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**From:** Christa-Lee McWatters <christa-lee@encorevineyards.ca>  
**Sent:** May 8, 2020 3:55 PM  
**Subject:** [EXT] Encore Vineyards Shareholder Update

Dear Shareholders,

During these uncertain times, while we are all coping with the many changes to our lives due to the COVID19 pandemic, I hope that you and your families are staying safe and healthy.

Since my last update to you, I have continued to work diligently with our financial advisors, the bank, and our team to find the best possible solution to our current situation. By now you will have received an email from Ilya Margulis of BDO.

The purpose of this letter is to provide a third update on the status of Encore Vineyards Ltd.

To recap,

- In late July of 2019 I inherited the operation of the Encore Vineyards business after the death of my father. Unfortunately, upon taking control of the business and after significant review of its affairs, it was confirmed that the Company has sustained continued losses since inception;
- Consequently, it was determined that the best course of action would be for the company and its advisors to undertake a sales process. In the execution of this process, we have spoken to a number of significant players in the industry, as well as several outside the industry;
- Seven parties ultimately entered into Non-Disclosure Agreements and explored potential investment in the business. All but one of the interested parties chose not to proceed further with their exploration. That is the offer we have in front of us now.

We have all worked very hard to seek a solution that would enable the company to continue operations while focussing on achieving the maximum value to the business and assets in order to satisfy the claims of its creditors.

Beginning in December 2019, with the help of the Company's advisors, we prepared a marketing document and a confidential Information Memorandum. The marketing document was distributed to a wide variety of individuals and businesses ultimately leading to seven parties entering into non-disclosure agreements with the Company. Those parties that had entered into non-disclosure agreements were provided with the Confidential Information Memorandum, and a wide array of supporting documentation that would allow them to consider investment. All of the interested parties conducted due diligence which included a review and analysis of the winery operations as well as an analysis and assessment of the asset values. This process was extensive, both in terms of nature and scope of the review, as well as the time devoted by the interested parties, Encore, and Encore's advisors supporting the due diligence process.

Throughout the process of seeking an investor for the Company, we provided updates to Preferred Shareholders. On January 20, 2020 and on February 29, 2020 we sent detailed email updates to all Preferred Shareholders. These updates were meant to:

- Provide background regarding the Company's financial difficulties
- Describe the steps being taken to realize the best possible outcome for stakeholders
- Call upon existing shareholders to refer any parties that they believed would be interested in investing in or acquiring the Company to contact the Company or its advisors.

Unfortunately, this did not result in any additional interested parties coming to us with respect to investing in or purchasing Encore. Accordingly, the \$5.8 million offer currently on the table is the only offer that is available to the Company that will maximize the outcome to the overall body of stakeholders, despite there being insufficient funds to pay creditors in full or to provide a return to preferred or common shareholders.

Given the current economic climate, and the impact that the COVID19 crisis has had on the availability of funds it is not expected that any larger offers can be garnered in any timeframe during which the Company could remain viable and continue operating. It is fortunate that there is a deal in place given that many deals are failing due to the uncertain timelines and challenges for businesses reopening after Covid closures with the new normal for consumers being very much unknown.

As noted in the Proposal filed by Encore Vineyards Ltd., Section 60 subsection 1.7 of the Bankruptcy Insolvency Act (“BIA”) states the following: “No proposal that provides for the payment of an equity claim is to be approved by the court unless the proposal provides that all claims that are not equity claims are to be paid in full before the equity claim is to be paid.” In addition, Section 1 of the BIA defines an Equity Claim to include:

- a dividend or similar payment,
- a return of capital,
- a redemption or retraction obligation,
- a monetary loss resulting from the ownership, purchase or sale of an equity interest or from the rescission and
- contribution or indemnity in respect of a claim referred to in any of the above.

Unfortunately, although everyone involved has worked hard to maximize the value available from Encore’s assets, the proceeds of sale from the offer contemplated in the proposal are not sufficient to pay all other creditors in full. Accordingly, there are no funds that can be made available for shareholders (preferred or common).

We have received questions as to whether accrued or declared and unpaid dividends (“Dividends”) can be classified as unsecured claims and therefore treated as something other than equity. As noted above, the BIA considers dividend distributions to specifically be of an equity nature. We have reviewed the relevant statutes with our legal counsel, and have been advised that the Courts have established a precedent of treating any Dividends as part of shareholder’s equity claim, therefore similar to the face value of preferred shares, no claims can be made in the proposal for Dividends.

You may recall your initial investment came with a 30% tax incentive. While I cannot provide tax advice, I recommend you discuss your situation with your tax advisors, as you may be able to claim some or all of your losses against future gains from your other investments.

I understand that some of you will have questions that need answering. If you do have any questions or require any further information, we would kindly request that you contact our financial advisor directly:

**Ilya Margulis CPA, CA, CIRP,**

**Licensed Insolvency Trustee**

Vice President

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I have worked very hard to make the best of this situation, and I am so very sorry that our investments have not turned out as my father had hoped and planned.

Sincerely,  
Christa-Lee

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