

K+ARimports

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Licensee: Katherine Rowe Sales & Marketing Director: Andrew Rowe

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Information Pack

Thank you for considering exporting to British Columbia.

The following is an attempt to introduce ourselves and BC, whilst outlining the process and timeline for getting your products into the BC marketplace.

About K+ARimports

People

K+ARimports is an agent and distributor actively marketing, facilitating the sales as well as managing the importation and domestic distribution of wine from Victorian wineries in the marketplace of British Columbia.

K+ARimports is owned by expatriate Australians from Victoria, Kate and Andrew Rowe. Andrew oversees the sales, marketing and distribution whilst Kate controls the business and financial side. Established in 2009, the business was spawned following Andrew's exposure to the wine industry in Vancouver, where he recognised the lack of Victorian premium wine in BC and how well these wines stack up against the competition here.

Approach

K+ARimports only select family-owned wineries who produce well-made estate-grown wines, expressing their very particular Victorian terroir. We only represent wines we are proud of, would serve to discerning friends and would want to drink ourselves.

We aim to build a portfolio which represents a balanced 'cross section' of Victoria's wine regions, varieties and styles from honest producers who are committed to quality. As we grow, we aim to represent the best supplier we can find from each region of Victoria.

We work hard to match each wine product to the right restaurant, taking into account their cuisine, price, clientele and wine list, starting with the premium or good-value medium range wines. In addition to restaurants, we ideally target one liquor store business per area to carry the wines in the retail channel and allow follow up sales to occur after someone has tasted the wine in a restaurant. We also stimulate the retail channel through invited product launches and event tastings that we conduct through the year. Larger consumer tastings, directed at the entire food and beverage industry is somewhat of a shotgun approach and is something that we shy away from initially, but would look at on a case-by-case basis, depending upon the suitability (primarily value and price-point) of the products.

Over time, and through maintaining a consistent message to the industry, we aim to build a reputation for providing quality and representing Victorian wine – a more food-friendly alternative to the typical big Australian reds and volume products.



About the BC marketplace

Our assessments

“The pundits are tired of the overblown, food trampling, iron-fisted, meal-in-a-glass Australian wines – and Victoria has the alternative”

We are focused on Australian, and more specifically, Victorian wines.

Having lived in Victoria, we have passion, expertise and experience with Victorian wine, its styles and regions and want to introduce British Columbia and the wine-public to what we know and love. Quality Victorian wines are also under-represented in exports - and the Australian wine reputation has suffered for it. Victoria produces a huge range of styles and wine varieties, but most of them are from cool to warm climates, with refined and subtle styles of the highest quality.

In the protected market of British Columbia, Australian wines are being out-done dollar for dollar by Chilean and Argentinean competition, but only at the budget end of the scale. In the medium to high price ranges (C\$25+), Australian wines are as complex and refined as their local Canadian, North American, South American and old-world counterparts of the same price. The real point though, is that the people who are really in the business of food and wine, know how good Australian boutique and premium wines can be, and how difficult it is to find the best of the small producers here in BC.

This observation, along with extensive contacts in the hospitality industry here is what has lead us to our approach, and why we believe we can grow the sales of ‘boutique’ Victorian producers in the BC marketplace.

The British Columbia Liquor Distribution Board (BCLDB)

As in all of Canada (except Quebec), the liquor industry is heavily regulated and importation is controlled by the provincial government. The existing laws have their roots in the prohibition era, which was instituted throughout Canada in the 1910s and slowly repealed in the late 1920s. The glacial speed at which these laws were repealed kept the provincial governments afloat during the depression – and the taxes collected through regulation is the major reason why the BCLDB still exists today along with the anachronistic legal and social stigma that surrounds the liquor industry here.

The following principles are ever present:

1. Only the provincial government (as represented by the BCLDB) is authorised to import liquor into BC.
2. The BCLDB will only import on behalf of a licensed agent/distributor who resides within the province.
3. The BCLDB will only purchase liquor from a licensed agent/distributor who resides within the province.
4. All wholesale liquor (bought by Cafes/restaurants/private liquor stores) must be purchased up front (COD) through the BCLDB.



This has major differences to the way business is done in Australia, including:

- Direct relationships between the winery and BCLDB is not an option without the winery setting up a company, with a resident manager here.
- Direct delivery from Australian winery to customer (wholesale or retail) in BC is not an option.
- As a licensed distributor, we are prohibited from selling liquor direct to the public, or even to a licensed establishment. Our only customer account is with the BCLDB, whose payment terms are 14 days.
- When purchasing liquor from the BCLDB, licensees including cafes, restaurants and private liquor stores pay retail price, up front, with very limited access to discount structures which range anywhere from 10%-30% off the retail price.
- The BCLDB runs hundreds of retail stores throughout the province, called BC Liquor Stores, which have just over 40% of the market share in the retail channel. Any product sold here must be listed with the board – an onerous and sometimes political process where many are trialled, but only the most popular succeed in the long term. High volume, excellent price point and low margins are pre-requisites for success.
- Private liquor stores tend to have a larger range of products, both in price and origin. However, due to the BCLDB's stranglehold over competitive pricing the same product will always be more expensive in a private liquor store (than in a BC liquor Store).

The key point to consider about the industry in BC:

One distinct advantage to distributors and agents (and by association, their winery suppliers) is that their only customer account is the BCLDB, with 14 day payment terms. Licensed (cafe/restaurant/bar/liquor store) customers must pay the BCLDB at or prior to delivery. This provides the government, agents/distributors and winery suppliers protection from financial risk and vagaries of (particularly restaurant) business failure, or lax financial management.

The Canadian Market – according to the Wine Australia website:

The Canadian wine market is very mature and was valued at over CAD \$6.6 billion in April 2006, having grown by 10% in value and 6% in volume during 2005. Of most promise, it was wines at the high end that pushed this growth.

More than 358 million litres of wine were consumed during 2005, approximately 70% of it imported. France and Italy are the top providers, with Australia at number three but expected to overtake Italy in the near future. 53% of wine consumed is red, though the figure is as high as 70% in Quebec. Imported wines represent about 75% of red wine sales and 50% of white wine sales.

Canada's domestic wine industry produced 52 million litres in 2005. Its most famous export is its ice wines, which are harvested while the grapes are frozen.

Average consumption is 11.3 litres per capita, rising to 18 litres in Quebec. The other major wine drinking provinces include Ontario, Alberta and British Columbia. Australian wines sell more than three times the volume of French wines on the West Coast, particularly in British Columbia.



In contrast to other major markets, there is a trend towards higher-priced wines, with a greater focus on quality than price. The highest selling price segment in the Canadian market is C\$12 - \$14.99 although red wines command a higher price point than white wines.

The Canadian Consumer – according to the Wine Australia website:

Canadian consumers are sophisticated wine drinkers who tend to rate quality over price. High-quality imports are leading the growth in this category over domestic products and imported blends. French-speaking Quebec continues to favour imports from France and Italy, whereas other provinces have embraced New World wines, in particular those from Australia.

The increasing disposable incomes in Canada have resulted in trading-up to more expensive wines. Particularly, as the population ages, health concerns prompt more red wine consumption and the increased disposable incomes encourage this behaviour. The sector's astounding growth is also partially due to the increasing consumption among young professionals. Reports suggest young Canadians drink more wine than their parents.

Red wine is expected to lead the growth in both volume and value terms, with white and rosé expected to grow in smaller volumes. Cabernet Sauvignon is the most popular red varietal, followed by Merlot and Shiraz. In fact, Shiraz has been the success story of recent years, driven largely by imports from Australia. Chardonnay and Sauvignon Blanc are the most popular white varieties. Single varietal wines are increasing in popularity at the expense of blends. Grape variety and origin are a major focus for many consumers.

Despite these growth indicators, wine is still considered a special occasion rather than an every-day drink in Canada.

(This is partly compounded because beer is relatively cheap here - even imported beer is typically <C\$12 for a six-pack, whereas a decent bottle is always over \$15).

If you like us and like the idea of Canada - Steps to Export Sales

Understanding your wines – 15 days

Before signing up, we need to know a number of things about your products.

We will first need your:

- **export price list, FOB Melbourne in A\$**
- along with indications of the **allocations** for each export product you would expect to make for the first year, assuming we sell everything you are prepared to give to us.

Assuming that you have a website, we should be able to do some additional research to fill in any gaps.

If we haven't already tasted your wines, we would need to do so, and this is best done through air-freighting your **samples**. Recent experience has suggested that Australia Post is both the quickest and cost-competitive, and surprisingly seems to avoid customs and duty problems here.

If we have tasted your wines, we would move to the next stage.



Market Research and Samples – 45 days (Total 60 days)

After we've made our selection for tasting samples, and before making our first order, or even signing up, we prefer doing some further work and research to ensure there's a good response to your products in the local marketplace. Just because we like your products and think that the Canadians should, doesn't mean that they will buy it. This approach limits the exposure to the risk of shipping product that will not sell, and initially establishes a head of pre-orders that can ensure a good operational cash-flow.

We want to get into restaurants, have them taste your new products and want to order them, so to get the ball rolling, you first need to send us:

- Company logo in PDF or other vector-based file format (ask your graphic designer).
- Bottle label artwork in PDF format (proofs from your label designer are perfect).
- High resolution photos of the winery/vineyards and bottles.
- The completed product registration form (PDF format in appendix 1). This info will be required later in order to register the product for sale.
- Tasting notes (if not downloadable from your website)
- List of awards
- Prominent restaurant listings
- Media/writer reviews and point scores – as much as people hate them, they still look at them.

From all this, we will prepare a marketing sheet to pass on to our customers.

The final step, is **sending product samples** via air-freight. Ideally, one case per product but probably a minimum of 4 bottles each. This can be expensive, but it is necessary to establish the product's suitability and pre-orders. The first time is the only time that samples would need to be sent by air-freight, as later samples are taken from regular shipments, but more about that later.

Our customs broker, JB Ellis & Co Ltd handles all inbound shipments of samples. Simply address the shipment to us:

K+ARimports
1-1109 Harwood Street,
Vancouver BC V6E1R9
Canada

Ensure the following:

- The shipment must include a note to have JB Ellis & Co., att: Alberic Isaac +1 (604) 408-7150 arrange for customs clearance.
- For the customs declaration, ensure they are identified as product samples with no commercial value.
- Instruct the carrier to have all cases under the same waybill number. This reduces our brokerage expenses which are charged per shipment. Each separate waybill is regarded as a separate shipment.
- After shipment, forward us the shipping/tracking/waybill number to enable our customs agent to clear the shipment.



Signing up – 7 days (Total 67 days)

When wanting to export to BC, it is necessary to establish an agreement with a distributor, who will exclusively distribute and market your products within the province.

We have attached the sample agreement in Appendix 2, which needs to be completed in order for us to make orders of products for sale. The standard agreement is prepared by the BCLDB, and simply identifies and defines the relationship between the supplier and distributor (assigning one to the other for their records), whilst outlining the responsibilities of the BCLDB to each party.

The BCLDB takes no part in constraining the commercial relationship that exists between the supplier and distributor, so our own arrangements are not defined in that agreement.

Terms of agreement

Due to the distinct advantage of the BC over a more traditional open-market supply and distribution chain in terms of security of payment, we encourage our suppliers to consider a pay-when-paid (consignment) arrangement where K+AR imports will cover the shipment costs of orders. We see this scenario as having fairly balanced the risk of acquiring a new market between the two parties. We have our incentive to sell, and the risk to the supplier is not of financial default, but merely dishonesty on the part of the agent. In this arrangement, K+AR would remit payment to suppliers on consignment on a fortnightly basis following receipt of payment from the LDB.

We understand however, that as a new creditor, it may take some time to establish the trust required in that relationship. Until that occurs, we of course would be happy to enter into more traditional payment terms, but due to the length of shipment and customs clearance, we simply could not support payment terms shorter than 90 days from bill of lading at this stage of our business. 120 days would be more comfortable.

Finally, on the issue of samples, we ask our suppliers to pay for the initial shipping of samples and K+AR will cover the applicable duty at import. As sea shipments are established, it is more cost-effective for both parties to allow for a credit, either 10% of the value of orders or on consignment, intended for product promotions (purchasing of samples for pouring). In this way, samples can be purchased through the retail channel (ridiculously, the only way we can legally obtain samples is to buy them at full price through a retail store).

The Process of Exporting/Importing and Payments – 60 days (total 127 days)

The process in BC is somewhat convoluted, but we will attempt to summarise here:

1. K+AR registers products intended for sale with the LDB - a process taking 2-4 weeks (deals with pricing, UPC/SCC codes, SKUs).
2. K+AR place a requisition purchase order form with the LDB for your stock at an agreed wholesale price which includes your supply cost, our shipping and freight forwarding costs, our warehousing, our insurance and our delivery costs and finally, our commission.
3. The LDB issues a PO to K+AR, who in-turn places a PO for the same with you, our supplier.
4. K+AR arranges for shipment of the order, with payment terms triggered by bill of lading. As it arrives in BC, the LDB acquires a notional title over the product and can arrange customs clearance, whilst for tax purposes, the product is owned

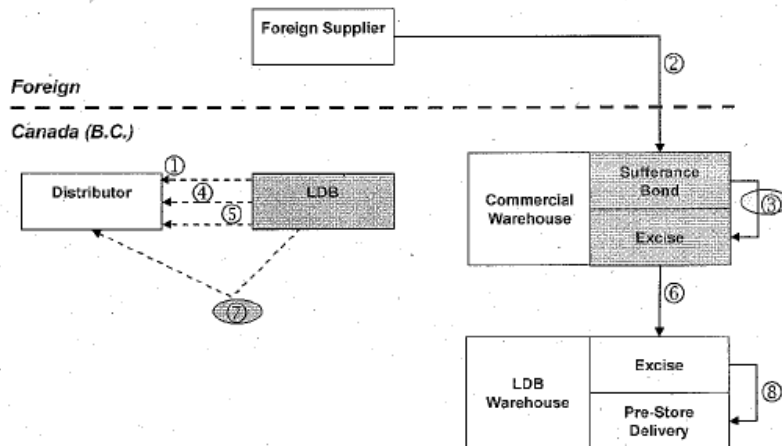


by K+AR and stored in a customs-bonded warehouse. K+AR cover all tax, warehousing and insurance costs until sale.

5. LDB receives purchase order from the restaurant or private liquor store.
6. LDB sends release purchase order (RPO) to K+AR.
7. K+AR's warehouse distributes the product to LDB/Restaurant/Private liquor store.
8. 14 days following delivery of the order, K+AR is paid by LDB.

Also refer to the diagram below prepared by the BCLDB, it is constructed to illustrate the remittance and collection of GST, but nonetheless may help to illustrate the arrangements (but also how convoluted the BC system is and the 40 day delay on wine clearing customs!).

Flowchart – Option B Distributor



1. BCLDB issues PO to Distributor (registered for GST)
2. Distributor arranges for shipment of Product to Sufferance Bond Warehouse in Commercial Warehouse in B.C. BCLDB acquires notional title to Product upon physical arrival in B.C.
3. BCLDB issues request for customs clearance (within 21 days for spirits, 40 days for wine). Product transferred from Sufferance Bond to Excise Warehouse. BCLDB acts as Importer of Record paying GST and Customs Duty (Product Excise Duty deferred) to the CRA.
4. BCLDB charges the GST (on Prime Cost & Customs Duty) and Customs Duty back to the Distributor.
5. BCLDB issues Excise PO to Distributor. All costs (product, customs duty, freight allowance, domestic charges) are subject to GST where applicable.
6. Product shipped from Commercial Excise Warehouse to BCLDB Excise Warehouse / BCLDB takes physical possession and assumes risk of loss of Product.
7. BCLDB pays an amount for the Product to the Distributor. The amount paid comprises the following:
 - "Prime Cost" (original PO amount including delivery to Canada)
 - Customs Duty
 - "Domestic Charges" (costs incurred in Canada - warehouse costs, handling, agents profit)
 - Freight Allowance Credit
 - GST (on prime cost, customs duty, domestic charges, freight allowance credit) where product owner has provided GST # to the BCLDB.
8. BCLDB removes Product from BCLDB Excise Warehouse for delivery to retail outlets and pays Excise.



In Closing

We trust that the above document has been informative and helpful; however should you have any further questions, please do not hesitate to contact us.

Generally speaking, Kate and Andrew typically travel back once a year in the summer to visit existing potential suppliers, so please let us know if you would like to have us drop in then.

Otherwise, we look forward to doing business with you.

Regards,

A handwritten signature in black ink, appearing to read 'Kate and Andrew Rowe', written over a light gray grid background.

Kate and Andrew Rowe

Encl. Appendix 1 – Product Registration form
Appendix 2 – Sample Agreement

K+ARimports Information Pack 201003.docx

This original form must be sent in. NO photocopy or facsimile will be accepted.



B.C. Liquor Distribution Branch
2625 Rupert Street
Vancouver, B.C. V5M 3T5
Telephone: 604 252 3215
604 252 3216

Online Reference No.

Listing Application Form
No.

Date Submitted

SECTION 1 - GENERAL INFORMATION

E-mail address for notification of application status & correspondence

SUPPLIER CONTACT INFORMATION

BCLDB Supplier Number		Supplier Company Name in Full	
Phone Number	Fax Number	Product Name	
Street Address			
City		State/Province (if applicable)	
Country		Postal Code or Zip Code (if applicable)	

AGENT CONTACT INFORMATION

BCLDB Agent Number		Agent Company Name in Full	
Phone Number	Fax Number	E-mail (If other than notification e-mail)	
Street Address			
City		Province BRITISH COLUMBIA	
Country CANADA		Postal Code	

SECTION 2 - PRODUCT INFORMATION Please provide as much information and be as accurate as possible.

Universal Product Code/EAN		Shipping Container Code		Stock Keeping Unit (SKU)	
Brand Name (e.g., the product name as it appears on the label or as marketed to the consumer)				Vintage Year (if applicable)	Response to invitation letter? Quote Invitation No. from letter (e.g. Summer Wine Festival #020911)
Product Description (e.g., white table wine, amber rum, blackcurrant liqueur, indicate colour)					%Alcohol by Vol.
Base Materials (e.g. type of grains, specific grape varieties, flavourings)					Sugar Content (Grams/Litre)
Country of Origin		Region/State/Prov. (appellation)	Bottling Pt. Country (circle one) Canada Other	Bottling Pt.	Country of Export
Product Container Type (e.g. glass, aluminum can, PET plastic bottles)			Product closure description (e.g., cork, metal cap, screw top etc.)		
Other Info?				Shelf life (Years and/or months)	

I declare this liquor product shall at all times comply with all relevant Federal and Provincial legislation. (including label standards)

Signature and Title of authorized Signing Officer:

Terms and conditions for listing products are available under separate cover from BCLDB. (see Terms of a Listing)

Name and Title of Signing Officer (Please type or Print)

____ # of samples submitted? (Please be sure to attach listing application number, name of product and agent/supplier name with sample)

SECTION 3 - PRICE

Single Unit Size (in litres) as sold to consumer	Sold in ___# of Units e.g. 1 bottle of wine; 6 pack beer	# of Selling Units per case shipped	Display Price/Consumer Unit (e.g. \$14.95/bottle)
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All quotations must be in Canadian dollars and the FOB point will be Vancouver.

Required for all Canadian/domestic product.

IMPORT PRODUCTS required for all import products **CANADIAN/DOMESTIC**

Prime Cost/Case	Domestic Charge/Case	Incremental Pkg. Cost	In Bond/Duty Paid Cost	Other
\$	\$	\$	\$	\$

SECTION 4 - APPLICATION

BCLDB Listing Applied For (Choose one):
For a description of each listing type, please refer to the Listing and Marketing Policy Manual or consult the portfolio manager.

- General
- Conditional
- Restricted
- Specialty

If restricted choose Program type:
Extra documents, such as a client list, may be required depending on type of program. Please consult the policy manual or a portfolio manager for details.

- Speculative
- Commercial
- Duty Free
- Producer Agency
- Producer Draft
- Licensee
- Other

Please complete if you are listing a beer product.

- Commercial Brewery
- Cottage Brewery
- Regional Brewery
- Brew Pub
- Beer Distribution Channel
- LDB
- Private (Specify)

Advertising/Promotions (If insufficient space is provided here to answer these questions, please attach your Marketing Plan.)

SECTION 5 - MARKETING PLANS (OPTIONAL)

Describe any proposed advertising, media or sales promotion initiatives for the British Columbia marketplace, including dates, locations, and dollar values.

Describe any other advertising/promotional efforts relevant to this product.

Product Differentiation

Identify any significant awards, ratings, etc. associated with this product (*Wine Advocate, Wine Spectator, etc.*)

Highlight other aspects of this product that sets it apart within its market segment.

Product Performance

Identify past product performance in similar markets to British Columbia in the chart below.

Region	Cases sold last 12 months	Dollars sold last 12 months	% Growth/Last Yr	Retail Price (per selling unit)
Region	Cases sold last 12 months	Dollars sold last 12 months	% Growth/Last Yr	Retail Price (per selling unit)
Region	Cases sold last 12 months	Dollars sold last 12 months.	% Growth/Last Yr	Retail Price (per selling unit)

Information in tinted areas is mandatory.



LIQUOR DISTRIBUTION BRANCH

SUPPLIER AUTHORISATION DISTRIBUTOR

Date:

British Columbia
Liquor Distribution Branch
2625 Rupert Street
Vancouver, BC
V5M 3T5

Attention: Director of Purchasing

Dear Sir:

that we authorize have the pleasure of advising you
("Distributor")
to be the sole distributor and seller of our products in the Province of British Columbia effective

We agree, that while this authorisation is effective, we will sell to the Distributor, the liquor products we produce ("Product") as requested in Purchase Orders issued by the British Columbia Liquor Distribution Branch (BCLDB). We understand that the Distributor will then resell these Products to the BCLDB. We confirm that our buy sell agreement with the Distributor results in the Distributor having free and clear title to and ownership in our Product at the time that Product is imported into British Columbia.

We wish to confirm our understanding of our and our Distributor's responsibilities with respect to Product being sold in British Columbia:

1. **The Distributor may on our behalf register any Product** under the BCLDB standard terms and conditions such that the registered Products may be available for sale in the Province of British Columbia.

We acknowledge that any registration of a Product may be cancelled solely by our written notice to the BCLDB, but may be cancelled by the BCLDB, with written notice to us and the Distributor, if no Product is sold in the province in any one year period from the time of product being registered in the province. If a registration is cancelled, the BCLDB may take such steps as are reasonable to dispose of the Product remaining in

the province including requiring that the Product be exported or destroyed, allowing for the sale of the Product at a price to encourage sales or other dispositions after consulting with the Distributor, or with ourselves, if the Distributor no longer carries on business in the province.

If a Product registration is cancelled no future Purchase Orders will be issued for that Product. Such Product may be re-instated with the agreement of the BCLDB.

2. The Distributor may requisition from the BCLDB Purchase Orders for Products to be issued to the Distributor. Providing that this authorisation has not been revoked, we agree to sell the Products named in the Purchase Orders to the Distributor, in the manner stated above.
3. **Payments for Products will be made to the Distributor.**
4. **The Distributor will conduct any and all other business relating to the Products** in the Province, including contracting for warehousing, submission of price changes, conducting promotional events, dealing with any quality control issues and removing any Product from the province including through a bond to bond transfer or an excise warehouse to excise warehouse transfer to another liquor jurisdiction.

Cancellation of this Authorisation

This Authorisation naming the Distributor as the sole distributor and seller of the Products in British Columbia will remain in effect until cancelled by us by notice in writing to the BCLDB, which notice must be accepted by the BCLDB. Such notice of cancellation will advise the BCLDB of the effective date of the cancellation and will be provided to the BCLDB in advance of the effective date.

We acknowledge that notwithstanding the cancellation of the Distributor's authorisation, if any Products imported under a Purchase Order issued to the Distributor remains in the province, the BCLDB will continue to deal with the Distributor until all of the Products imported under that Purchase Orders have been depleted.

We understand that the BCLDB will not issue a Purchase Order for Product to any newly appointed Distributor or other entity representing our Products in the province until the BCLDB is satisfied that the Product existing in the province is or will be sold or otherwise disposed of and that there is a need to import more Product to meet market demand.



LIQUOR DISTRIBUTION BRANCH

Acknowledged and agreed to by the Supplier

Authorised Signatory:
Position:
Company Name:
Company Address:

E-mail address:
Telephone No:
Fax No

Signature of Supplier:
Date signed by Supplier: _____

Acknowledged and agreed to by the Distributor

Authorised Signatory
Position:
Company Name:
Company Address:

E-mail address:
Telephone No:
Fax No:

- a) We are registered for Canadian Goods and Services Tax purposes and our registration number is _____, or
b) We are not registered for Canadian Goods and Services Tax purposes.

Signature of Distributor:
Date signed by Distributor: _____