VQA

ANNUAL REPORT 2003

VISION

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

MISSION

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

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 and fairly and ensure VQA terms, descriptions and designations are not misused.

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

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

Message from the Chair

This has been my third year as Chair of VQA Ontario and I am happy to report continuing strong growth in both sales and recognition for Ontario's VQA wines. Thanks to the launch of a major advertising campaign in the fall of 2002, we are seeing double-digit sales growth in spite of a difficult year. The advertising campaign is a key part of the Ontario Wine Strategy, a joint initiative of the Ontario government, the LCBO, the Wine Council of Ontario, VQA Ontario and the Grape Growers of Ontario. These organizations continue to work with us and our winery members to achieve positive results for VQA wines, the Ontario wine industry and Ontario.

I was pleased to welcome 10 new wineries to VQA last year, bringing the number of Ontario VQA wineries to 66 – up almost 20% over last year's membership and contributing to the overall increase in VQA sales of 21%.

This past year, VQA Ontario continued the process to identify sub-appellations within two of our designated viticultural areas – Niagara Peninsula and Lake Erie North Shore. Sub-appellations will define areas within these regions which are unique in their climate, topography and soil. These factors define terroir, and influence the character of the grapes grown there and in turn the wines created from them. This is a complex and maybe controversial project, but one that will further enhance and define Ontario as a wine region.

VQA Ontario expended considerable efforts towards developing a national standard for VQA wines, along with appropriate enforcement mechanisms. Once implemented, this will establish label integrity for consumers and a level playing field for wineries across Canada. Achieving national consensus is not easy, and many interests must be accommodated along with the practicalities of Canada's multiple jurisdictions, but I am still optimistic that a national standard can be implemented.

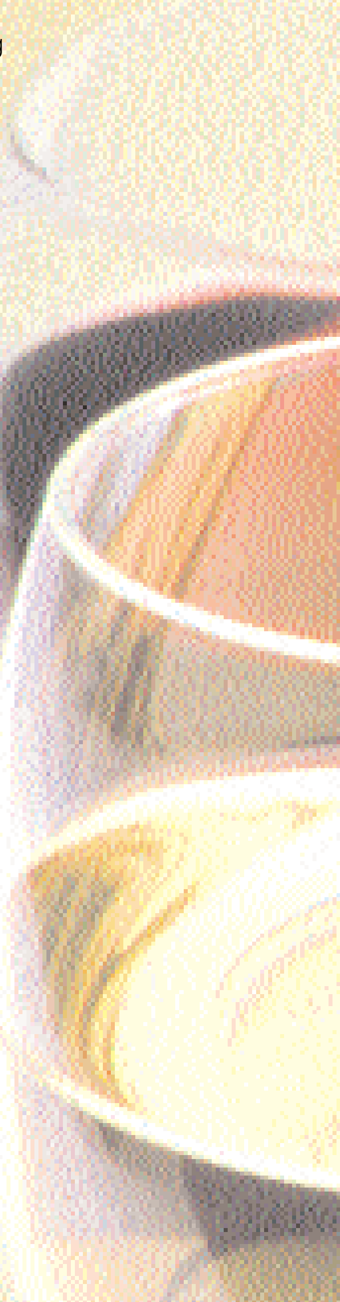
Last December, the Governments of Canada and the United States ratified the Mutual Acceptance Agreement on Oenological Practices. This agreement recognizes and accepts the respective regulations governing winemaking practices in participating countries. Australia, New Zealand, Chile and Argentina are expected to ratify this agreement in the near future, streamlining trade in wines between these countries. This is a major step in gaining international recognition for Canada's practices and its wines. VQA Ontario will continue to participate in discussions at the World Wine Trade Group along with the Canadian Vintners Association and promote the acceptance and recognition of the VQA standard and VQA wines.

There has also been substantial progress towards a new wine agreement with the European Union and encouraging progress to open up access to Europe for VQA wines. Federal government trade representatives have made excellent efforts on our behalf and we expect an agreement to be finalized in the near future.

Of course our primary goal is safeguarding the integrity of Ontario's appellation of origin system and operating a quality assurance program. With this in mind, we faced a unique challenge last year as a result of an unusually high presence of asian ladybugs during harvest in 2001. Some 2001 vintage wines picked up an unwanted "ladybug character" resulting in a higher than normal failure rate for 2001 wines applying for VQA status. While this was a significant hardship to our membership, and particularly difficult at a time of growth in the industry, screening out flawed wines is an essential part of the VQA quality assurance process. Our wine consumers can be confident that wines bearing the VQA logo have been through such a screening, something that is not required in many other jurisdictions.

After the difficult 2001 vintage, we are welcoming the 2002 vintage which promises to be an exceptional vintage for most white varieties and a very good one for red varieties. As well, Ontario had a cold winter, with an early Icewine harvest and excellent juice quality. 2002 resulted in a record harvest of Icewine grapes and we are looking forward to a strong complement of award-winning Icewines.

In closing, I thank my colleagues on VQA Ontario's Board of Directors, Committees and staff, and our VQA winery members for their continued dedication to quality and commitment to VQA. I also want to recognize the LCBO Quality Assurance Department and the Cool Climate Oenological and Viticulture Institute of Brock University for their continuing assistance on quality related issues. And finally, thanks to the Ministry of Consumer and Business Services for their support and invaluable guidance.



L. Pennachetti

President and Chair

Executive Director's Report

VQA Ontario continues with its mandate to administer and enforce Ontario's wine appellation system. We've seen a substantial increase in regulatory activities over the last year with over 1000 applications for wine approvals and hundreds of routine audits and inspections. Overall compliance with the VQA regulations continues to be excellent. I am particularly pleased that the compliance orders issued this year were limited to relatively minor offenses. More information and statistics are found in the pages that follow.

Last year we faced an unexpected quality issue resulting from the large number of ladybugs in Ontario for the 2001 harvest. A considerable amount of work was done with Brock University, the LCBO and the Wine Council to identify the unusual sensory character present in some wines, its cause, which wines were affected, and the nature of the effect. VQA Ontario trained taste panel members in its detection and established a protocol for rejecting wines exhibiting an unacceptable level of this character. Because of the unexpected and undefined nature of this problem, this was one of the most difficult challenges to face VQA Ontario since its inception. With cooperation from our member wineries, I believe we have succeeded in ensuring that VQA standards are not compromised and consumers can rely on the quality assurance provided by the VQA designation.

VQA Ontario's Standards Development Committee continues to deal with technical issues related to the wine standard. Regulation changes regarding grape variety nomenclature, container sizes and the use of sweet reserve were adopted last year and a revision to rules for organic labelling of VQA wines is expected in the near future. Scientific research that will form the basis for defining sub-appellation boundaries will be undertaken in the coming year.

A reduction in membership fees was implemented in mid-year and we were still able to finish the year in a strong financial position. This was thanks to continuing strong VQA sales, careful management and the support and services provided by the LCBO. Financial statements can be found later in this report.

I thank VQA Ontario's Board and Committee volunteers who give their time and advice freely. Thanks also to our member wineries for their cooperation and understanding, especially in this sometimes-difficult year. And of course, a much deserved thank you to those who make the whole system work on a day-to-day basis - Barbara Dodds, the winery auditors, LCBO Quality Assurance staff and Errol McKibbon.

As I write this, the year ahead has begun with a great showing of the 2002 vintage white wines. And, the very cold winter just passed is promising a great Icewine vintage but also the potential for reduced vineyard yields in the regular harvest because of some winter injury. Although lower yields may reduce the availability of grapes, it should produce some outstanding wines. I am looking forward to these vintages and the role VQA Ontario can play in helping them take their distinct place in the world of fine wines.

L. Macdonald

L. Macdonald

Executive Director

Organization Profile

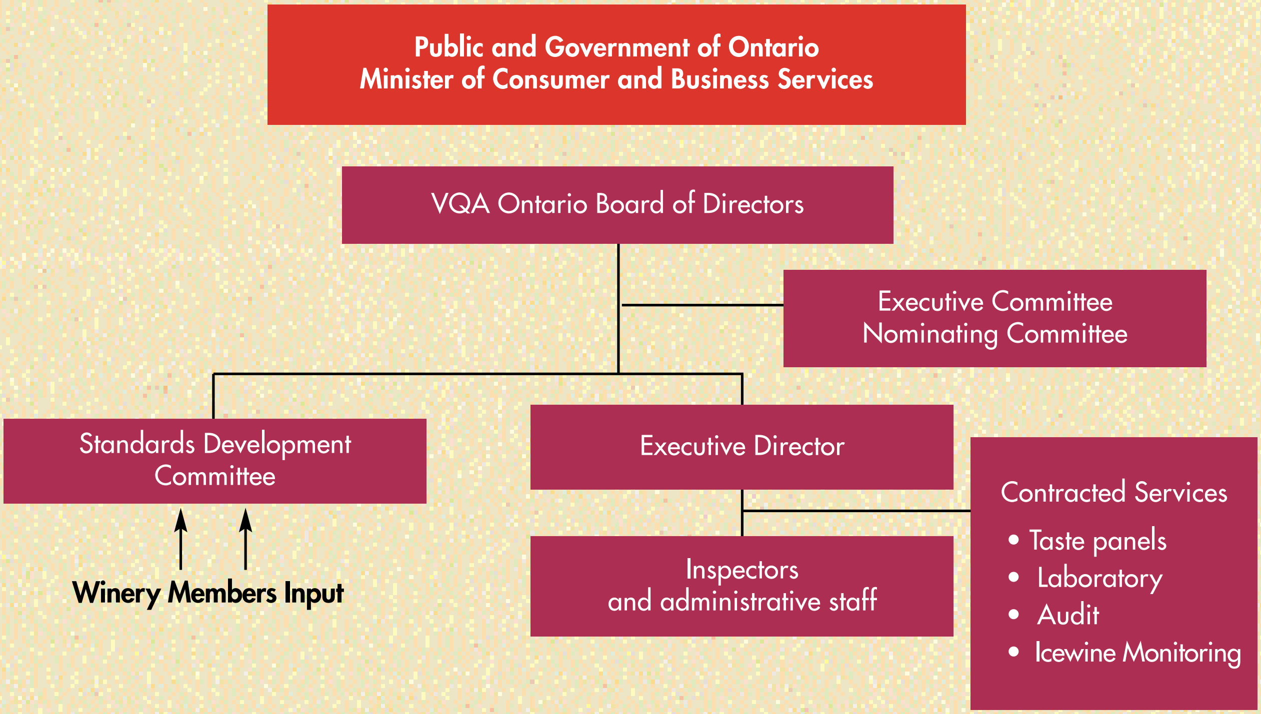
VQA Ontario was incorporated on November 26, 1998 as a not-for-profit corporation to prepare for the implementation of the Vintners Quality Alliance Act, 1999. The VQA Act gained royal assent on May 4, 1999 and was proclaimed into law on June 29, 2000. With the proclamation, VQA Ontario was designated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

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

In addition to its primary mandate to administer and enforce standards under the VQA Act, VQA Ontario is also committed to work with the grape and wine industry, governments and the public to promote the understanding of the VQA appellation system and promote VQA-approved wines. This includes providing educational and promotional materials and participating in national and international activities related to wine standards and trade.

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

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



Activity Review

VQA Ontario's performance goals include upholding the provisions of the VQA Act and regulations and enhancing consumer recognition of VQA wines and understanding of the regulated VQA appellation system. The following reports activities during the period April 1, 2002 to March 31, 2003.

ACTIVITY SNAPSHOT

66 member wineries
928 wines approved
80% success rate for approvals
Chardonnay the top production VQA varietal wine
93 Export certificates issued
301 audits and inspections conducted
3 compliance orders issued and resolved

MEMBERSHIP

VQA Ontario ended the 2002-2003 year with 66 members including 3 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 51 small wineries (sales of up to 100,000 litres of VQA wines). A total of 10 new wineries joined VQA Ontario. Membership growth is expected to continue at a slightly lower rate into 2004.

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

PRODUCT APPROVALS

1159 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 928 wines, and denied for 231.

INSPECTIONS AND AUDITS

137 routine audits were conducted during 2002 – 2003 to verify compliance with origin and production standards for all approved VQA wines. Each winery member was subject to complete on-site audits on a 5-month interval. In addition, 164 random inspections were completed at the retail level, focused primarily on ensuring ongoing compliance with VQA packaging and labelling regulations. The number of retail inspec-

tions increased over last year as a quarterly inspection program was fully implemented. As a result of audits and inspections, follow up was conducted in 77 cases. A large majority of issues addressed were minor in nature and resolved through discussion and correction by the winery. There remains a strong willingness on the part of members to meet the required standards.

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.

No tribunals were convened.

TRADE AND EXPORT DEVELOPMENT

Along with other stakeholders from industry and government, VQA Ontario continued to participate in discussions to improve trade access for wine in European and New World markets. VQA Ontario provides an independent certification process as required by the European Union as a condition of access to member states. 93 export certificates were issued for wines destined for sale in Europe.

Negotiations continued throughout 2002-2003 to secure improved access to European markets with the expectation for an agreement to be finalized early in 2003.

Canada ratified a Mutual Acceptance Agreement on oenological practices with the United States in December 2002. Now law, this agreement eliminates trade barriers based on local wine-making practices and sets the stage for future agreements on labelling and perhaps further liberalization in other jurisdictions. Australia, New Zealand, Chile and Argentina have initialled the agreement and are expected to ratify it in the near future. An agreement covering labelling requirements will be the next step in these discussions.

The process to develop a national standard for VQA wines and other Canadian wines has resumed under the auspices of the Canadian Vintners Association and Agriculture and Agrifood Canada. VQA Ontario is an active participant in these discussions and will likely be involved in administering the regulatory framework that would accompany a national standard should one be adopted. Work on the technical standards proposed for VQA wines, Regional wines and others has progressed well and will continue into next year.

PUBLIC EDUCATION AND COMMUNICATIONS

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

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

Other activities included:

- Distribution of brochures on the VQA standard, Icewine and VQA lapel pins
- Expansion of the VQA Ontario website to provide more comprehensive information about the VQA appellation system to the public and convenient access to online forms for members
- Presentations at various conferences
- Providing information to media
- Responding to inquiries or complaints from consumers

Ontario's VQA Wines

The Year in Review (2002 – 2003)

VQA Wine Sales

By Volume

	Litres (2003)	**Litres** (2002)	**% Change**
Winery Retail	3,649,561	3,049,962	19.7
Licensees	2,073,060	1,601,087	29.5
LCBO (shipped)	4,386,246	3,569,503	22.9
Outside of Ontario and miscellaneous	1,252,758	1,183,694	5.8
Total*	**11,361,624**	**9,348,482**	**21.5**

By Retail Value

	Retail value ($) (2003)	**Retail value ($)** (2002)	**% change**
Winery Retail	66,440,611	55,102,974	20.6
Licensees	27,893,330	21,620,619	29.0
LCBO (shipped)	68,132,949	56,285,900	21.0
Outside of Ontario and miscellaneous	35,488,502	28,188,891	25.9
Total*	**197,767,573**	**$161,273,460**	**22.6**

** Figures may not correspond exactly due to rounding errors*

V Q A   W i n e   A p p r o v a l s   a n d   P r o d u c t i o n

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 1159

Total number of wines approved for VQA status ....928 (+24% over last year)

Total volume of approved wines ....13,614,867 Litres

Total estimated grape tonnage represented ....18,000 tonnes

TABLE WINES

The overall trend seen in VQA table wines continues to be towards higher quality wines. Many VQA wineries are devoting resources to developing red wines in response to market trends. Recent plantings of cabernet sauvignon are now coming into production and cabernet sauvignon varietal wines are showing a large increase. This is balanced by a moderate decrease in some other red varietals leaving total red production fairly stable.

White varietal wines still dominate varietal production, accounting for just under two-thirds of approved wines by volume. Riesling and Sauvignon Blanc varietals are showing substantial growth with emerging consumer interest in these varietals while Chardonnay production is relatively steady.

A number of experimental varieties are being developed in small quantities to test their suitability for Ontario's climate including Malbec, Zinfandel and Nebbiolo. Syrah has also been established over the past few vintages as a viable variety.

Number of table wines approved: 772
(last year 620)

(includes 21 rosés and 2 nouveau wines but does not include Late Harvest, Icewine, or Sparkling wines)

Table Wines by Vintage

VINTAGE	Year ending March 31, 2003			Year ending March 31, 2002			Year over Year % change (volume)
	Number of wines approved	Volume (9 L cases)	Volume (Litres)	Number of wines approved	Volume (9 L cases)	Volume (Litres)	
2002	137	418,166	3,763,494	-	-	-	
2001	584	870,180	7,831,620	61	274,091	2,466,819	
2000	172	159,664	1,436,976	445	830,697	7,476,273	
1999	23	6,619	59,571	101	94,713	852,417	
1998	7	110	990	9	2,138	19,242	
1997	-	-	-	4	320	2,880	
TOTAL	**772**	**1,454,739**	**13,092,651**	**620**	**1,201,959**	**10,817,631**	**+ 21%**

Using an average yield of 725 litres per tonne, the grape tonnage used for VQA table wines that were approved in the last year can be estimated as follows:

2002 vintage	5,200 tonnes
2001 vintage	10,800 tonnes
2000 vintage	2,000 tonnes
previous vintages	80 tonnes

SINGLE VARIETAL WINES BY GRAPE VARIETY

Based on the number of approvals granted, single varietal wines were dominated by Chardonnay. A total of 624 single varietal wines were approved in comparison to 514 last year. Numbers of approvals granted for the more common varieties are:

Single Varietal Wines by Grape Variety

SINGLE VARIETAL	Year ending March 31, 2003			Year ending March 31, 2002			Year over Year % change (volume)
	Number of wines approved	Volume (9 L cases)	Volume (Litres)	Number of wines approved	Volume (9 L cases)	Volume (Litres)	
Chardonnay	130	296,949	2,672,541	115	294,004	2,646,036	+ 1%
Riesling	95	216,383	1,974,447	53	129,156	1,162,404	+ 68%
Cab Franc	58	92,287	830,583	49	100,756	906,804	- 8%
Merlot	39	32,043	288,387	33	25,735	231,615	+ 25%
Cab Sauvignon	35	69,699	627,291	32	24,906	224,154	+ 180%
Vidal	34	129,366	1,164,294	28	107,627	968,643	+ 20%
Gewurztraminer	32	58,000	522,000	16	37,786	340,074	+ 53%
Pinot Noir	31	25,952	233,568	31	37,282	335,538	- 30%
Baco Noir	30	89,947	809,523	23	77,465	697,185	+ 16%
Pinot Gris/Grigio	29	48,942	440,478	18	29,007	261,063	+ 69%
Sauvignon Blanc	25	33,861	304,749	25	20,693	186,237	+ 64%
Gamay	24	34,649	311,841	28	44,535	400,815	- 22%
Foch	10	7,707	69,363	11	11,981	107,829	- 36%
Zweigelt	9	3,711	33,399	7	4,160	37,440	- 11%
Other (16 varietals)	43	34,989	313,101	45	65,130	586,170	- 47%
TOTAL	**624**	**1,169,023**	**10,521,207**	**514**	**1,010,223**	**9,092,007**	**+ 16%**

Late Harvest wines

WINE CATEGORY	Year ending March 31, 2003			Year ending March 31, 2002			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	12	14,418	64,881	11	11,226	50,517	+28%
Select Late Harvest	16	8,926	40,167	8	5,348	24,066	+67%
Special Select Late Harvest	3	4,010	18,045	9	3,557	16,006	+13%
TOTAL	**28**	**27,354**	**123,093**	**31**	**21,131**	**90,589**	**+36 %**

Sparkling and Fortified wines

WINE CATEGORY	Year ending March 31, 2003			Year ending March 31, 2002			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	13	16,330	146,970	12	16,304	146,736	0%
Fortified wines	5	1,100	9,900	2	n/a	n/a	n/a

ICEWINE

Number of Icewines approved – 99

Icewines by Variety

SINGLE VARIETAL	Year ending March 31, 2003			Year ending March 31, 2002			Year over Year % change (volume)
	Number of wines approved	Volume (4.5 L cases)	Volume (Litres)	Number of wines approved	Volume (4.5 L cases)	Volume (Litres)	
Vidal	53	34,486	155,187	42	37,600	169,200	- 8%
Riesling	22	5,885	26,483	16	4,300	19,350	+ 37%
Cabernet Franc	17	5,186	23,337	6	1,040	4,680	+ 399%
Gewurztraminer	5	351	1,580	5	710	3,195	- 51%
Chardonnay	1	255	1,148	1	24	108	+ 963%
Pinot Gris/ Grigio	-	-	-	1	31	139	n/a
Cabernet Sauvignon	1	230	1035	-			n/a
TOTAL	**99**	**46,393**	**208,769**	**71**	**43,705**	**196,672**	**+ 6%**

Icewines by Vintage

Vintage	Number of wines approved	Volume (4.5 L cases)	Volume (Litres)
2002	3	4,900	17,550
2001	70	32,215	144,518
2000	12	3,210	14,445
1999	7	3,650	16,425
1998	7	2,418	10,881

The 2002 Vintage

The growing season got off to a good start in 2002 but severe drought conditions occurred across Ontario for a second consecutive year during July and August, affecting all viticultural areas. In general, vines prospered with the increased sunlight hours but some drought stress was evident towards the end of the season. Harvest weather was good and most varieties ripened well. Aided by the dry season which resulted in smaller and more concentrated berries, sugar levels measured as degrees Brix, were above average for most varieties. Early indications for the 2002 vintage table wines are excellent for all white varietals and promising good concentration and complexity in the red varietals.

The Icewine harvest for 2002 was conducted in almost perfect conditions. The early and sustained cold weather allowed an early harvest when grapes were in good condition. Minimum bird damage and deterioration was sustained and juice quality was excellent. Full details of the Icewine harvest are set out below.

The very cold temperatures experienced throughout the winter and into spring caused some bud damage and may reduce crop yields for 2003, particularly in the more tender varieties.

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 4089 tonnes, an increase of 29 percent over 2001 and up over 65 percent from 2000 nettings.

Independent brix testing was conducted for all Late Harvest and Icewine grapes for the 2002 vintage harvest. The early cold weather allowed an early harvest where the grapes were in good condition with little deterioration. The first pickings started on December 4, 2002 and all harvesting was complete by January 28, 2003. All viticultural areas enjoyed an early harvest, with many opportunities for picking Icewine grapes. Picking took place on over 40 dates.

Yields for both the Late Harvest and Icewine categories were average and sugar levels excellent. Icewine quality for the 2002 vintage is expected to be excellent.

2002 Vintage Estimates – Late Harvest and Icewine

(may be adjusted when fully audited)

	Icewine Juice (Litres)			Late Harvest Juice (Litres)		
	2002	2001	% change	2002	2001	% change
Vidal	401,772	307,199	+ 31%	35,319	145,315	- 76%
Riesling	128,533	29,128	+ 341%	18,088	12,494	+ 45%
Cabernet Franc	72,221	22,497	+ 221%	5,250	2,452	+ 114%
Gewurztraminer	11,010	3,056	+ 260%	700	500	+ 40%
Chardonnay	1,000	2,450	- 59%	600	-	
Gamay	1,565	305	+ 413%	-	-	
Cabernet Sauvignon	6,885	-	-	500	-	
Others	2,040	-	-	1440	-	

The larger volume of Late Harvest in 2001 reflects the warm winter that year resulting in a significant volume of juice intended for Icewine having been declassified.

ENFORCEMENT ACTIVITY

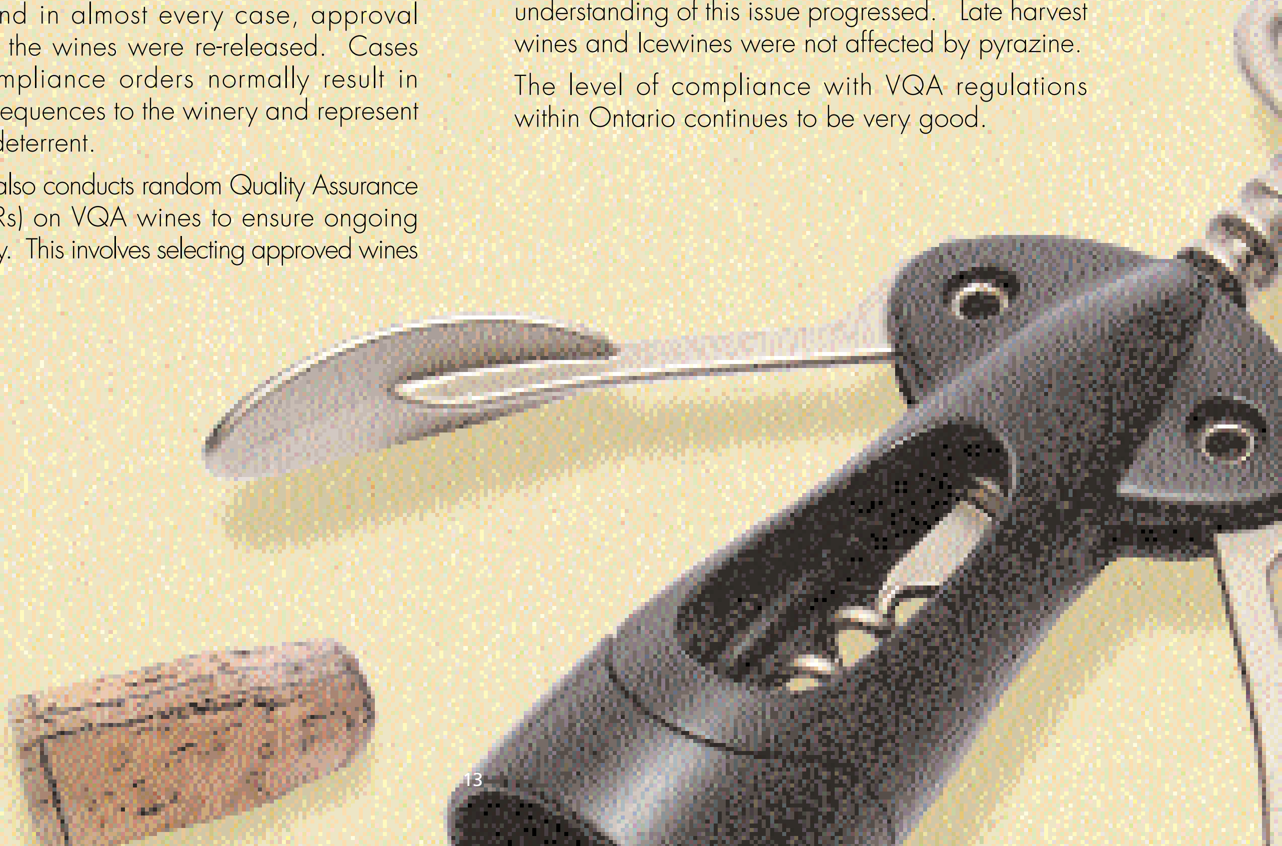
VQA Ontario enforces compliance with the VQA Act and regulations as its primary mandate. The regulatory process starts with the monitoring of grape quality at harvest through independent sugar testing and through regular auditing and reconciling of wine making processes and record-keeping. Once the wine is finished and submitted for VQA approval, taste tests, laboratory tests and labels 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 164 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, graphic discrepancies with the VQA logo and the like. The most serious violations found were cases where wineries had offered VQA wines for sale before receiving approval. In most cases, the wines in question had been or were about to be submitted for approval. These wines were ordered removed from all channels of sale until they were approved, and in almost every case, approval followed and the wines were re-released. Cases involving compliance orders normally result in financial consequences to the winery and represent a significant deterrent.

VQA Ontario also conducts random Quality Assurance Reviews (QARs) on VQA wines to ensure ongoing product integrity. This involves selecting approved wines on a random basis (10% of wines) from a retail setting and re-testing these wines. This allows us to determine that the wine in the bottle is the same wine that was approved and whether VQA standards for taste profile and chemical analysis continue to be met at the point of distribution to the consumer. A total of 81 QARs were conducted last year.

Significant challenges arose from the 2001 vintage because some wines were affected by the high populations of Asian ladybugs across northeastern North America at harvest time. About 20% of 2001 vintage wines appear to be affected by the uncharacteristic aroma believed to be linked to the ladybugs. Research has linked the resulting character in wine to pyrazine, a naturally occurring substance which is present in grapes but also given off in higher levels by the Asian ladybugs. The aroma and taste have been profiled as grassy and green pepper-like, and the VQA taste panel underwent training to identify this specific character in prospective VQA wines. As a result of screening these wines out of VQA, the failure rate for 2001 wines was substantially higher than normal leading to an increase in the overall failure rate compared to the previous year. As well, VQA winery members have withheld a large volume of wines from the VQA process and withdrawn others that were identified as understanding of this issue progressed. Late harvest wines and Icewines were not affected by pyrazine.

The level of compliance with VQA regulations within Ontario continues to be very good.



Financial Report

RESOURCING

VQA Ontario is supported primarily by its members on a fee for service basis. For a transitional start-up period of three years, commencing in 2000, the Ministry of Consumer and Business Services, the Liquor Control Board of Ontario and the Grape Growers of Ontario have committed to providing a combination of in-kind and financial support. Thanks to industry support and the success of VQA wines in the marketplace, VQA Ontario is now entirely self-funded.

FINANCIAL SUMMARY

This summary is drawn from the auditor's report and financial statements for the year ended March 31, 2003 contained in Appendix 1.

Revenue exceeded expenditures by $ 384,893 for the year ended March 31, 2003, an amount similar to the previous year. Not only were revenues greater than anticipated because of tremendous growth in VQA sales but expenses for general office management were slightly lower because of lower than projected enforcement costs and savings realized on equipment. This strong financial performance allowed VQA Ontario to reduce members fees last year – by 25% on membership fees and 10% on sales levies. After accounting for payments due early in the next fiscal year, it is expected that net equity carried forward will be in the range of $989,000. This includes VQA Ontario's legal reserve fund of $400,000 to be used for complicated investigations, prosecutions or other unanticipated expenses.

Total revenue for fiscal 2003 was $1,282,330 with the majority received in member fees ($778,992).

Total expenditures for the year were $897,437 with major expenses including quality testing and monitoring ($238,727), insurance and professional fees ($56,304), public education ($250,000) and employee costs ($212,413).

Kopstick Osher
Chartered Accountants, LLP

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

AUDITORS' REPORT

To the Council,
Vintners Quality Alliance Ontario

We have audited the the statement of financial position of Vintners Quality Alliance Ontario as at March 31, 2003 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, 2003 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Kopstick Osher

Toronto, Canada
June 4, 2003

KOPSTICK OSHER
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VINTNERS QUALITY ALLIANCE ONTARIO

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2003

	2003	2002
ASSETS		
Current		
Cash and short-term investments	$ 969,519	$ 512,389
Accounts receivable	71,922	179,472
Sundry assets	94,152	9,377
	1,135,593	701,238
Capital - Note 2	10,863	1,141
	$ 1,146,456	$ 702,379
LIABILITIES		
Current		
Accounts payable and accruals	$ 83,338	$ 55,604
Deferred revenue - Note 3	73,510	42,060
	156,848	97,664
NET ASSETS		
Net assets	989,608	604,715
	$ 1,146,456	$ 702,379

APPROVED BY THE BOARD:

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

Kopstick Osher
Chartered Accountants, LLP

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VINTNERS QUALITY ALLIANCE ONTARIO

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED MARCH 31, 2003

	Invested in capital assets	Internally restricted for legal and enforcement fund	Unrestricted	2003 Total	2002 Total
Net assets - beginning of year	$ 1,141	$ 400,000	$ 203,574	$ 604,715	$ 205,040
Excess of revenues over expenses	-	-	384,893	384,893	399,675
Purchase of capital assets	11,738	-	(11,738)	-	-
Amortization of capital assets	(2,016)	-	2,016	-	-
Net assets - end of year	$ 10,863	$ 400,000	$ 578,745	$ 989,608	$ 604,715

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

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VINTNERS QUALITY ALLIANCE ONTARIO

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED MARCH 31, 2003

	2003	2002
Revenues		
Membership fees	$ 96,750	$ 111,000
Bottle fees	778,992	701,081
Approval fees	151,065	113,040
Other income	36,813	21,558
Contributions from LCBO	110,870	134,404
Contributions from GGO	75,000	75,000
Contributions from OMAFRA	32,840	30,000
	1,282,330	1,186,083
Expenses		
Salaries and benefits	212,413	201,545
Contracted services	17,360	14,200
Public education	250,000	240,000
Approvals	201,159	124,164
Quality assurance and inspection	20,208	10,384
Strategic planning	-	27,502
Export development and trade	21,321	17,017
NAWN support	-	3,000
Meetings	7,891	4,729
Travel	6,044	1,633
Rent and occupancy	31,168	31,022
Office and general	20,720	19,882
Printing and mailing	45,435	33,677
Telephone and communications	5,301	4,742
Insurance	23,451	19,343
Bank charges	97	171
Professional services	32,853	33,092
Amortization	2,016	305
	897,437	786,408
Excess of revenues over expenses	$ 384,893	$ 399,675

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

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Chartered Accountants, LLP

VINTNERS QUALITY ALLIANCE ONTARIO

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2003

	2003	2002
Cash flows from operating activities		
Excess of revenues over expenses	$ 384,893	$ 399,675
Non-cash items:		
Amortization	2,016	305
Net change in non-cash working capital	81,959	(172,555)
	468,868	227,425
Cash flows from investing activities		
Purchase of capital assets	(11,738)	-
Cash flows from financing activities	-	-
Increase in cash	457,130	227,425
Cash and short-term investments - beginning of year	512,389	284,964
Cash and short-term investments - end of year	$ 969,519	$ 512,389

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

Kopstick Osher
Chartered Accountants, LLP

VINTNERS QUALITY ALLIANCE ONTARIO

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2003

1. **Significant accounting policies**

Purpose and legal form of the organization

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

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

Revenue recognition

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

Capital assets

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

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

Contributed materials and services

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

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

2. **Capital assets**

	Cost	Accumulated Amortization	2003 Net Book Value	2002 Net Book Value
Computer equipment and software	$ 8,774	$ 740	$ 8,034	$ 655
Office furniture and equipment	3,612	783	2,829	486
	$ 12,386	$ 1,523	$ 10,863	$ 1,141

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VINTNERS QUALITY ALLIANCE ONTARIO

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2003

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. Contributed materials and services

The following materials and services, included in the financial statements, were contributed by the LCBO.

	2003	2002
Rent	$ 30,000	$ 30,000
Database support	-	1,500
Incremental and audit tasting expenses	32,439	13,904
Computer equipment	9,427	-
	$ 71,866	$ 45,404

6. Commitments

VQA Ontario has made a commitment to provide funding for VQA generic marketing to the Wine Council of Ontario in the amount of $500,000 over the next two fiscal years.

VQA Ontario is in the process of committing to a 5 year lease with the LCBO for space it currently occupies. The lease will be effective April 1, 2003 with an annual rent of $30,000.

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Vintners Quality Alliance Ontario

BOARD OF DIRECTORS
March 31, 2003

Officers

Len Pennachetti
President, Cave Spring Cellars
President and Chair, VQA Ontario

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

Newman Smith
Chairman, Strewn Inc.
Treasurer, VQA Ontario

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

Directors – elected from membership

Jamie Macfarlane
Director, Oenology and Research,
Andres Wines Ltd.

Stu Morgan
General Manager, Lakeview Cellars Estate Winery

Walter Schmoranz
General Manager, Pelee Island Winery

Bruce Walker
Executive Vice-President, Government and Industry Relations, Vincor International Inc.

Beth Warner
Vice-President, Marketing, Kittling Ridge Estate Wines and Spirits

Directors-Appointed

Alexandra Aguzzi-Barbagli
Manager, Sector Liaison, Ontario Ministry of Consumer and Business Services

Terry Mundell
President, Ontario Restaurant, Hotel and Motel Association

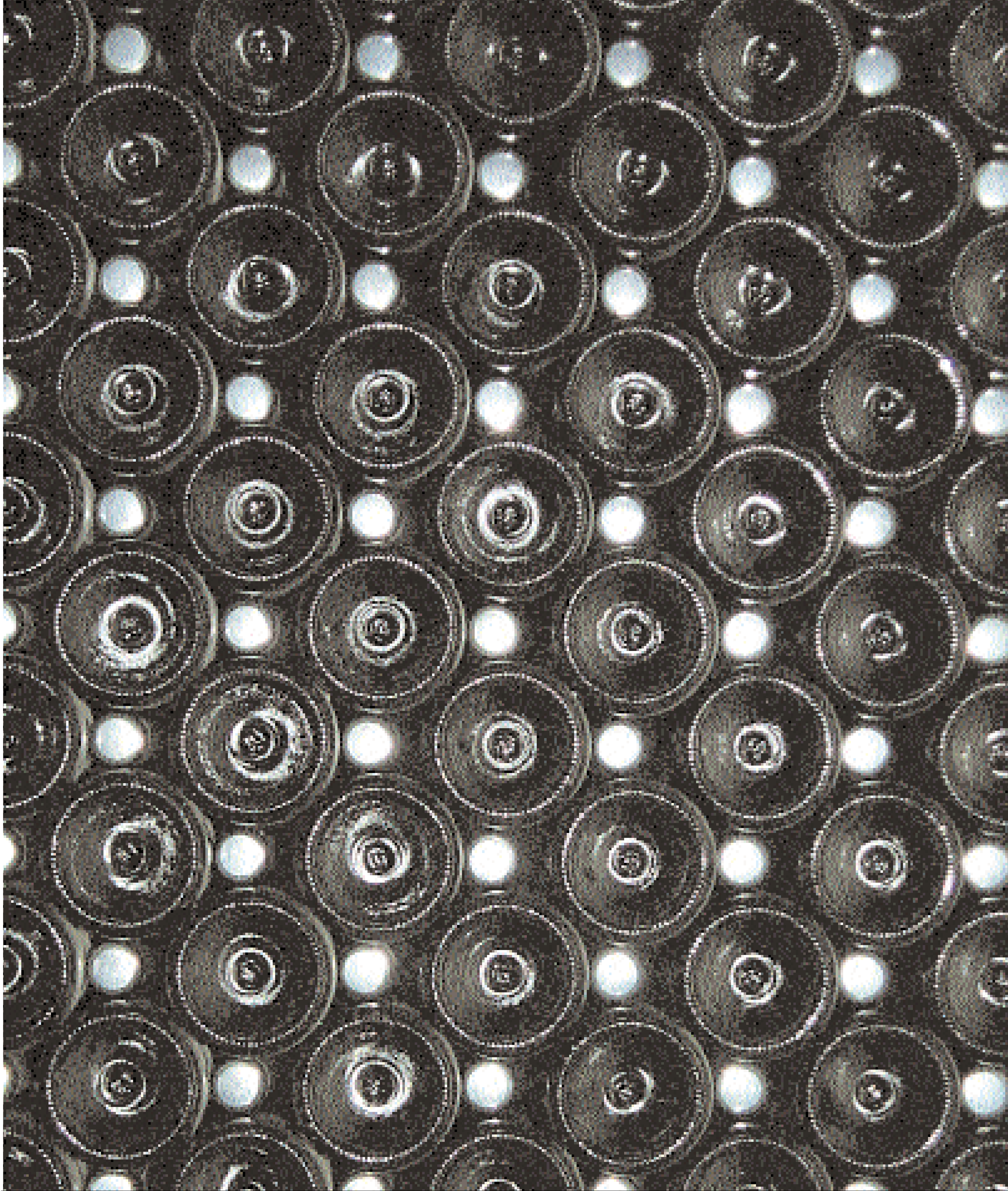
Peter Buis Jr.
Vice-Chair, Grape Growers of Ontario

Statutory Appointments

Laurie Macdonald, VQA Inspector

VQA Ontario staff

Laurie Macdonald, Executive Director
Barbara Dodds, Executive Assistant



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

Wine Council of Ontario

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