

2018 ANNUAL REPORT
Vintners Quality Alliance Ontario

Thirty Years
of VQA WINES



Vintners Quality Alliance Ontario

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of VQA WINES

VQA's past success is a result of the combined efforts of many and our future remains in your hands. As both institutions and individuals, we have built the value and reputation of VQA wine together. To all of you - grape growers, wineries, suppliers, licensees, media, educators, our associations, LCBO and other government partners, and not least our loyal consumers - I thank you for making the VQA appellation system into something we can be proud of.

*Brian Schmidt
President and Chair*

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 (7)

President and Chair
(elected from Vineland Estates Winery)

Louise Engel (6)

Vice-Chair
(elected from Featherstone Estate Winery)

Paul Kassebaum (5)

Treasurer
(elected from Arterra Wines Canada)

Martin Werner (5)

Secretary
(elected from Ravine Vineyard Estate Winery)

Directors

Greg Berti (5)

(elected from Andrew Peller Ltd.)

Jim Clark (6)

(elected from Colio Estate Winery)

Ken Douglas (4)

Past-Chair
(appointed from 13th Street Wine Co.)

Tony Elenis (6)

(appointed from Ontario Restaurant, Hotel and Motel Association)

Dan Sullivan (4)

(elected from Rosehall Run Vineyards)

Bill Redelmeier (6)

(elected from Southbrook Vineyards)

Mary Shenstone (7)

(appointed from Government of Ontario)

Paul Speck (5)

(elected from Henry of Pelham Estate Winery)

Kevin Watson (5)

(appointed from Grape Growers of Ontario)

Staff and Statutory Appointments

Laurie Macdonald

Executive Director

Barbara Dodds

Office Manager (VQA Inspector)

Susan Piovesan

Manager, Compliance and IT Systems (VQA Inspector)

Katherina Radcliffe

Manager, Communications

Kaitlin Wilson

Wine Approvals Coordinator

Attendance at Board meetings:

Seven Board meetings were held in 2017-2018. The number of Board meetings each Director attended is indicated beside their name. Please note that Dan Sullivan joined the Board in July 2017 and attended all four Board meetings scheduled for the remainder of the year.

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

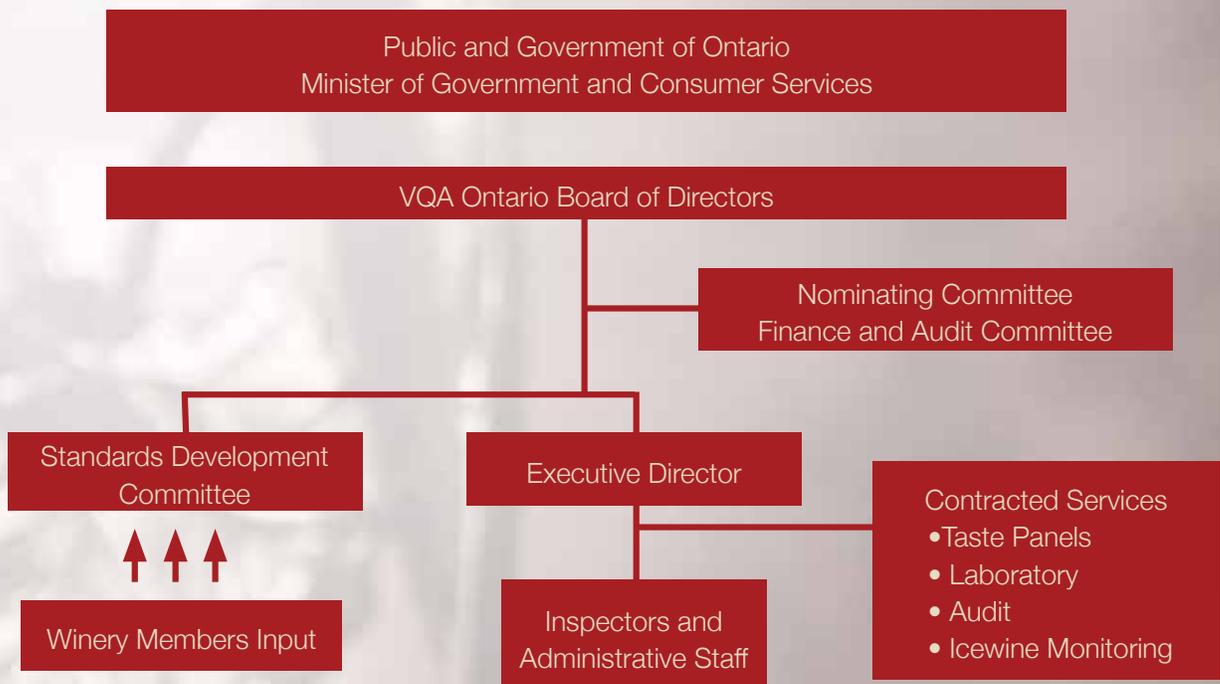
VQA Ontario will discharge its regulatory responsibilities firmly to ensure VQA terms, descriptions and designations are not misused and consumers can rely on label integrity for all VQA wines.

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.

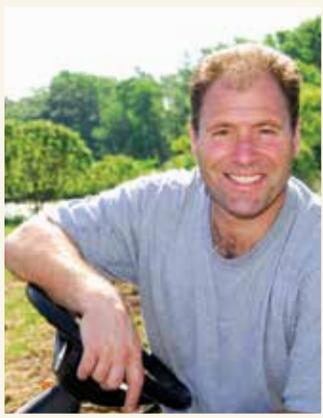
*Where the soil, the slope, the sunshine, the warmth,
the rainfall and the craftsmanship all matter.*

Together, they give us better grapes.

And better grapes give us better wine.



Message from the Chair



2018 marks the 30th anniversary of VQA and 20 years since VQA Ontario was created to set up the appellation structure we know today. Anniversaries are a great opportunity to celebrate our achievements and reflect on how we got here. Our industry has come a long way since 1991 when I began making wine in Ontario a few years after VQA was created in 1988.

-Predominantly Labrusca plantings have been replaced by vinifera and quality hybrids

- Wine grapes have become Ontario's most valuable crop
- The number of estate wineries has grown from a dozen to almost 200
- A small collection of Niagara vineyards has spread into a full-fledged appellation system spanning Southern Ontario from Windsor to Kingston, and with many vineyards emerging outside the defined appellations
- Production of high quality Ontario appellation wines has grown from thousands of cases to millions of cases
- Once almost non-existent, wine tourism is now an economic driver generating millions of visits and thousands of jobs
- VQA wine has gained access to export markets around the globe
- VQA has grown into a recognized appellation system with its own category in our market.

Far from seeing Ontario wine as a last resort, consumers seek out local wines and celebrate the quality and value offered by VQA producers.

This transformation did not happen by accident and we should not forget that it took 30 years of continuous effort to get here. VQA was initially part of an urgent strategy to position Ontario wines to compete with imported wines in the face of the Canada-US Free Trade Agreement. At the time, large tariffs on California wines were eliminated leaving Ontario wines to compete head to head on quality and price. Our only hope was to compete on quality and authenticity and we did it. The vine pull-out program (replacing labrusca varieties with mostly vinifera) and VQA (branding and enforcing quality and origin) were big steps that were crucial to the very survival of the industry. The collective effort that

followed cultivated our vineyards, built wineries and brands, and modernized the VQA standards to nurture the consumer trust that is embodied in VQA.

All of us – old and new to the business – should take a moment to congratulate ourselves.

The next 30 years will undoubtedly see just as much change and maybe more. Just in the last few years we have seen three entirely new retail channels emerge in Farmers Markets, grocery and LCBO's e-commerce initiative. Many wineries are expanding direct to consumer sales. Consumers have a lot more choices and are more challenged than ever about how to choose a wine. Policies governing the sale and service of wine at our wineries, at festivals and elsewhere have been revised. All wineries now have expanded choices about the content of the wines they make, both in using grapes from outside their local Ontario region and using imported grapes. Virtual wineries and the trade in bulk wine have grown exponentially. Wineries led by the next generation of winemakers are seeking out different business models and many are looking beyond the image of a traditional winery. LCBO is undergoing a significant corporate transformation. Legal cannabis is imminent and there is much speculation about whether, and how, this will impact the wine industry. And of course, competition for the hearts and minds of our consumers and share of market is intense.

VQA Ontario is just one piece in a much bigger strategy for the industry but I believe we can, and should, play a positive role in creating the best possible future for Ontario wine. Although we can't predict the future, we can certainly define what we want the future to look like and take action to get there.

VQA's past success is a result of the combined efforts of many and our future remains in your hands. As both institutions and individuals, we have built the value and reputation of VQA wine together. To all of you - grape growers, wineries, suppliers, licensees, media, educators, our associations, LCBO and other government partners, and not least our loyal consumers – I thank you for making the VQA appellation system into something we can be proud of.

Brian Schmidt
President and Chair



Vintage Report 2017

Niagara Peninsula • Lake Erie North Shore • Prince Edward County

Conditions

The 2017 harvest kicked off with an exceptionally warm and sunny September, with ideal conditions for harvest persisting right through November.

The year started out unusually mild in January, and with above normal precipitation in all three regions. Rain, not snow, was the major story for the beginning of the year. February continued to be warm, with above average temperatures and single-day high records set in Vineland, Hamilton, Trenton and Toronto and March temperatures were normal. Warm temperatures were accompanied by relatively high amounts of precipitation throughout the spring and summer. Significant rainfall in June caused flooding in Wellington, part of Prince Edward County, and a State of Emergency was declared. Both southern and south-eastern Ontario had heavy rainfall in July and August. Some severe weather was noted in Lake Erie North Shore at the end of the August, but steady rain continued to be the most notable event of the month. Luckily, the rainy weather was punctuated by sunny days that allowed the grapes to keep maturing and kept disease pressure under control. Finally, September arrived, and Ontario welcomed steady warm, dry weather. Unseasonably warm, dry conditions continued through October and November. It was a timely departure from the wet summer season.

Harvest

The rainy summer had moderated expectations for harvest, but a hot, sunny and dry September gave the grapes in all three growing regions abundant opportunity to ripen and fully develop their flavours. Conditions during harvest were ideal across the province. October continued to be warm and dry allowing for ripening of later maturing varieties and harvest proceeded into November, with processing as late as the third week. On the heels of the regular harvest, temperatures dipped below -8 degrees Celsius in mid-December, allowing the harvest of grapes destined for Icewine to begin.

Preliminary registrations for Icewine show just over 6,000 tonnes of grapes left netted for the 2017 season. This is a significant increase over last year (4,210 tonnes) and higher than 2015 as well (4,860 tonnes) which reflects the continued popularity of Ontario Icewine.

Wine Expectations

Overall, it was a good vintage. The weather patterns affected the growing cycle, with slowed development at the beginning of the season, but then caught up very quickly in the late summer and fall. With ripening moving rapidly, wineries spent considerable effort keeping up with mother nature and picking at the right moment. The challenges of ripening long season varieties that often arise in this type of year were completely banished by the very late onset of cooler weather. Ontario's VQA producers enjoyed a full crop and their wide range of grape varieties and styles should show well in 2017.



Operations

Executive Director's Report

It has been 30 years since VQA was created, and 20 years since VQA Ontario was incorporated to manage the regulated VQA appellation system. Many things have changed, but VQA continues to be a solid foundation for Ontario wines. As we celebrate these milestones, there is a long list of great

VQA wines available and it's getting longer. This year, a record 2184 wines received VQA approval. More consumers know about VQA wines and our appellations. More and more wineries are joining the VQA team, with another 7 joining us in 2017 bringing the total to 175.

One of the signs that our appellation system has matured that gives me much satisfaction is that I rarely hear our wines described using appellations from somewhere else. We no longer make "California style" chardonnay or "Burgundian" Pinot Noir. We proudly make Niagara Peninsula Chardonnay, Lake Erie North Shore Cabernet Franc and Prince Edward County Pinot Noir. Appellation matters and Ontario's appellations are now more relevant than ever.

Since 2000 when the VQA legislation was proclaimed, there have been 28 amendments to the wine standards, 7 revisions to the procedural regulations for VQA wine approvals and a host of process changes. We have moved from handling mountains of paper and hand-written submissions to a comprehensive web-based platform. Some of the more notable progression included defining 13 new appellations, lifting the prohibition on screwcaps and kegs, much less

prescriptive label rules and adding several entirely new wine categories. All of these changes were driven by our members in support of a growing industry.

These ongoing updates to our regulations and operations is part of VQA Ontario's strategy to maintain the right balance of regulation and a high level of service. Regulation provides a level playing field for wineries and assures consumers that VQA means quality wine from the declared origin. It is the framework for wineries to make authentic wines of origin, communicate a sense of place, and ultimately to build confidence in the value VQA wines and VQA appellations offer to consumers.

Looking forward, we will continue to focus on managing the system as efficiently as possible. Along with decluttering and automating our processes where possible, we look forward to providing all the information, coaching and support you need to navigate the system and get the most out of VQA.

Notwithstanding the push for online solutions and automation, we would not have an appellation system without the human staff that backs it up. This year, I especially want to recognize Barbara Dodds for over 18 years of service and unflagging loyalty. Barbara has been with us since the beginning and her experience and ability to get things done under pressure has made a world of difference to this organization. Thank you Barbara!

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

2009 export certificates issued

318 audits and inspections conducted

2 compliance orders issued

Membership

175 wineries were registered as participants in the VQA program at the end of March 2018. These included 7 large wineries (sales of over 750,000 litres of VQA wines) 21 medium class wineries (sales of 100,000 to 750,000 litres of VQA wines) and 147 small wineries (sales of up to 100,000 litres of VQA wines).

Regular member communications included monthly newsletters with news and compliance tips.

Product Approvals

2248 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 2184 wines and denied for 64.

Quality

Maintaining quality standards is 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 sensory 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

163 routine audits were conducted during 2017 – 2018 to verify compliance with origin and production standards for all approved VQA wines. Each winery member is subject to a comprehensive on-site audit on a 12-month interval. In addition, 155 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 70 cases. The majority of issues addressed were minor in nature.

Enforcement

Most compliance issues were resolved with warnings and corrective actions. VQA Ontario issued 2 compliance orders in relation to wineries using regulated terms without approval or failing to take corrective action within a stipulated time.

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. 2009 certificates were issued for 328 wines from 28 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 combatting counterfeiting.

Communications

VQA Ontario focused communications efforts on ensuring winery members understand the basics of VQA: our role, our mission and how we can help members promote their appellations and wines. Member outreach continued with monthly newsletters and frequent winemakers forums which were well-attended and served as excellent opportunities to engage with winery members on the topics that really matter: how to improve VQA and promote our appellation system. 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, 2017 to March 31, 2018. 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	1886	2,949,543	+12%	36,600
Icewine	119	109,953	+34%	5,660
Sparkling	112	115,982	+3%	1,400
Late Harvest	43	22,466	+22%	400
Other	24	4862	-4%	60
Total	2,184	3,202,806	+12%	43,760



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 of wines labelled with the VQA Ontario designation declined slightly but production was up for all other appellations.

Appellations

As declared on label	Cases (9L)	% of all VQA wines
Niagara Peninsula	1,960,400	61%
Ontario	823,691	26%
Sub-appellations of Niagara	359,243	11%
Prince Edward County	29,411	1%
Lake Erie North Shore	30,061	1%

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

Variety	% of total production (by volume)	
Riesling	15.0%	<i>About half of the volume of VQA wines is sourced from the four grape varieties, Riesling, Chardonnay, Cabernet Franc and Merlot. Compared to last year, Merlot replaced Vidal in the top four, reflecting the continued recovery from winter damage in past years. This is also reflected in the shifting balance between white and red grapes, moving from 60-40 in the previous year closer to parity at 53-47 in 2017-18.</i>
Chardonnay	12.7%	
Cabernet Franc	12.0%	
Merlot	9.7%	
Vidal Blanc	7.1%	
Cabernet Sauvignon	7.1%	
Pinot Gris/Pinot Grigio	6.6%	
Sauvignon Blanc	6.4%	
Pinot Noir	5.9%	
Baco Noir	4.9%	
Gewürztraminer	3.6%	
Gamay Noir	3.0%	
Syrah	1.6%	
Other	4.4%	

Red grape varieties used in all VQA wines – 47%

White grape varieties used in all VQA wines – 53%



Table wines

The table wine category includes white, red and rosé wines. White wines continue to have a slight lead on reds and rose is trending upwards with a 1% increase over last year. Wines labelled with a grape variety or varieties continue to dominate the table wine category, accounting for almost 90% of all table wines.

Colour		Litres	Cases (9L)
White (50%)	Varietal	12,746,708	1,416,301
	Non-varietal	507,776	56,420
	Total white	13,254,484	1,472,721
Red (45%)	Varietal	10,118,105	1,124,234
	Non-varietal	1,865,199	207,244
	Total red	11,983,304	1,331,478
Rosé (4%)	Varietal	543,000	60,333
	Non-varietal	765,087	85,010
	Total rosé	1,308,087	145,343

Popular single-varietal table wines

The top four red and white varietals remain the same as in previous years. Merlot and Pinot Noir both moved up one spot in the ranking, to second and third most-popular single varietal reds, while Cabernet Franc is now fourth on 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	3,081,716	342,413
	Riesling	2,775,359	308,373
	Pinot Gris/Pinot Grigio	1,939,052	215,450
	Sauvignon Blanc	1,656,360	184,040
Red	Baco Noir	1,242,223	138,025
	Merlot	1,173,252	130,361
	Pinot Noir	1,150,325	127,814
	Cabernet Franc	1,129,665	125,518

Icewine

Icewine production is up significantly from the previous year's production of 82,000 cases.

Variety	Litres	Cases (9L)
Vidal Blanc	716,831	79,648
Cabernet Franc	152,490	16,943
Riesling	84,814	9,424
Cabernet Sauvignon	20,752	2,306
Gewurztraminer	5,987	665
Others	8,702	967
Total	989,576	109,953

Other Wines

Production volumes increased moderately for Late Harvest and decreased for Vin de Cure wines. Sparkling wine production remains steady, with a slight increase over last year's 112,000 cases.

	Litres	Cases (9L)
Late Harvest and Botrytis Affected	202,196	22,466
Fortified and Liqueur wines and Vin de Cure	43,762	4,862
Sparkling wines	1,043,842	115,982

VQA Ontario Wine Sales

Year ending March 31, 2018

By Volume

	Litres (2018)	Litres (2017)	% Change
Winery Retail	6,186,709	5,440,939	13.7
Licensees	4,181,462	3,986,696	+4.9
LCBO (shipped)	8,927,598	8,396,604	+6.3
Farmers Markets	54,553	64,516	-15.4
Other Provinces	909,796	781,876	+16.4
Export and Miscellaneous	1,737,907	1,624,945	+7.0
Total	21,998,025	20,295,576	+8.4

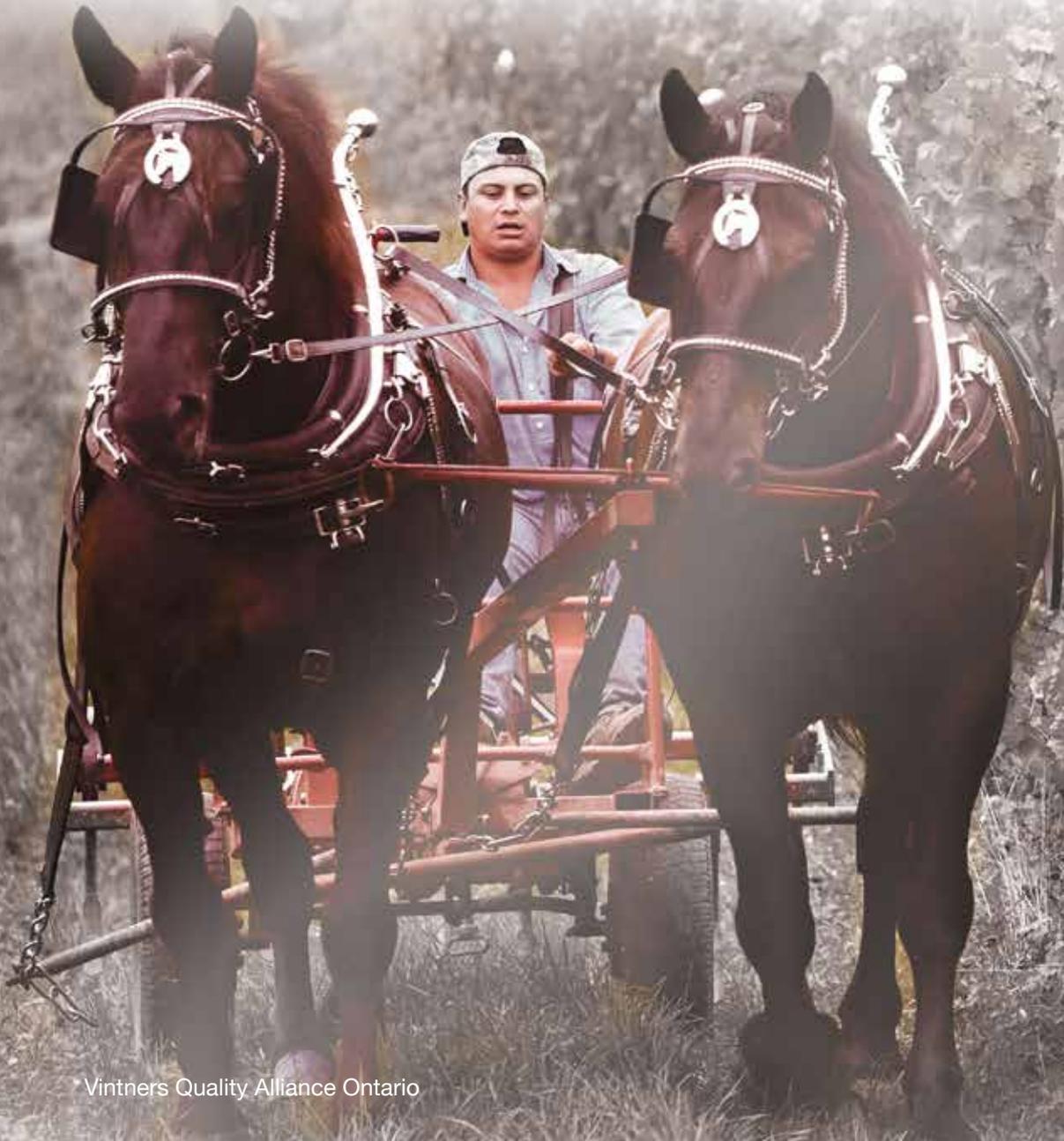
By Retail Value

	Retail value (\$) (2018)	Retail value (\$) (2017)	% Change
Winery Retail	161,372,493	142,739,533	+13.1
Licensees	71,027,214	65,788,862	+8.0
LCBO (shipped)	140,020,149	130,549,229	+7.3
Farmers Markets	1,191,117	1,345,051	-11.4
Other Provinces	18,103,886	16,189,462	+11.8
Export and Miscellaneous	82,676,479	72,583,619	+13.9
Total	474,391,338	429,195,756	+10.5



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 – 2248
Number of wines approved for VQA status – 2184

Performance Measures

Wine Approvals

Overall success rate – 97%

Laboratory analysis:

Average time to completion – 12 days
% of tests completed within 15 days – 90%
% of tests completed within 21 day target – 99%
Pass rate at laboratory – 99.3% (final status)

Sensory analysis:

Average time to completion – 6 days
% of tests completed within 15 days – 99%
% of tests completed within 21 day target – 99.9%
Pass rate at sensory panel – 98.1% (final status)

Online query and reporting system uptime –
99.4% (99.6% 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 - 163
Retail store inspections - 155
Investigations - 1
Random testing of approved wines - 18
Warnings and minor corrective orders issued - 39
Compliance orders issued – 2
Charges laid – 0

Performance Measures

Percentage of audits completed with no issues raised – 80%

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, 2018.

Revenue exceeded expenditures by \$110,117 for the year ended March 31, 2018. Total revenue was \$2,087,746, up from the previous year in large part due to increased bottle fees from higher VQA sales. Total expenses were \$1,977,629. Net assets are \$1,084,889 and include funds for general use, capital and intangible assets, and a legal and enforcement reserve.

Revenue for fiscal 2018 was derived primarily from sales levies (\$1,018,278) and approval fees (\$637,302).

Major components of the approximately \$2 million in expenses were wine approvals and quality monitoring (\$738,458), employee costs (\$508,004), public education (\$250,000) and contracted services (\$220,400).

Financial Statements

For the year ended March 31, 2018



Mark Kopstick, CPA, CA
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William Genga, B.Comm.
will@koposhca.com

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, 2018, 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, 2018, 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, 2018

KOPSTICK OSHER, LLP
Chartered Professional Accountants
Licensed Public Accountants

Statement of Financial Position

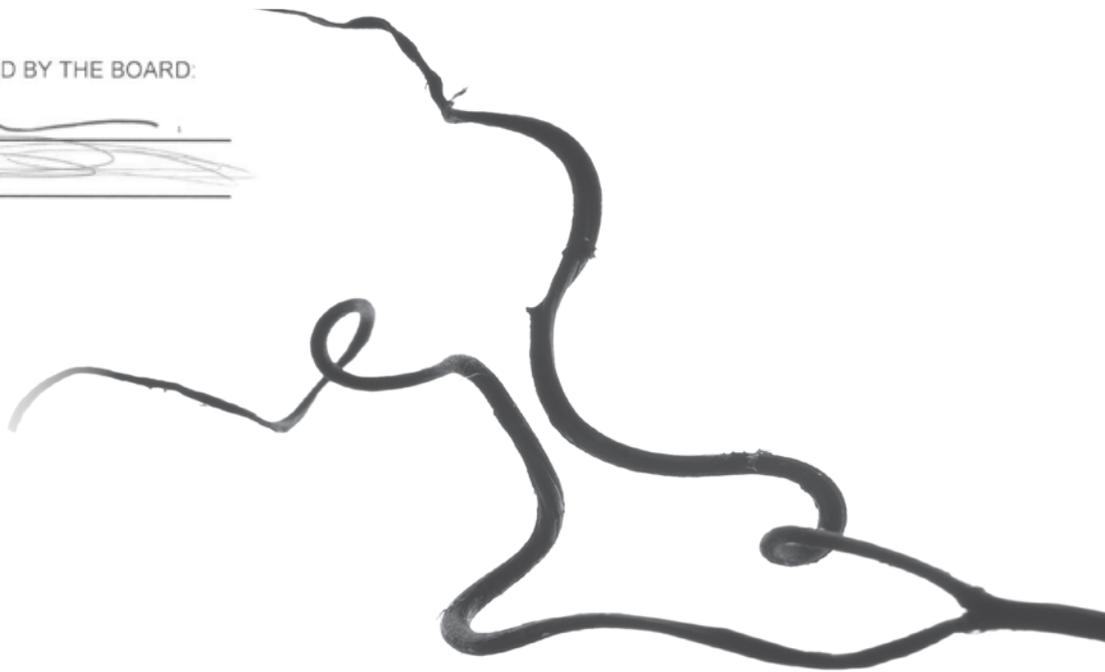
As at March 31, 2018

	2018	2017
ASSETS		
Current		
Cash	\$ 576,221	\$ 435,498
Investments - Note 3	603,391	577,073
Accounts receivable - Note 4	231,534	268,669
Prepaid expenses	<u>2,913</u>	<u>4,405</u>
	<u>1,414,059</u>	<u>1,285,645</u>
Investments - Note 3	<u>87,644</u>	<u>110,002</u>
Capital - Note 5	<u>1,904</u>	<u>3,560</u>
Intangible - Note 6	<u>43,424</u>	<u>10,749</u>
	<u>\$ 1,547,031</u>	<u>\$ 1,409,956</u>
LIABILITIES		
Current		
Accounts payable and accruals - Note 7	\$ 404,545	\$ 405,070
Deferred revenue - Note 8	<u>57,597</u>	<u>30,114</u>
	<u>462,142</u>	<u>435,184</u>
NET ASSETS		
Invested in capital and intangible assets	43,329	14,310
Internally restricted for legal and enforcement fund	200,000	200,000
Unrestricted	<u>841,560</u>	<u>760,462</u>
	<u>1,084,889</u>	<u>974,772</u>
	<u>\$ 1,547,031</u>	<u>\$ 1,409,956</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, 2018

	Invested in capital and intangible assets	Internally restricted for legal and enforcement fund (note 9)	Unrestricted	2018 Total	2017 Total
Net assets - beginning of year	\$ 14,310	\$ 200,000	\$ 760,462	\$ 974,772	\$ 923,575
Excess of revenues over expenses	-	-	110,117	110,117	51,197
Purchase of capital assets	-	-	-	-	-
Purchase of intangible assets	36,500	-	(36,500)	-	-
Amortization	(7,481)	-	7,481	-	-
Net assets - end of year	<u>\$ 43,329</u>	<u>\$ 200,000</u>	<u>\$ 841,560</u>	<u>\$ 1,084,889</u>	<u>\$ 974,772</u>

The accompanying notes
form an integral part of
these financial statements

Statement of Operations

For the year ended
March 31, 2018

	2018	2017
Revenues		
Membership fees	\$ 166,175	\$ 157,250
Bottle fees	1,018,278	930,532
Approval fees	637,302	583,009
Ontario government grant - OMAFRA	240,802	221,973
Interest income	4,338	4,569
Other income	<u>20,851</u>	<u>18,999</u>
	<u>2,087,746</u>	<u>1,916,332</u>
Expenses		
Salaries and benefits	508,004	453,953
Contracted services	220,400	212,960
Public education	250,000	250,000
Approvals	738,458	667,511
Quality assurance and inspection	8,395	14,613
Export development and trade	5,352	5,225
Communications	450	2,723
Appellations	-	24,883
Weather monitoring	4,000	4,000
Meetings	13,755	9,040
Travel	8,996	6,704
Rent and occupancy	38,400	38,400
Office and general	26,753	23,657
Printing and mailing	12,682	12,906
Telephone and internet	11,814	9,939
Insurance	8,916	7,727
Professional services	113,773	114,567
Amortization of capital assets	1,656	1,919
Amortization of intangible assets	<u>5,825</u>	<u>4,408</u>
	<u>1,977,629</u>	<u>1,865,135</u>
Excess of revenues over expenses	<u>\$ 110,117</u>	<u>\$ 51,197</u>

The accompanying notes
form an integral part of
these financial statements

Statement of Cash Flows

For the year ended
March 31, 2018

	2018	2017
Cash flows from operating activities		
Excess of revenues over expenses	\$ 110,117	\$ 51,197
Non-cash items:		
Amortization of capital assets	1,656	1,919
Amortization of intangible assets	5,825	4,408
Interest capitalized on investments	(3,960)	(4,235)
Changes in non-cash working capital		
Decrease (increase) in accounts receivable	37,135	(46,175)
Decrease (increase) in prepaid expenses	1,492	3,562
Increase (decrease) in accounts payable and accruals	(525)	121,006
Increase (decrease) in deferred revenue	27,483	8,840
	<u>179,223</u>	<u>140,522</u>
Cash flows from investing activities		
Purchase of investments	(578,769)	(598,761)
Proceeds from disposal of investments	578,769	598,761
Purchase of capital assets	-	(1,313)
Purchase of intangible assets	(38,500)	-
	<u>(38,500)</u>	<u>(1,313)</u>
Cash flows from financing activities	-	-
Increase in cash	140,723	139,209
Cash - beginning of year	<u>435,498</u>	<u>296,289</u>
Cash - end of year	<u>\$ 576,221</u>	<u>\$ 435,498</u>

The accompanying notes
form an integral part of
these financial statements

Notes to Financial Statements

March 31, 2018

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, 2018

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 - 0.55%, maturing July 17, 2018	\$ 129,568	\$ 130,070
CIBC GIC - 0.55%, maturing October 3, 2018	104,583	104,865
CIBC GIC - 0.65%, maturing October 18, 2018	109,679	110,714
CIBC GIC - 0.45%, maturing January 4, 2019	154,097	154,261
CIBC GIC - 0.45%, maturing January 26, 2019	103,399	103,481
CIBC GIC - 0.65%, maturing April 29, 2019	<u>87,122</u>	<u>87,644</u>
Total	688,448	691,035
Less: portion maturing within one year of the year-end date	<u>601,326</u>	<u>603,391</u>
Classified as long-term	<u>87,122</u>	<u>87,644</u>

At March 31, 2017, total investments at face value and amortized cost were \$684,677 and \$687,075, respectively.

Notes to Financial Statements

March 31, 2018

4. Accounts receivable

	2018	2017
Trade receivables owing from members	\$ 106,299	\$ 100,572
Receivable from Ontario government - OMAFRA	105,802	141,973
Harmonized sales tax recoverable	19,433	26,033
Miscellaneous receivable	<u>-</u>	<u>91</u>
	<u>\$ 231,534</u>	<u>\$ 268,669</u>

5. Capital assets

	Cost	Accumulated Amortization	2018 Net Book Value	2017 Net Book Value
Computer equipment	\$ 8,127	\$ 7,364	\$ 763	\$ 1,399
Office furniture and equipment	<u>11,145</u>	<u>10,004</u>	<u>1,141</u>	<u>2,161</u>
	<u>\$ 19,272</u>	<u>\$ 17,368</u>	<u>\$ 1,904</u>	<u>\$ 3,560</u>

6. Intangible assets

	Cost	Accumulated Amortization	2018 Net Book Value	2017 Net Book Value
Computer software	<u>\$ 167,802</u>	<u>\$ 124,378</u>	<u>\$ 43,424</u>	<u>\$ 10,749</u>

7. Accounts payable and accruals

	2018	2017
Trade payables and accrued liabilities	\$ 384,386	\$ 389,453
Payroll taxes	<u>20,159</u>	<u>15,617</u>
	<u>\$ 404,545</u>	<u>\$ 405,070</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.

Notes to Financial Statements

March 31, 2018

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 \$100,000 and include the following payments over the next five years: 2019, \$40,500 per annum; 2020, \$42,000; 2021, \$17,500.

During the current fiscal year, the organization commenced a three year project to develop a benchmarking survey and an annual performance measurement report for the Ontario wine and grape industry. The Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) has agreed to provide funding for this project to a maximum of \$250,000 yearly, over the three year period, to cover the projected costs of the same amount. In the first year ended, March 31, 2018, the organization received funding of \$240,802 and has spent \$240,161. As part of the project, the organization has entered into a three year contract with a third party consultant to provide services for the project. The expenses of the first year include \$200,000 paid to the consultant. The amounts to be paid for consulting services over the next two fiscal years is fixed at \$200,000 annually.



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