



INNOVATION

2019 ANNUAL REPORT

VQA Ontario Wine Appellation Authority

Setting the standard for Ontario's wines of origin

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 identifying authentic wines of origin and quality.

Mission

Provide a strong foundation for consumer confidence by enforcing relevant standards that recognize Ontario's regions and styles. Communicate the value of a credible appellation system.

Strategic goals

Origin, quality, authenticity



Officers

Brian Schmidt (5)

President and Chair
(elected from Vineland Estates Winery)

Louise Engel (5)

Vice-Chair
(elected from Featherstone Estate Winery)

Paul Kassebaum (4)

Treasurer
(elected from Arterra Wines Canada)

Martin Werner (5)

Secretary
(elected from Ravine Vineyard Estate Winery)

Directors

Greg Berti (4)

(elected from Andrew Peller Ltd.)

Derek Cartlidge (1)

(elected from Colio Estate Winery)

Ken Douglas (4)

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

Tony Elenis (3)

(appointed from Ontario Restaurant,
Hotel and Motel Association)

Jennifer Hart (4)

(elected from Flat Rock Cellars)

Mary Shenstone (5)

(appointed from Government of Ontario)

Paul Speck (4)

(elected from Henry of Pelham Estate Winery)

Dan Sullivan (4)

(elected from Rosehall Run Vineyards)

Kevin Watson (3)

(appointed from Grape Growers of Ontario)

Staff and Statutory Appointments

Laurie Macdonald

Executive Director

Barbara Dodds

Accounting (VQA Inspector)

Susan Piovesan

Manager, Compliance and IT Systems (VQA Inspector)

Katherina Radcliffe

Manager, Communications and Wine Standards

Kaitlin Wilson

Wine Approvals Coordinator

Attendance at Board meetings:

Five Board meetings were held in 2018-2019. The number of Board meetings each Director attended is indicated beside their name. Please note that Jennifer Hart joined the Board in July 2018 and attended all four Board meetings scheduled for the remainder of the year. Derek Cartlidge joined the Board in December 2018 and also has full attendance.

INNOVATION

What does innovation mean for an upcoming wine region? It means evolving standards, ever improving quality and always moving forward. It means combining new technology with ancient traditions to make the best, most authentic Ontario wines. VQA quality is driven by innovation in the vineyard, at the winery and at our Wine Appellation Authority, setting the standard for VQA Wines.



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

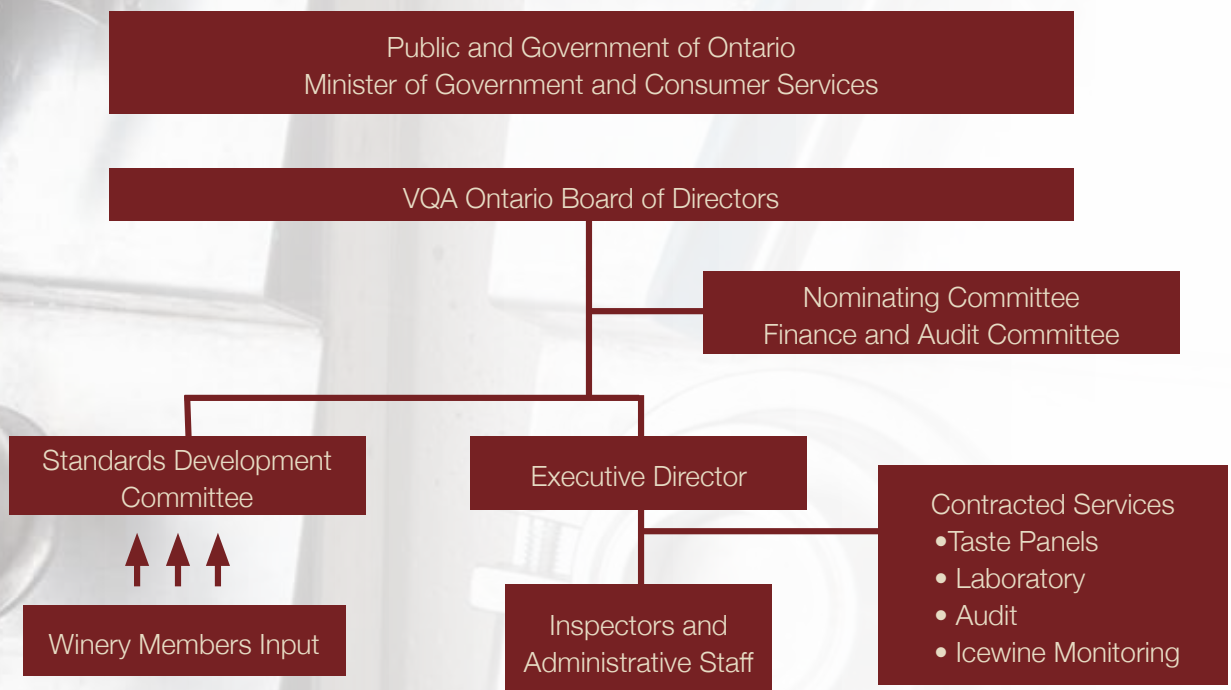
VQA Ontario will discharge its regulatory responsibilities firmly to ensure VQA terms, descriptions and designations are not misused and consumers can rely on label integrity for all VQA wines.

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.



Message from the Chair



Last year in this message, I marveled at how much the Ontario wine industry has grown and changed in the thirty years since VQA was created. Today the industry is again facing rapid and profound changes. Beyond the potential structural changes to wine regulation and retailing, technology is reshaping the world around us and how we engage our consumers. Much of the technology we rely on daily barely existed a decade ago – instant messaging, social media, the sharing economy – these things are fundamentally changing how we live, how we buy and consume things and who we trust for advice.

We've watched Uber, Airbnb and others re-invent the taxi and hotel industries, and now is the time to think about how technology and the “new economy” will affect VQA. The way we do business is changing. VQA intends to embrace these changes while making sure the VQA appellation system is grounded in our wines of origin and will continue to be a stabilizing influence as growers and winemakers adapt to the new realities.

Consumers have unprecedented access to information and the ability to share it at lighting speed. This is great for efficiency, but the occasion for contemplation is often missed. VQA wine is a very traditional product in this

modern world of high tech, and Moore's Law of ever-increasing microchip capacity will never apply to wine. So perhaps our opportunity lies with the natural human desire for authenticity. Wine can be the catalyst to slow down, share a glass with friends and family, and for a brief moment contemplate the changing world.

A key element of VQA Ontario's role as the wine authority is to ensure consumers can rely on VQA wines to meet a minimum standard and that the labels truthfully reflect the wines – in essence, we promise it's real. Our future is about upholding consumer trust and meeting expectations through relevant and thoughtful regulation, embracing technology, and evolving VQA standards to both protect consumers and maintain a fair marketplace for wineries.

As an industry, and with our partners in the government and trade, we have faced many challenges and always worked together to move forward. Here's to the future, and a common vision of integrity and quality that adds value for everyone.

Brian Schmidt
President and Chair

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.



Vintage Report 2018

Niagara Peninsula • Lake Erie North Shore • Prince Edward County

Conditions

Weather conditions for Ontario wine regions in 2018 were extremely variable through all four seasons. The year started off with cold temperatures and precipitation in January. This was followed by warm weather and a quick thaw in February that caused flooding in some of our Emerging Wine Regions. March was comparatively warm and dry and gave the impression that spring had arrived early. Sadly, winter reappeared in April, bringing cold weather, snow and ice. Spring finally arrived for good in May and the weather was warm and windy across Ontario.

The warm trend continued through the summer with some extreme heat through June and July and heat-waves at the end of August generating thunderstorms with heavy precipitation across all regions. Heading into harvest, the weather stayed warm through most of September and into October, but winegrowers had to cope with precipitation and humidity throughout harvest. November was cool and dry, and cold temperatures came early, dipping below -8C on November 22, which allowed for an early start to the Icewine harvest.



Harvest

The warm and sunny growing season resulted in early ripening which allowed an early and speedy harvest. This was ideal given the challenges posed by the mid-harvest rain and the desire to avoid the risk of disease pressures resulting from humid conditions. Precision agriculture, teamwork and expertise ensured grapes were harvested in peak condition. Grape quantity is expected to be typical overall, with some reduction in yields specific to longer ripening varieties. The overall quality of the fruit is good in all regions.

Preliminary registrations for Icewine and Late Harvest grapes show an estimated 3775 tonnes, slightly lower than average due to decisions made to harvest early. The Icewine harvest officially began on November 22.

Wine Expectations

A reduction in yield for 2018 can be attributed to two main factors: long dry spells which resulted in small berry size at veraison; and the necessary dropping of fruit, particularly for those varieties that started to breakdown prematurely, due to humidity, at a time when the grapes had already softened. This was the case for Riesling and Pinot Gris, and to some extent, Chardonnay. However, above average heat paired with a dry summer allowed a good level of ripeness and concentration to develop in remaining 2018 fruit. Outlook for wines from this vintage is positive.





Operations

Executive Director's Report

VQA Ontario is on the move, both with a new office location and with many significant events and changes underway.

A new strategic plan for the organization was completed in late 2018 and we have embarked on our refreshed vision to ensure VQA remains relevant to both consumers and our winery members.

One aspect of achieving that vision is to keep the VQA regulations open and inclusive and up to date with evolving expectations. Consultations were completed with wineries and stakeholders on regulatory changes to add the grape variety Marquette to the list of approved varieties and permit non-vintage table wines within the VQA standard. These changes were supported by a large majority of those responding and have been recommended for approval by the Minister of Government and Consumer Services. VQA Ontario is also moving ahead to rebrand the organization with an emphasis on our role as the Wine Appellation Authority to help reduce confusion about our mandate.

We are working hard on reducing regulatory burden. A significant fee reduction was made at the end of fiscal 2019, cutting membership fees in half. More web-based services are being introduced to streamline interactions with wineries and reduce administrative burdens, making VQA services more convenient. Online payments, invoice management and several upgrades to traceability functions such as wine transfers and Icewine tracking were added in 2018 and work continues toward a comprehensive e-commerce portal.

VQA Ontario also put considerable resources – both in legal fees and staff resources – towards defending a legal challenge to VQA Ontario's authority to regulate appellation terms. In December 2018, Ontario's Divisional Court released its decision dismissing the challenge. The decision is a landmark success for Ontario's VQA system and sets an important precedent that supports the structure of our appellation system and its quality assurance processes, including sensory evaluation. The decision confirms that the VQA tasting panel process is reasonable and is authorized under current VQA legislation, and also that VQA regulations are complementary and not inconsistent with the federal regulations governing Icewine and trademarks.

On the staff side, we welcomed Kaitlin Wilson to our wine approvals staff and she is enjoying getting to know the industry. By the time this is published, we will have completed our move north to 5775 Yonge Street, after nearly 20 years leasing space from the LCBO in downtown Toronto. Things continue to move quickly and I am looking forward to an exciting year ahead working with my dedicated staff and all of our stakeholders.

A handwritten signature in black ink that reads "L. Macdonald".

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

3 net new member wineries

98.5% overall success rate for wine approval applications

Chardonnay the top production VQA varietal wine

1806 export certificates issued

327 audits and inspections conducted

6 compliance orders issued

Membership

178 wineries were registered as participants in the VQA program at the end of March 2019. These included 7 large wineries (sales of over 750,000 litres of VQA wines) 23 medium class wineries (sales of 100,000 to 750,000 litres of VQA wines) and 148 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

2281 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 2248 wines and denied for 33.

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

173 routine audits were conducted during 2018 – 2019 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, 170 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 43 cases. The majority of issues addressed were minor in nature.

Enforcement

Most compliance issues were resolved with warnings and corrective actions. VQA Ontario issued 6 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. 1806 certificates were issued for 277 wines from 31 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

Guided by a new strategic plan, communications at VQA Ontario focused on generating ideas around innovation in the industry, burden reduction for our winery members and improved opportunities to collaborate within the Ontario winemaking community. Winemakers forums continue to be a popular venue for sharing ideas and building comradery, especially in smaller regions.

Another area of focus is Coaching for Compliance, ensuring our winery members have the information required to successfully navigate the VQA system. Our monthly newsletters and winery visits aim to clarify rules around labelling, laboratory, and tasting panel procedures, while also providing updates about our enhanced online system for invoice management and monthly sales reporting. 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, 2018 to March 31, 2019. 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	1953	2,864,068	-3%	35,600
Icewine	99	72,256	-34%	3,700
Sparkling	136	123,226	+6%	1,500
Late Harvest	34	21,781	-3%	400
Other	26	7,912	+63%	100
Total	2,248	3,089,243	-4%	41,300

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 or the South Islands sub-appellation of Lake Erie North Shore 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	1,654,197	53%
Ontario	984,764	32%
Sub-appellations	401,117	13%
Prince Edward County	31,536	1%
Lake Erie North Shore	17,629	1%

Grape varieties used in all VQA wines (Total of 49 different varieties)		
Variety	% of total production (by volume)	
Chardonnay	13.3%	<i>About half of the volume of VQA wines is sourced from the four grape varieties, Chardonnay, Riesling, Cabernet Franc and Merlot. Compared to last year, Pinot Gris has moved from 7th to 5th in the list, reflecting the growing popularity of that variety.</i>
Riesling	13.1%	
Cabernet Franc	11.1%	
Merlot	10.4%	
Pinot Gris/Pinot Grigio	8.0%	
Cabernet Sauvignon	7.8%	
Vidal Blanc	7.6%	
Pinot Noir	6.5%	
Baco Noir	6.2%	
Sauvignon Blanc	5.1%	
Gamay Noir	2.8%	
Gewürztraminer	2.6%	
Syrah	1.5%	
Other	4.0%	

Red grape varieties used in all VQA wines – 48%

White grape varieties used in all VQA wines – 52%

Table wines

The table wine category includes white, red and rosé wines. The total volume of white and red wines produced were almost identical, indicating a slight relative move away from whites which now account for 48% down from 50% 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 (48%)	Varietal	11,569,793	1,285,533
	Non-varietal	699,855	77,762
	Total white	12,269,648	1,363,294
Red (48%)	Varietal	11,031,865	1,225,763
	Non-varietal	1,304,414	144,935
	Total red	12,336,278	1,370,698
Rosé (4%)	Varietal	550,193	61,133
	Non-varietal	607,043	67,449
	Total rosé	1,157,236	128,582

Popular single-varietal table wines

The top four red and white varietals remain the same as in previous years. Total volumes of each varied slightly with top movers Riesling and Sauvignon Blanc each declining by approximately 40,000 cases and Cabernet Franc down about 35,000 cases. 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	2,904,637	322,737
	Riesling	2,274,686	252,743
	Pinot Gris/Pinot Grigio	1,990,395	221,155
	Sauvignon Blanc	1,273,694	141,522
Red	Pinot Noir	1,279,580	142,176
	Merlot	1,167,824	129,758
	Baco Noir	1,057,344	117,483
	Cabernet Franc	788,952	87,661



Icewine

Overall Icewine production was down from the previous year's production of 110,00 cases.

Variety	Litres	Cases (9L)
Vidal Blanc	471,981	52,442
Cabernet Franc	63,906	7,101
Riesling	78,437	8,715
Cabernet Sauvignon	23,300	2,589
Gewurztraminer	4,472	497
Others	8,207	912
Total	650,303	72,256

Other Wines

Production volumes remained relatively steady over last year for these categories.

	Litres	Cases (9L)
Late Harvest and Botrytis Affected	196,025	21,781
Fortified and Liqueur wines and Vin de Cure	71,201	7,912
Sparkling wines	1,109,037	123,226

VQA Ontario Wine Sales

Year ending March 31, 2019

By Volume

	Litres (2019)	Litres (2018)	% Change
Winery Retail	6,335,981	6,186,709	+2.4%
Licensees	4,180,213	4,181,462	0%
LCBO (shipped)	9,233,459	8,927,598	+3.4%
Farmers Markets	50,413	54,553	-7.6%
Other Provinces	875,045	909,796	-3.8%
Export and Miscellaneous	1,500,973	1,737,907	-13.6%
Total	22,176,084	21,998,025	+0.8%

By Retail Value

	Retail value (\$) (2019)	Retail value (\$) (2018)	% Change
Winery Retail	168,190,811	161,372,493	+4.2%
Licensees	71,146,937	71,027,214	0%
LCBO (shipped)	148,230,462	140,020,149	+5.9%
Farmers Markets	1,246,354	1,191,117	+4.6%
Other Provinces	17,227,811	18,103,886	-4.8%
Export and Miscellaneous	71,840,242	82,676,479	-13.1%
Total	477,882,617	474,391,338	+0.7%



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 – 2281
Number of wines approved for VQA status – 2248

Performance Measures

Wine Approvals

Overall success rate – 98.5%

Laboratory analysis:

Average time to completion – 13 days
% of tests completed within 15 days – 84%
% of tests completed within 21 day target – 99%
Pass rate at laboratory – 99.8% (final status)

Sensory analysis:

Average time to completion – 6 days
% of tests completed within 15 days – 98.5%
% of tests completed within 21 day target – 99%
Pass rate at sensory panel – 99% (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 - 173
Retail store inspections - 170
Investigations - 2
Random testing of approved wines - 14
Warnings and minor corrective orders issued - 35
Compliance orders issued – 6

Performance Measures

Percentage of audits completed with no issues raised – 87%

Percentage of wines found to be compliant during audits - 98%

Percentage of wines found to be compliant during inspections – 88%

Percentage of wines found to be compliant upon random chemical analysis – 91%

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, 2019.

Expenditures exceeded revenue by \$81,562 for the year ended March 31, 2019, largely due to higher legal expenses incurred for a judicial review hearing. Total revenue was \$2,168,398 and total expenses were \$2,249,960. Net assets are \$1,003,327 and include funds for general use, capital and intangible assets, and a legal and enforcement reserve.

Revenue for fiscal 2019 was derived primarily from sales levies (\$1,014,004) and approval fees (\$701,364).

Major components of the approximately \$2 million in expenses were wine approvals and quality monitoring (\$814,488), employee costs (\$556,048) and public education (\$250,000).

Financial Statements

For the year ended March 31, 2019



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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

Opinion

We have audited the financial statements of Vintners Quality Alliance Ontario (the Organization), which comprise the statement of financial position as at March 31, 2019, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at March 31, 2019, and the results of operations and its cash flows for the year then ended in accordance with Canadian Accounting Standards for Not-for-Profit Organizations (ASNFPPO).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Organization's Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with ASNFPPO, 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.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going-concern basis of accounting unless management either intends to liquidate the Organization or to cease operations (or has no realistic alternative but to do so).

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement (whether due to fraud or error) and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements (whether due to fraud or error), design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going-concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements (including the disclosures), and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Toronto, Canada
June 12, 2019

KOPSTICK OSHER, LLP
Chartered Professional Accountants
Licensed Public Accountants

Statement of Financial Position

As at March 31, 2019

	2019	2018
ASSETS		
Current		
Cash	\$ 486,909	\$ 576,221
Investments - Note 3	696,219	603,391
Accounts receivable - Note 4	255,622	231,534
Prepaid expenses	3,538	2,913
	<u>1,442,288</u>	<u>1,414,059</u>
Investments - Note 3	<u>-</u>	<u>87,644</u>
Capital - Note 5	<u>1,935</u>	<u>1,904</u>
Intangible - Note 6	<u>46,728</u>	<u>43,424</u>
	<u>\$ 1,490,951</u>	<u>\$ 1,547,031</u>
LIABILITIES		
Current		
Accounts payable and accruals - Note 7	\$ 418,761	\$ 404,545
Deferred revenue - Note 8	68,863	57,597
	<u>487,624</u>	<u>462,142</u>
NET ASSETS		
Invested in capital and intangible assets	48,664	45,329
Internally restricted for legal and enforcement fund	200,000	200,000
Unrestricted	754,663	839,560
	<u>1,003,327</u>	<u>1,084,889</u>
	<u>\$ 1,490,951</u>	<u>\$ 1,547,031</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, 2019

	Invested in capital and intangible assets	Internally restricted for legal and enforcement fund (note 9)	Unrestricted	2019 Total	2018 Total
Net assets - beginning of year	\$ 45,329	\$ 200,000	\$ 839,560	\$ 1,084,889	\$ 974,772
(Deficiency) excess of revenues over expenses	-	-	(81,562)	(81,562)	110,117
Purchase of capital assets	1,307	-	(1,307)	-	-
Purchase of intangible assets	15,550	-	(15,550)	-	-
Amortization	<u>(13,522)</u>	<u>-</u>	<u>13,522</u>	<u>-</u>	<u>-</u>
Net assets - end of year	<u>\$ 48,664</u>	<u>\$ 200,000</u>	<u>\$ 754,663</u>	<u>\$ 1,003,327</u>	<u>\$ 1,084,889</u>

The accompanying notes
form an integral part of
these financial statements

Statement of Operations

For the year ended
March 31, 2019

	2019	2018
Revenues		
Membership fees	\$ 166,175	\$ 166,175
Bottle fees	1,014,004	1,018,278
Approval fees	701,364	637,302
Ontario government grant - OMAFRA	236,898	240,802
Interest income	5,792	4,338
Other income	44,165	20,851
	<u>2,168,398</u>	<u>2,087,746</u>
Expenses		
Salaries and benefits	556,048	508,004
Contracted services	214,100	220,400
Public education	250,000	250,000
Approvals	814,488	738,458
Quality assurance and inspection	14,528	8,395
Export development and trade	6,552	5,352
Communications	3,012	450
Appellations	30,514	-
Weather monitoring	4,000	4,000
Strategic planning	18,846	-
Meetings	13,069	13,755
Travel	9,104	8,996
Rent and occupancy	40,500	38,400
Office and general	25,269	25,891
Printing and mailing	13,426	12,682
Telephone and internet	12,840	11,814
Insurance	8,713	8,916
Bank charges	7,173	862
Professional services	194,256	113,773
Amortization of capital assets	1,276	1,656
Amortization of intangible assets	12,246	5,825
	<u>2,249,960</u>	<u>1,977,629</u>
(Deficiency) excess of revenues over expenses	<u>\$ (81,562)</u>	<u>\$ 110,117</u>

The accompanying notes
form an integral part of
these financial statements

Statement of Cash Flows

For the year ended
March 31, 2019

	2019	2018
Cash flows from operating activities		
(Deficiency) excess of revenues over expenses	\$ (81,562)	\$ 110,117
Non-cash items:		
Amortization of capital assets	1,276	1,656
Amortization of intangible assets	12,246	5,825
Interest capitalized on investments	(5,184)	(3,960)
Changes in non-cash working capital		
(Increase) decrease in accounts receivable	(24,088)	37,135
(Increase) decrease in prepaid expenses	(625)	1,492
Increase (decrease) in accounts payable and accruals	14,216	(525)
Increase in deferred revenue	11,266	27,483
	<u>(72,455)</u>	<u>179,223</u>
Cash flows from investing activities		
Purchase of investments	(1,080,372)	(578,769)
Proceeds from disposal of investments	1,080,372	578,769
Purchase of capital assets	(1,307)	-
Purchase of intangible assets	(15,550)	(38,500)
	<u>(16,857)</u>	<u>(38,500)</u>
Cash flows from financing activities	<u>-</u>	<u>-</u>
(Decrease) increase in cash	(89,312)	140,723
Cash - beginning of year	<u>576,221</u>	<u>435,498</u>
Cash - end of year	<u>\$ 486,909</u>	<u>\$ 576,221</u>

The accompanying notes
form an integral part of
these financial statements

Notes to Financial Statements

March 31, 2019

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, 2019

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 - 0.65%, maturing April 29, 2019	\$ 87,122	\$ 88,216
CIBC GIC - Variable rate (CIBC prime less 2.15%), maturing July 17, 2019	130,281	131,848
CIBC GIC - Variable rate (CIBC prime less 1.95%), maturing February 25, 2020	200,000	200,383
CIBC GIC - 2.50%, maturing February 25, 2020	<u>275,112</u>	<u>275,772</u>
Total	692,515	696,219
Less: portion maturing within one year of the year-end date	<u>692,515</u>	<u>696,219</u>
Classified as long-term	-	-

At March 31, 2018, total investments at face value and amortized cost were \$688,448 and \$691,035, respectively.

4. Accounts receivable

	2019	2018
Trade receivables owing from members	\$ 109,263	\$ 106,299
Receivable from Ontario government - OMAFRA	101,898	105,802
Harmonized sales tax recoverable	21,961	19,433
Miscellaneous receivable	<u>22,500</u>	-
	<u>\$ 255,622</u>	<u>\$ 231,534</u>

Notes to Financial Statements

March 31, 2019

5. Capital assets

	Cost	Accumulated Amortization	2019 Net Book Value	2018 Net Book Value
Computer equipment	\$ 8,391	\$ 7,078	\$ 1,313	\$ 763
Office furniture and equipment	<u>11,145</u>	<u>10,523</u>	<u>622</u>	<u>1,141</u>
	<u>\$ 19,536</u>	<u>\$ 17,601</u>	<u>\$ 1,935</u>	<u>\$ 1,904</u>

6. Intangible assets

	Cost	Accumulated Amortization	2019 Net Book Value	2018 Net Book Value
Computer software	<u>\$ 183,352</u>	<u>\$ 136,624</u>	<u>\$ 46,728</u>	<u>\$ 43,424</u>

7. Accounts payable and accruals

	2019	2018
Trade payables and accrued liabilities	\$ 396,039	\$ 384,386
Payroll taxes	<u>22,722</u>	<u>20,159</u>
	<u>\$ 418,761</u>	<u>\$ 404,545</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.

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.

Notes to Financial Statements

March 31, 2019

10. Financial instruments (continued)

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 renewed an agreement with the Wine Marketing Association of Ontario to provide funding of \$250,000, in the next fiscal year, in support of activities to promote the awareness, understanding and use of the VQA appellations.

The organization leases its present office space under a sub-lease, with the LCBO, expiring June 30, 2019. Future minimum lease payments total \$10,500 to be paid in the 2020 fiscal year.

Subsequent to year end, the organization entered into a lease for new office space, expiring August 31, 2029. Future minimum lease payments total \$282,596 and include the following payments over the next five years: 2020, \$15,440; 2021, \$26,469; 2022, \$26,469; 2023, \$27,377; 2024, \$28,026. In addition to the minimum rent, the organization must pay a portion of the property operating costs and realty taxes which are estimated at \$30,797 per annum.

In the previous 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 second year ended, March 31, 2019, the organization received funding of \$236,898 and has spent \$239,033. As part of the project, the organization entered into a three year contract with a third party consultant to provide services for the project. The expenses in the second year ended, March 31, 2019, include \$202,135 paid to the consultant. The amounts to be paid for consulting services over the next fiscal year is fixed at \$200,000.

12. Comparative figures

Certain figures for 2018 have been reclassified to conform to the presentation adopted in 2019.

Annual Report Photo Credits:

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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