



Vintners Quality Alliance Ontario
2005 Annual Report

*Setting the standard for
Ontario's premium wines*



Vision

VQA Ontario will regulate with integrity and rigour and strive for continuous improvement in its practices. VQA wines will be appellation wines of high quality, representing comprehensive process and authenticity standards.

Values

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 to ensure VQA terms, descriptions and designations are not misused and consumers can rely on label integrity for all VQA wines.

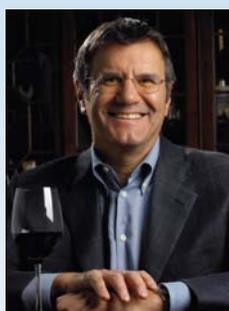
Accountability – VQA Ontario will be accountable for its decisions and promote effective and fair dispute mediation to resolve conflict.

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



As usual, VQA Ontario's activities focused on carrying out its regulatory responsibilities and ensuring compliance with VQA rules and regulations. Particular scrutiny was paid to verifying origin and content this year in the context of the short crop.

The VQA Ontario Board of Directors continues to implement its strategic plan, focused on effective regulation, high standards of performance for both VQA Ontario and VQA wines and continuous improvement of the quality of VQA wines. Regulatory and process improvements began in the summer of 2004.

With respect to origin, we are close to completing work on the project to establish sub-appellations within the Niagara Peninsula viticultural area. Research on the characteristics of unique sub-regions and consultation on suitable names for each region has been completed. These new appellations will be proposed for protection under the VQA Act later this year. The identification and regulation of sub-appellations is essential to protecting the integrity of appellation names and ensuring truth-in-labelling with respect to claims of origin.

VQA Ontario and its members have faced a number of challenges this past year. With the crop shortage in 2003, VQA Ontario is reporting the first decline in VQA wine sales since its inception five years ago. VQA Ontario standards require 100% Ontario

content and even with all qualifying Ontario grapes made available for VQA wines, production declined significantly compared to the previous year. Fortunately, it appears production levels will be close to normal for 2004 and VQA wines will reappear in the market in full force this year.

VQA Ontario is also contributing to 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. The national wine standards process has been difficult over the past year but as I write this, it remains our goal to support a strong national standard for appellation wines that will be the basis on which Canada's wine industry can succeed and work together.

I had the pleasure of welcoming 7 new wineries to VQA last year, bringing the number of Ontario VQA wineries to 78 – 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 has grown again this year and our volume of activities is growing in response. However with the crop shortage in 2003, applications for wine approvals fell to 1047 from 1235. The volume of VQA wine approved was

down significantly to approximately 9 million litres, a decrease of 34 percent. The availability of VQA wines is expected to return to normal over the course of 2005 as 2004 vintage wines are released.

Routine audits and inspections continued throughout the year and overall compliance with the VQA regulations continues to be excellent. Statistics on inspections and compliance actions can be found later in this report.

As a result of a review by the Standards Development Committee, 2 hybrid grape varieties have been deleted from the list of permitted varieties. A new tasting procedure was also introduced, designed to improve the objectivity and effectiveness of organoleptic assessment. The Committee is currently looking at ways to improve the overall quality of VQA wines and provide support to wineries pursuing this objective.

VQA Ontario has continued to provide a great deal of input to the negotiation of a national wine standard. Draft regulations for wine, proposed to take effect under the Canadian Agricultural Products Act were circulated early in 2005. These regulations are the result of negotiations between government and industry, primarily from British Columbia, Ontario, Quebec and Nova Scotia. Although it is unlikely that a national standard will be

identical to Ontario's standard, VQA Ontario is seeking a standard that maintains the integrity of VQA and related terms. Significant progress was made last year on the technical elements of the national standard but much discussion remains on the food safety elements of the proposed standard and the administrative framework required for implementation.

In 2003, member fees were substantially reduced. Budget deficits were planned for 2004 and 2005 to reduce surplus funds and return equity to member wineries. In this past year, bottle fee revenues declined substantially due to the short crop and members' equity was drawn down by a significant amount. The budget remains viable however, and fee increases are not predicted for this year as we continue to exercise fiscal restraint. Financial statements are published in the body of the annual 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, Jim Fisher, winery audit staff, LCBO Quality Assurance staff and Errol McKibbin.

I write this message just as the new growing season is beginning. While we are again faced with some uncertainty after an unpredictable winter, I am confident that the vintage will produce a number of excellent wines that will be a credit to Ontario's appellation system. I 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.

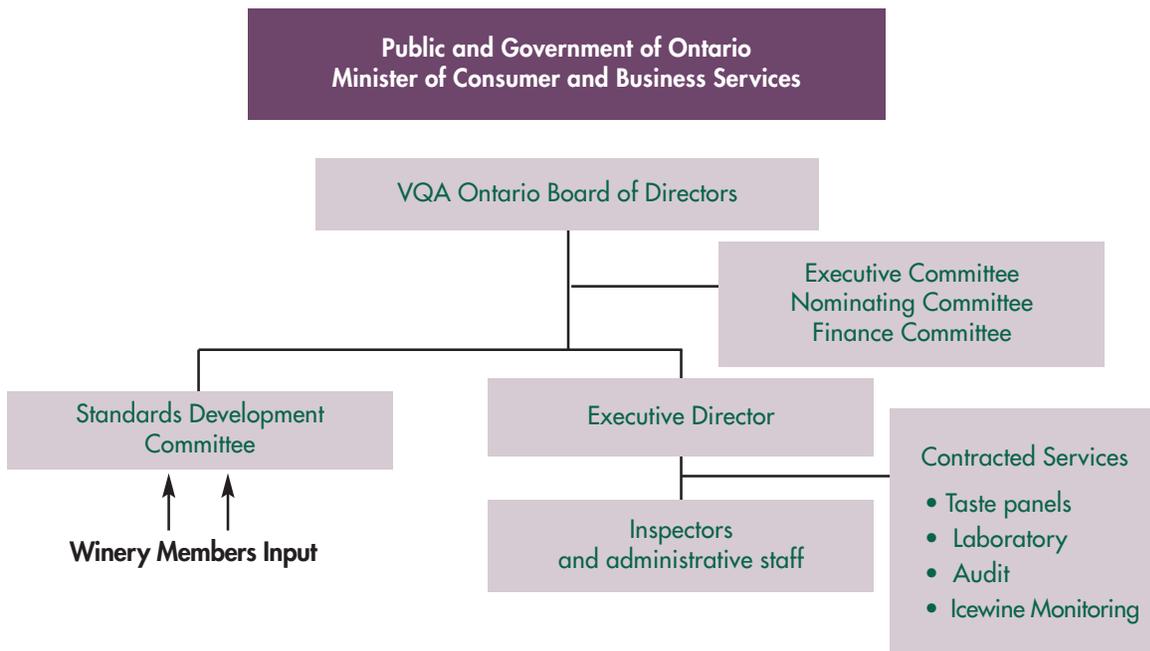
The VQA Act establishes an "Appellation of Origin" system by which consumers can identify quality wines made in Ontario based on the origin of grapes used, production methods and other standards. Wines produced in accordance with VQA regulations may apply for approval and, if successful, are entitled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

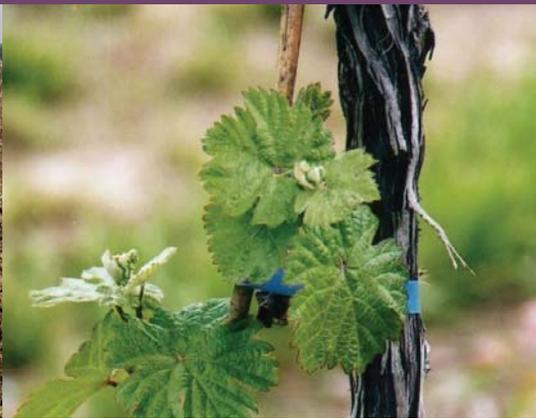
In addition to its primary mandate to administer and enforce standards under the VQA Act, VQA Ontario is also committed to work with the grape and wine industry, governments and the public

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 their understanding of the VQA appellation system. The following reports activities during the period April 1, 2004 to March 31, 2005.

Membership

VQA Ontario ended the 2004-2005 year with 78 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 62 small wineries (sales of up to 100,000 litres of VQA wines). A total of 7 new wineries joined VQA Ontario. Moderate membership growth is expected to continue into 2006.

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.

ACTIVITY SNAPSHOT

- 7 new member wineries
- 843 wines approved
- 81% success rate for approvals
- Chardonnay the top production VQA varietal wine
- 102 Export certificates issued
- 267 audits and inspections conducted
- 3 compliance orders issued and resolved

Product Approvals

1047 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 843 wines, and denied for 204.

Inspections and Audits

137 routine audits were conducted during 2004 – 2005 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 to 7 month interval, depending on their compliance record. In addition, 130 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 58 cases. The majority of issues addressed were minor in nature, but a few routine inspections resulted in compliance orders.

Compliance Orders

VQA Ontario issued 3 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.

One tribunal hearing was convened to address a winery appeal of several product approval suspensions. No results have yet been issued from the tribunal.





Regulatory Review

As part of VQA Ontario's goal to continuously review and improve the VQA standard, two hybrid grape varieties were deleted from the list of approved varieties.

In addition, extensive research and consultation was carried out on the establishment of sub-appellations within the Niagara Peninsula and Lake Erie North Shore. It is anticipated that sub-appellations for Niagara Peninsula will be proposed for protection under the VQA Act later this year.

Trade and Export Development

Along with other stakeholders from industry and government, VQA Ontario continued to participate in discussions to promote recognition and acceptance of the VQA standard and access to 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.

Implementation of the Agreement on Wine and Spirits between Canada and the European Union continued throughout 2004 and a simplified certification process is now in place.

Negotiations also continue on an agreement on labelling pursuant to the existing Mutual Acceptance Agreement on oenological practices with the United States, Australia, New Zealand, Chile and Argentina. 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 part of 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. The National Wine Standards Committee has reached an agreement on the wine-making elements of the national wine standards but substantial work remains to address the implementation framework. 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 resources was devoted to the Ontario Wine Strategy program to promote and market VQA wines to Ontario consumers. Funded jointly by industry, VQA Ontario 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 campaign.

A seminar program aimed at educating future wine professionals was launched in the fall of 2004. This program provides a series of lectures to students enrolled in university and community college programs that will lead to involvement in wine related careers such as sommeliers, restaurant and hospitality service. The seminars explain the VQA appellation program, its development and its value to wine consumers. The initial seminars have been very well-received and are expected to have a positive impact.

Other activities included:

- Continued distribution of brochures on the VQA standard, Icewine and VQA lapel pins
- Providing online information to member wineries 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 (2004 - 2005)

VQA Wine Sales – Year ending March 31, 2005

By Volume

	Litres (2005)	Litres (2004)	% Change
Winery Retail	3,268,723	3,758,869	-13%
Licensees	1,629,380	2,340,164	-30%
LCBO (shipped)	3,275,873	4,394,169	-25%
Outside of Ontario and miscellaneous	964,706	1,004,006	-4%
Total*	9,138,681	11,497,207	-21%

	Retail value (\$) (2005)	Retail value (\$) (2004)	% change
Winery Retail	66,405,304	67,795,889	-2%
Licensees	23,889,535	30,350,250	-21%
LCBO (shipped)	55,773,214	66,227,431	-16%
Outside of Ontario and miscellaneous	37,712,132	27,383,440	+38%
Total*	183,780,184	191,757,012	-4%

* 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	1047
Total number of wines approved for VQA status.....	843
Total volume of approved wines	9,036,855 Litres
Total estimated grape tonnage represented	12,500 tonnes

Production at a glance

(April 1, 2004 – March 31, 2005, totals rounded)

Wine Category	Number of Products	Volume (cases)	Change from last year
Table Wine	710	925,000	Down 36%
Icewine	90	59,000	Down 31%
Late Harvest	22	12,600	Down 50%
Sparkling	9	6,300	Down 75%

*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 markedly less than the previous year because of the 2003 grape crop shortage. In particular, the volume of red varietal wines produced fell significantly, with the Merlot and Cabernet Sauvignon vines being most affected by the winter damage of early 2003. Production volumes for white varietals were almost double those of red varietals but this appears to reflect the distribution of

the crop shortage rather than a trend towards increasing white wine production. A return to a more balanced production – about 50% each for red and white varietals – is expected next year as grape production returns to normal.

Chardonnay and Riesling continue to be a mainstay for white varietals and Cabernet Franc remains the most popular red. Because of the anomaly introduced by the crop shortage, no production trends can be gleaned from this year's data.

WINE PRODUCTION BY CATEGORY

Single Varietal Wines by Grape Variety							
SINGLE VARIETAL	Year ending March 31, 2005			Year ending March 31, 2004			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)	
WHITE WINES							
Chardonnay	126	150,366	1,353,294	144	199,075	1,791,675	- 24 %
Riesling	78	123,121	1,108,089	77	106,238	956,142	+16 %
Vidal	34	88,420	795,780	38	126,013	1,134,117	- 30 %
Sauvignon Blanc	20	17,699	159,291	23	20,444	183,996	- 13 %
Gewurztraminer	19	20,458	184,122	21	15,731	141,579	+ 30 %
Pinot Gris/Grigio	17	9,723	87,507	15	10,866	97,794	- 11 %
TOTAL WHITE	294	409,787	3,688,083	318	478,367	4,305,303	- 14 %
RED WINES							
Cabernet Franc	49	50,963	458,667	59	117,920	1,061,280	- 57 %
Cabernet Sauvignon	39	24,422	219,798	48	74,588	671,292	- 67 %
Merlot	34	25,648	230,832	59	97,139	874,251	- 74 %
Gamay	33	34,384	309,456	33	36,450	328,050	- 6 %
Pinot Noir	28	32,563	293,067	48	60,559	545,031	- 46 %
Baco Noir	24	39,192	352,728	38	106,138	955,242	- 63 %
Foch	13	9,003	81,027	13	7,988	71,892	+13 %
Zweigelt	5	1,465	13,185	5	6,540	58,860	- 78 %
TOTAL RED	225	217,640	1,958,760	303	507,322	4,565,898	- 57 %
Other (12 varietals)	28	15,570	140,130	35	24,122	217,098	- 35 %
TOTAL	547	642,997	5,786,973	656	1,009,811	9,088,299	- 36 %

vines- (including Botrytis affected wines)

WINE CATEGORY	Year ending March 31, 2005			Year ending March 31, 2004			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	10	8,442	37,989	21	16,538	74,421	- 49 %
Select Late Harvest	12	4,045	18,243	12	7,903	35,564	- 49 %
Special Select Late Harvest	*	142	639	7	916	4,122	- 84 %
TOTAL	22	12,629	56,871	40	25,357	114,107	- 50 %

* less than 5

Fortified wines

WINE CATEGORY	Year ending March 31, 2005			Year ending March 31, 2004			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	9	6,288	56,592	17	23,760	213,840	- 74 %
Fortified wines	*	491	4,419	<5	75	675	+ 555 %

* less than 5



ICEWINE

Icewines by Variety							
SINGLE VARIETAL	Year ending March 31, 2005			Year ending March 31, 2004			Year over Year % change (volume)
	Number of wines approved	Volume (4.5 litres cases)	Volume (litres)	Number of wines approved	Volume (4.5 litres cases)	Volume (litres)	
Vidal	56	47,511	213,800	55	67,804	305,118	- 30 %
Riesling	19	5,814	26,163	20	10,160	45,720	- 43 %
Cabernet Franc	15	4,992	22,464	16	4,736	21,312	+ 5 %
Gewurztraminer	*	125	563	8	1,331	5,990	- 91 %
Cabernet Sauvignon	*	281	1,265	5	1,316	5,922	- 79 %
Other	*	68	306	4	230	1,035	- 70 %
TOTAL	90	58,791	264,561	108	85,577	385,097	- 31%

* less than 5





THE 2004 VINTAGE

Winter conditions in 2003 – 2004 were much more favourable than the previous year. This was a key factor in allowing vines to recover from damage sustained in early 2003. Cautious winter and spring pruning set the stage for managing bud damage later in the season.

While the spring and summer of 2004 was generally cool, early autumn growing conditions were ideal for ripening grapes. Hot sunny weather through September and into October resulted in mature grapes, and good quality was achieved in most varieties. Reduced yields were evident in some areas, especially for tender varieties such as Merlot and Sauvignon Blanc as these vines continue to recover from cold temperatures in early 2003.

The overall availability of grapes for VQA wines was good, with production returning to near normal levels. A record tonnage of grapes was registered for Icewine production, and the production of juice eligible for Icewine hit a record level.

Harvest conditions for Icewine were excellent and the harvest

began relatively early. Juice pressed was also of very good quality with a significant increase in the volume of juice from vinifera varieties. Full details of the Icewine harvest are set out below.

Late Harvest and Icewine Monitoring

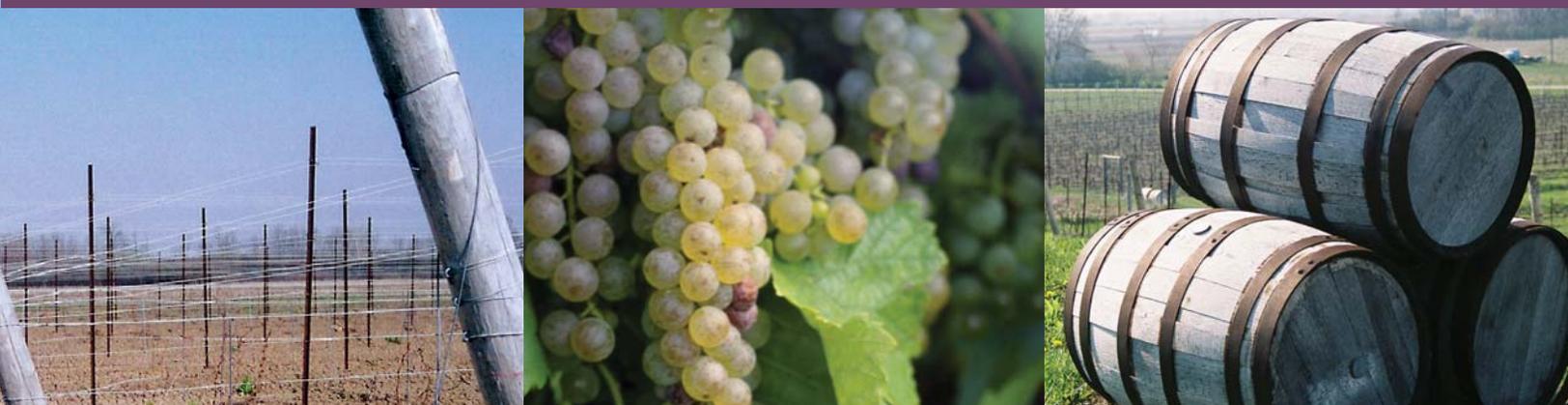
Late harvest reports were filed by November 15 for all grapes left hanging beyond that date and checking and monitoring continued through to the Icewine harvest. Total tonnage netted was estimated at 5808 tonnes up 72 percent from last year's 3372 tonnes and up 42 percent from the previous record 4089 tonnes.

Independent brix testing was conducted for all Late Harvest and Icewine grapes for the 2004 vintage harvest. A burst of early cold weather started the Icewine season on December 19, 2004 and periodic Icewine picking continued until January 21, 2005 when the harvest was completed.

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

2004 Vintage Estimates – Late Harvest and Icewine

VARIETY	Icewine Juice (Litres)			Late Harvest Juice (Litres)		
	2004 Vintage	2003 Vintage	% change	2004 Vintage	2003 Vintage	% change
Vidal	688,966	371,578	85%	140,788	47,585	196%
Riesling	102,794	44,630	130%	17,815	12,505	42%
Cabernet Franc	89,480	16,163	454%	190	-	-
Gewurztraminer	6,110	1,200	409%	-	-	-
Cabernet Sauvignon	5,275	1,200	340%	975	-	-
Others	7,545	2,900	160%	11,850	600	1875%
TOTAL	900,170	437,671	106%	171,618	60,690	183%



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, 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 137 full on-site audits, taking from 1 to 3 days each and an additional 130 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.

An appeal hearing was held before a tribunal of the Alcohol and Gaming Commission on April 15 and 21, 2004. The appeal was in regard to the suspension of a product approval issued to a winery member in December 2003. VQA Ontario alleged that a 2002 vintage-dated wine contained 2001 vintage wine in violation of Regulation 406, section 3 of the VQA Act and therefore was not entitled to approval. The winery contested VQA Ontario's conclusion regarding the blending records and appealed the suspension. At the time of this report, no ruling has yet been issued by the tribunal.

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 (5% of wines) from a retail setting and re-testing these wines. This allows us to verify that the wine in the bottle is the same wine that was approved. A total of 54 QARs were conducted last year.

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
October 2004	Use of "Ontario" on non-VQA wines	Corrections to be made within 30 days – order fulfilled.
November 2004	Use of vineyard name on non-VQA wines	Wine removed from sale pending label correction – order fulfilled.
November 2004	Failure to provide information required under VQA legislation at time of audit	Information to be provided within 1 week – order fulfilled.



FINANCIAL REPORT

Resourcing

VQA Ontario is funded by its member wineries through sales levies and fees for service. 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 VQA Ontario's efficiency in performing its regulatory role.

Financial Summary

This summary is drawn from the auditor's report and financial statements for the year ended March 31, 2005.

Expenditures exceeded revenue by \$168,662 for the year ended March 31, 2005, a change from surpluses in past years. Revenues fell by \$190,490 to \$802,926 due mostly to a decline in sales of VQA wines and lower bottle fees resulting from the crop shortage in 2003. Expenses were fairly stable, falling by \$18,729 to \$971,588. Net assets carried forward are \$824,045, a decline from last year reflecting the operating deficit. 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 continue an operating deficit in 2006 as net assets are used to subsidize existing low fees for members and as the crop shortage continues to work through the system.

Revenue for fiscal 2005 of \$802,926 was derived primarily from member bottle fees (\$534,864).

Total expenditures for the year were \$971,588 with major expenses including quality testing and monitoring (\$193,850), insurance and professional fees (\$80,762), public education (\$250,000) and employee costs (\$308,641).





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

AUDITORS' REPORT

To the Board of Directors,
Vintners Quality Alliance Ontario

We have audited the the statement of financial position of Vintners Quality Alliance Ontario as at March 31, 2005 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, 2005 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 3, 2005

KOPSTICK OSHER
Chartered Accountants, LLP



VINTNERS QUALITY ALLIANCE ONTARIO
 STATEMENT OF FINANCIAL POSITION
 AS AT MARCH 31, 2005

	2005	2004
ASSETS		
Current		
Cash and short-term investments	\$ 868,159	\$ 1,108,184
Accounts receivable	52,113	50,531
Sundry assets	<u>8,786</u>	<u>11,522</u>
	<u>929,058</u>	<u>1,170,237</u>
Capital - Note 2	<u>13,505</u>	<u>11,435</u>
	<u>\$ 942,563</u>	<u>\$ 1,181,672</u>
LIABILITIES		
Current		
Accounts payable and accruals	\$ 89,093	\$ 135,905
Deferred revenue - Note 3	<u>29,425</u>	<u>53,060</u>
	<u>118,518</u>	<u>188,965</u>
NET ASSETS		
Net assets	<u>824,045</u>	<u>992,707</u>
	<u>\$ 942,563</u>	<u>\$ 1,181,672</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, 2005**

	Invested in capital assets	Internally restricted for legal and enforcement fund	Unrestricted	2005 Total	2004 Total
Net assets - beginning of year	\$ 11,435	\$ 400,000	\$ 581,272	\$ 992,707	\$ 989,608
Excess of revenues over expenses (expenses over revenues)	-	-	(168,662)	(168,662)	3,099
Purchase of capital assets	8,524	-	(8,524)	-	-
Amortization of capital assets	<u>(6,454)</u>	<u>-</u>	<u>6,454</u>	<u>-</u>	<u>-</u>
Net assets - end of year	<u>\$ 13,505</u>	<u>\$ 400,000</u>	<u>\$ 410,540</u>	<u>\$ 824,045</u>	<u>\$ 992,707</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, 2005

	2005	2004
Revenues		
Membership fees	\$ 76,500	\$ 70,500
Bottle fees	534,864	678,576
Approval fees	158,040	165,210
Other income	33,522	44,793
Contributions from OMAFRA	-	19,337
Contributions from IRAP	-	15,000
	<u>802,926</u>	<u>993,416</u>
Expenses		
Salaries and benefits	308,641	254,857
Contracted services	18,520	13,280
Recruitment	-	6,022
Public education	250,000	250,000
Approvals	159,021	199,311
Quality assurance and inspection	16,309	23,011
Strategic planning	-	11,615
Export development and trade	22,930	13,641
Sub-appellations	11,070	21,500
Sponsorships	5,000	-
Weather monitoring	4,000	4,000
Meetings	6,611	8,444
Travel	9,178	5,213
Rent and occupancy	39,566	32,366
Office and general	17,818	23,997
Printing and mailing	10,389	26,579
Telephone and communications	5,319	5,818
Insurance	31,001	28,271
Professional services	49,761	59,319
Amortization	6,454	3,073
	<u>971,588</u>	<u>990,317</u>
Excess of revenues over expenses (expenses over revenues)	\$ (168,662)	\$ 3,099

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, 2005

	2005	2004
Cash flows from operating activities		
Excess of revenues over expenses (expenses over revenues)	\$ (168,662)	\$ 3,099
Non-cash items:		
Amortization	6,454	3,073
Net change in non-cash working capital	<u>(69,293)</u>	<u>136,138</u>
	<u>(231,501)</u>	<u>142,310</u>
Cash flows from investing activities		
Purchase of capital assets	<u>(8,524)</u>	<u>(3,645)</u>
Cash flows from financing activities	<u>-</u>	<u>-</u>
Increase (decrease) in cash and short-term investments	(240,025)	138,665
Cash and short-term investments - beginning of year	<u>1,108,184</u>	<u>969,519</u>
Cash and short-term investments - end of year	<u>\$ 868,159</u>	<u>\$ 1,108,184</u>

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

VINTNERS QUALITY ALLIANCE ONTARIO

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2005

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.

2. Capital assets

	Cost	Accumulated Amortization	2005 Net Book Value	2004 Net Book Value
Computer equipment and software	\$ 12,645	\$ 3,556	\$ 9,089	\$ 6,280
Office furniture and equipment	7,234	2,818	4,416	5,155
	<u>\$ 19,879</u>	<u>\$ 6,374</u>	<u>\$ 13,505</u>	<u>\$ 11,435</u>

VINTNERS QUALITY ALLIANCE ONTARIO
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

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

The organization has a 5 year sub-lease with the LCBO effective April 1, 2003 for space it occupies. Rent over the remaining 3 years is \$38,400 per annum.



V I N T N E R ' S Q U A L I T Y A L L I A N C E O N T A R I O

BOARD OF DIRECTORS March 31, 2005

Officers

Len Pennachetti

Cave Spring Cellars
President and Chair, VQA Ontario

Paul Speck

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

Greg Berti

Andres Wines Ltd.
Treasurer, VQA Ontario

Sandra Marynissen

Marynissen Estates
Secretary, VQA Ontario

Directors – elected from membership

Ken Douglas

Thirteenth Street Winery

Stu Morgan

Lakeview Cellars Estate Winery

Rob Scapin

Vincor International

Walter Schmoranz

Pelee Island Winery

Directors-appointed

Alexandra Aguzzi-Barbagli

Ontario Ministry of Consumer and Business Services

William George Jr.

Grape Growers of Ontario

Terry Mundell

Ontario Restaurant, Hotel and Motel Association

Statutory Appointments

Laurie Macdonald, VQA Inspector

James Fisher, VQA Inspector

Barbara Dodds, VQA Inspector

VQA Ontario staff

Laurie Macdonald, Executive Director

James Fisher, Manager, Education and Compliance

Barbara Dodds, Executive Assistant

Photo Credits 2005:

Cover: Steve Elphick, Velocite Graphics Group Ltd.

Special thanks to the following for content photos:

AJ McLaughlin, *Vice President Sales and Marketing, Angels Gate Winery Limited*

Andrea Nelson, *Director of Retail and Promotions, Reif Estate Winery "The Evolution of Great Grapes"*

Bonnie Sneath, *Retail Manager, Lakeview Cellars Estate Winery*

Darren Richards, *Richards Design & Communications*

Elisha Kernaghan

Fiona McIntosh, *Co-ordinator, Marketing & Communications, Niagara Cellars Inc.*

Lanny Huff / Charlene Carr, *Huff Estates Inc.*

Louise Engel / David Johnson, *Featherstone Estate Winery & Vineyards*

Rowan Shirkie, *Web Wrangler to 13th Street Wines, Selene Communications Inc.*

Stephen J. Dennis, www.atmospheric.ca/jstephendennis

Wine Council of Ontario

and to all those that have submitted photos in previous years, thank you.

Design:

Richards Design & Communications





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

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

www.vqaontario.com