



# Vintners Quality Alliance Ontario

# 2004 ANNUAL REPORT



## V I S I O N

An acclaimed and prosperous Ontario wine industry founded on Vintners Quality Alliance wines.

## M I S S I O N

To develop VQA Ontario into an internationally recognized symbol of fine quality wines originating from the unique terroir of Ontario.

## V A L U E S

***Integrity and Fairness*** – VQA Ontario will carry out its statutory authority with transparency and fairness, and strive to uphold high ethical standards.

***Responsiveness and Communications*** – VQA Ontario will conduct its operations openly, providing its members and the public access to information and timely responses to inquiries. It will adopt and implement appropriate policies to respect the confidentiality of its members and stakeholders. It will promote the value and benefits of VQA wines to consumers.

***Firmness and Responsibility*** – VQA Ontario will discharge its regulatory responsibilities firmly and fairly and ensure VQA terms, descriptions and designations are not misused.

***Accountability*** – VQA Ontario will be accountable for its decisions and promote effective and fair dispute mediation to resolve conflict.

***Effectiveness*** – VQA Ontario will strive to carry out efficient and cost-effective operations, and continue to pursue service improvements in all areas of operations.



## MESSAGE FROM THE CHAIR



VQA Ontario has completed another successful year as Ontario's wine authority. Activities focused on carrying out regulatory responsibilities and ensuring compliance with VQA rules and regulations. Member wineries enjoyed moderate sales throughout the year with good growth reported in the autumn period but disappointing sales

towards the end of the fiscal year. In total, the volume of VQA wine sales increased 1% over last year.

Last year, I commented on the cold winter of 2002/2003 and its positive effect on the quality of Icewines from the 2002 vintage. The cold, unfortunately, continued well beyond the required -8 degrees Celsius for Icewine and overstayed its welcome into the spring. The resulting damage to the tender buds on grapevines caused a much smaller crop from the 2003 vintage than normal. There will be fewer VQA wines in the marketplace as this vintage works its way through the system, but consumers can continue to rely on the same high standards for origin and quality when they choose a VQA wine.

The VQA Ontario Board of Directors recently engaged in a strategic planning exercise to review our operations and strategic directions. Although this is a work in progress, the preliminary conclusions lead us to a reaffirmation of our commitment to high standards of regulatory integrity and practices as well as a renewed emphasis on continuous improvement of VQA wines, in particular the critical components of origin, process standards and quality.

With respect to origin, we continue to work on the project to identify sub-appellations within two of our designated viticultural areas – Niagara Peninsula and Lake Erie North Shore. A major research project is underway to synthesize comprehensive data on climate, topography and soil and identify unique traits of specific regions. This project should be completed this year and consultations re-started with member wineries. I expect this to be an important process over the near term and a key element for the future reputation of Ontario appellation wines.

VQA Ontario is also working on improved national and international recognition for the VQA wine standard. VQA is increasingly recognized as Canada's appellation system and as a world class program that establishes high standards and label integrity for consumers, and a level playing field for producers. However, it is a long path to national and international acceptance. A national standard for VQA wines, and the completion of

international trade agreements that guarantee both recognition and market access, are still ongoing tasks. A measure of success was achieved in September, when representatives of the Government of Canada and the European Commission initialed an Agreement on Wine and Spirits that provides better access for Canadian VQA wines to European markets.

As I am writing this, it is still not clear that a legislated national standard will be in place in the near future. I remain convinced however, that a strong national standard for our appellation wines will be the basis on which Canada's wine industry can succeed, both domestically and abroad.

I had the pleasure of welcoming another 5 new wineries to VQA last year, bringing the number of Ontario VQA wineries to 71 – all of them adding to the promise of a prosperous future for VQA wines.

I extend my thanks to all of my colleagues on VQA Ontario's Board of Directors and Committees, and our VQA winery members for their continued dedication to quality and commitment to VQA. I must also give special recognition to the LCBO Quality Assurance Department, who continue to provide us with a high level of professional services and to the Ministry of Consumer and Business Services for their ongoing support and guidance. And finally, my thanks to our Executive Director, Laurie Macdonald, and her staff who make sure day to day operations run smoothly and efficiently.

L. Pennachetti  
President and Chair





## EXECUTIVE DIRECTOR'S REPORT



VQA Ontario continues with its mandate to administer and enforce Ontario's wine appellation system. VQA membership continues to grow and we are increasing our activities to respond to volume and winery needs. Last year VQA Ontario reviewed 1235 applications for wine approvals and conducted hundreds of routine audits and

inspections. Overall compliance with the VQA regulations continues to be excellent, however several compliance actions were taken in response to specific violations. More information and statistics are found in the pages that follow.

Last year was a busy year with regulation changes working their way through the system and preparing for a reduced grape crop in 2003. Several regulation changes took effect, including the very well received change to permit screwcap closures to be used on VQA wines for the first time. Other changes included allowing organic labelling under specified conditions, raising the required average brix (ripeness) levels for grapes at harvest, and introducing a restriction on vintage blending.

The very cold winter in 2002-2003 reduced the grape crop substantially in 2003. With VQA regulations requiring 100% Ontario grapes in all VQA wines, it is expected that supply will be reduced through 2004 and into the following year. However the natural yield reductions resulting from the cold should lead to excellent quality for many wines.

In the spring of 2003, the Ministry of Consumer and Business Services retained an independent consultant to conduct a review of VQA Ontario. The review looked at all aspects of governance and operations to determine whether VQA Ontario is administering the VQA Act in accordance with the Minister's delegation. I am very pleased at the positive outcome of this review which concluded that overall, VQA Ontario is performing its core program responsibilities effectively and in a transparent and accountable manner.

For the second year in a row, member fees were reduced substantially. It is our intent to return the surplus we have accumulated to the members in this upcoming year which will no doubt be challenging for many with the reduced crop. We anticipate an operating deficit for the next few years as VQA volumes drop temporarily and while the surplus is drawn down. Fees will be re-evaluated later this year. Financial statements can be found later in this report.

I thank VQA Ontario's Board of Directors, Committee volunteers and others in the industry and related trade who give their time and advice freely. And of course, a much deserved thank you to those who make the whole system work on a day-to-day basis - Barbara Dodds, winery audit staff, LCBO Quality Assurance staff and Errol McKibbin. This year we've added a new staff member - James Fisher, Manager, Education and Compliance. I welcome Jim and wish him success.

Once again, I write this message just as the new growing season is starting. It's always a time of promise and high hopes for the next vintage. I will look forward to another exciting year.

L. Macdonald  
Executive Director





## ORGANIZATION PROFILE

VQA Ontario was incorporated on November 26, 1998 as a not-for-profit corporation to prepare for the implementation of the Vintners Quality Alliance Act, 1999. The VQA Act gained royal assent on May 4, 1999 and was proclaimed into law on June 29, 2000. With the proclamation, VQA Ontario was designated as Ontario's wine authority and assumed responsibility for administering the VQA Act and its regulations under a detailed agreement with the Minister of Consumer and Business Services.

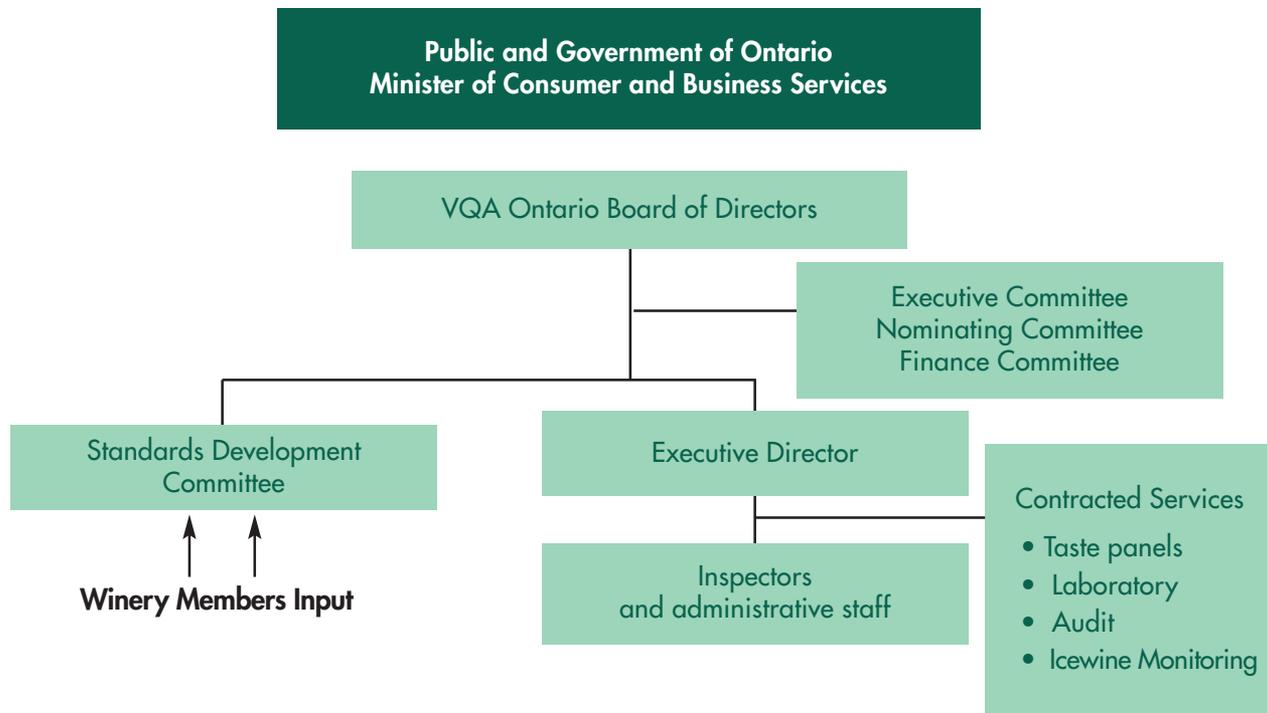
The VQA Act establishes an "Appellation of Origin" system by which consumers can identify quality wines made in Ontario based on the origin of grapes used, production methods and other standards. Wines produced in accordance with VQA regulations may apply for approval and, if successful, are entitled to use the terms, designations and descriptions regulated under the Act.

In addition to its primary mandate to administer and enforce standards under the VQA Act, VQA Ontario is also committed to work with the grape and wine industry,

governments and the public to promote the understanding of the VQA appellation system and promote VQA-approved wines. This includes providing educational and promotional materials and participating in national and international activities related to wine standards and trade.

VQA Ontario is governed by a Board of Directors comprised of nine members elected from its winery members, one representative of the Ministry of Consumer and Business Services, one representative of the Grape Growers of Ontario and one representative of the Ontario Restaurant, Hotel and Motel Association. The governance structure reflects the principles of self-management, with industry representatives comprising a majority of the Board of Directors with additional representation ensuring balance and accountability. Members of the Board of Directors are listed inside the back cover.

Operations are run by a small permanent staff with assistance provided by the Liquor Control Board of Ontario on a contract for service basis.





## ACTIVITY REVIEW

*VQA Ontario's performance goals include upholding the provisions of the VQA Act and regulations and enhancing consumer recognition of VQA wines and understanding of the regulated VQA appellation system.*

*The following reports activities during the period April 1, 2003 to March 31, 2004.*

### ACTIVITY SNAPSHOT

71 member wineries

1008 wines approved

82% success rate for approvals

Chardonnay the top production VQA varietal wine

102 Export certificates issued

174 audits and inspections conducted

7 compliance orders issued and resolved

### MEMBERSHIP

VQA Ontario ended the 2003-2004 year with 71 members including 4 large class wineries (sales of over 750,000 litres of VQA wines) 12 medium class wineries (sales of 100,000 to 750,000 litres of VQA wines) and 55 small wineries (sales of up to 100,000 litres of VQA wines). A total of 5 new wineries joined VQA Ontario. Moderate membership growth is expected to continue into 2005.

Periodic newsletters were distributed to members, keeping them up to date on VQA Ontario's policies and procedures and other developments affecting the industry. Seminars were also conducted for new or prospective members.

### PRODUCT APPROVALS

1235 applications for approval to use the VQA designation and descriptive terms regulated under the VQA Act were processed. Each wine must successfully complete comprehensive quality assurance testing including a taste test, laboratory analysis and packaging review. Approvals were granted for 1008 wines, and denied for 227.

### INSPECTIONS AND AUDITS

148 routine audits were conducted during 2003 – 2004 to verify compliance with origin and production

standards for all approved VQA wines. Each winery member was subject to complete on-site audits on a 5-month interval. In addition, 126 random inspections were completed at the retail level, focused primarily on ensuring ongoing compliance with VQA packaging and labelling regulations. As a result of audits and inspections, follow up was conducted in 51 cases. The number of inspections requiring follow up were down slightly from the previous year and the majority of issues addressed were minor in nature. However, several routine inspections resulted in compliance orders.

### COMPLIANCE ORDERS

VQA Ontario issued 7 compliance orders in cases of violations of the VQA Act and Regulations. All orders involved labelling infractions and resulted in full compliance. Details on enforcement activity are found later in this report.

No tribunals were convened.

### TRADE AND EXPORT DEVELOPMENT

Along with other stakeholders from industry and government, VQA Ontario continued to participate in discussions to improve trade access for wine in European and New World markets. VQA Ontario



provides an independent certification process as required by the European Union as a condition of access to member states. 102 export certificates were issued for wines destined for sale in Europe.

Negotiations continued throughout 2003 to secure improved access to European markets and an agreement on wine and spirits was finalized and initialed by Canada and the European Union on September 16, 2003. Steps towards implementation began immediately and it is expected that the agreement will be implemented in mid-2004. This is a great achievement for Canadian wineries seeking stable access and recognition in the European market.

Canada ratified a Mutual Acceptance Agreement on oenological practices with the United States in December 2002. This agreement eliminates trade barriers based on local wine-making practices and is the basis for current negotiations on labelling practices among the jurisdictions involved. Australia, New Zealand, Chile and Argentina are in the process of joining the agreement and several other countries are participants in the discussions. The goal of these discussions is to provide streamlined market access within the new world and to harmonize labelling practices where possible. It is also a strategy to protect the integrity of VQA-regulated terms and protect consumers from misrepresentation on wine labels.

The process to develop a national standard for VQA wines and other Canadian wines continued throughout the year under the direction of Agriculture and Agrifood Canada. VQA Ontario remains committed to a national standard that maintains the principles of origin and quality for appellation wines that are embodied in the VQA Act in Ontario.

## PUBLIC EDUCATION AND COMMUNICATIONS

VQA Ontario participated in and supported a number of programs aimed at informing members, the public, consumers and industry groups about VQA wines, quality standards and the value of a regulated appellation system.

The majority of effort and resources was devoted to the Ontario Wine Strategy program to promote and market VQA wines to Ontario consumers. Funded jointly by industry and the Province of Ontario, one of its key components is a generic marketing campaign focused on VQA wines. VQA Ontario is an active participant in the OWS Steering Committee and provides ongoing financial support to this program.

### *Other activities included:*

- Continued distribution of brochures on the VQA standard, Icewine and VQA label pins
- Implementation of a dynamic section on the VQA Ontario website to provide more timely information to members and the public about VQA
- Presentations to various groups and conferences
- Providing information to media
- Responding to inquiries or complaints from consumers





## ONTARIO'S VQA WINES

### The Year in Review (2003 - 2004)

#### VQA Wine Sales – Year ending March 31, 2004

##### By Volume

	Litres (2004)	Litres (2003)	% Change
Winery Retail	3,758,869	3,649,561	+ 3%
Licensees	2,340,164	2,073,060	+ 13%
LCBO (shipped)	4,394,169	4,386,246	0%
Outside of Ontario and miscellaneous	1,004,006	1,252,758	- 20%
<b>Total*</b>	<b>11,497,207</b>	<b>11,361,624</b>	<b>+ 1%</b>

##### By Retail Value

	Retail value (\$) (2004)	Retail value (\$) (2003)	% change
Winery Retail	67,795,889	66,440,611	+ 2%
Licensees	30,350,250	27,893,330	+ 9%
LCBO (shipped)	66,227,431	68,132,949	- 3%
Outside of Ontario and miscellaneous	27,383,440	35,488,502	- 23%
<b>Total*</b>	<b>191,757,012</b>	<b>197,955,392</b>	<b>- 3%</b>

\* Figures may not correspond exactly due to rounding errors





## VQA WINE APPROVALS AND PRODUCTION

*These figures are based on volumes declared at the time a wine is submitted for VQA approval (they do not include wines that are still in process or aging prior to submission for approval)*

Total number of applications for VQA approval received .....	1235
Total number of wines approved for VQA status .....	1008 (+9% over last year)
Total volume of approved wines .....	13,673,539 Litres
Total estimated grape tonnage represented .....	18,800 tonnes

### Production at a glance

Wine Category	Number of Products	Volume (cases)	Change from (last year)
Table Wine	840	1,439,000	Down 1%
Icewine	110	88,000 *	Up 90%
Late Harvest	40	24,000 *	Down 7%
Sparkling	17	25,000	Up 45%
Fortified	< 5	< 100	Down 40%

Production for Icewine and Late Harvest wines is reported in 4.5 litre cases. All other production is reported in 9 litre cases.

### TABLE WINES

The table wine category includes all still wines but does not include sweet wines. The overall production of table wine was similar to last year with a very slight decrease. The volume of table wines that were produced and labelled as single varietal wines fell significantly but most of that volume was replaced by an increased production of Rose, Meritage and wines carrying a proprietary label. Overall, still table wine production remained fairly stable.

The trend towards red wines was quite evident in 2003-2004. Many wineries are shifting production volume towards Pinot Noir, Merlot, Cabernet Franc and Cabernet Sauvignon as consumers become increasingly interested in red wines. Merlot and Pinot Noir experienced dramatic increases in volume over last year, reflecting new plantings that are now coming into production. For the first time, the production of red table wines has outpaced white table wine production, although by a slim margin.

In white wines, Chardonnay, Vidal and Riesling continue to be a mainstay for VQA producers. However, the production trend is downward for white varietals with all showing reduced volumes, and many with substantial decreases. Some of this decrease can be explained by the timing of product releases in early 2003 when more whites than usual were approved and released before the year end. This production scheduling had the effect of exaggerating the decrease as reported for the current year.

Wineries continue to look at the potential for new varieties including Malbec, Zinfandel, Sangiovese and Nebbiolo. It remains to be seen which will be successful in the long term as many are cold sensitive and may be more prone to winter damage.

Number of table wines approved: 840 (last year 772)

*(includes all still table wines and does not include Late Harvest, Icewine, or Sparkling wines)*



## WINE PRODUCTION BY CATEGORY

Single Varietal Wines by Grape Variety							
SINGLE VARIETAL	Year ending March 31, 2004			Year ending March 31, 2003			Year over Year % change (volume)
	Number of wines approved	Volume (9 L cases)	Volume (Litres)	Number of wines approved	Volume (9 L cases)	Volume (Litres)	
<b>WHITE WINES</b>							
Chardonnay	144	199,075	1,791,675	130	296,949	2,672,541	- 33 %
Vidal	38	126,013	1,134,117	34	129,366	1,164,294	- 3 %
Riesling	77	106,238	956,142	95	216,383	1,974,447	- 51 %
Sauvignon Blanc	23	20,444	183,996	25	33,861	304,749	- 40 %
Gewurztraminer	21	15,731	141,579	32	58,000	522,000	- 73 %
Pinot Gris/Grigio	15	10,866	97,794	29	48,942	440,478	- 78 %
Auxerrois	5	10,665	95,985		Not Reported		
<b>TOTAL WHITE</b>	<b>323</b>	<b>489,032</b>	<b>4,401,288</b>	<b>345</b>	<b>783,501</b>	<b>7,078,509</b>	<b>- 38 %</b>
<b>RED WINES</b>							
Cabernet Franc	59	117,920	1,061,280	58	92,287	830,583	+ 28 %
Baco Noir	38	106,138	955,242	30	89,947	809,523	+ 18 %
Merlot	59	97,139	874,251	39	32,043	288,387	+200 %
Cabernet Sauvignon	48	74,588	671,292	35	69,699	627,291	+ 7 %
Pinot Noir	48	60,559	545,031	31	25,952	233,568	+133 %
Gamay	33	36,450	328,050	24	34,649	311,841	+ 5 %
Foch	13	7,988	71,892	10	7,707	69,363	+ 4 %
Zweigelt	5	6,540	58,860	9	3,711	33,399	+76 %
<b>TOTAL RED</b>	<b>303</b>	<b>507,322</b>	<b>4,565,898</b>	<b>236</b>	<b>355,995</b>	<b>3,203,955</b>	<b>+ 43 %</b>
Other (11 varietals)	30	13,457	121,113	43	34,989	313,101	-62 %
<b>TOTAL</b>	<b>656</b>	<b>1,009,811</b>	<b>9,088,299</b>	<b>624</b>	<b>1,174,485</b>	<b>10,595,565</b>	<b>-14%</b>

Wines - (including Bolrytis affected wines)							
WINE CATEGORY	Year ending March 31, 2004			Year ending March 31, 2003			Year over Year % change (volume)
	Number of wines approved	Volume (4.5 litre cases)	Volume (Litres)	Number of wines approved	Volume (4.5 litre cases)	Volume (Litres)	
Late Harvest	21	16,538	74,421	12	14,418	64,881	+15 %
Select Late Harvest	12	7,903	35,564	16	8,926	40,167	- 11 %
Special Select Late Harvest	7	916	4,122	3	4,010	18,045	-77 %
<b>TOTAL</b>	<b>40</b>	<b>25,357</b>	<b>114,107</b>	<b>31</b>	<b>27,354</b>	<b>123,093</b>	<b>- 7 %</b>

Fortified wines							
WINE CATEGORY	Year ending March 31, 2004			Year ending March 31, 2003			Year over Year % change (volume)
	Number of wines approved	Volume (9 litre cases)	Volume (Litres)	Number of wines approved	Volume (9 litre cases)	Volume (Litres)	
Sparkling wines	17	23,760	213,840	13	16,330	146,970	+ 46%
Fortified wines	<5	75	675	5	1,100	9,900	- 93 %



## ICEWINE

Number of Icewines approved – 108

Icewines by Variety							
SINGLE VARIETAL	Year ending March 31, 2004			Year ending March 31, 2003			Year over Year % change (volume)
		Number of wines approved	Volume (4.5 L cases)	Volume (Litres)	Number of wines approved	Volume (4.5 L cases)	
Vidal	55	67,804	305,118	53	34,486	155,187	+ 97 %
Riesling	20	10,160	45,720	22	5,885	26,483	+ 73 %
Cabernet Franc	16	4,736	21,312	17	5,186	23,337	- 9 %
Gewurztraminer	8	1,331	5,990	5	351	1,580	+ 279 %
Cabernet Sauvignon	5	1,316	5,922	1	230	1,035	+ 472 %
Other *	4	230	1,035	1	255	1,148	- 10 %
<b>TOTAL</b>	<b>108</b>	<b>85,577</b>	<b>385,097</b>	<b>99</b>	<b>46,393</b>	<b>208,769</b>	<b>+ 84 %</b>

\* Other includes Chardonnay, Merlot, Chenin Blanc and a Meritage blend for 2004





## THE 2003 VINTAGE

Winter conditions in early 2003 determined the state of the 2003 harvest. Prolonged cold through January and February and unexpected low temperatures near – 20 degrees Celsius in some areas in early March damaged emerging plant buds. Pruning regimes were adjusted where possible but it was evident early in the growing season that the crop would be significantly reduced in many areas. Bud damage on tender varieties such as Merlot and Sauvignon Blanc was generally severe and crop yields reduced dramatically. Other varieties such as Chardonnay, Riesling and Gamay fared better with crop yield more dependent on local conditions and viticultural practices.

While the spring of 2003 was cool, summer growing conditions and the natural yield restrictions helped grapes mature and good quality was achieved in most varieties. Shortly after harvest began in September, a warm spell caused the reappearance of the multi-coloured asian ladybeetle, a vineyard pest. With past experience in dealing with this pest, wineries were able to mitigate its effect by delaying harvest, hand-harvesting and sorting, and taking other preventative measures. Fortunately, the warm weather gave way to cool and relatively dry conditions and the ladybeetles continued on their path to hibernation away from vineyards.

The overall availability of grapes for VQA wines was down an estimated 45% in the 2003 vintage. Icewine

grapes however, the majority of which are the Vidal variety, fared better than average and the production of eligible Icewine juice declined only 30% over last year's record high.

Harvest conditions for Icewine were generally good and the harvest was completed in January. Volumes of Icewine juice from vinifera varieties were down substantially but juice quality was excellent for all varieties. Full details of the Icewine harvest are set out below.

### LATE HARVEST AND ICEWINE MONITORING

Late harvest reports were filed by November 15 for all grapes left hanging beyond that date and checking and monitoring continued through to the Icewine harvest. Total tonnage netted was estimated at 3372 tonnes down 17 percent from last year's record 4089 tonnes.

Independent brix testing was conducted for all Late Harvest and Icewine grapes for the 2003 vintage harvest. A short burst of early cold weather in December started the Late Harvest season but Icewine pickings did not start until January 6, 2004. Steady cold weather resulted in the harvest being completed on January 16, 2004.

Yields for both the Late Harvest and Icewine categories were average and sugar levels good to excellent.

### 2003 Vintage Estimates – Late Harvest and Icewine

	Icewine Juice (Litres)			Late Harvest Juice (Litres)		
	2003 Vintage	2002 Vintage	% change	2003	2002	% change
Vidal	371,578	401,772	- 8%	47,585	35,319	+ 35%
Riesling	44,630	128,533	- 65%	12,505	18,088	- 31%
Cabernet Franc	16,163	72,221	- 78%	-	5,250	N/A
Gewurztraminer	1,200	11,010	- 89%	-	700	N/A
Cabernet Sauvignon	1,200	6,885	- 83%	-	500	N/A
Others	2,900	4,605	- 37%	600	2040	- 71%
<b>TOTAL</b>	<b>437,671</b>	<b>625,026</b>	<b>- 30 %</b>	<b>60,690</b>	<b>61,897</b>	<b>- 2%</b>



## ENFORCEMENT ACTIVITY

VQA Ontario enforces compliance with the VQA Act and regulations as its primary mandate. The regulatory process starts with the monitoring of grape quality at harvest through independent sugar testing and through regular auditing and reconciling of wine making processes and record-keeping. Once the wine is finished and submitted for VQA approval, taste tests, laboratory tests and label reviews are completed. Only after having successfully completed this process can a wine receive approval and be released for sale, using designated terms and descriptions.

Last year, we conducted 148 full on-site audits, taking from 1 to 3 days each and an additional 126 random, unannounced retail inspections at winery retail stores, LCBO stores and licensees. As a result of these activities, a number of problems were uncovered and corrected, most related to minor labelling violations such as placement of variety names, or graphic discrepancies with the VQA logo. The most serious violations found were cases where wineries had offered VQA wines for sale before receiving approval. In most cases, these wines were intended to be VQA wines and were in the approval process. These wines were ordered removed from all channels of sale until they were approved, and in many cases, approval followed and the wines were re-released.

Some investigations led to compliance orders and resulted in financial consequences for the winery involved.

VQA Ontario also conducts random Quality Assurance Reviews (QARs) on VQA wines to ensure ongoing product integrity. This involves selecting approved wines on a random basis (10% of wines) from a retail setting and re-testing these wines. This allows us to determine that the wine in the bottle is the same wine that was approved. A total of 77 QARs were conducted last year.

With the continued growth in quality and popularity of VQA wines, the crop shortage in 2003 poses some challenges for the wine industry in the coming year. VQA wines must be made from 100% Ontario grapes and wineries are striving to allocate as many Ontario grapes as possible to VQA wines. Some wineries will be offering both VQA and non-VQA wines to continue to meet their customers needs. VQA wines will be clearly identified with the VQA logo and continue to meet the same rigorous standards as in previous years.

The overall level of compliance with VQA regulations within Ontario continues to be very good. The majority of infractions are minor and most are uncovered and corrected before products reach the consumer market.

Alleged Violation		Action
August 2003	Error in vintage and varietal labelling	Four wines withheld or removed from all sales channels, pending relabelling – order fulfilled. One approval remains suspended.
September 2003	Use of “Niagara Peninsula” on non-VQA wine	Wine removed from sale pending label correction – order fulfilled.
November 2003	Use of “Vin de Cure” on non-VQA wine	Wine removed from sale pending label correction – order fulfilled.
November 2003	Hybrid content not declared on label	Wine removed from sale pending label correction – order fulfilled.
November 2003	Use of “VQA” and viticultural area on non-VQA wine	Wine removed from sale pending approval – order fulfilled.
November 2003	Failure to provide records on request	Winery ordered to provide records within 30 days – order fulfilled.
December 2003	Use of “VQA” on a non-VQA wine	Wine removed from sale pending label correction – order fulfilled.



## FINANCIAL REPORT



### RESOURCING

VQA Ontario is supported primarily by its members on a fee for service basis. It continues to seek out ways to maximize the efficiency of service delivery, including sharing services with other agencies. VQA Ontario acknowledges the Liquor Control Board of Ontario for its assistance and cooperation in providing contracted services that increase the efficiency in performing VQA Ontario's regulatory role. This along with the support of wineries and the success of VQA wines in the marketplace, VQA Ontario is entirely self-funded.

### FINANCIAL SUMMARY

This summary is drawn from the auditor's report and financial statements for the year ended March 31, 2004 contained in Appendix 1.

Revenue exceeded expenditures by \$ 3,099 for the year ended March 31, 2004, down substantially from surpluses in past years. Revenues fell by \$288,914 due to a combination of member fee reductions and the final phasing out of transitional funding. As well, expenses increased by \$92,880 because of a staff increase in 2004 and higher legal and insurance expenses. It is expected that net assets carried forward will be approximately \$993,000. This includes restricted funds in the amount of \$400,000 to be reserved as a contingency for complicated investigations or prosecutions. VQA Ontario plans to carry an operating deficit in 2005 and 2006 as net assets are used to subsidize lower fees for members and as the crop shortage affects the availability of VQA wines.

Total revenue for fiscal 2004 was \$993,416 with the majority received in member bottle levies (\$678,576).

Total expenditures for the year were \$990,317 with major expenses including quality testing and monitoring (\$235,602), insurance and professional fees (\$87,590), public education (\$250,000) and employee costs (\$254,857).



Mark Kopstick C.A.  
Benjamin Osher C.A.  
William Genga B.Comm.  
In association with  
Reiner Goebel C.A.

#### AUDITORS' REPORT

To the Council,  
Vintners Quality Alliance Ontario

We have audited the the statement of financial position of Vintners Quality Alliance Ontario as at March 31, 2004 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the organization as at March 31, 2004 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in blue ink, appearing to read "Kopstick Osher".

Toronto, Canada  
June 8, 2004

KOPSTICK OSHER  
Chartered Accountants, LLP

VINTNERS QUALITY ALLIANCE ONTARIO  
 STATEMENT OF FINANCIAL POSITION  
 AS AT MARCH 31, 2004

	2004	2003
<b>ASSETS</b>		
<b>Current</b>		
Cash and short-term investments	\$ 1,108,184	\$ 969,519
Accounts receivable	50,531	71,922
Sundry assets	<u>11,522</u>	<u>94,152</u>
	<u>1,170,237</u>	<u>1,135,593</u>
<b>Capital - Note 2</b>	<u>11,435</u>	<u>10,863</u>
	<u>\$ 1,181,672</u>	<u>\$ 1,146,456</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accruals	\$ 135,905	\$ 83,338
Deferred revenue - Note 3	<u>53,060</u>	<u>73,510</u>
	<u>188,965</u>	<u>156,848</u>
<b>NET ASSETS</b>		
<b>Net assets</b>	<u>992,707</u>	<u>989,608</u>
	<u>\$ 1,181,672</u>	<u>\$ 1,146,456</u>

APPROVED BY THE BOARD:


The accompanying notes form an integral part of these financial statements.

VINTNERS QUALITY ALLIANCE ONTARIO  
 STATEMENT OF CHANGES IN NET ASSETS  
 FOR THE YEAR ENDED MARCH 31, 2004

	Invested in capital assets	Internally restricted for legal and enforcement fund	Unrestricted	2004 Total	2003 Total
<b>Net assets</b> - beginning of year	\$ 10,863	\$ 400,000	\$ 578,745	\$ 989,608	\$ 604,715
Excess of revenues over expenses	-	-	3,099	3,099	384,893
Purchase of capital assets	3,645	-	(3,645)	-	-
Amortization of capital assets	(3,073)	-	3,073	-	-
<b>Net assets</b> - end of year	<u>\$ 11,435</u>	<u>\$ 400,000</u>	<u>\$ 581,272</u>	<u>\$ 992,707</u>	<u>\$ 989,608</u>

The accompanying notes form an integral part of these financial statements.

**VINTNERS QUALITY ALLIANCE ONTARIO  
STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED MARCH 31, 2004**

	2004	2003
<b>Revenues</b>		
Membership fees	\$ 70,500	\$ 96,750
Bottle fees	678,576	778,992
Approval fees	165,210	151,065
Other income	44,793	36,813
Contributions from LCBO	-	110,870
Contributions from GGO	-	75,000
Contributions from OMAFRA	19,337	32,840
Contributions from IRAP	15,000	-
	<u>993,416</u>	<u>1,282,330</u>
<b>Expenses</b>		
Salaries and benefits	254,857	212,413
Contracted services	13,280	17,360
Recruitment	6,022	-
Public education	250,000	250,000
Approvals	199,311	201,159
Quality assurance and inspection	23,011	20,208
Strategic planning	11,615	-
Export development and trade	13,641	21,321
Sub-appellation research	21,500	-
Weather monitoring	4,000	-
Meetings	8,444	7,891
Travel	5,213	6,044
Rent and occupancy	32,366	31,168
Office and general	23,997	20,817
Printing and mailing	26,579	45,435
Telephone and communications	5,818	5,301
Insurance	28,271	23,451
Professional services	59,319	32,853
Amortization	3,073	2,016
	<u>990,317</u>	<u>897,437</u>
<b>Excess of revenues over expenses</b>	<b>\$ 3,099</b>	<b>\$ 384,893</b>

The accompanying notes form an integral part of these financial statements.

**VINTNERS QUALITY ALLIANCE ONTARIO  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED MARCH 31, 2004**

	2004	2003
<b>Cash flows from operating activities</b>		
Excess of revenues over expenses	\$ 3,099	\$ 384,893
Non-cash items:		
Amortization	3,073	2,016
Net change in non-cash working capital	<u>136,138</u>	<u>81,959</u>
	<u>142,310</u>	<u>468,868</u>
<b>Cash flows from investing activities</b>		
Purchase of capital assets	<u>(3,645)</u>	<u>(11,738)</u>
<b>Cash flows from financing activities</b>	<u>-</u>	<u>-</u>
<b>Increase in cash</b>	138,665	457,130
<b>Cash and short-term investments - beginning of year</b>	<u>969,519</u>	<u>512,389</u>
<b>Cash and short-term investments - end of year</b>	<u>\$ 1,108,184</u>	<u>\$ 969,519</u>

The accompanying notes form an integral part of these financial statements.

**VINTNERS QUALITY ALLIANCE ONTARIO**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2004**

**1. Significant accounting policies**

**Purpose and legal form of the organization**

Vintners Quality Alliance Ontario is an independent organization that administers the Vintners Quality Alliance Act, 1999 and its regulations through an administrative agreement with the Ontario government. It establishes, monitors and enforces a system of quality assurance and verification of product origin for wines bearing the VQA logo.

Vintners Quality Alliance Ontario exists as a not-for-profit corporation without share capital. It is not subject to income tax.

**Revenue recognition**

Vintners Quality Alliance follows the deferral method of accounting for revenues. All revenues are recognized in the year to which they pertain.

**Capital assets**

Capital assets are recorded at cost less accumulated amortization. Amortization is provided for on a straight-line basis at the following annual rates:

Computer equipment and software	20%
Office furniture and equipment	20%

**Contributed materials and services**

The organization receives substantial contributed services from members and others through participation on the Board of Directors and other committees. Because of the difficulty in determining their fair value, such services are not recorded in these financial statements.

All other contributed materials and services are recorded at fair value.

**2. Capital assets**

	Cost	Accumulated Amortization	2004 Net Book Value	2003 Net Book Value
Computer equipment and software	\$ 8,774	\$ 2,494	\$ 6,280	\$ 8,034
Office furniture and equipment	<u>6,609</u>	<u>1,454</u>	<u>5,155</u>	<u>2,829</u>
	<u>\$ 15,383</u>	<u>\$ 3,948</u>	<u>\$ 11,435</u>	<u>\$ 10,863</u>

**VINTNERS QUALITY ALLIANCE ONTARIO**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2004**

**3. Deferred revenue**

Deferred revenue represents membership fees and product approval fees received, which relate to the subsequent year.

**4. Net assets internally restricted for legal and enforcement fund**

Net assets of \$400,000 have been restricted for the purpose of funding costs of enforcing adherence to the regulations of the Vintners Quality Alliance Act.

**5. Commitments**

A \$250,000 commitment has been made to the Wine Council of Ontario to provide funding for generic marketing over the next fiscal year.

The organization has a 5 year sub-lease with the LCBO effective April 1, 2003 for space it occupies. Annual rent over the remaining 4 years is \$38,400.

# Vintners Quality Alliance Ontario

---

## BOARD OF DIRECTORS March 31, 2004

### Officers

**Len Pennachetti**

President, Cave Spring Cellars  
*President and Chair, VQA Ontario*

**Paul Speck**

President, Henry of Pelham Family Estate Winery  
*Vice-Chair, VQA Ontario*

**Newman Smith**

Chairman, Strewn Inc.  
*Treasurer, VQA Ontario*

**Sandra Marynissen**

Vice-President, Marynissen Estates  
*Secretary, VQA Ontario*

### Directors – elected from membership

**Greg Berti**

Vice-President, Estate Wineries and Global Markets,  
Andres Wines Ltd.

**Philip Dowell**

General Manager, Inniskillin Wines Inc.

**Grace LoCilento**

President, Cilento Wines Ltd.

**Stu Morgan**

Director, Lakeview Cellars Estate Winery

**Walter Schmoranz**

General Manager,  
Pelee Island Winery

### Directors-Appointed

**Alexandra Aguzzi-Barbagli**

Manager, Sector Liaison, Ontario Ministry of Consumer  
and Business Services

**William George Jr.**

Vice-Chair, Grape Growers of Ontario

**Terry Mundell**

President, Ontario Restaurant, Hotel and Motel Association

### Statutory Appointments

Laurie Macdonald, VQA Inspector  
James Fisher, VQA Inspector

### VQA Ontario staff

Laurie Macdonald, Executive Director  
James E. Fisher, Manager, Education and Compliance  
Barbara Dodds, Executive Assistant

**Photo Credits:**

Cover: Steve Elphick, Velocite Graphics Group Ltd.

**Special thanks to the following for content photos:**

Johanna Burkhard, *Manager Media and Public Relations, Peninsula Ridge*

Tanya Dowber, *Marketing Manager, Pillitteri Estates Winery*

Elena Galey-Pride, *Marketing Manager, Malivoire Wine Company*

Paul Lizak, *President, Legends Estates Winery*

Sherri Lockwood, *Marketing Manager, Premium Wine Channels, Estate Wine Group*

AJ McLaughlin, *Angels Gate Winery*

Sarah Ripley, *Special Events & Public Relations Coordinator, Estate Wine Group*

Ann Saunders, *Cave Spring Cellars*

Dave Sipos, *Director of eBusiness, Château des Charmes Wines*

Wine Council of Ontario

[www.istockphoto.com](http://www.istockphoto.com)

[www.photos.com](http://www.photos.com)



VQA Ontario  
1 Yonge Street  
Suite 1601  
Toronto, ON M5E 1E5

Tel: 416-367-2002  
Fax: 416-367-4044

[www.vqaontario.com](http://www.vqaontario.com)