



August 28, 2009

Subject: Pilot Project

Dear Wine Grower,

We would like to thank you for attending the meeting on Wednesday, August 26th.

The Industry is facing real challenges such as immediate crop surplus and an imbalance in supply in future years. All related parties and stakeholders have been working together to come up with a long term solution but because of the great diversity between the memberships of the WCO and GGO there has been limited progress in this area to date.

The key points raised at the Vincor meeting included:

- Vincor firmly believes that VQA is the future of the Ontario industry.
- From a Vincor perspective the "Cellared in Canada" (CIC) category is as an important part of our industry. More than 50% of the Ontario grape crop is currently utilized in CIC wines.
- Vincor does NOT support an increase in content above 30% as a potential solution to the crop surplus.
- At current grape pricing levels, any increase in the percentage of local content will negatively impact margin profitability in the highly competitive under \$10 market segment.
- Vincor has structured its business around the existing Ontario Wine Content regulations. Any increase in content will have a negative impact on company profitability and sustainability.
- If increased content is forced upon us we will have no option other than to cancel existing Grape Purchase Contracts
- Contracts will be rewritten to purchase only those varieties and tonnages required to meet the Content regulations
- This will be done by contracting fruit by variety and by block, with strict quality parameters aligned to end-use. Blanket contract as we know them today will be something of the past.

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Our industry is at a crossroads and we need to ensure that we move down the path that will ensure long term profitability and sustainability for both growers and wineries. The current grape price negotiation mechanism is outdated and no longer works for us as a company. Since Vincor markets our wines across a broad range of price points, a system of 'one price suits all' is no longer relevant.

In the future Vincor would prefer to negotiate grape prices with its grower group directly. This could initially be done as a pilot project for a portion of our purchases. There would be 'safety nets' built into this system, including a 'third party observer' who would ensure fairness to both sides. After a 2-3 year trial period, Vincor, the grower group, and third party observer would evaluate the success of the project.

Vincor would like to trial this pilot project with our growers for grape price negotiations starting with the 2010 vintage. In order to run this pilot project, Vincor needs your support. Please let us know by **Tuesday, September 8th** whether or not you would be interested in supporting this project by sending an email to Vanessa Pottinger (vanessa.pottinger@vincor.ca).

Yours sincerely,



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