


Annual Report
2017


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2017



Who We Are

VQA Ontario is Ontario's wine authority that regulates Ontario's wines of origin and the appellation system as defined under the VQA Act of Ontario. It exercises delegated authority from the Province of Ontario to ensure label integrity that allows consumers to identify wines of origin made entirely from Ontario grown grapes.

VQA Ontario is committed to working with and on behalf of consumers and its stakeholders in industry and government to promote a better awareness of Ontario's wine regions and wines of origin.

Vision

Consumers will use Ontario's VQA appellations as their guide to buying authentic wines of origin and quality.

Mission

Effectively manage the appellation system.
Encourage continuous improvements in wine quality.
Communicate the VQA assurance of origin and authenticity to consumers.

Strategic goals

Origin, quality, authenticity

Officers

Brian Schmidt (6)

President and Chair
(elected from Vineland Estates Winery)

Louise Engel (4)

Vice-Chair
(elected from Featherstone Estates)

Paul Kassebaum (5)

Treasurer
(elected from Arterra Wines)

Martin Werner (5)

Secretary
(elected from Ravine Vineyards)

Directors

Greg Berti (6)

(elected from Andrew Peller Ltd.)

Jim Clark (3)

(elected from Colio Estates Winery)

Ken Douglas (5)

Past-Chair

Tony Elenis (5)

(appointed from Ontario Restaurant, Hotel and Motel Association)

Frank (Lanny) Huff (4)

(elected from Huff Estates)

Bill Redelmeier (6)

(elected from Southbrook Vineyards)

Mary Shenstone (5)

(appointed from Government of Ontario)

Paul Speck (4)

(elected from Henry of Pelham Family Estate Winery)

Kevin Watson (4)

(appointed from Grape Growers of Ontario)

Staff and Statutory Appointments

Laurie Macdonald

Executive Director

Barbara Dodds

Office Manager (VQA Inspector)

Susan Piovesan

Compliance Officer and IT Systems Administrator (VQA Inspector)

Katherina Radcliffe

Communications Officer

Attendance at Board meetings:

Six Board meetings were held in 2016-2017. The number of Board meetings each Director attended is indicated beside their name.

Organizational Values

Transparency 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

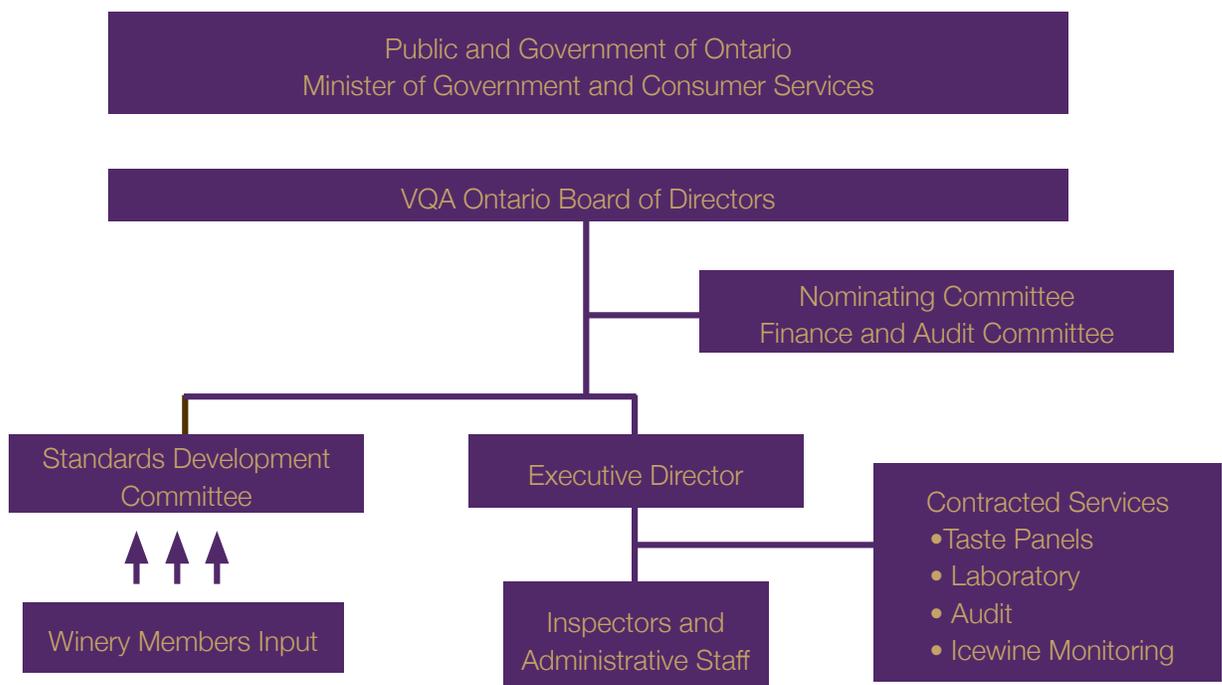
VQA Ontario will discharge its regulatory responsibilities firmly to ensure VQA terms, descriptions and designations are not misused and consumers can rely on label integrity for all VQA wines.

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.







Taste the Place

VQA is about place.

Special places right here at home.

Places like nowhere else in the world.

*Where the soil, the slope, the sunshine, the warmth,
the rainfall and the craftsmanship all matter.*

Together, they give us better grapes.

And better grapes give us better wine.



Message from the Chair

As Canadians, we tend to be modest about our accomplishments and maybe that is why I am always delighted to hear praise heaped upon our VQA wines by those I speak to in other countries. I have travelled all over the world promoting Canadian wines in my role as the Vice-President and Winemaker at Vineland Estates. Those that are aware of Canadian wine see us as a small, but highly developed and advanced industry in context of the world stage, including our system of robust quality standards to support the integrity of our wines. Once these consumers get to taste our wines they are often surprised at the sophistication and good value they find. There is great potential to expand this awareness from such a positive base.

The VQA story resonates with consumers not only because it offers them the reassurance of standards, but because it is about us, and how we built an industry on quality and integrity.

The point I hope to make is that we often take the VQA structure as a given in our day-to-day operations and forget to take advantage of it to add value to our businesses. It is entirely appropriate for the appellation system to operate in the background supporting our commercial brands and individual stories, but we shouldn't discount the importance it plays in laying a strong foundation for the success of our industry as a whole. I encourage you to leverage both VQA and your appellation as attributes of your brand.

In my travels closer to home, I am also encouraged by developments in other Provinces, with both Nova Scotia and Quebec actively discussing establishing some type of appellation system, and British Columbia recently formalizing their sub-appellation regime. While VQA Ontario is proudly an Ontario organization, we can't forget that the world sees us as Canadian and what happens in our sibling Provinces can benefit us all.

We have been dealing with change on many fronts for the wine industry. At VQA Ontario we are busy with continued updates to the regulations. Amendments to the Sparkling wine rules were completed this year and the creation of a new category to accommodate Skin Fermented White wines is near the end of the approval process. We are also reviewing rules for the use of Apassimento as a descriptor, considering a new appellation in Norfolk County and continuing to engage our member wineries in broader discussions about what VQA should look like in the future.

My message would not be complete without a sincere thank you to my colleagues on the Board of Directors and the staff that supports us. In particular, I would like to recognize and thank Lanny Huff who is retiring from the Board this summer for his thoughtful contributions and for bringing a perspective from Prince Edward County.

Brian Schmidt
President and Chair



Vintage Report 2016

Niagara Peninsula • Lake Erie North Shore • Prince Edward County

Conditions

The weather story across Ontario's wine growing regions was exceptionally good for the 2016 vintage. Winter was relatively mild and much more comfortable for grape growers than the few previous seasons. Early spring conditions were quite variable with some significant temperature swings but ultimately converging on averages.

By mid-May, the vintage settled into a sustained pattern of much drier than normal and slightly warmer than normal. Soil moisture levels were well below normal for the entire growing season and drought was of some concern by late summer. Summer thunderstorms replenished water levels in some areas but they were erratic, with some vineyards experiencing downpours while their neighbours remained untouched.

Hot, dry weather prevailed throughout August, with lots of sunshine and just enough rain to keep drought conditions from becoming too severe. With their deep root systems, mature grape vines withstand dry conditions well, and quality often improves as the vine focuses its energy on producing fruit when under stress. Targeted irrigation was required to sustain the young vines planted recently to fill in sporadic damage from the cold 2014 and 2015 winters. Weather conditions were very similar in all appellations with the exception of a short but major rain event in Lake Erie North Shore in September. In all, the growing season presented outstanding opportunities for grape quality across Ontario.

Harvest

The warm summer meant an early start to harvest for some and the weather was very cooperative. Both September and October were warmer and drier than normal, with limited disease pressures, and providing optimal conditions for final ripening and harvest. Grape quality is reported to be very high for both white and red varieties.

Preliminary registrations for Icewine and Late Harvest grapes show 4210 tonnes of grapes netted for the 2016 season. This is a slight decrease from last year's 4860 tonnes and likely reflects continued strong demand for VQA wines and the need to rebuild supply in the table wine category after two years of smaller grape harvests. The Icewine harvest officially began on December 14, 2016.

Wine Expectations

2016 provided close to perfect conditions for wine grapes and promises to produce some great wines. Virtually all grape varieties performed well in this growing season and the dry and pleasant harvest season meant most grapes were picked in pristine condition. This quality should be evident in both the core cool climate varieties where Ontario excels and for the many less common but very interesting varieties grown here.



Operations

Executive Director's Report

VQA Ontario has been very busy over the past year responding to growth in the industry and a changing regulatory landscape.

We finished the year with 168 winery members. The wine approvals process was intensely busy in the latter half of

the year as wineries moved to supply the new grocery channel and resupply their inventories. By year-end we had issued 2034 wine approvals, up 13% from last year with the declared volume up a whopping 27% to over 25 million litres. We were a bit short staffed this year, so I owe a big thank you to Barbara and Susan for keeping things moving forward.

The ongoing review and evolution of the VQA regulations continues with amendments to the Sparkling wine rules completed early in 2017 and the addition of a new category for Skin Fermented white wines just completed as I prepare this report. More rule changes are under active discussion at the Standards Development Committee and with our member wineries.

VQA Ontario launched a joint project this year with the Alcohol and Gaming Commission and the LCBO to deliver comprehensive and practical seminars on working within the VQA, AGCO and LCBO requirements and regulations. Aimed at those directly involved in winemaking and reporting, the sessions

provide information and advice to help your operation stay on the right side of the rules. Four regional seminars were held in January and February and all were well attended with positive feedback. We will continue to offer these seminars and, until the next round, you can access the presentations delivered on our website.

The seminars gave me an opportunity to talk to members in all appellations and there were a number of good questions and suggestions. Online services are very convenient for members and there is a desire to keep expanding these options. The last major barrier to a paper free VQA experience is online payment and we will investigate that this coming year.

Lastly, I want to mention the importance of having a strong feedback loop with industry members. As the regulator, we cannot always provide the answer you want, but we encourage you to at least ask the question. Beyond routine matters, if you have a question about the system, how it works, the rationale behind it, or how to change things, please call or email me or Katherina Radcliffe at the VQA office. We can only make VQA better with the engagement of our wineries and transparency in the system.

A handwritten signature in black ink that reads "L. Macdonald". The signature is written in a cursive, flowing style.

Laurie Macdonald
Executive Director



Goals and Activities

Performance goals

Manage Ontario's wine appellation system with a focus on origin, quality and authenticity

Promote recognition and understanding of the VQA appellation system

Protect consumers through label integrity

Provide a strong, transparent and credible framework for the production and labelling of wines of origin

Activity Highlights

- 7 new member wineries
- 97% overall success rate for wine approval applications
- Chardonnay the top production VQA varietal wine
- 1661 export certificates issued
- 329 audits and inspections conducted
- 4 compliance orders issued

Membership

168 wineries were registered as participants in the VQA program at the end of March 2017. These included 6 large wineries (sales of over 750,000 litres of VQA wines) 22 medium class wineries (sales of 100,000 to 750,000 litres of VQA wines) and 140 small wineries (sales of up to 100,000 litres of VQA wines).

Product Approvals

2093 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 before being certified as a wine of origin. Approvals were granted for 2034 wines, and denied for 59.

Quality

Maintaining quality standards continues to be an important part of VQA Ontario's mandate. In addition to enforcing standards, VQA Ontario runs two programs to support and encourage wineries to pursue the best quality outcomes possible and exceed minimum standards. Winemakers Forums, where winemakers share experiences and best practices in an informal setting and discuss techniques that are especially successful in Ontario's unique growing conditions are held across the Province. The second initiative provides a comprehensive analysis of outcomes at the VQA tasting panel that allows wineries to benchmark themselves and gain insights into how performance might be improved. These two programs work together with information from the tasting analysis providing topics for discussion at the Winemakers Forums. VQA Ontario continues to promote professional development within the industry with the Cool Climate Oenology and Viticulture Institute at Brock University.

Inspections and Audits

161 routine audits were conducted during 2016 – 2017 to verify compliance with origin and production standards for all approved VQA wines. Each winery member was subject to an on-site audit on a 6 to 12 month interval, depending on their compliance record. In addition, 156 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 61 cases. The majority of issues addressed were minor in nature. 201 websites were reviewed for compliance.

Enforcement

Most compliance issues were resolved with warnings and corrective actions. VQA Ontario issued 4 compliance orders in relation to wineries using regulated terms without approval or failing to take corrective action within a stipulated time. One charge was laid but later withdrawn.

Trade and Export Development

VQA Ontario provides an independent certification process required by the European Union as a condition of access to its member states. 1661 certificates were issued for 270 wines from 24 different wineries.

Along with stakeholders from industry and government, VQA Ontario is engaged in discussions to promote recognition and acceptance of the VQA appellation standard and access to world markets. This includes ongoing participation in the World Wine Trade Group, the APEC Regulators Forum, and the International Technical Summit aimed at streamlining import testing procedures among wine trading countries and combating counterfeiting.

Communications

VQA Ontario participated in and supported a number of programs aimed at informing members, the public, consumers and industry groups about VQA appellations of origin, quality standards and the value of a regulated appellation system. Two new publications were distributed - VQA Ontario: Supporting 15 years of Ontario wine industry growth, and a VQA rack card designed to be used in winery retail stores to explain VQA to consumers. Member outreach has expanded with more frequent newsletters and seminars. VQA Ontario also continues to partner with the Wine Marketing Association of Ontario to support the marketing initiatives of the Ontario Wine Strategy.

Statistics

VQA Wine Production

All statistics are for the period of April 1, 2016 to March 31, 2017. These figures are based on wines approved during this period and are calculated using volumes declared at the time of submission for approval. Reported volumes may reflect wines that have not yet been released but will not reflect wines that may be finished but not yet submitted for approval. Statistics for previous years can be found at www.vqaontario.ca in past annual reports.

Production summary

| Wine Category | # of Wines | Volume (9L cases) | Change from last year (volume) | Estimated grape tonnage |
|---------------|--------------|----------------------|-----------------------------------|----------------------------|
| Table Wine | 1748 | 2,633,511 | +27% | 32,700 |
| Icewine | 105 | 81,798 | -6% | 4,200 |
| Sparkling | 104 | 112,362 | +85% | 1,400 |
| Late Harvest | 52 | 18,465 | +51% | 330 |
| Other | 25 | 5,071 | -35% | 60 |
| Total | 2,034 | 2,851,207 | +27% | 38,690 |

Regional and Varietal Production

Appellations

This table includes all wines labelled with the stated appellation on the principal display panel. These wines must contain at least 85% content from the stated appellation. Wines labelled with one of the ten sub-appellations of the Niagara Peninsula must contain 100% content from the stated sub-appellation. Production by appellation remained fairly steady with the exception of a decline in Lake Erie North Shore due to winter damage.

Appellations

| As declared on label | Cases (9L) | % of all VQA wines |
|-----------------------------|------------|--------------------|
| Niagara Peninsula | 1,655,069 | 58% |
| Ontario | 853,455 | 30% |
| Sub-appellations of Niagara | 306,545 | 11% |
| Prince Edward County | 24,472 | 1% |
| Lake Erie North Shore | 11,666 | <1% |

Grape varieties used in all VQA wines (Total of 47 different varieties)

| Variety | % of total production (by volume) | |
|-------------------------|--------------------------------------|---|
| Riesling | 19.6% | <i>Just over half of production is sourced from the four grape varieties, Riesling, Chardonnay, Cabernet Franc and Vidal.</i> |
| Chardonnay | 15.5% | |
| Cabernet Franc | 10.8% | |
| Vidal Blanc | 8.3% | |
| Pinot Gris/Pinot Grigio | 7.2% | <i>Vidal is new in the top four, most likely as a result of winter damage to more tender grape varieties in recent years.</i> |
| Merlot | 7.0% | |
| Cabernet Sauvignon | 6.8% | |
| Baco Noir | 5.2% | |
| Sauvignon Blanc | 5.1% | |
| Pinot Noir | 4.5% | |
| Gamay Noir | 2.7% | |
| Gewürztraminer | 2.5% | |
| Syrah | 1.3% | |
| Other | 3.5% | |

Red grape varieties used in all VQA wines – 40%
White grape varieties used in all VQA wines – 60%

Table wines

The table wine category includes white, red and rosé wines. The strong 27% volume growth in table wine production reflects a recovery from the previous year's decline due to a crop shortage. White wines made up relatively more of the volume than the past few years and wines labelled with a grape variety or varieties continue to dominate the table wine category, accounting for 90% of all table wines.

| Colour | | Litres | Cases (9L) |
|-------------|--------------------|-------------------|------------------|
| White (57%) | Varietal | 13,109,904 | 1,456,656 |
| | Non-varietal | 480,540 | 53,393 |
| | Total white | 13,590,444 | 1,510,049 |
| Red (39%) | Varietal | 8,102,127 | 900,236 |
| | Non-varietal | 1,102,101 | 122,456 |
| | Total red | 9,204,228 | 1,022,692 |
| Rosé (4%) | Varietal | 385,788 | 42,865 |
| | Non-varietal | 521,137 | 57,904 |
| | Total rosé | 906,925 | 100,769 |

Popular single-varietal table wines

The top four red and white varietals remain the same as in previous years. Baco Noir moved from fourth to first in the list based on overall volume.

This table includes the top four varieties used in wines that are labelled with a single grape variety. These wines must contain at least 85% of the stated variety.

| | Varietal | Litres | Cases (9L) |
|-------|-------------------------|-----------|------------|
| White | Chardonnay | 3,203,970 | 355,997 |
| | Riesling | 3,057,436 | 339,715 |
| | Pinot Gris/Pinot Grigio | 1,849,349 | 205,483 |
| | Sauvignon Blanc | 1,174,473 | 130,497 |
| Red | Baco Noir | 1,132,518 | 125,835 |
| | Cabernet Franc | 910,920 | 101,213 |
| | Merlot | 898,917 | 99,880 |
| | Pinot Noir | 765,103 | 85,011 |



Icewine

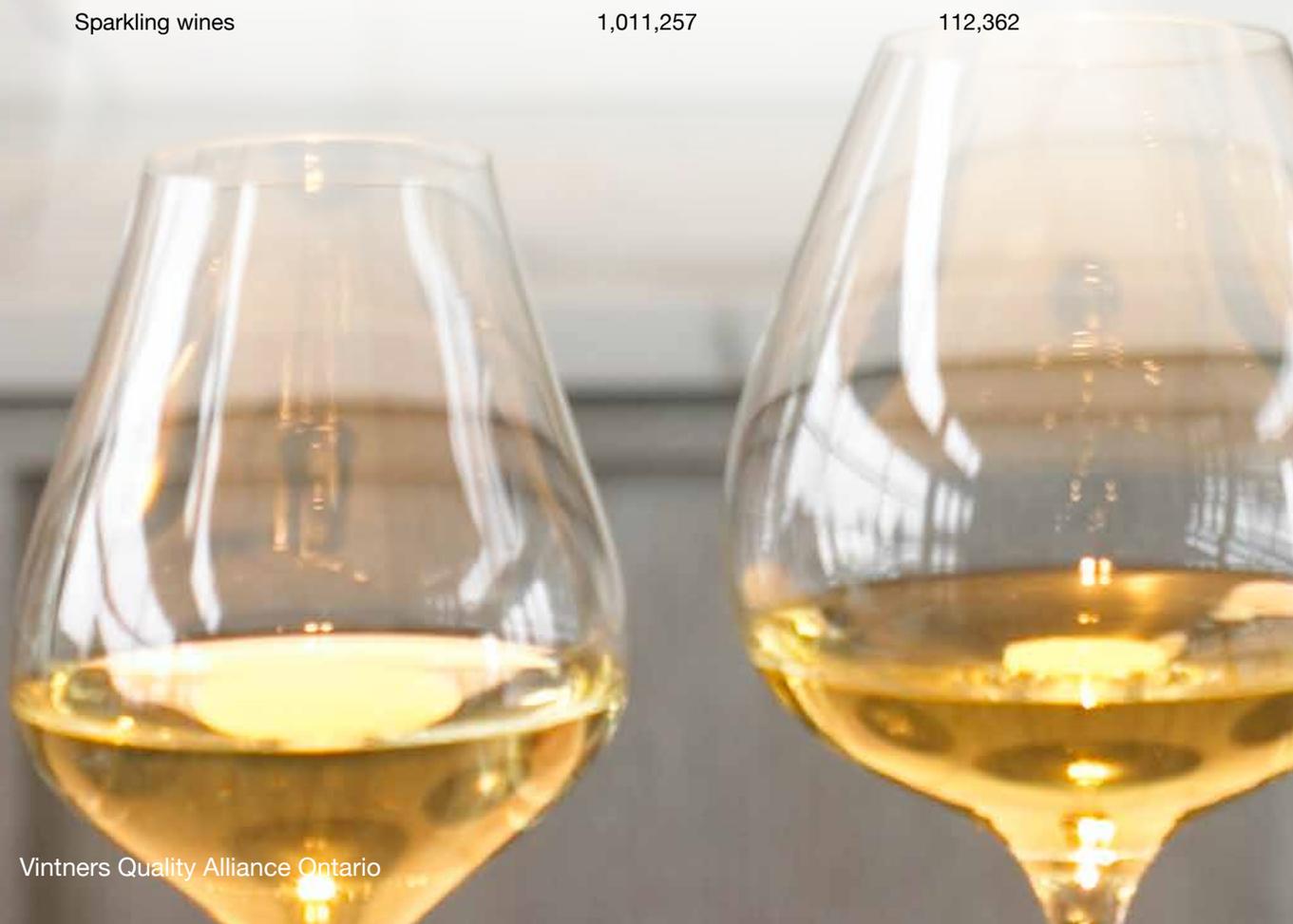
Icewine production was down slightly from the previous year's production of 87,000 cases.

| Variety | Litres | Cases (9L) |
|--------------------|----------------|---------------|
| Vidal Blanc | 535,643 | 59,516 |
| Cabernet Franc | 130,320 | 14,480 |
| Riesling | 42,337 | 4,704 |
| Cabernet Sauvignon | 20,720 | 2,302 |
| Gewurztraminer | 2,416 | 268 |
| Others | 4,749 | 528 |
| Total | 736,185 | 81,798 |

Other Wines

Production volumes increased moderately for Late Harvest and Vin de Cure wines, while Sparkling wine production almost doubled over last year.

| | Litres | Cases (9L) |
|--|-----------|------------|
| Late Harvest and Botrytis Affected | 166,184 | 18,465 |
| Fortified and Liqueur wines and Vin de Cure | 45,644 | 5,071 |
| Sparkling wines | 1,011,257 | 112,362 |



VQA Ontario Wine Sales

Year ending March 31, 2017

By Volume

| | Litres (2017) | Litres (2016) | % Change |
|--------------------------|-------------------|-------------------|-----------|
| Winery Retail | 5,440,939 | 5,698,955 | -4 |
| Licensees | 3,986,696 | 3,868,764 | +3 |
| LCBO (shipped) | 8,396,604 | 8,287,375 | +1 |
| Farmers Markets | 64,516 | 73,650 | -12 |
| Other Provinces | 781,876 | 537,929 | +45 |
| Export and Miscellaneous | 1,624,945 | 1,059,014 | +53 |
| Total | 20,295,576 | 19,525,686 | +4 |

By Retail Value

| | Retail value (\$) (2017) | Retail value (\$) (2016) | % Change |
|--------------------------|-----------------------------|-----------------------------|-----------|
| Winery Retail | 142,739,533 | 140,283,811 | +2 |
| Licensees | 65,788,862 | 62,759,962 | +4 |
| LCBO (shipped) | 130,549,229 | 124,431,237 | +5 |
| Farmers Markets | 1,345,051 | 1,642,944 | -18 |
| Other Provinces | 16,189,462 | 11,611,137 | +39 |
| Export and Miscellaneous | 72,583,619 | 49,822,931 | +46 |
| Total | 429,195,757 | 390,552,022 | 10 |



VQA Wine Testing and Approval Process

Every wine that carries a regulated appellation of origin and the VQA certification has completed a rigorous approval process. Once a wine is finished and ready to bottle it is submitted to VQA Ontario for testing and approval. The evaluation includes taste tests, laboratory tests and label reviews to ensure the wine meets quality standards and is labelled according to VQA regulations. Labelling regulations reserve certain terminology for eligible VQA wines and set standards for declaring origin, varietal content, vintage and other attributes. These regulations ensure consumers are not misled with respect to the wine content. Only after having successfully completed all components of this process can a wine receive approval and be released for sale, using regulated terms and descriptions. A range of inspection and audit programs also verify that underlying standards are met.

Activities

Applications for wine approval evaluated – 2093
Number of wines approved for VQA status – 2034

Performance Measures

Wine Approvals

Overall success rate – 97%

Laboratory analysis:

Average time to completion – 12 days
% of tests completed within 15 days – 85%
% of tests completed within 21 day target – 98.5%
Pass rate at laboratory – 99.4% (final status)

Sensory analysis:

Average time to completion – 6 days
% of tests completed within 15 days – 98.9%
% of tests completed within 21 day target – 99.4%
Pass rate at sensory panel – 98% (final status)

Online query and reporting system uptime –
99.8% (99.8% during business hours)

Compliance and Enforcement

VQA Ontario enforces compliance with the VQA Act and regulations as its primary mandate. In addition to the testing completed during the wine approval process, the regulatory process includes monitoring of grape quality at harvest through independent sugar testing, and regular audits and inspections related to wine origin and content, wine making processes, record-keeping, labelling and advertising. These steps ensure that the wine meets the technical standard, the label complies with the regulations and that the wine offered for sale has completed the approval process.

Activities

Full on-site audits - 161
Retail store inspections - 156
Investigations - 1
Random testing of approved wines - 17
Warnings and minor corrective orders issued - 48
Compliance orders issued – 4
Charges laid – 1

Performance Measures

Percentage of audits completed with no issues raised – 83%
Percentage of wines found to be compliant during audits – 99%
Percentage of wines found to be compliant during inspections – 99%
Percentage of wines found to be compliant upon random chemical analysis – 100%

The overall level of compliance with VQA regulations within Ontario continues to be very good. The majority of infractions are relatively minor and many potential issues are flagged and corrected before products reach the consumer market. Winery compliance with correction requests is excellent and few infractions require enforcement action to achieve compliance.

Financial Summary

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 valued assistance and cooperation in providing contracted services that increase VQA Ontario's efficiency in performing its regulatory role.

This summary is drawn from the auditor's report and financial statements for the year ended March 31, 2017.

Revenue exceeded expenditures by \$51,197 for the year ended March 31, 2017. Total revenue was \$1,916,332 up slightly from the previous year due to increased VQA wine sales and more applications for approval. Total expenses were \$1,865,135. Net assets are \$974,772 and include funds for general use, capital and intangible assets, and a legal and enforcement reserve.

Revenue for fiscal 2017 was derived primarily from sales levies (\$930,532) and approval fees (\$583,009).

Major components of the approximately \$1.9 million in expenses were wine approvals and quality monitoring (\$667,511), employee costs (\$453,953), public education (\$250,000) and contracted services (\$212,960).

Financial Statements

For the year ended March 31, 2017



Mark Kopstick, CPA, CA
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In association with
Reiner Goebel, CPA, CA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Vintners Quality Alliance Ontario

We have audited the accompanying financial statements of Vintners Quality Alliance Ontario which comprise the statements of financial position as at March 31, 2017, and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Vintners Quality Alliance Ontario as at March 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

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

Toronto, Canada
June 14, 2017

KOPSTICK OSHER, LLP
Chartered Professional Accountants
Licensed Public Accountants

Statement of Financial Position

As at March 31, 2017

| | 2017 | 2016 |
|--|---------------------|---------------------|
| ASSETS | | |
| Current | | |
| Cash | \$ 435,498 | \$ 296,289 |
| Investments - Note 3 | 577,073 | 596,369 |
| Accounts receivable - Note 4 | 268,669 | 222,494 |
| Prepaid expenses | <u>4,405</u> | <u>7,967</u> |
| | <u>1,285,645</u> | <u>1,123,119</u> |
| Investments - Note 3 | <u>110,002</u> | <u>86,471</u> |
| Capital - Note 5 | <u>3,560</u> | <u>4,166</u> |
| Intangible - Note 6 | <u>10,749</u> | <u>15,157</u> |
| | <u>\$ 1,409,956</u> | <u>\$ 1,228,913</u> |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accruals - Note 7 | \$ 405,070 | \$ 284,064 |
| Deferred revenue - Note 8 | <u>30,114</u> | <u>21,274</u> |
| | <u>435,184</u> | <u>305,338</u> |
| NET ASSETS | | |
| Invested in capital and intangible assets | 14,310 | 19,324 |
| Internally restricted for legal and enforcement fund | 200,000 | 200,000 |
| Unrestricted | <u>760,462</u> | <u>704,251</u> |
| | <u>974,772</u> | <u>923,575</u> |
| | <u>\$ 1,409,956</u> | <u>\$ 1,228,913</u> |

The accompanying notes form an integral part of these financial statements

APPROVED BY THE BOARD:




Statement of Changes in Net Assets

For the year ended
March 31, 2017

| | Invested in capital and intangible assets | Internally restricted for legal and enforcement fund (note 9) | Unrestricted | 2017 Total | 2016 Total |
|---------------------------------------|--|--|-------------------|-------------------|-------------------|
| Net assets - beginning of year | \$ 19,324 | \$ 200,000 | \$ 704,251 | \$ 923,575 | \$ 803,337 |
| Excess of revenues over expenses | - | - | 51,197 | 51,197 | 120,238 |
| Purchase of capital assets | 1,313 | - | (1,313) | - | - |
| Purchase of intangible assets | - | - | - | - | - |
| Amortization | <u>(6,327)</u> | <u>-</u> | <u>6,327</u> | <u>-</u> | <u>-</u> |
| Net assets - end of year | <u>\$ 14,310</u> | <u>\$ 200,000</u> | <u>\$ 760,462</u> | <u>\$ 974,772</u> | <u>\$ 923,575</u> |

The accompanying notes
form an integral part of
these financial statements

Statement of Operations

For the year ended
March 31, 2017

| | 2017 | 2016 |
|---|------------------|-------------------|
| Revenues | | |
| Membership fees | \$ 157,250 | \$ 153,500 |
| Bottle fees | 930,532 | 896,175 |
| Approval fees | 583,009 | 512,101 |
| Ontario government grant - OMAFRA | 221,973 | 250,000 |
| Interest income | 4,569 | 6,260 |
| Other income | <u>18,999</u> | <u>20,013</u> |
| | <u>1,916,332</u> | <u>1,838,049</u> |
| Expenses | | |
| Salaries and benefits | 453,953 | 444,959 |
| Contracted services | 212,960 | 216,856 |
| Public education | 250,000 | 250,000 |
| Approvals | 667,511 | 572,250 |
| Quality assurance and inspection | 14,613 | 15,657 |
| Export development and trade | 5,225 | 1,694 |
| Communications | 2,723 | - |
| Appellations | 24,883 | 23,537 |
| Weather monitoring | 4,000 | 4,000 |
| Meetings | 9,040 | 9,737 |
| Travel | 6,704 | 6,091 |
| Rent and occupancy | 38,400 | 38,400 |
| Office and general | 23,657 | 24,284 |
| Printing and mailing | 12,906 | 13,596 |
| Telephone and internet | 9,939 | 10,388 |
| Insurance | 7,727 | 9,170 |
| Professional services | 114,567 | 70,683 |
| Amortization of capital assets | 1,919 | 1,626 |
| Amortization of intangible assets | <u>4,408</u> | <u>4,883</u> |
| | <u>1,865,135</u> | <u>1,717,811</u> |
| Excess of revenues over expenses | <u>\$ 51,197</u> | <u>\$ 120,238</u> |

The accompanying notes
form an integral part of
these financial statements

Statement of Cash Flows

For the year ended
March 31, 2017

| | 2017 | 2016 |
|--|-------------------|-------------------|
| Cash flows from operating activities | | |
| Excess of revenues over expenses | \$ 51,197 | \$ 120,238 |
| Non-cash items: | | |
| Amortization of capital assets | 1,919 | 1,626 |
| Amortization of intangible assets | 4,408 | 4,883 |
| Interest capitalized on investments | (4,235) | (5,706) |
| Changes in non-cash working capital | | |
| Decrease (increase) in accounts receivable | (46,175) | (129,867) |
| Decrease (increase) in prepaid expenses | 3,562 | 62,358 |
| Increase (decrease) in accounts payable and accruals | 121,006 | (19,241) |
| Increase (decrease) in deferred revenue | 8,840 | 3,639 |
| | <u>140,522</u> | <u>37,930</u> |
| Cash flows from investing activities | | |
| Purchase of investments | (598,761) | (572,066) |
| Proceeds from disposal of investments | 598,761 | 572,066 |
| Purchase of capital assets | (1,313) | (1,004) |
| Purchase of intangible assets | - | (9,000) |
| | <u>(1,313)</u> | <u>(10,004)</u> |
| Cash flows from financing activities | - | - |
| Increase in cash | 139,209 | 27,926 |
| Cash - beginning of year | <u>296,289</u> | <u>268,363</u> |
| Cash - end of year | <u>\$ 435,498</u> | <u>\$ 296,289</u> |

The accompanying notes
form an integral part of
these financial statements

Notes to Financial Statements

March 31, 2017

1. 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.

2. Significant accounting policies

Basis of presentation

The financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations.

Revenue recognition

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

Investments

Investments consist of guaranteed investment certificates (GIC's). GIC's maturing within twelve months from the year-end are classified as current. GIC's with maturity dates of greater than twelve months from the year-end date are classified as long-term.

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 | 20% |
| Office furniture and equipment | 20% |

Intangible assets

Intangible assets consist of computer software and are recorded at cost less accumulated amortization. Amortization is provided for on a straight-line basis at 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.

Notes to Financial Statements

March 31, 2017

2. Significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the current period. Actual results may differ from the estimates, the impact of which would be recorded in future periods. Significant estimates include the useful lives and rates of amortization of capital and intangible assets.

Financial instruments

The organization initially measures its financial assets and liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument. Subsequently, all financial instruments are measured at amortized cost.

Financial assets measured at amortized cost include cash, investments and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and accruals.

3. Investments

| | Face value | Amortized Cost |
|---|----------------|----------------|
| CIBC GIC - 0.70%, maturing April 28, 2017 | \$ 85,916 | \$ 87,073 |
| CIBC GIC - 0.55%, maturing July 17, 2017 | 128,855 | 129,183 |
| CIBC GIC - 0.55%, maturing October 3, 2017 | 104,011 | 104,294 |
| CIBC GIC - 0.50%, maturing January 4, 2018 | 153,331 | 153,548 |
| CIBC GIC - 0.50%, maturing January 26, 2018 | 102,885 | 102,975 |
| CIBC GIC - 0.65%, maturing October 18, 2018 | <u>109,679</u> | <u>110,002</u> |
| Total | 684,677 | 687,075 |
| Less: portion maturing within one year of the year-end date | <u>574,998</u> | <u>577,073</u> |
| Classified as long-term | <u>109,679</u> | <u>110,002</u> |

At March 31, 2016, total investments at face value and amortized cost were \$679,367 and \$682,840, respectively.

Notes to Financial Statements

March 31, 2017

4. Accounts receivable

| | 2017 | 2016 |
|---|-------------------|-------------------|
| Trade receivables owing from members | \$ 100,572 | \$ 81,149 |
| Receivable from Ontario government - OMAFRA | 141,973 | 128,129 |
| Harmonized sales tax recoverable | 26,033 | 13,216 |
| Miscellaneous receivable | <u>91</u> | <u>-</u> |
| | <u>\$ 268,669</u> | <u>\$ 222,494</u> |

5. Capital assets

| | Cost | Accumulated Amortization | 2017 Net Book Value | 2016 Net Book Value |
|--------------------------------|------------------|-----------------------------|---------------------------|---------------------------|
| Computer equipment | \$ 8,127 | \$ 6,728 | \$ 1,399 | \$ 2,287 |
| Office furniture and equipment | <u>11,145</u> | <u>8,984</u> | <u>2,161</u> | <u>1,879</u> |
| | <u>\$ 19,272</u> | <u>\$ 15,712</u> | <u>\$ 3,560</u> | <u>\$ 4,166</u> |

6. Intangible assets

| | Cost | Accumulated Amortization | 2017 Net Book Value | 2016 Net Book Value |
|-------------------|-------------------|-----------------------------|---------------------------|---------------------------|
| Computer software | <u>\$ 129,302</u> | <u>\$ 118,553</u> | <u>\$ 10,749</u> | <u>\$ 15,157</u> |

7. Accounts payable and accruals

| | 2017 | 2016 |
|--|-------------------|-------------------|
| Trade payables and accrued liabilities | \$ 389,453 | \$ 264,526 |
| Payroll taxes | <u>15,617</u> | <u>19,538</u> |
| | <u>\$ 405,070</u> | <u>\$ 284,064</u> |

8. Deferred revenue

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

9. Net assets internally restricted for legal and enforcement fund

Net assets of \$200,000 have been restricted for a specific purpose. They may be used only for enforcing adherence to the regulations of the Vintners Quality Alliance Act.





WELCOME

- * WINE & COMPLEMENTARY PRODUCTS
REVEAL WINES & THIS WINE BAR
- * WINE ON TAP TODAY:
 - 2002 Cabernet Sauvignon (12)
 - 2001 Cabernet Sauvignon (12)
 - 2001 Late Harvest Vidal (12)
- * J-T EVENTS:
 - HERE, BEING PASTOR - Local vendors!
 - Complimentary sampling with Education & Certification
 - Social & networking events - Meet in Reserve B
 - Do try our Gummy Bears & Wine & Snacks!
- * SAVANNAH BE SIGNS - HAPPY... (partially obscured)
- * A program... (partially obscured)
- * J-T... (partially obscured)

Notes to Financial Statements

March 31, 2017

10. Financial instruments

Fair value of financial instruments

The fair value of a financial instrument is the estimated amount that the organization would receive or pay to settle a financial asset or financial liability at the reporting date.

The carrying values of cash, investments, accounts receivable and accounts payable and accruals approximate their fair values due to their liquidity.

Risk management

Risk management is incorporated into the organization's day to day management activities and an annual review of risks is completed by the Board.

The organization has exposure to the following risk associated with its financial instruments.

Credit risk

The organization maintains cash and investments, with financial institutions, which are in excess of amounts insured by the Canada Deposit Insurance Corporation (CDIC) and the Ontario Deposit Insurance Corporation (ODIC). Management monitors the soundness of these institutions and considers the organization's risk to be negligible.

11. Commitments

The organization has committed to renew an agreement with the Wine Marketing Association of Ontario to provide funding in support of activities to promote the awareness, understanding and use of the VQA appellations in the amount of \$250,000, for the next fiscal year.

The organization leases office space under a sub-lease, with the LCBO, expiring August 31, 2020. Future minimum lease payments total \$138,400 and include the following payments over the next five years: 2018, \$38,400 per annum; 2019, \$40,500; 2020, \$42,000; 2021, \$17,500.

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Steven Elphick's passion for wine and food translates itself into food, landscape and beverage photographs with a core of truth and beauty. He has been judging wine professionally since 1988.
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