arts in Economics from the University of Western Ontario and an LLB from Osgoode Hall Law School.
Richard D. Hossack	Mr. Hossack retired from his role as President and Senior Partner of Delta Oliver Wyman in Canada. He holds a Ph.D. in Organizational Behavior from the Fielding Graduate Institute, an M.B.A. in Finance from the University of Toronto, a B.Comm. in accounting and economics and a BsC. in mathematics and physics, both from the University of Manitoba. He was formerly a senior partner in both Coopers & Lybrand and in PricewaterhouseCoopers consulting groups.
Perry J. Miele	Mr. Miele is Chairman and Managing Partner of Beringer Capital responsible for investing activities, strategic development, and oversight of Beringer's investment portfolio. Since 2006 he has also been serving as the Executive Chairman of Budco, a marketing and fulfillment company, servicing some of the Fortune 100 Companies. Mr. Miele is the founder of the Mentor Fund, a private equity fund investing primarily into the marketing and communications sector. He is a member of the Young Presidents' Organization and a member of McGill's "expert panel" for the M.B.A. program and has guest lectured at McGill as well as other university business programs.
Randy A. Powell	Mr. Powell is the Founding Partner of Southpier Capital Inc., a venture capital company exclusively focused on branded consumer goods and services. Prior to founding Southpier Capital Inc., Mr. Powell was the President & Chief Executive Officer at Armstrong Group, a world leader in luxury rail travel. Prior to that, he held senior leadership positions in consumer product and service businesses. He was Global President of Maple Leaf Fresh Foods, President & CEO of Second Cup, and President of S.C. Johnson Wax. A native of Toronto, Ontario, he earned his bachelor of Business Administration Studies from York University. Mr. Powell is a member of the Young Presidents' Organization and currently serves on the Faculty Advisory Board for the Sauder School of Business – University of British Columbia.

### Pre-Approval Policies

The Audit Committee has adopted the following policies and procedures for the engagement of non-audit services. The Audit Committee will pre-approve all audit and non-audit services provided by the auditors. This is accomplished through the Audit Committee's recommendation to the holders of Class B Shares on the approval of the appointment of the auditors at the Company's annual meeting and through the Audit Committee's review of the auditors' annual audit plan. Periodically the Audit Committee will update an agreed list of pre-approved services that are recurring or otherwise reasonably expected to be provided. Any additional requests for pre-approval will be addressed on a case-by-case basis to the Audit Committee. The engagement may commence upon approval by a quorum of the full Audit Committee.

### External Auditor Service Fees

The table below provides disclosure of the services provided and fees earned by the Company's external auditors over the Company's two most recently completed fiscal years:

Type of Services	Fees – Fiscal 2016	Fees – Fiscal 2015
Audit fees	\$210,000	\$210,000
Audit-related fees	42,387	38,325
Sub-total	<u>\$252,387</u>	<u>\$248,325</u>
Other services	-	6,550
Tax fees	36,750	36,750
Tax advice <sup>(1)</sup>	21,420	33,810
Total	<u>\$310,557</u>	<u>\$325,435</u>

<sup>(1)</sup> Tax advice relates to tax rectification work and related amendments as well as other miscellaneous tax services.

All recommendations of the Audit Committee to compensate the external auditor in fiscal 2016 and fiscal 2015 have been approved.

### Audit Fees

Audit fees were paid for professional services rendered by the auditors for the audit of the Company's annual financial statements as well as services provided in connection with statutory and regulatory filings.

### Audit-related Fees

Audit related services were paid for assurance and related services that were reasonably related to the performance of the audit, review of the annual financial statements, or support provided for assistance in completion of the Company's compliance with National Instrument 52-109 and are not reported under the audit services category above. These services also consist of quarterly meetings with management.

### Tax Fees

Tax fees were paid for tax compliance, tax advice, and tax planning professional services. These services consisted of reviewing tax returns and assisting in responses to government tax authorities.

### ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and principal holders of the Company's securities is contained in the Company's Management Information Circular which will be dated July 29, 2016. None of the directors, officers, 10% (or more) shareholders of the Company, or any of their respective associates or affiliates have had within the past three most recently completed financial years, or during the current fiscal year, a material interest, direct or indirect, in any transaction that has materially affected or is reasonably expected to materially affect the Company. Additional financial information, including audited comparative consolidated financial statements for the year ended March 31, 2016 and related Management's Discussion and Analysis ("MD&A") is provided in the Annual Report to Shareholders. This and other information related to the Company can be accessed through SEDAR at [www.sedar.com](http://www.sedar.com).

## SCHEDULE "A"

### CHARTER OF THE AUDIT, FINANCE, AND RISK COMMITTEE OF THE BOARD OF DIRECTORS OF ANDREW PELLER LIMITED

#### **Purpose**

The primary purpose of the audit committee (the "Audit Committee") of the board of directors (the "Board") of Andrew Peller Limited (the "Corporation") is to assist the Board of Directors in fulfilling its oversight responsibilities for the Corporation's internal control and management's information systems; reviewing the quarterly financial statements and managements' discussion and analysis prior to their release and recommend their approval to the Board; reviewing the annual audited financial statements and management's discussion and analysis prior to their release and recommend their approval to the Board; reviewing accounting and auditing developments and meeting with both financial and accounting personnel and the external auditors on issues relevant to the Corporation; reviewing the Corporation's policies and practices relating to insurance coverage, foreign exchange and interest rate hedging and, reviewing and assessing the qualifications, independence, and performance of the Corporation's auditors.

Consistent with this function, the Audit Committee should encourage continuous improvement of, and should foster adherence to, the Corporation's policies, procedures, and practices.

#### **Approval of Charter**

This Audit Committee charter requires approval by the Board.

Future changes to this charter require approval by the Board based on the recommendation of the Audit Committee.

#### **Structure and Composition**

The Audit Committee shall consist of no fewer than three members from among the Board.

Each member of the Audit Committee shall be free from any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgement as a member of the Audit Committee; and meet the independence and experience requirements of the Toronto Stock Exchange and all applicable rules and regulations in Canada relating to corporate governance and audit committee matters, including Multilateral Instrument 52-110 (the "Regulations").

All members of the Audit Committee must be "financially literate" as such term is defined by the Regulations. The Board shall make determinations as to whether each member of the Audit Committee satisfies this requirement. The members of the Audit Committee shall be appointed by the Board annually on the recommendations of the Governance and Human Resource Committee or until successors are duly appointed.

The Board shall normally designate the Chair of the Audit Committee. In the event that a Board designation is not made, the members of the Audit Committee shall elect a temporary Chair for such meeting by majority vote of the members in attendance at the meeting.

Once appointed, Audit Committee members shall cease to be a member of the Audit Committee only upon:

- (i) resignation from the Board
- (ii) death
- (iii) disability
- (iv) not being re-appointed pursuant to the appointment process described above.

#### **Meetings**

The Audit Committee shall meet at least quarterly and more frequently as circumstances dictate.

A majority of Audit Committee members are required for meeting quorum. In the event that the number of Audit Committee members is an even number, one half of the number of members shall constitute a quorum.

The Audit Committee shall meet at least annually with management and the Corporation's auditor in separate committee sessions.

The Audit Committee may request any officer or employee of the Corporation or the Corporation's outside counsel or

independent auditor to attend a meeting of the Audit Committee or to meet or provide consultations to the Audit Committee or any member thereof.

The CEO, the CFO and Executive Vice-President Human Resources and IT of the Corporation and representatives of the independent auditors shall normally attend meetings of the Audit Committee. Others may also attend meetings as the Audit Committee may request. Notice of all meetings of the Audit Committee shall be sent to the Auditors as well as Audit Committee members.

### **Resolutions**

Resolutions of the Audit Committee shall require approval by a simple majority of members voting on such resolution. The Chair of the Audit Committee shall not have a deciding vote in the case of a tie.

### **Responsibilities and Duties**

#### **i) Minutes and Reporting to the Board**

The Audit Committee shall prepare written minutes of all meetings. The Chair of the Committee or designate shall report to the Board of Directors after each meeting the significant matters addressed by the Committee at such meeting and a copy of the minutes shall be made available to all members of the Board. The Audit Committee shall make regular reports to the Board, but not less frequently than quarterly.

#### **ii) Independent Auditor**

With respect to the Corporation's independent auditor the Audit Committee shall:

- be directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the issuer, including the resolution of disagreements between financial management and the external auditor regarding financial reporting
- have sole authority to recommend to the Board the appointment or replacement of the independent auditor (subject to shareholder approval)
- recommend to the Board the compensation of the independent auditor
- have the independent auditor report directly to the Audit Committee
- determine the extent of involvement of the independent auditor in reviewing unaudited quarterly financial results
- meet with the independent auditor prior to the annual audit to discuss the planning, scope and staffing of the audit
- approve the selection of the senior audit partners having primary responsibility for the audit and the audit partner responsible for reviewing the audit
- at least on an annual basis, evaluate the qualifications, performance, and independence of the independent auditor and the senior audit partner having primary responsibility for the audit
- obtain and review a report from the independent auditor at least annually regarding:
  - (i) the independent auditor's internal quality-control procedures
  - (ii) any material issues raised by the most recent internal quality control review, or peer review, of the firm, or raised by any inquiry or investigation by government or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm
  - (iii) any steps taken to deal with any issues
  - (iv) all relationships between the independent auditor and the Corporation
- review and approve the Corporation's hiring policies regarding partners, employees, and former partners and employees of the present and former independent auditor
- pre-approve all auditing services and permitted non-audit services (including fees and terms thereof) to be performed for the Corporation or its subsidiaries by its independent auditor

#### **iii) Financial Reporting**

With respect to the Corporation's reporting of unaudited quarterly financial results, the Audit Committee shall:

- Prior to their public release and filing with securities regulatory agencies, review and discuss with management and the independent auditor the:
  - press release
  - consolidated financial statements and notes thereto
  - management's discussion and analysis
  - results of any independent auditor's review requested/approved by the Audit Committee

- review the Corporation's unaudited quarterly financial results
- recommend to the Board whether the unaudited quarterly financial statements of the Corporation should be approved by the Board

**iv) Year-End Audit**

With respect to the Corporation's annual audit, the Audit Committee shall:

- Prior to their public release and filing with securities regulatory agencies, review and discuss with management and the independent auditor the:
  - financial statements and notes thereto for consolidated and separate entities
  - management's discussion and analysis
  - results of the independent auditor's audit
  - notice of annual meeting of shareholders
  - annual information form
- The review of the Corporation's audited financial results, shall include:
  - any significant judgements (e.g. estimates and reserves) made in the preparation of financial statements
  - any significant disagreements among management and the independent auditors in connection with the preparation of financial statements
  - the extent to which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented
  - significant financial reporting issues and judgements made in connection with the preparation of the Corporation's financial statements, including any significant changes in the Corporation's selection or application of accounting principles, any major issues as to the adequacy of the Corporation's internal controls and special steps adopted in light of material control deficiencies
  - the Corporation's use of "pro forma" or "adjusted" non-GAAP information
  - critical accounting policies and practices
  - review of alternative treatments of financial information in all cases, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor
  - any written communications between the independent auditor and management (e.g. management letters, schedule of unadjusted differences)
  - the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Corporation's financial statements
  - management certifications of reports filed by the Corporation pursuant to the Regulations
  - integrity of the Corporation's financial reporting processes
  - any correspondence with regulators or government agencies and any published reports which raise material issues regarding the Corporation's financial statements or accounting policies
  - results of the independent auditor's audit
  - discussions with the independent auditor regarding significant adjustments, management judgements and accounting estimates, significant new accounting policies, any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management
  - a verbal and/or written report, as appropriate, from the independent auditors describing
    - (i) all critical accounting policies and practices to be used
    - (ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors and
    - (iii) other material communications between the independent auditors and management, such as the annual management letter or schedule of unadjusted differences
- Recommend to the Board whether the audited consolidated financial statements of the Corporation should be approved by the Board

**v) Annual Proxy Statement and Regulatory Filings**

The Audit Committee shall:

- issue any reports required of the Audit Committee to be included in the Corporation's annual proxy statement
- review and recommend to the Board the approval of all material documents filed with securities regulatory agencies including:
  - Consolidated Year-end Financial Statements
  - Annual Information Form
- satisfy itself that the adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the documents referred to above, and periodically assess the adequacy of those procedures

**vi) Related Party Transactions and Off-Balance Sheet Structure**

The Audit Committee shall:

- Review all related-party transactions including those between the Corporation and its officers or directors and, if deemed appropriate, recommend approval of any particular transaction to the Board
- Review any material off-balance sheet structures, which the Corporation is a party to
- Review the audited financial statements for the Corporation's pension plans and the costs and obligations of such plans annually

**vii) Internal Controls, Risk Management and Legal Matters**

The Audit Committee shall:

- consider the effectiveness of the Corporation's internal controls over financial reporting and related information technology security and control including the process to communicate such controls and roles and responsibilities
- satisfy itself that adequate procedures are in place for the review of the issuer's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the public disclosure referred to above, and will periodically assess the adequacy of those procedures
- discuss with management the Corporation's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Corporation's risk assessment and risk management policies including the use of derivative financial instruments. Areas to be considered in this respect include:
  - insurance coverage
  - foreign exchange exposure
  - interest rate exposure
- review with management, and if necessary, the Corporation's counsel on a quarterly basis:
  - any legal matter which could reasonably be expected to have a material impact on the Corporation's financial statements or accounting policies, and
  - the status of all material law suits

**viii) Capital Structure, Investment and Cash Management Policies, Disclosure Policy**

The Audit Committee shall:

- review and recommend to the Board whether any changes to the Corporation's capital structure should be approved
- review and approve the Corporation's investment and cash management policy
- review and approve the Corporation's disclosure policy

**ix) “Whistle Blower” and Related Procedures**

- The Audit Committee shall oversee the establishment of procedures for the receipt, retention, and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters and for the confidential and/or anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters. The identity of any person making a submission on a confidential basis shall be revealed, at a minimum, to the Chair of the Audit Committee. The identity of any such person, however, will otherwise be treated as confidential. The Committee shall also be provided with such evidence as it requests to confirm that no disciplinary action has been taken against such person
- Management shall report to the Audit Committee on a timely basis all discovered incidents of fraud within the Corporation, regardless of monetary value

**x) Review of Charter and Self Assessment**

The Audit Committee shall:

- Review and reassess annually the adequacy of this Charter
- Review annually the Audit Committee’s own performance

**xi) Corporate Knowledge and Other Activities**

The Audit Committee shall:

- Strive to expand continually its knowledge of the Corporation’s activities
- Carry out such other activities consistent with this Charter, the Corporation’s by-laws and governing law, that the Audit Committee or the Board deem necessary or appropriate

**Other Advisors**

The Audit Committee shall have the authority to retain independent legal, accounting or other advisors including consulting with the national office of the independent auditor. The Corporation shall provide for appropriate funding, as determined by the Audit Committee, for payment of compensation to the independent auditor for the purpose of rendering or issuing an audit report and to any advisors employed by the Audit Committee.

**Limitations on Committee’s Duties**

While the Audit Committee has the responsibilities and power set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Corporation’s financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of either management and/or the independent auditor.

In discharging its duties, each member of the Audit Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter, including designating any member of the Committee as an “audit committee financial expert” is intended, or should be determined to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all members of the Board are subject.

The essence of the Committee’s responsibilities is to monitor and review the activities described in this Charter to gain reasonable assurance (but not to ensure) that such activities are being conducted properly and effectively by the Corporation.