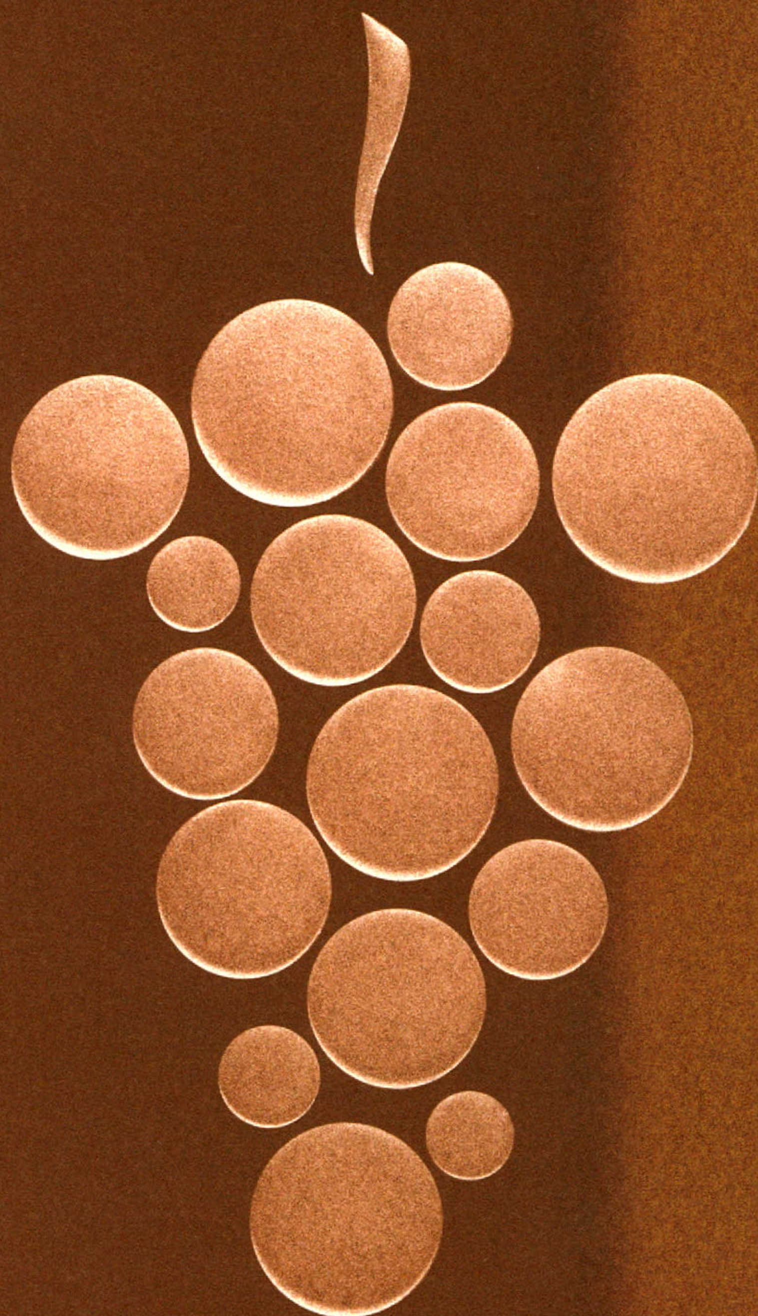
annual report 2005



HOWARD ROSS LIBRARY OF MANAGEMENT
McGILL UNIVERSITY

VINCOR

Our Mission

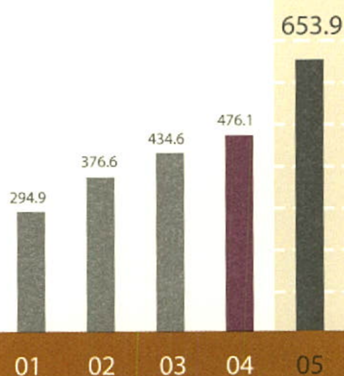
To become one of the top five wine companies in the world by focusing on the New World wine growth segments in major New World wine consuming markets, and delivering top-quartile financial performance to our shareholders.

Fiscal 2005 Highlights

Sales

$653.9M

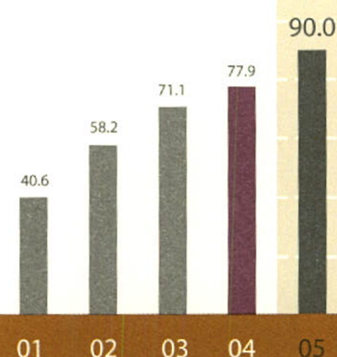
increased by $177.8 million, or 37%, over fiscal 2004. Of this increase, 79% was due to the acquisitions of Western Wines and Amberley Estate. Organic growth in the year was 10%. The effect of currency translation reduced overall revenue growth by 2% or $7.0 million.



Operating Income

$90.0M

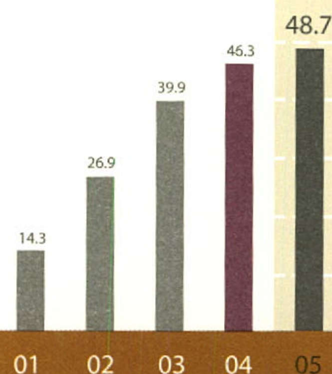
of $90 million was 16% higher than the previous year. The contribution of acquisitions and the continued migration of sales to premium wines was partly offset by the effects of currency translation totalling $1.2 million, or 1.5%, the write-down of inventory in the United States, increased costs related to stock-based compensation and costs incurred in preparing to certify internal controls over financial reporting.



Net Income

$48.7M

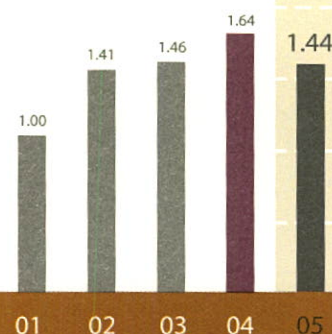
increased by $2.4 million, or 5%. When net income is adjusted to reflect costs incurred to refinance our debt and certain charges associated with the acquisition of Western Wines, net income growth was 22%.



Earnings Per Share (EPS)

$1.44 per share

declined by 12%, compared to net income growth of 5%. When net income is adjusted for costs incurred to refinance our debt and for certain charges associated wih the acquisition of Western Wines, EPS grew by 2%. The EPS growth rate is lower than the net income growth rate due to the impact of a February 2004 equity issue that was used to acquire Western Wines in July 2004.



Balance Sheet Information

Balance sheet changes primarily reflect the acquisition of Western Wines on July 30, 2004, plus additional working capital to support organic growth. The increase in long-term debt also reflects the acquisition of Western Wines. The strengthening Canadian dollar reduced the translated value of debt denominated in U.S. dollars.

	2005	2004	% Change
Short-term investments	$ –	$ 166.1	–%
Other current assets	423.4	292.0	45%
Fixed assets	219.7	206.4	6%
Other	528.7	221.0	139%
	1,171.8	885.5	32%
Current liabilities	170.1	115.0	48%
Long-term debt	300.2	107.8	178%
Other long-term liabilities	8.8	3.5	151%
Future income taxes	32.0	18.3	75%
Shareholders' equity	660.7	640.9	3%
	$ 1,171.8	$ 885.5	32%

Liquidity and Capital Resources

The increase in the debt to capital ratio reflects the use of debt to partially fund the acquisition of Western Wines.

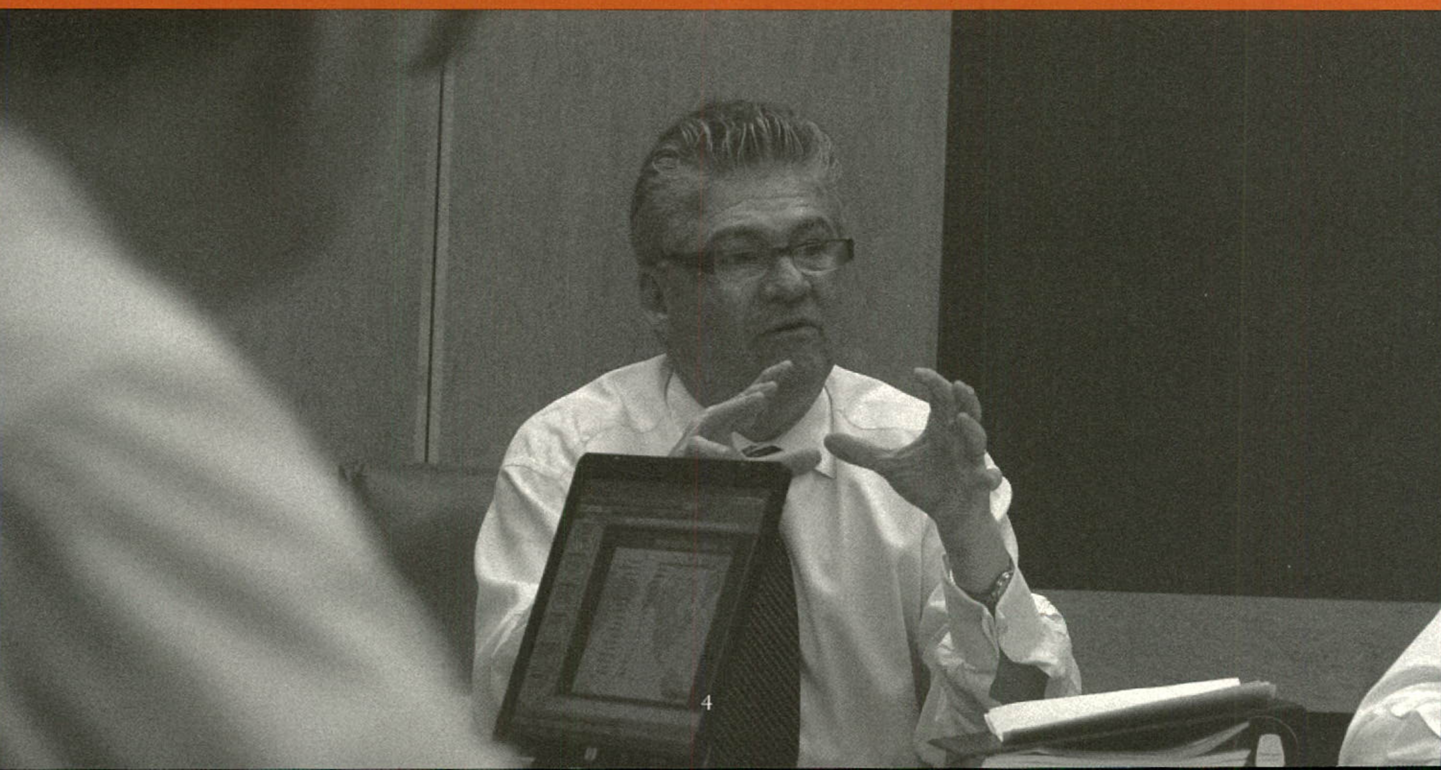
Fiscal year	Total debt*	Shareholders' equity	Total capitalization	Debt to capital ratio	Debt to EBITDA
2001	254.4	145.3	399.7	0.64:1	5.1x
2002	195.1	396.8	591.9	0.33:1	2.8x
2003	163.1	428.9	592.0	0.28:1	1.9x
2004	152.1	640.9	793.0	0.19:1	1.7x
2005	293.4	660.7	954.1	0.31:1	3.1x

*excluding short-term investments, net of cash

Five-Year Financial Overview: Fiscal 2001 – 2005

	01	02	03	04	05	04 – 05	01 – 05
Sales	$ 294.9	$ 376.6	$ 434.6	$ 476.1	$ 653.9	+ 37.3%	+ 22.0%
EBITDA	$ 49.5	$ 70.5	$ 85.0	$ 92.1	$ 106.3	+ 15.4%	+ 21.1%
% revenue	16.8%	18.7%	19.6%	19.3%	16.3%		
Net income	$ 14.3	$ 26.9	$ 39.9	$ 46.3	$ 48.7	+ 5.2%	+ 35.9%
Average capital employed	$ 317.3	$ 464.7	$ 548.1	$ 615.0	$ 826.7		
ROCE (EBIT)	11.3%	12.5%	13.0%	13.0%	10.9%		

Since we became a public company in 1996, we have been successfully executing a strategy of increasing our sales and earnings through a balance of organic growth and complementary acquisitions. We have recognized from the outset that we are competing in a consolidating global wine industry, and we are making progress toward becoming one of the world's leading players in this industry.



One pillar of our strategy continues to be focusing our portfolio on premium wines from New World wine regions, which are steadily – and, in some markets, rapidly – gaining share from Old World wine regions. We have migrated our portfolio toward the fast-growing premium and super-premium segments, which we forecast will continue to grow more than the broader wine market. This trend was demonstrated last year, as premium and above wines represented 75% of our total sales volume from table wines, up from 53% just two years ago.

Since 1995, Vincor has completed and effectively integrated 14 acquisitions, which have helped make us one of the top ten wine companies in the world, with a meaningful presence in all key markets for New World wines. Over this period, we have strengthened our market position in Canada, and built a sales and distribution presence in the U.S., U.K., Australia, New Zealand and international travel retail. We have also developed and grown several high-value premium brands with international growth potential.

Western Wines

In fiscal 2005, we completed our largest acquisition to date when we purchased Western Wines, one of the leading wine importers, marketers and distributors in the United Kingdom. This acquisition was a fundamental building block for Vincor as it gave us sales and distribution capabilities in the U.K., the world's second-largest market for New World wines. The U.K. has one of the highest and fastest-growing wine consumption rates in the world. Western Wines has also provided additional scope and scale to compete effectively in an industry increasingly dominated by a handful of top-tier players. As we illustrate in this year's report, we now have sales and distribution capabilities in all key New World wine regions. One of our core strategies going forward is to leverage our distribution network in all these important markets to increase the worldwide sales and visibility of our focus brands.

The Kumala brand was key to this acquisition. Kumala is the leading export brand from South Africa, consistently ranking among the top-selling brands in the United Kingdom. South African wine is quickly gaining market share globally, reflecting South Africa's emerging reputation as a New World wine region capable of producing wines of exceptional quality and unique character. We believe the South African category overall, and the Kumala brand specifically, have excellent growth potential in North America and other international markets.

While the strategic value of this acquisition is clear, the early financial results have been below our expectations. Recently, the level of competition has intensified as surplus Australian red wine is being aggressively marketed around the world, especially in the U.K., Australia's largest export market. This trend has affected our business through higher discounting and lower-than-expected volume growth. To address this, we have identified opportunities to improve performance, and we are working hard to generate the financial results and returns that we expect. We are already seeing the results of these efforts, as performance improved in the fourth quarter of the year. In addition, we have secured price increases on certain brands to offset the recent duty increases and, more recently, achieved considerable cost reductions, which should positively affect our results later this year.

Expanding from a Strong Base

Underpinning our international expansion plans are strong, well-performing domestic businesses in Canada, the United States, New Zealand and Australia. Indeed, we believe the continued strength of our core brands in their home markets provides the foundation which enables us to pursue our strategy of developing these brands on an international stage.

In 2005, our Canadian business continued to perform well on all fronts, achieving a 9% increase in wine sales against market growth of 4%. The 17% growth in our premium and super-premium wine products last year also outpaced sales growth in the overall Canadian wine market. Our results featured 13% sales increases for our two core premium Canadian brands, Jackson-Triggs and Inniskillin.

It was a strong year in the United States, as volume grew by 11% and revenue increased by 12%, bringing total revenue over the US$100 million mark for the first time in our corporate history. Record sales

Kumala is the leading export brand from South Africa,
a rapidly growing New World Wine region.

of Toasted Head and growing demand for both Kim Crawford and Inniskillin Icewine contributed to the gains. During the year, we also welcomed a new President for the U.S. team, Mike Jaeger. With more than 17 years of experience in the California wine industry, Mike is a strong addition to the management team. At an industry level, we have recently seen positive signs that the market environment in the United States is improving. We believe the grape supply is approaching balance with demand, as evidenced by higher bulk wine prices, and this is beginning to result in lower levels of discounting among domestic producers than we witnessed during 2003 and 2004.

Conversely, the market environment in Australia has become much more difficult over the past year as the supply imbalance in premium red wine has spurred greater competition, which, in turn, is driving increased promotional spending and price discounting by Australian producers in both local and export markets. Also, there has been significant consolidation among retailers in Australia. Despite these pressures, we posted strong year-over-year growth in revenue and volume, which principally reflects the full-year contribution of the Amberley Estate acquisition. During the year, we overcame some initial challenges in integrating the operations of Amberley with those of Goundrey and, through the balance of the year, generated sales momentum for our key brands. Although Australia is a key growth market for Vincor over the long term, it is expected to remain a challenging environment for the foreseeable future.

Building an Effective Global Organization

As our brands grow and develop, so too must the organization. During 2005, we continued to develop our organization to support the Company's expanding global footprint. We created several roles that are specifically mandated to improve synergies across divisions and capitalize on economies of scale. In addition, we appointed a Chief Marketing Officer and a Vice President of Human Resources. Another important initiative during the year was the introduction of a stock-based long-term incentive plan that links divisional objectives with overall business strategy and international brand development. These initiatives help us to sustain our culture of passion, pride and entrepreneurial ownership of results as we grow around the world.

Critical Acclaim

At the root of our commercial success is the craftsmanship of our winemakers and an unyielding focus on quality. During the year, the Company's wineries, winemakers and brands garnered critical acclaim throughout the world. Among the many awards, highlights included Inniskillin Icewine being named "Star Product of the Year" at the world's leading duty-free trade show, in Cannes, France, beating out top brands from all categories and providing further recognition of Inniskillin's position as a leading luxury brand. In addition, for the third time in the past four years, Jackson-Triggs was named the best Canadian winery at the London International Wine and Spirit Competition. There were individual accomplishments, too. Most notably, Bruce Nicholson, winemaker for Jackson-Triggs Okanagan, was awarded the André Tchelistcheff "Winemaker of the Year" award for excellence at the San Francisco International Wine Competition.

The Top Five

Looking ahead, we are focused on executing our plan to become one of the top five wine companies in the world. In the coming years, we will continue to focus our portfolio on New World premium and super-premium wines. New World producers are forecast to continue to gain ground on the Old World companies, because New World wines offer consumers a more compelling proposition in terms of flavour profile, price, value, availability and easier-to-understand labelling. In addition to an overall increase in wine consumption, we are positioned to benefit from a general shift toward premium, particularly New World premium, wines.

A major strategic thrust in the years ahead will be to expand the franchises of our core brands internationally by leveraging our distribution capabilities in the key New World wine consuming markets. Acquisitions also remain an important part of our growth strategy. In particular, we will emphasize adding scale in the all-important U.S. and Australian markets, where we hold a less than 1% share. These two countries represent 80% of global New World wine sales.

Through the careful execution of our strategy, we are confident that we will reach our goal of becoming one of the top five wine companies in the world, while delivering top-quartile financial performance to our shareholders.

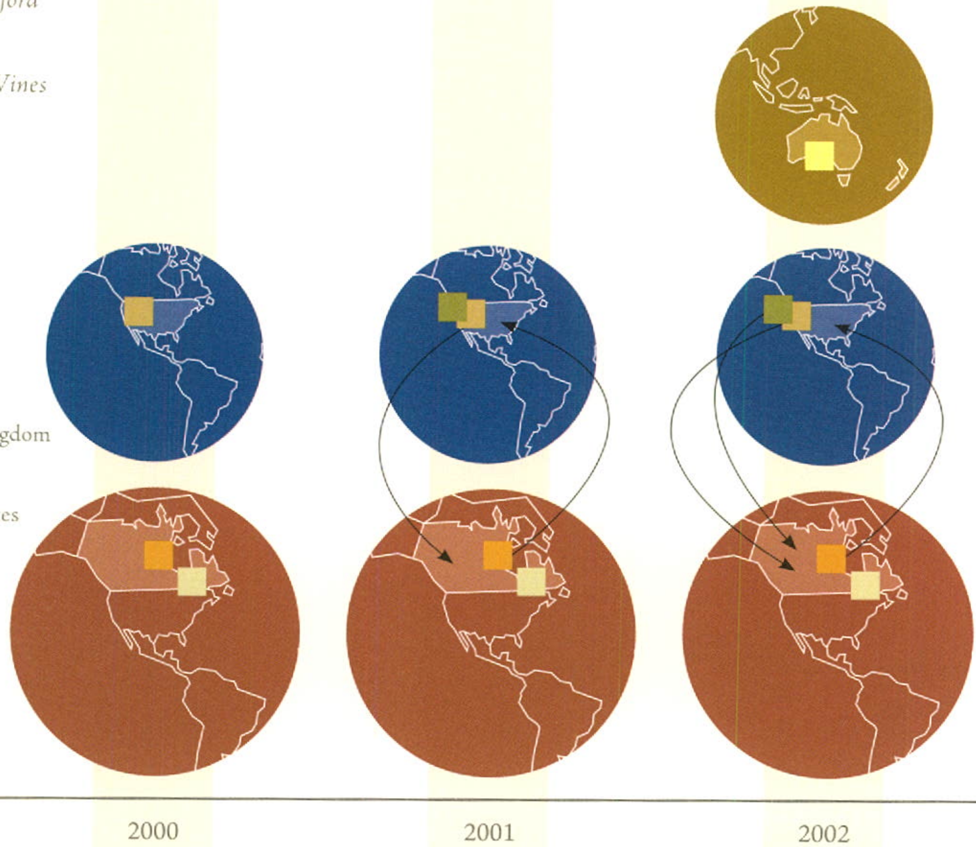
In closing, I would like to recognize our more than 2,400 employees around the world, who combine extraordinary skill with an uncommon commitment and passion for achieving results. In particular, I would like to acknowledge the contributions of John Giguiere, who retired from Vincor USA during the year. John's passion, leadership and innovation made him a tremendous contributor to the California wine industry and to Vincor overall. In addition, I thank our Board of Directors for their invaluable counsel and guidance over the past year.

Donald L. Triggs
President and Chief Executive Officer

Building an International Sales and Distribution Network

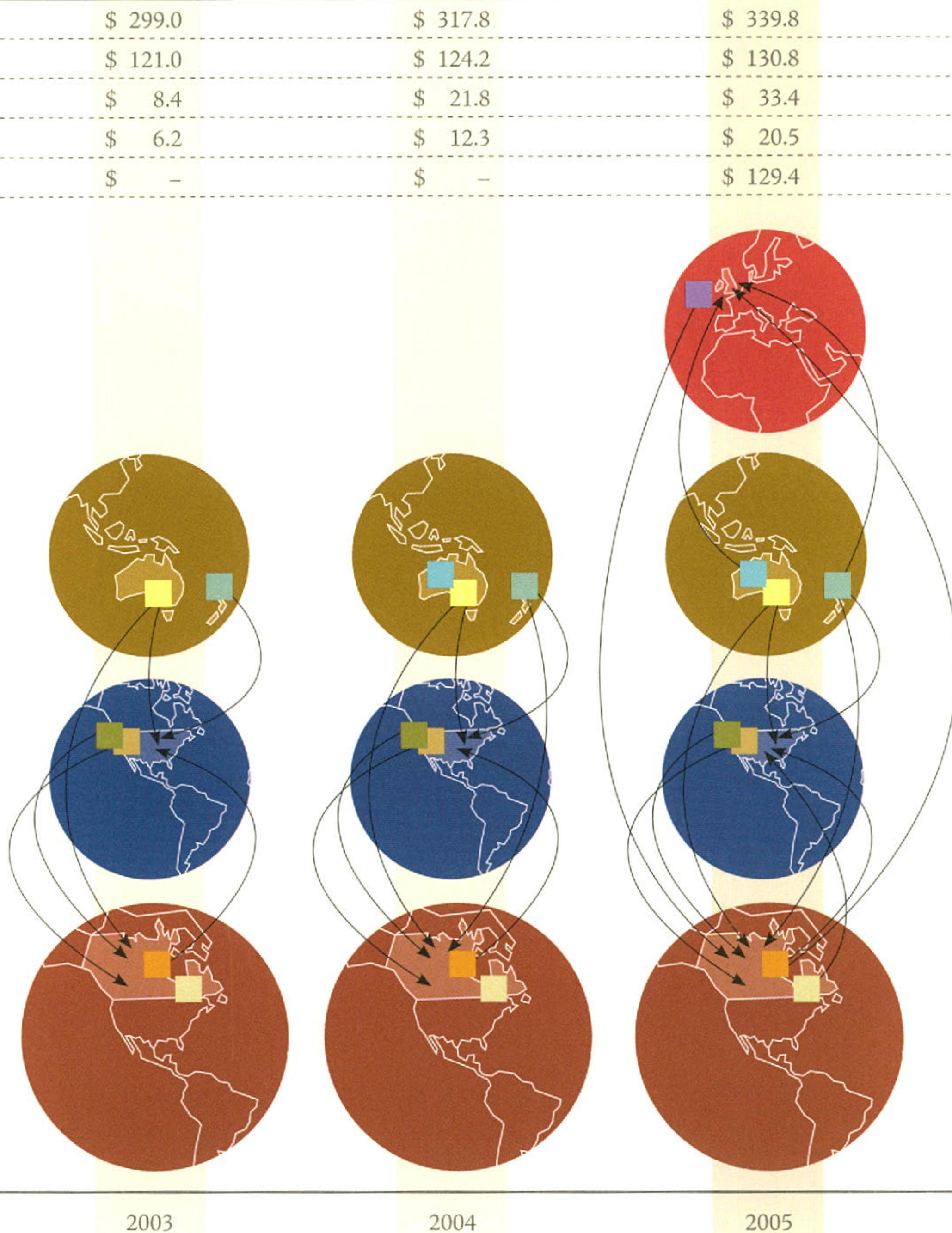
In an environment of brand proliferation and consolidation at the retailer and distributor levels, scale combined with strong sales and distribution capabilities are critical to a company's ability to obtain shelf space for its products. Starting with our consolidation of the Canadian wine business during the 1990s, through our expansion into the United States, Australia, New Zealand and, this past year, the United Kingdom, Vincor has assembled a broad distribution network in all key markets for the sale and marketing of New World wine.

Net sales (in millions of dollars)	2000	2001	2002
Canada	$ 269.7	$ 269.8	$ 284.0
United States	$ –	$ 25.1	$ 82.4
Australia	$ –	$ –	$ –
Other	$ –	$ –	$ 10.1
United Kingdom	$ –	$ –	$ –



Having built an international network, we are now beginning the process of leveraging the scale and distribution opportunities it provides. We view this as a major growth opportunity and, encouraged by the early successes of Kim Crawford and Inniskillin Icewine, we intend to develop our core brands by expanding their reach to other important New World wine markets. In the years ahead, we will work to increase our international sales to approximately 30% of total sales, compared with 8% currently. This should fuel continued organic growth while further diversifying our business and raising our profile as an international wine company.

$ 299.0	$ 317.8	$ 339.8
$ 121.0	$ 124.2	$ 130.8
$ 8.4	$ 21.8	$ 33.4
$ 6.2	$ 12.3	$ 20.5
$ –	$ –	$ 129.4
2003	2004	2005



+13%

During 2005, sales of Jackson-Triggs increased by 13% – more than double the growth rate of the Canadian wine market. This further reinforced the brand's position as the top-selling and leading brand in Canada.

Canada

Vincor's sales and marketing strength in Canada has helped the Company introduce and develop its international super-premium brands in the Canadian market.

Fiscal 2005 was a solid year for our Canadian operations. Sales for the year were $340 million, an increase of 7% over the prior year. In recent years, Vincor has successfully turned increases in its high-quality Canadian grape supply into market share gains in the premium and super-premium segments. Sales of our premium and above wines climbed by 17% in 2005, led by strong growth of Jackson-Triggs and Inniskillin. Our volume share of all wine sold in the Canadian market now stands at 21%. Put another way, one out of every five bottles of wine sold in Canada was produced by Vincor.

Our home winemaking products experienced a marginal decline in volume in 2005, in line with the overall market decline for these products. Despite this downward trend in the market, we achieved moderate revenue growth through our focus on higher-priced premium wine kits. Our sales of refreshment products in fiscal 2005 also showed a moderate growth in volume in a very competitive and modestly declining market.

Our sales and marketing strength in Canada has helped us introduce and develop our international super-premium brands in the Canadian market. During 2005 we had a number of noteworthy successes. We launched the unique Torqued On Pilfer Proof or TOPP screw cap packaging for R.H. Phillips, which helped the brand become the fifth highest-selling U.S. wine in Canada. We also secured a general listing for Kim Crawford Marlborough Sauvignon Blanc at the SAQ in Quebec, positioning the brand for increased sales in 2006.

+13%

Sales of Kumala grew 13% last year, strengthening the brand's position as South Africa's leading export wine, with a 17% share of global exports from this fast-growing New World wine region.

United Kingdom

Several premium and super-premium brands from Vincor's portfolio are imported into the large and growing U.K. market, including Kim Crawford, Inniskillin and R.H. Phillips.

In 2005, we completed the purchase of U.K.-based Western Wines. This significant acquisition provides Vincor with considerable distribution reach in the U.K. as well as an extensive portfolio of owned, agency and private label products. Most of Western Wines' sales are from New World wines, led by Kumala from South Africa, an emerging New World wine region. Through Western Wines, Vincor now sells more than one out of every three bottles of South African wine sold in the United Kingdom. Kumala is the U.K.'s leading South African brand and the U.K.'s fourth-largest brand (measured by both value and volume). Vincor, through Western Wines, is also the U.K.'s third-largest importer and marketer of Italian wine and distributes the U.K.'s number-one selling Chilean wine, Cono Sur.

Sales in the U.K., for the eight-month period following our acquisition of Western Wines, were $129 million. The U.K. marketplace, especially over the last six months, has experienced a significantly heightened level of competitive activity as surplus Australian red wine has been marketed aggressively. As a result, Western Wines' sales grew more slowly than expected. Despite the market conditions, Kumala sales increased by 13%, compared with market growth of 6%. In fiscal 2006, we will look to build further on Kumala's solid performance.

+16%

Sales of Toasted Head grew by 16% in 2005, making it one of the fastest-growing super-premium wine brands in the United States.

United States

In recent years, Vincor has successfully introduced focus brands from its international wine portfolio into the U.S. market, including Inniskillin, Kim Crawford and Jackson-Triggs.

In a highly competitive industry environment, Vincor USA increased its revenue and volumes well ahead of the broader market. Revenue for the year rose by 12% and volume increased by 11%, compared with the overall market at 4%. Sales increases were led by Toasted Head, which climbed 16%, reflecting strong sales of Toasted Head Chardonnay. The rising popularity of the Toasted Head brand was underscored when it joined R.H. Phillips and Hogue on the highly influential *Impact* list of hot brands for 2005.

In recent years, we have successfully introduced other brands from our international wine portfolio to the U.S. market. In 2005, U.S. depletions of Kim Crawford grew 37% and Inniskillin Icewine depletions rose 27%. Demand for these exceptional wines continues to grow rapidly. In addition, both Jackson-Triggs and Goundrey Offspring table wines were launched in select markets. The initial response to these high-quality wines has been positive, and plans are in place to widen availability. Plans are also progressing well for the introduction of Kumala later this fiscal year. The South African wine category is underdeveloped in the U.S., which presents a significant market opportunity for Vincor.

+7%

In 2005, Goundrey increased its sales by 7%, confirming its position among the most popular brands from the highly acclaimed Western Australia wine region.

Oceania

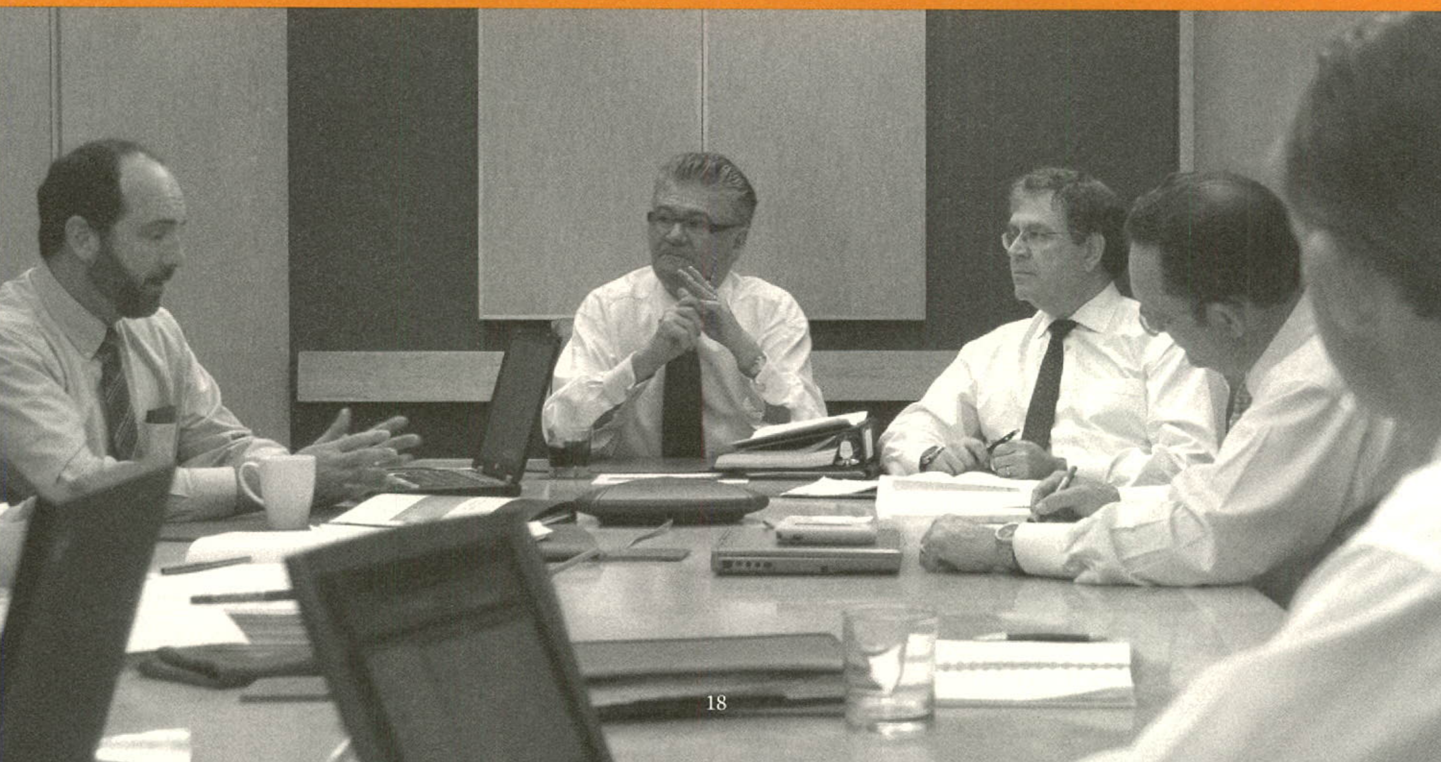
Vincor's portfolio in Oceania includes super-premium and ultra-premium wines from Amberley Estate in Western Australia and Kim Crawford in New Zealand.

In an increasingly difficult retail environment, our Australian operations recorded a year-over-year increase of 53% in revenue and 37% in volume. Amberley Estate contributed the majority of this increase as fiscal 2005 marked the first full year of results from Amberley.

In 2005, total sales of Goundrey increased by 7% and an export sales program was launched as the brand was introduced across the U.S. and Canada. Going forward, we intend to leverage Goundrey's leadership position in the Western Australia segment to drive growth of the brand's international sales. Western Australia is increasingly viewed by the trade and consumers as the premium wine-producing region of Australia. While Western Australia represents only 4% of total production, it accounts for 26% of Australia's premium production. We will also leverage our expanded sales network in Australia to grow the market for Kim Crawford and, as appropriate, our other brands over time.

Last year, Kim Crawford Wines continued to demonstrate extraordinary growth, with worldwide sales increasing by more than 90%. The Kim Crawford brand is building a well-earned global reputation as one of New Zealand's highest-quality super-premium wines.

As we build an extensive distribution network to realize the strategic objective of selling our premium New World wines internationally, we are also focusing on building and enhancing our organization to support our international expansion plans.



Having successfully made the transition from a Canadian to an international business, Vincor is structured around divisions with independent sales, marketing and, in most markets, production facilities. The divisions are supported by a small corporate group committed to maintaining the entrepreneurial spirit of the Company while providing the necessary strategic guidance and operational discipline required for sustained inter-divisional growth. This structure permits us to combine the best elements of coordinated strategic planning with regional execution that is close to the markets, customers and consumers.

Key Corporate Roles

As we build our brands in new markets, it is essential that each brand's image and core values remain consistent. In 2005, we appointed Roger Provost as Chief Marketing Officer to oversee the global strategic development of our core brands. His mandate includes ensuring that global brand strategies are consistently applied across all regions, while allowing flexibility for local market adjustments. In addition, Frank Syer was appointed Vice President of Human Resources to establish international policies and procedures, develop international management skills and lead the Company's succession planning efforts.

Capitalizing on Economies of Scale

In 2005, we increased our efforts to capture the benefits and economies of being an international company with the objective of improving our overall cost competitiveness. One of the principal areas we are focusing on is strategic sourcing of all the goods – including glass and barrels – that go into producing wine. Last year, we made good strides in aligning our purchasing on a global basis. Moreover, we have begun the process of evaluating and improving logistics and supply chain management throughout our operations. In the coming year, we will add resources in purchasing and logistics to further improve synergies, economies and coordination across all divisions.

Aligning Management and Shareholder Interests

Vincor has delivered sustained shareholder value by blending organic growth with the proven ability to identify, acquire and integrate New World wine brands. Underlying this growth strategy is a practice of linking business strategy to divisional objectives throughout the organization. In 2005, Vincor introduced a new stock-based, long-term incentive plan in which management compensation is weighted significantly to performance targets that are consistent with Vincor's objective of developing international brands as the Company progresses toward its goal of becoming one of the world's top five wine companies. Vincor also encourages its employees to participate in the value they help create through an employee share purchase program.

Management and Information Systems

During 2005, Vincor enhanced its accounting platform and continued to implement common information systems throughout the organization to provide Vincor management with real-time information required to enhance decision-making.

Vincor's attention to quality in winemaking is matched by our commitment to drive value creation in a socially responsible manner. Whether it is through advocating the use of environmentally responsible agricultural techniques or through our funding of advanced viticulture and oenological studies, Vincor is committed to being a responsible citizen in all the communities and markets in which we operate.

Environmental Stewardship

As a company that relies on the land for our products, we understand the importance of sound and sustainable environmental practices. We maintain a healthy respect for and responsibility to our environment, and have set high standards for our production facilities and wineries around the world. Our Jackson-Triggs winery and production facility in Niagara-on-the-Lake is a prime example. The facility's many environmentally friendly features were highlighted when the winery represented Canada at the Green Building Challenge, an international forum that challenges building stakeholders throughout the world to design and build or retrofit buildings in the most environmentally friendly and cost-effective manner possible. In addition, the Le Clos Jordanne vineyard, on 130 acres of the Niagara peninsula, is the first major Ontario vineyard to exclusively use organic farming techniques.

Education

In 1997, Vincor made the lead donation to Brock University to fund the Cool Climate Oenology & Viticultural Institute (CCOVI), known as Inniskillin Hall, the first teaching and research body in Canada devoted to the Canadian wine industry. Vincor provides ongoing support to CCOVI as a member of the research committee and through an annual scholarship. Our support for the advancement of education extends beyond our core markets. Last year, Vincor funded the creation of six classrooms in South Africa focused on developing skills at the junior kindergarten level.

Community Involvement

Vincor and all its divisions strive to make a difference in their local communities. Since our inception, we have been a major supporter of the performing arts across Canada. Our amphitheatre at the Jackson-Triggs winery hosts numerous events each year, with performances by internationally recognized Canadian artists. Vincor is also a contributor to the capital and operating campaign for the Shaw Festival, a renowned theatre in Niagara-on-the-Lake.

Code of Business Conduct

Vincor's operating philosophy requires that its employees, members of the Board of Directors and all those associated with the Company conduct themselves with the highest ethical, moral and business standards, consistent with Vincor's well-earned reputation for honesty and integrity. In 2005, Vincor introduced a Code of Business Conduct which identifies and describes the Company's essential principles and standards of conduct. The document is available on our website at www.vincorinternational.com.

Osoyoos Indian Band

Since 1984, Vincor has enjoyed a mutually rewarding relationship with the Osoyoos Indian Band of British Columbia. In 1998, we entered into a multi-year deal with the Band for the first right of refusal to lease and develop up to 2,000 acres of their land as vineyard; at this juncture more than 900 acres have been planted. We have also invested in expanding and further developing the Band's winery in Oliver, British Columbia. Currently, more than two-thirds of the highly sought-after jobs at the winery are held by members of the Band.

Vincor's partnership with the Band was expanded when they asked us to take a 49% interest and the role of managing partner in its new venture, Nk'Mip Cellars, North America's first aboriginal winery, which opened to great acclaim in September 2002. The winery is the centrepiece of the Band's broader economic development plan, which includes a hotel, golf course and Desert Interpretation Centre.

Financial Review

23
Management's Discussion and Analysis

48
Management's Responsibility for Financial Statements

48
Auditors' Report to Shareholders

49
Consolidated Financial Statements

52
Notes to Consolidated Financial Statements

Management's Discussion and Analysis

The following management's discussion and analysis provides a review of activities, results of operations and financial condition of Vincor International Inc. ("we", the "Company" or "Vincor") for the fiscal year ended March 31, 2005 ("2005") in comparison with those for fiscal 2004 ("2004") and fiscal 2003 ("2003"). This discussion and analysis should be read in conjunction with the 2005 audited consolidated financial statements. All dollar amounts are expressed in Canadian dollars unless otherwise indicated. The information in this document is provided as of June 2, 2005. Additional information relating to Vincor including our annual information form can be found on our website at www.vincorinternational.com and on SEDAR at www.sedar.com.

This discussion and analysis contains forward-looking statements about Vincor's objectives, strategies, financial condition, results of operations, cash flows and businesses. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions which could cause actual results to differ materially from those anticipated in these forward-looking statements. These risks are discussed throughout this document, and in particular in the "Risks and Uncertainties" section.

1) Company Overview

Introduction

In 2005, Vincor achieved a corporate goal of becoming one of the top ten wine companies in the world. Having done so, our mission has since evolved to reflect this initial achievement and to ensure that we maintain our focus on the creation of sustained shareholder value. Accordingly, Vincor's new principal objective is to become one of the world's top five wine and related products companies by focusing on the New World[1] wine growth segments in major New World wine consuming markets, and by delivering top-quartile financial performance to our shareholders. The discussion and analysis that follows will address the key drivers supporting each element of this objective and the associated results, resources, strategies and risks.

Key Accomplishments: Fiscal 2005

1) GROWTH THROUGH ACQUISITION

Australia – Amberley Estate

Fiscal 2005 marked the first full year of contribution from our acquisition of Amberley Estate ("Amberley"), located in the famed Margaret River wine region of Western Australia. We acquired Amberley in the middle of March 2004 at the very end of the last fiscal year. This acquisition provided a sales and marketing team that, when integrated with our existing Australian sales force, allowed us to eliminate the use of third-party distributors and to establish a dedicated national sales force in all important regions of the country.

United Kingdom – Western Wines

On July 30, 2004, we completed the purchase of U.K.-based Western Wines. This significant acquisition provides Vincor with considerable distribution reach in the U.K. and Northern Europe as well as an extensive portfolio of brands consisting of owned brands, agency brands and private label products. Most of Western Wines' sales are from branded New World wines, led by Kumala from South Africa, an emerging New World wine region. Through Western Wines, Vincor now sells more than one out of every three bottles of South African wine sold in the United Kingdom. Kumala is the U.K.'s leading South African brand and the fourth-largest brand measured by value and volume. Vincor, through Western Wines, is also the U.K.'s third-largest importer and marketer of Italian wine and distributes the U.K.'s number-one selling branded Chilean wine.

[1] *Wines produced in the United States, Canada, Oceania, South Africa and South America.*

ii) organic growth

All of Vincor's international focus wine brands generated solid sales growth during the year. In the U.S., each of the Toasted Head, R.H. Phillips and Hogue brands was included in the *Impact* list of hot brands. In Canada, our leading brands, Jackson-Triggs and Inniskillin, both increased sales by 13%, more than double the growth rate of the broader wine market; Inniskillin Icewine was further recognized as a leading luxury brand when it was named "Star Product of the Year" at the world's leading duty-free trade show, beating out top brands from all categories. In Oceania, Kim Crawford Wines demonstrated extraordinary growth, with worldwide sales increasing by over 90% and Goundrey launching in North America.

2) Market Overview

i) key business drivers and trends

Consolidation

Global wine sales continued to display steady growth, with aggregate sales of over 25 billion litres and a value of nearly US$190 billion. Despite an accelerating trend toward consolidation at all levels of the wine industry – highlighted in the second half of calendar 2004 and the first half of calendar 2005 by several highly publicized and very large-scale business combinations in the sector – the global wine industry remains fragmented, with the top ten wine companies accounting for only 13% of the global market (by volume) and 7% of annual worldwide wine revenues. We believe that this trend toward consolidation will continue to: (i) act as a driver for increased competitiveness through the development of larger and more efficient operations; and (ii) present growth opportunities through the acquisition of complementary brands.

In addition, consolidation is also continuing at the retail level, particularly in Australia, where two chains now account for more than 55% of retail wine sales, and at the distributor level in the United States.

Consumption Drivers

We believe that increasing wine consumption is broadly driven by two key factors: (i) the perceived health benefits associated with the moderate consumption of wine; and (ii) consumers embracing wine as part of a broader lifestyle decision.

In addition, growth in consumption is paired with a general shift toward premium wines. We believe that this evolution of consumers' preferences to higher quality wines results from their increasing familiarity with wine and the experimentation that follows as consumers seek out distinctive wines of higher quality. In addition, wine consumption rises with advancing age. As the populations of our markets age, we believe that this demographic trend will continue to strongly support growth in the consumption of premium and super-premium wines.

While much of our market momentum continues to be driven by the aging of the population, additional growth is also coming from younger age groups (20 – 40 years of age), where consumption rates are well above those of previous generations. We believe this broadening of wine's appeal to younger age groups reflects the evolution of the product to appeal to a much wider demographic base. We also believe that this evolution is partly driven by the easier-to-understand labelling, consistency of quality, price and value proposition that New World wines provide, which in turn provide a competitive advantage to producers of New World wines with these key wine consumers.

Grape Supply and Surplus

Based on an ongoing review of statistics available from government and industry sources, the Company believes that the grape supply in the U.S. has come into balance with demand. Currently, among New World wine regions, the only significant surplus supply is in Australia and, to a lesser extent, South Africa. In both instances, the surplus is limited to premium red grape varietals. Grape prices have fallen substantially in South Australia and modestly in other Australian wine regions. This supply imbalance has driven significant growth in the exports of lower priced wine from Australia (notably to the U.S. and U.K.) as well as spurred greater competition which, in turn, is driving increased promotional spending by Australian producers in both local and export markets.

Strategic Management of our Wine Portfolio

We have continued to evolve our wine portfolio to reflect the growth in demand for premium and super-premium wines in the markets in which we participate. During fiscal 2005, organic growth in the sales of our premium wines was 12% in volume and 15% in value, excluding the effects of currency translation. The acquisitions of Western Wines and Amberley each added an excellent portfolio of premium wines which augmented our product offering. Given the higher price points of premium and above wines, our sales growth in this segment has consistently outpaced volume growth. The rate at which our revenue growth has outpaced volume growth may slow in the future following the acquisition of Western Wines in the U.K., where the average price of premium wine is lower than in our other markets.

Wine Kit and Refreshment Products

In Canada, the Company also markets home winemaking and refreshment products. Our home winemaking products experienced a marginal decrease in volume in 2005, in line with the overall decline in the market for these products. Despite this downward trend in the market, we achieved moderate revenue growth through our focus on higher-priced premium wine kits. Similar to the changes in the market for table wine, home winemaking enthusiasts are also seeking better-quality products.

Our business in Canada also includes a line of refreshment products such as wine coolers, ciders and spirit-based beverages. After several years of double-digit growth, this market has slowed over the past two years, with the past 12 months showing a decline over the previous year. Our sales of refreshment products in fiscal 2005 showed a moderate growth in volume in a very competitive and challenging market led by products that are line extensions of the major spirit brands.

II) MARKET DYNAMICS

We estimate that the markets in which Vincor participates grew at the following rates:

	Total Wine Market Volume Growth			Vincor Growth – 2005	
	2005	2004	2003	Volume	Revenue
Wine:					
Canada	+ 4%	+ 5%	+ 4%	+ 5%	+ 9%
United States	+ 4%	+ 5%	+ 6%	+ 11%	+ 12%
Australia	+ 4%	+ 2%	+ 4%	+ 37% *	+ 53% *
New Zealand	+ 3%	+ 3%	+ 3%	+ 57%	+ 45%
United Kingdom	+ 5%	+5%	+ 7%	N/A	N/A
Refreshment:					
Canada	(2)%	+ 4%	+ 12%	+ 2%	(1)%
Wine kits:					
Canada	(3)%	0%	0%	(2) %	+ 1 %

**Full-year impact of the Amberley acquisition.*

Our business continued to show significant growth in all markets in which we participate. Our total volume for 2005 was 17.8 million cases (cases represent equivalent 9-litre cases), representing a growth of 40% over 2004 and an organic growth rate of 4%. Wine volume of 13.9 million cases in 2005 increased by 59% over last year, with an organic growth rate of 7%. Our volume share in 2005 of all wine sold in the Canadian market was 21%. Our volume share of all wine sold in other markets was much lower, with the U.K. at 8%, New Zealand at 3%, Australia at 2% and the U.S. at less than 1%.

III) REVENUE GROWTH

Net sales for 2005 of $653.9 million grew by 37% over last year with an organic growth rate, excluding currency translation effects, of 10%. Approximately 79% of the total revenue growth was attributable to the acquisitions of Western Wines and Amberley. Our results are reported in Canadian dollars and are therefore impacted by changes in exchange rates of the currencies in which we carry out business. During 2005, the Canadian dollar increased in value in relation to both the U.S. and Australian dollars, but softened against the New Zealand dollar. Overall, the effect of currency translation reduced revenue growth for 2005 by $7.0 million, or 2%, compared to last year.

The table on page 25 demonstrates that our revenue growth (excluding the impact of currency translation), outpaced volume growth in all our markets except New Zealand. The difference between volume and revenue growth is the result of the continued shift by consumers to higher priced premium wines in all our markets. Our sales growth in New Zealand was driven by improved penetration of our grocery tier wines, which sell at a lower price. Expressed in Canadian dollars, the effects of currency translation reduced revenue growth in the U.S. from 12% to 5%, while in New Zealand revenue increased from 45% to 66%. Our revenues in Australia grew at the same rate in Canadian and Australian dollars.

In markets other than Canada, our revenues are predominantly in the premium and super-premium wine segment. In Canada, our growth in premium and super-premium wine products of 17% outpaced sales growth of popular-priced wines, which were flat year-over-year. This compares to an overall market growth of 4% and a decline in the popular-priced segment of 5%.

Our business in the U.K. is operating in a marketplace which, over the past six months, has experienced a significantly heightened level of competitive activity as surplus Australian red wine has been aggressively marketed. These changes have affected our U.K. business through higher discounting and lower-than-expected volume growth. Late in the year, we saw improvement in the U.K., with the market share of our Kumala brand increasing in both volume and revenue during 2005.

The revenue growth of our core premium brands is highlighted in the following tables.

	Growth in 2005
Kim Crawford	90%
Toasted Head	16%
Jackson-Triggs	13%
Inniskillin	13%
Kumala	13%

When Vincor became a publicly traded company in 1996, we sold our products only in Canada, where popular-priced wines represented 60% of all table wine sold and 83% of our sales volume. Over the past ten years, with the continuing move by consumers to premium wines, the market share held by popular-priced wines has decreased and now represents approximately 33% of the market. In 1996, our sales of premium wine represented only 17% of our total volume and 20% of our total revenue from table wines. In 2005, premium and above wines represented 75% of our total volume and 86% of our total revenue from table wines. This compares to fiscal 2004, when premium and above wines represented 59% of our total volume and 78% of our total revenue from table wines. The acquisition of Western Wines has added a significant number of high-volume premium wines to our wine portfolio, though with a lower average selling price. Hence the reduction in the gap between percentage of volume and revenue from premium wines compared to last year. Our organic growth in earnings over the past several years is attributable directly to the revenue growth of our portfolio of premium and super-premium brands.

3) Results of Operations

i) Financial Highlights

(all values in millions of dollars, except percentages, volume values and share data)	2005	2004	% Change 2005 vs. 2004	2003	% Change 2004 vs. 2003
Sales volume (in millions of 9-litre case equivalents)	17.8	12.7	+ 40 %	12.0	+ 6 %
Net sales	$ 653.9	$ 476.1	+ 37 %	$ 434.6	+ 10 %
Gross margin	$ 288.9	$ 241.2	+ 20 %	$ 217.8	+ 11 %
% net sales	44.2 %	50.7 %	(6.5) pp	50.1 %	+ 0.6 pp
Operating income	$ 90.0	$ 77.9	+ 16 %	$ 71.1	+ 10 %
% net sales	13.8 %	16.4 %	(2.6) pp	16.4 %	0.0 pp
Interest expense	$ 16.0	$ 11.6	+ 38 %	$ 14.3	(19) %
Net income	$ 48.7	$ 46.3	+ 5 %	$ 39.9	+ 16 %
Earnings per share					
–Basic	$ 1.46	$ 1.67	(13) %	$ 1.48	+ 13 %
–Diluted	$ 1.44	$ 1.64	(12) %	$ 1.46	+ 12 %
Weighted average number of shares (thousands)					
–Basic	33,367	27,737	+ 20 %	26,997	+ 3 %
–Diluted	33,811	28,181	+ 20 %	27,428	+ 3 %

To reflect a normalized measure of operating performance, certain non-GAAP information has been presented in this document to reflect an adjusted net income and adjusted earnings per share for 2005. These adjusted figures are not a measure of performance under Canadian GAAP and should not be considered in isolation or as a substitute for GAAP measures.

Net income for 2005 was impacted by certain charges associated with the acquisition of Western Wines and the related refinancing of the Company's banking and credit facilities. Repayment of the Company's previous credit facilities in July 2004 resulted in a charge of $8.5 million representing the loss from unwinding the interest rate swaps, which were hedging floating interest rate exposure on a portion of the U.S. dollar and Canadian dollar denominated debt, and the write-off of deferred financing costs associated with the credit facilities. In addition, during the year we accounted for $3.3 million of the purchase price of Western Wines as compensation expense, and recorded an expense of $1.1 million for the amortization of customer relationship intangibles associated with the Western Wines acquisition. Also, in 2005 we recorded a loss on derivative instruments of $0.1 million on the amortization of deferred credits on foreign exchange forward contracts. These gains and expenses are discussed in greater detail later in this section.

The adjusted net income and adjusted earnings per share after the add-back of these items is presented in the following table.

Reconciliation of reported net income with adjusted net income

(all values in millions of dollars, except per share amounts)		2005
Reported net income		$ 48.7
Add:	Debt extinguishment costs	8.5
	Expensing of a portion of Western Wines purchase price	3.3
	Amortization of Western Wines intangibles	1.1
	Loss on derivative instruments	0.1
Less:	Income taxes related to above	(5.0)
Adjusted net income		$ 56.7
Adjusted diluted earnings per share		$ 1.68

Adjusted net income for 2005 of $56.7 million was up 22% over the reported results for 2004. Adjusted diluted earnings per share of $1.68 for 2005 were higher by $0.04, or 2%, over the reported earnings per share for 2004. The growth in earnings per share was lower than the increase in net income as a result of the dilutive effect of our February 2004 equity issue in which we issued 6,037,500 common shares.

II) CURRENCY TRANSLATION

Our reported results are denominated in Canadian dollars; however, we also operate in the U.S., U.K., Australia and New Zealand, where business transactions are denominated in the local currency. The following table shows the Canadian dollar exchange rate during 2005 against major currencies in which we operate.

	Average exchange			Exchange rate as at		
	2005	2004	Change	March 31, 2005	March 31, 2004	Change
$ CDN = $1 U.S.	1.2813	1.3603	+ 6%	1.2158	1.3250	+ 8%
$ CDN = £1 U.K.	2.3223	N/A	N/A	2.2731	N/A	N/A
$ CDN = $1 AUS	0.9559	0.9466	(1)%	0.9382	0.9964	+ 6%
$ CDN = $1 NZ	0.8599	0.8254	(4)%	0.8661	0.8606	(1)%

The Canadian dollar strengthened by 6% during fiscal 2005 in comparison to the U.S. dollar but softened 4% in relation to the New Zealand dollar. Even though the Canadian dollar strengthened against the Australian dollar at year-end, the average exchange rate during 2005 was marginally (1)% lower compared to 2004.

Overall, the currency translation impact of changes in exchange rates resulted in lower net sales and earnings for 2005, as illustrated in the following table.

	As reported					
(all values in millions of dollars, except percentage and per share amounts)	2005	2004	Percentage change (year-over-year)	2004 at same exchange rates as 2005	Translation impact	Percentage change (year-over-year) excluding the effect of translation
Net sales	$ 653.9	$ 476.1	+ 37%	$ 469.1	$ (7.0)	+ 39%
Gross margin	$ 288.9	$ 241.2	+ 20%	$ 238.6	$ (2.6)	+ 21%
Operating income	$ 90.0	$ 77.9	+ 16%	$ 76.7	$ (1.2)	+ 17%
Net income	$ 48.7	$ 46.3	+ 5%	$ 45.8	$ (0.5)	+ 6%
Diluted earnings per share	$ 1.44	$ 1.64	(12)%	$ 1.62	$ (0.02)	+ 11%

III) NET SALES

Net sales increased 37%, or $177.8 million, to $653.9 million in 2005 compared to $476.1 million in 2004. The acquisition of Western Wines in July 2004 and Amberley in March 2004 added $129.3 million and $9.8 million, respectively, to net sales for 2005.

Organic revenue growth, excluding currency translation effects, from our base business for 2005 was 10% compared to organic volume growth of 4%. The organic growth in the business was fuelled by an increase of $44.2 million, or 15%, excluding currency translation effects, in sales of premium wines compared to last year.

The following table demonstrates the sources of changes to our year-over-year revenue.

(in millions of dollars)

Revenue 2004	$ 476.1	Revenue 2003	$ 434.6
Full-year impact of Amberley	9.8	Full-year impact of Goundrey	11.7
Full-year impact of Kim Crawford	0.5	Ten-month impact of Kim Crawford	11.1
Eight-month impact of Western Wines	129.3	13-day impact of Amberley	0.1
Increase in premium sales	44.2	Increase in premium wine sales	25.8
Currency translation	(7.0)	Currency translation	(14.4)
All other	1.0	All other	7.2
Revenue 2005	$ 653.9	Revenue 2004	$ 476.1

In 2005, our average selling price per case of wine was $41.92, lower by 10%, or $4.46, from $46.38 per case in 2004, which in turn was higher by 3%, or $1.42, compared to $44.96 per case in 2003. The reduction in the average price reflects the significant change in sales mix following the acquisition of Western Wines, which has a lower revenue per case compared to our other businesses. Offsetting the lower average revenue per case of the Western Wines business is the growth in sales volume of premium wine in our other businesses and the acquisition of Amberley, which has added wines in the premium and super-premium segment of our product portfolio.

The average selling price for wine kits increased by 3% in 2005, following a 2% increase in fiscal 2004. Revenue from wine kits grew by 1%, in spite of a volume decline of 2%. This compares with revenue growth of 4% and volume growth of 2% in fiscal 2004. Revenue growth has outpaced volume growth in both years due to price increases and a change in mix toward higher value wine kits.

In fiscal 2005 the average selling price per case for refreshment products declined by 3%. This reduction in average price follows the reduction in average selling price of 1% in 2004 and reflects significant growth in the lower priced VEX brand. Overall, total refreshment revenue decreased by 1%, and sales volume increased by 2%, while in fiscal 2004 total category revenue increased by 5% on volume growth of 6%. The broader Canadian refreshment market continues to be volatile, and consumption trends are predominantly driven by market fashion as opposed to demographics, greatly compressing the life cycle of products.

IV) GROSS MARGIN

Gross margin increased by $47.7 million, or 20%, to $288.9 million in 2005 compared to $241.2 million in 2004 and $217.8 million in 2003. The increase in gross margin was driven by acquisitions, which contributed approximately 65% of the growth in 2005 and approximately 56% of the growth in 2004 compared to 2003. The following table summarizes the organic growth in sales and gross margin, excluding the effects of currency translation, in 2005 and 2004.

Organic Growth:	2005	2004
Volume	+ 4%	+ 5%
Revenue	+ 10%	+ 8%
Gross margin	+ 8%	+ 10%

The following items negatively affected our gross margin in 2005 compared to 2004:

- the write-down during the year of $2.3 million in the value of excess bulk wine in the U.S. business to reflect the realizable market value of this wine. We have put in place adjustments to our grape supply arrangements in the U.S. to reflect our current forecasts of future demand and to mitigate any future supply imbalances arising from the changing mix in the sales of red and white wine;
- the impact of integration of the Amberley and Goundrey businesses in Australia, which involved the termination of agents and their replacement by our own sales force in all important regions of the country. This process involved some inventory re-purchases from these agents, which reduced sales in the first quarter of this year;
- the increased competitive environment in Australia combined with increased retailer concentration, which have pressured producer's margins (two major chains now control more than 55% of retail wine sales in Australia); and
- the effect of currency translation, which reduced gross margin by $2.6 million.

Gross margin as a percentage of revenue was 44.2% in 2005 compared to 50.7% in 2004 and 50.1% in 2003. This reduction in gross margin in 2005 is due to the inclusion of Western Wines' results for the first time. Western Wines operates at gross margin levels that are lower than the margin percentages of the other businesses within Vincor.

In addition, the gross margin of the Western Wines business in the U.K. has been under pressure from two principal causes: (i) increased competitive activity in that marketplace, primarily driven by Australian wines; and (ii) an increase in duties imposed by the U.K. in 2005 which, as a result of the aforementioned competitive environment, could not be fully passed on to customers through price increases.

v) Selling and administrative costs ("S&A")

S&A for 2005 of $182.6 million was higher by $33.5 million, or 22%, compared to S&A of $149.1 million in 2004. S&A was higher mainly due to:

- the inclusion of the S&A costs of Western Wines and Amberley in the current year;
- higher fixed costs associated with the introduction of our own sales force to replace distributors in Australia following the acquisition of Amberley as anticipated in the acquisition plan;
- incremental stock-based compensation expense following the decision to expense options commencing in fiscal 2004, as well as the introduction of other stock-based compensation plans while reducing the number of options issued under the Company's option plans;
- expenses incurred in 2005 in preparation for compliance with proposed securities regulations related to management's reporting on the design and effectiveness of internal controls; and
- higher selling and marketing expenses to support organic growth in the volumes of our base business.

The S&A increase was partly offset by the positive impact of currency translation of $1.3 million. S&A for 2005 includes $3.3 million charged to income as compensation expense for a part of the Western Wines purchase price. In total, an amount of $11.6 million (£4.8 million) will be expensed over a period of 42 months from the date of the acquisition.

S&A as a percentage of sales was 28% in 2005, compared to 31% in 2004. The reduction in S&A as a percentage of sales is mainly due to the acquisition of Western Wines, which operates at a lower S&A level as compared to the rest of Vincor.

S&A for 2004 was $149.1 million or 31% of sales – unchanged as a percentage of sales from S&A of $132.8 million or 31% of sales reported in 2003. The dollar increase reflected volume growth, acquisitions and the heightened competitive marketplace in the U.S., where marketing activities and expenses increased over the previous year. Of the S&A increase in 2004, 43% was attributable to increased costs, mainly for marketing and promotional activity, in the U.S. business, 35% was attributable to strategic acquisitions and the balance was related to costs associated with volume increases achieved in Canada.

During fiscal 2005, pension plan income of $0.4 million was recorded, compared to income of $41,000 in 2004 and $0.7 million in 2003.

vi) DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense in 2005 of $16.3 million was $2.1 million higher than $14.2 million in 2004. The expense for 2005 includes the amortization of the customer relationship intangibles of $1.2 million associated with the acquisition of Western Wines. Other increases in 2005 reflect the capital spending during the year and the inclusion of the Western Wines and Amberley acquisitions, partly offset by the currency translation effects totalling $0.3 million.

Depreciation and amortization expense in 2004 of $14.2 million increased by $0.3 million over the $13.9 million reported in 2003. This modest increase was due to capital spending and the full-year impact of Goundrey, which was mainly offset by a reduction in expense of $0.6 million from currency translation effects.

vii) OPERATING INCOME

Operating income in 2005 of $90.0 million was higher by $12.1 million, or 16%, over operating income of $77.9 million reported in 2004 which, in turn, was an increase of 10% compared to operating income of $71.1 million reported in 2003. The translation impact of the strengthening Canadian dollar reduced operating income in 2005 by $1.2 million. Excluding the impact of currency translation, operating income grew by 17% in 2005.

viii) INTEREST EXPENSE

Interest expense of $16.0 million in 2005 was $4.4 million higher than interest expense of $11.6 million in 2004. The increase in interest expense is mainly due to incremental debt incurred to finance the acquisition of Western Wines. The increase in interest expense was partly offset by lower interest rates on the refinancing of our credit facilities, with savings in interest expense of approximately $1.5 million in 2005, and the positive impact of currency translation of $0.7 million on the interest expense related to our U.S. dollar denominated debt. Interest expense is net of interest income of $1.7 million in 2005 and income of $1.5 million in 2004, a significant portion of which was earned on short-term investments, which were liquidated and applied to the acquisition of Western Wines.

In 2004, interest expense decreased by $2.7 million from expense of $14.3 million in 2003. The decrease in interest expense was mainly due to reduced debt levels compared to the prior year, with a net savings of $1.0 million; incremental interest income in 2004 of $0.6 million; and a currency translation effect of $1.1 million on interest expense on U.S. dollar denominated debt.

ix) DEBT EXTINGUISHMENT COSTS

In July 2004, the Company entered into arrangements with its banking syndicate and with John Hancock Life Insurance Company and its affiliates to refinance its existing debt. As a result of the repayment of the existing credit facilities, in 2005 the Company recorded a charge against earnings of $8.5 million representing the loss on the unwinding of interest rate swaps, which were hedging floating interest rate exposure on a portion of the U.S. dollar and Canadian dollar denominated debt, and the write-down of $0.6 million of deferred financing costs associated with the credit facilities. The net benefits of this refinancing include a reduction in the average interest rate applicable to our long-term debt of 200 basis points.

x) LOSS ON DERIVATIVE INSTRUMENTS

On April 1, 2004, Vincor adopted the new accounting standards related to hedge accounting, which resulted in a loss on derivative instruments of $0.1 million related to an unrealized loss on foreign exchange forward contracts. For further details, refer to note 1L) to the audited consolidated financial statements for 2005.

xi) income taxes

Income taxes for 2005 were a net expense of $16.7 million compared to an expense of $20.1 million in 2004. Our overall effective tax rate for 2005 was 25.5% compared to an effective tax rate of 30.3% in 2004. The lower effective tax rate for 2005 reflects the changing nature and geographic mix of our business as we expand internationally. The income tax provision for 2005 includes tax recoveries associated with the debt extinguishment charge booked during the year, resulting in a significantly lower tax expense. Excluding the impact on income taxes of debt extinguishment costs, the effective tax rate for 2005 would be 28.8%.

Income tax expense in 2004 was higher by $3.2 million compared to 2003, while the effective tax rate increased marginally from 29.7% in 2003 to 30.3% in 2004. The change in the effective tax rate reflected the change in our business mix following the acquisitions in 2004.

4) Liquidity and Capital Resources

Consolidated Cash Flows

i) cash used in operating activities

In 2005, we generated cash from operations, before changes in working capital, of $63.4 million compared to $61.1 million in 2004 and $55.5 million in 2003.

Cash was used to provide increases in working capital of $33.5 million in 2005 compared to $31.4 million in 2004 and $14.3 million in 2003. The main increases in working capital, excluding acquisitions and currency translation effects, were inventories of $32.8 million and accounts receivable of $12.9 million, partly offset by lower prepaid expenses of $3.7 million and higher income taxes payable of $8.0 million.

The inventory levels in our business depend on the sales mix between popular and premium wines. Premium wines are typically aged for between six and 36 months, a portion of which is spent in oak barrels. This aging process increases the time that the product is held as inventory and thereby increases the attendant inventory levels. We have implemented sophisticated inventory and production management systems that track our product from the vineyard to the customer and ensure consistency in quality as well as minimizing associated risks.

The grape harvests in Australia and New Zealand were relatively early this year and more than 50% complete by the end of March 2005. The early harvest combined with increased supply arrangements to support growth in volumes, especially of the Kim Crawford brand, contributed to an increase of approximately $7.8 million in inventories. In Canada, a much higher vintage in fiscal 2005, which will help drive the continuing growth in our premium wines and Icewine, and a scheduled plant shutdown resulted in an increase in inventory during the year of approximately $20.4 million. Inventories in the U.S. and U.K. were marginally higher to support volume growth in those markets.

The increase in accounts receivable was in line with the growth in revenues of our businesses in the fourth quarter of 2005 compared to the same period last year.

ii) cash used in investing activities

In 2005, we incurred $33.9 million in capital expenditures compared to $21.2 million in 2004 and $21.4 million in 2003. Capital expenditures in Canada were $9.8 million compared to $14.9 million in 2004 and $16.1 million in 2003. Capital spending in 2005 included the purchase of land, development of vineyards, capacity increase and quality improvement programs at wineries in the Niagara region as well as in the Okanagan Valley, upgrades of our Wine Rack stores and investments in information technology.

Capital spending in the U.S. was $4.2 million in 2005 compared to $2.9 million in 2004 and $4.0 million in 2003. Capital expenditures during the year were mainly related to winery expansion.

In 2005, our capital expenditures in Australia were $5.2 million compared to $3.4 million in 2004 and $1.3 million in 2003. These expenditures related to vineyard development, increasing production capacity and environmental programs.

In the fourth quarter of 2005, we invested $14.5 million in our purchase of the winery in New Zealand, which was previously on lease. There have been insignificant capital expenditures in New Zealand in prior years and in the U.K. since acquisition.

We completed the acquisition of Western Wines on July 30, 2004. Cash used for this acquisition included $160.1 million in part payment of the purchase price and transaction costs. The cash consideration for the acquisition was financed with proceeds of $166.1 million from short-term investments made following the February 2004 equity issue. See note 2 to the consolidated financial statements for more information.

In 2004, we incurred expenses of $11.9 million toward the purchase of Kim Crawford and $34.7 million for the acquisition of Amberley. In 2003, we incurred $54.4 million for the acquisition of Goundrey Wines.

iii) Cash from Financing Activities

As discussed in the "Financial Condition" section, in July 2004 we entered into arrangements with our banking syndicate and with John Hancock Life Insurance Company and its affiliates to refinance our existing credit facilities. This resulted in the repayment of all the outstanding debt under the then existing credit facilities and the drawdown of debt under the new facilities. The debt repayment amount includes $115.4 million of long-term debt (net of cash on hand of $9.3 million) assumed with the acquisition of Western Wines.

Other long-term liabilities increased by $5.3 million in 2005, representing amounts payable under long-term incentive plans and the liability set up for the expense portion of the purchase price payable for the Western Wines acquisition.

We raised $2.1 million through the issuance of share capital in 2005, mainly through the exercise of stock options. In 2004 we issued, pursuant to a public offering, 6,037,500 shares for proceeds, net of expenses, of $165.6 million.

Financial Condition

The following table summarizes our financial condition at the end of each of our last three fiscal years.

(in millions of dollar, except ratio data)	March 31, 2005	March 31, 2004	March 31, 2003
Total assets (excluding cash and short-term investments)	$ 1,130.9	$ 719.4	$ 649.2
Short-term investments	$ –	$ 166.1	$ 31.8
Total debt (including short-term), net of cash	$ 293.4	$ 152.1	$ 163.1
Shareholders' equity	660.7	640.9	428.9
Total capitalization	954.1	793.0	592.0
Debt to total capital ratio	0.31:1	0.19:1	0.28:1

On July 30, 2004, the Company entered into an agreement with a banking syndicate to refinance the Company's banking and credit facilities. These credit facilities include a revolving term facility with a borrowing limit of $100 million expiring on July 30, 2009, a non-revolving term credit facility of $170 million expiring on July 30, 2009 and a non-revolving credit facility of $50 million for the financing of future growth opportunities, with any drawing thereunder repayable over a period expiring on the second anniversary of such drawing. The Canadian dollar borrowings under this facility bear interest at the Bankers' Acceptance rate plus 1.00% to 1.75% and the U.S. dollar borrowings bear interest at the London InterBank Offering Rate plus 1.00% to 1.75%. At March 31, 2005, the weighted average effective interest rate under these facilities was 5.64%.

In August 2004, the Company entered into five-year interest rate swaps for a notional principal of $110 million to hedge the floating interest rate exposure on the amounts drawn under the Company's non-revolving term credit facility. This hedged debt bears interest at the Bankers' Acceptance rate plus 1.00% to 1.75%. The swaps hedge the benchmark interest rate risk exposure to changes in the Bankers' Acceptance rate resulting in an effective interest rate on this debt of 4.35% plus 1.00% to 1.75%.

On July 30, 2004, the Company issued senior secured notes to John Hancock Life Insurance Company and its affiliates with an aggregate principal amount of U.S.$100 million ($122 million at year-end exchange rates) at an interest rate of 6.23%. These notes have an average life of nine years and are repayable based on an amortization schedule between September 1, 2009 and August 1, 2014.

The credit facilities and the senior notes are secured by the Company's receivables, inventories and trademarks in Canada.

Our bank indebtedness increased from $19.7 million at March 31, 2004 to $22.4 million at March 31, 2005. Bank indebtedness at year-end represents mainly the borrowings against our credit facilities in Australia and New Zealand. These credit facilities in Australia and New Zealand have limits of AUS$15.0 million and NZ$10.0 million, respectively, and are guaranteed by letters of credit issued under credit facilities with our banking syndicate in Canada.

At March 31, 2005, the outstanding letters of credit issued under our credit facilities totalled $74.6 million. This included letters of credit of $43.0 million (£18.9 million) issued under our non-revolving term facility to guarantee the loan notes issued to the vendors of Western Wines, and $31.6 million issued under our revolving term facility.

We have not drawn any amounts under the non-revolving credit facility of $50.0 million and any borrowings will be subject to bank covenant restrictions to be determined on utilization of this facility. We have drawn $123.5 million on our non-revolving term credit facility of $170.0 million with the balance amount utilized for the issuance of letters of credit described above. At March 31, 2005, we had an unused borrowing capacity of $30.8 million on the revolving term facility, subject to bank covenant restrictions. These restrictions include the requirement to operate within defined debt and fixed charge coverage ratios, as well as maintaining a minimum level of shareholders' equity. At March 31, 2005, our use of the unused borrowing capacity would not have triggered a covenant violation.

At March 31, 2005, long-term debt (including current portion) amounted to $312.0 million compared to $132.4 million at March 31, 2004. The March 31, 2005 balance includes $31.9 million of loan notes, carrying net interest of 2.5%, issued to the vendors of Western Wines for a part of the purchase price and payable over a period of 42 months from the date of the acquisition.

We will continue to invest in growth opportunities, the upgrade of existing facilities, and the development of premium wine brands across New World wine consuming regions. It is expected that these activities will be funded principally by cash flows from operations. Further acquisitions may be funded through increased debt levels, equity financings or a combination of both.

The Company to date has not paid any dividends on its common shares. Any future determination to pay dividends will be at the discretion of the Board of Directors of Vincor and will depend upon our financial condition, results of operations, capital requirements and such other factors as the Board of Directors of Vincor deems relevant.

Outstanding Shares

We had 33.4 million common shares outstanding at March 31, 2005, an increase of 0.2 million over 2004. The increase was mainly from the exercise of stock options during the year.

The number of stock options outstanding at March 31, 2005 was 1.0 million, a reduction of 0.1 million compared to 2004. The weighted average exercise price of the stock options outstanding at March 31, 2005 was $17.57. Of the total outstanding stock options at March 31, 2005, 0.7 million were exercisable at a weighted average exercise price of $13.17. In 2005, 0.1 million options were granted and 0.2 million previously granted options were exercised. See note 9 to the audited consolidated financial statements for more information.

Lease and Contractual Obligations

The following table is a summary of our contractual obligations at March 31, 2005 that are due in each of the next five years and thereafter:

Contractual obligations *(in millions of dollars)*	Total	2006	2007	2008	2009	2010	After 2010
Long-term debt (excluding capital leases)	$ 311.8	$ 11.7	$ 11.1	$ 9.2	$ 5.3	$ 167.0	$ 107.5
Capital leases	0.2	0.1	0.1	–	–	–	–
Operating leases	83.4	16.0	13.6	8.8	5.9	3.9	35.2
Grape purchase obligations	149.5	30.3	31.2	30.7	30.1	27.2	–
Other purchase obligations	56.4	56.4	–	–	–	–	–
Other long-term obligations	8.8	–	4.6	0.7	2.8	–	0.7
Total	$ 610.1	$ 114.5	$ 60.6	$ 49.4	$ 44.1	$ 198.1	$ 143.4

Capital leases

Currently, the Company has minimal capital lease obligations, all of which were assumed with acquisitions and are related to winemaking equipment only.

Operating leases

Our principal operating leases relate to our operations in Osoyoos, British Columbia and cover our winery in Oliver, as well as 900 acres of vineyard. It is not possible for us to purchase these properties since they are all located on land that is owned by the Osoyoos Indian Band, with whom we have had a working relationship for more than 35 years.

Other operating leases relate to our administrative offices and various warehousing facilities, certain winemaking equipment at various locations, other leased vineyards and Wine Rack retail outlets in Ontario.

Grape purchase obligations

In order to ensure a steady supply of the high-quality grapes required to support the growth of our premium wines, we have entered into, and continue to add, long-term growing and supply contracts with vineyard owners. All contracts include:

- grape prices fixed annually at market prices;
- quality requirements set by Vincor and a right to refuse to purchase any grapes not meeting our quality requirements; and
- terms ranging from three to 20 years.

Grapes supplied under these contracts provide the following percentages of our total grape requirements for each country where we produce wine:

- Canada – 14%;
- U.S. – 63%;
- Australia – 50%;
- New Zealand – 10%

The principal risk associated with these contracts is not inherent in the agreements themselves; rather, it relates to the estimates that we may make in forecasting our requirements and thereby purchasing either too much or too little. This risk is significantly mitigated by the fact that all contracts are at market rates, permitting us to sell any surplus at or near the purchase price.

Other purchase obligations

Our U.K. business does not own any winemaking facilities but sources wine through long-term purchase arrangements, under which the purchase commitments for the following year are determined before each harvest. Those amounts included in purchase obligations reflect only the amounts that are committed for purchase in fiscal 2006, as the amount committed is determined annually.

Other long-term obligations

Other long-term obligations include $2.8 million for the Kim Crawford acquisition; $3.3 million for the expense portion of the Western Wines purchase price; and $2.9 million in amounts payable under employees' long-term incentive programs.

5) Off-Balance Sheet Arrangements

Our off-balance sheet arrangements are restricted to operating leases described in the "Lease and Contractual Obligations" section on page 35 and the following other arrangements:

Derivative Instruments

The Company uses various derivative financial instruments in the management of interest rate and foreign currency exposures. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes.

In August 2004 and February 2005, the Company entered into five-year interest rate swaps for a notional principal amount of $110.0 million and £5.9 million ($13.5 million), respectively, to hedge the floating interest rate exposure on the amounts drawn under the Company's non-revolving term credit facility. The fair value of the interest rate swaps outstanding has been determined by the calculation of the cost of unwinding the swaps with the counterparty at March 31, 2005 market rates, and amounted to a loss of $2.2 million.

At March 31, 2005, the nominal value of the U.S. dollar forward contracts amounted to US$22.5 million (March 31, 2004 – US$25.5 million) and had a fair value loss of $1.1 million (March 31, 2004 – fair value loss of $0.6 million) and the nominal value of the euro forward contracts amounted to €13.5 million (March 31, 2004 – nil) and had a fair value loss of $0.3 million. See note 8 to the consolidated financial statements for more information.

Commitments

Letters of credit

At March 31, 2005, the outstanding letters of credit issued under our credit facilities totalled $74.6 million. This included letters of credit of $43.0 million (£18.9 million) issued under our non-revolving term facility to guarantee the loan notes issued to the vendors of Western Wines and $31.6 million issued under our revolving term facility.

Kim Crawford Wines acquisition agreement

Under the terms of the agreement to acquire Kim Crawford Wines, the purchase price includes a performance-based consideration, payable in 2008. We have recorded the guaranteed amount of the performance-based consideration, and any excess consideration payable will be recorded when the amount is known and is no longer contingent. Based on the performance of Kim Crawford Wines over the first two years since the acquisition, we anticipate that the final payment of the performance-based consideration will be in excess of the guaranteed amount. However, the determination of the final consideration will be based on performance over a five-year period since acquisition, and there is no assurance that the final payment will exceed the guaranteed amount.

6) Strategy and Outlook

Our business strategy is to build on our foundation as Canada's largest and one of the world's ten largest wine companies, as measured by revenue, by developing sales, marketing and distribution capabilities around the world. Tactics employed as part of this strategy include the acquisition of additional wineries and wine brands in key New World wine growing regions, including the United States, Australia, Chile, Canada, Argentina, South Africa and New Zealand. The Company has established the objective of becoming one of the top five wine companies in the world, as measured by revenue, within the next five years.

We strive to expand market share by employing the following key strategies and tactics: (i) emphasizing the development, sales and marketing of wines in the fastest-growing segments of the market, particularly the premium wine segment; (ii) continuing to participate in the premium wine category through the development of premium brands that we own; (iii) expanding the sales and distribution reach of our brands into regions that are supportive of New World wines; (iv) continuing to complete acquisitions of premium-branded wine companies in New World wine regions; (v) expanding the supply of premium grapes and, in particular, Canadian grapes to satisfy the growing demand for premium VQA wines; and (vi) developing Icewine into an international luxury product, capitalizing on the reputation of Inniskillin.

Internationally, we intend to continue to pursue acquisitions in New World wine regions in order to: (i) further improve operating income by rationalizing and integrating operations; and (ii) expand the Company's product offerings. In addition, we intend to develop our existing brands by expanding their distribution to other important markets for New World wines. See the "Risks and Uncertainties" section below for our discussion of the risks associated with our acquisition-based growth strategy.

7) Risks and Uncertainties

The following section describes both general and specific risks that could affect our financial performance. It is impossible to predict whether any risk will happen or, if it does, its ultimate consequences; therefore, the actual effect of any risk on our business could be materially different from what we currently anticipate. In addition, this description of risks does not necessarily include all possible risks, and there may be other risks of which we are currently unaware.

Acquisition-based Growth – *Our growth strategy is dependent on our ability to identify and acquire complementary brands and wineries on commercially favourable terms. Our inability to do so will restrict our ability to meet our growth target.*

To achieve the aggressive growth target that we have set, we will continue to seek acquisition opportunities to complement our existing business. We cannot be certain that: (i) we will be able to identify additional suitable acquisition candidates; (ii) candidates will be available for sale at reasonable prices; (iii) we will be able to consummate acquisitions that we commence, or (iv) that we will be able to integrate any acquired business into our operations successfully.

Additionally, when we are evaluating an acquisition opportunity, we cannot be certain that we have correctly identified and managed all material risks and costs inherent in the business that is potentially being acquired. Acquisitions may also involve a number of special risks, circumstances or legal liabilities, some or all of which could have a material adverse effect on our business, results of operations and financial condition. We may also elect to satisfy some or all of the purchase price of an acquisition by the issuance of shares to the vendor or to finance future acquisitions through an equity financing, both of which could be dilutive to existing shareholders.

Premium Grape Supply – *As we shift our portfolio to include a larger proportion of premium and above wines, there is a risk that we will not be able to source sufficient quantities of premium grapes to meet production requirements.*

The consistent production of premium wines requires the consistent supply of premium quality grapes. The inability to source grapes of the requisite quality and variety may impair our ability to produce wines to the standards, quantity and/or quality demanded by our customers.

To mitigate this risk, we continue to implement a number of initiatives and strategies to ensure that we have long-term access to an adequate supply of premium quality grapes to meet our goals. This includes looking at methods of ensuring supply through vineyard development, management and grower relationships.

In Canada, in addition to the development of our own vineyards, we have developed an extensive network of long-term contracts with more than 115 premium grape growers. These arrangements are based on market prices, which are subject to annual review, and provide both assurance and continuity of supply. This supply accounts for approximately 14% of the Company's annual fruit requirements in Canada, which is supplemented by the importation of grapes, grape juice concentrate and wine from around the world.

In the U.S., we own 1,557 acres of producing vineyard and lease a further 509 acres of vineyard in the Dunnigan Hills of California, with the ability to develop a further 568 adjacent acres. This owned acreage provides approximately 57% of our California production requirements and 37% of our total U.S. production requirements. We also have contracts with approximately 76 growers in California and Washington State, varying in length from one to ten years based on market prices, which are subject to annual review. These contracts account for approximately 63% of our U.S. grape requirement.

In Australia, we have 454 acres of vineyard in production and an additional 213 acres planted, but not yet in production, in Western Australia, with the ability to develop a further 99 adjacent acres. This owned acreage provides approximately 17% of our Australian production requirements. We also have long-term contracts with approximately 27 growers at market prices. These contracts account for approximately 50% of the Company's Australian grape requirements, which is supplemented by short-term contracts and bulk wine purchased on the open market at market prices.

In New Zealand, we lease 39 acres of producing vineyard, which account for 1% of our New Zealand production requirements. We purchase the remainder of our requirements locally, at market prices, from approximately 33 growers. Approximately 10% of the grape requirement is sourced from three growers under long-term contracts, while the remainder is supplied under short-term contracts.

We will continue to work closely with our growers throughout every phase of the growing process to ensure quality grapes are consistently achieved. In this way, the Company will ensure its supply of quality grapes so that it can continue to produce premium quality products.

Interruptions in Supply – *A substantial decrease in our ability to supply our consumers with our products could adversely affect the results of our operations.*

An interruption or substantial decrease in our ability to supply customers with our products could damage our sales and image, as well as our relationships with customers and consumers. Problems that might constrain supply or lead to increased costs include:

- *Climate, agriculture and nature:* Our wines depend on grapes from demarcated regions. If any of these regions were to experience weather variations, natural disasters, pestilence or other occurrences, we might not be able to readily obtain a sufficient supply of grapes and there could be a decrease in our production of the product from that region and/or an increase in its cost.

- *Loss of inventory:* We have substantial inventory of wine products which mature over periods of up to three years. As at March 31, 2005, our inventory of bulk and finished goods amounted to $236.3 million. While our inventory is stored at numerous locations, the loss through fire or other natural disaster of all or a portion of our stock may not be immediately replaceable and, consequently, may lead to a substantial decrease in supply of those products. Additionally, the judgmental nature of determining how much of our premium products to produce in any given year for future consumption means that there is an inherent risk of forecasting error. This could lead to either an inability to supply future demand or lead to future surplus inventory, and consequently a write-down in value.

Competition – *The wine business is intensely competitive around the world.*

In recent years the U.S. and U.K. markets have seen an increased level of price-based competition, linked in part to the grape surplus situation (see Risks and Uncertainties – "Surplus Production" below). We have responded by implementing increased promotional activity and some price matching; however, in the face of such continued competition, there is no assurance that we will continue to be successful in growing our business and margins.

In addition, the fragmented wine industry is consolidating, creating participants with significant resources and scale. As a result, heightened competition from these parties may affect our pricing strategies, creating margin pressures and, thus, lower revenues and net income. Competition also creates constant pressure on customer service and customer relationships, which may affect our ability to retain existing customers and attract new ones. To mitigate and respond to these challenges, we are focused on remaining competitive in this changing environment – primarily by developing the requisite scale of operations.

Surplus Production

The global production of wine grapes has been steadily increasing over the past two decades, resulting in a sustained surplus of wine production that annually exceeds global consumption by approximately 20%. The vast majority of this surplus has been in lower quality grapes that are grown in the European Union and not suitable for the production of the premium wines experiencing continued solid growth. The wine made from these lower quality grapes has traditionally been distilled into industrial alcohol products or sold as bulk wine. Over the past decade, as wines from New World regions have taken market share from wines produced in Europe, this surplus has grown.

The significant growth rate of New World wine has spurred increased plantings in New World regions to support expectations of continued strong growth. In some cases, expectations were overly aggressive and supply and demand fell temporarily out of balance. At lower quality levels, this has resulted in lower bulk wine prices, which have reduced the cost of our popular-priced wines. At higher quality levels, certain producers (other than Vincor) have sought to clear their oversupply by blending the surplus ultra-premium wine with super-premium wines to improve flavour and overall quality or by reducing prices to clear inventory. This increased supply of premium wine has placed some margin pressure on the premium segment, which is the focus of our business (see Risks and Uncertainties – "Competition" above). While we are seeing a firming of prices and a rebalancing of supply and demand in the U.S. market, which we believe will achieve balance in the short term, the surplus of premium red wine is likely to persist for a longer period in Australia.

In the interim, we believe that the most effective response to the possible impact of variations in supply levels is to continue our marketing efforts to differentiate and build consumer awareness of our brands and increase demand for our products. Industry research suggests that circumstances of surplus and shortage of grape supply have historically occurred in seven- to nine-year cycles. However, the Company is also aware of the significant growth rates and changes in the industry over the past decade and recognizes that this pattern may no longer be applicable. Where a surplus of grapes continues, it may have a material adverse effect on our business, results of operations and financial condition.

Industry and Government Regulation – *Regulatory decisions and changes in the legal and regulatory environments in the countries in which we operate could limit our business activities or increase our operating costs.*

Our business is subject to extensive regulatory requirements regarding production, distribution, marketing, advertising and labelling in the countries in which we operate. This also results in our products being subject to differing import and excise duties in the countries in which we operate. Regulatory decisions or changes in the legal and regulatory requirements in these areas may have the following effect on our business:

- *Advertising and promotion:* Governmental bodies in the countries in which we operate may impose limitations on advertising activities used to market alcoholic beverages such as prohibition or limitations on the advertising of wine. These limitations may inhibit or restrict our ability to maintain or increase the strong consumer support for and recognition of our brands in certain markets and may adversely affect our results of operations.

- *Labelling:* Governmental bodies in the countries in which we operate may impose additional labelling and production requirements. Changes to labelling requirements for our portfolio may detract from their appeal to consumers and, as a result, lead to a reduction in sales. In addition, this may result in increased costs. In conjunction with the federal Ministry of Agriculture (and provincial stakeholders), the Canadian wine industry (represented by the Canadian Vintners Association) is currently in the final stages of the development of a National Wine Standard, which is expected to include a bona fide, enforceable appellation system, and is expected to be legislated under the *Canadian Agricultural Products Act*. In February 2005, the National Wine Standards Committee approved technical draft standards, which will require all wines bottled in Canada to be classified into one of three tiers:
    1. Tier 1 (VQA) – 100% Canadian grape wine of specific geographic origin.
    2. Tier 2 (non-VQA) – 100% Canadian grape wine content, minimum 85% of single provincial origin.
    3. Tier 3 – Wines blended from domestic and/or imported grape wine origin, vinted and bottled in Canada, and labelled as prescribed. If wine contains a minimum of 75% Canadian content, it will be labelled "Product of Canada".

  Timing for completion and legislation of the National Wine Standard is unknown at this time. We support the principle of national standards and intend to comply fully.

  In 2001, the Quebec government amended regulations to allow private label wines to be sold through the grocery distribution channel. Prior to this, private label had not been permitted in the wine sector in Quebec. To this point, grocery retailers have not introduced private label wine products, and at this time it is not known if they will, and therefore any impact on our operations is unknown.

- *Import and excise duties:* Our products are subject to import and excise duties. An increase in import or excise duties may reduce overall consumption of our premium-branded wines or cause consumers to prefer lower-taxed wines to ours.

- *Privatization:* Privatization of liquor distribution and retailing has taken place in varying degrees in all provinces of Canada and most states in the United States. Other jurisdictions in which we sell our products, including the U.K., Australia and New Zealand, are currently regulated to a lesser extent than North American markets. From time to time, governments reconsider their role in the sale of beverage alcohol, which may affect the way we conduct business in any jurisdiction and could have a material adverse effect on the Company's business, results of operations and financial condition.

- *Retail review in Ontario:* In Ontario, the provincial government has commenced a review of the retailing environment for alcoholic beverages and it may result in regulatory changes which affect the retailing of wine over time. We participate in retailing in Ontario through our Wine Rack retail outlets and any government actions as a result of the review could affect our retail operations.

- *Distribution and Retail Channels:* While provincial governments in Canada continue to oversee and control the distribution and sale of beverage alcohol, there has been a trend to shift retail sales toward privatized agency retail outlets. This is expected to continue. Vincor, with its broad product portfolio and professional sales/marketing organization, has to date been successful in adapting to this new environment.

Trade Consolidation and Reliance on Distributors

In the U.S., we sell our products principally to wholesalers for resale to retail outlets and restaurants. The distribution channels for beverage alcohol products have been characterized in recent years by rapid change, including consolidation. Accordingly, as a relatively small competitor, there is a risk that these wholesalers may not give the necessary priority to our products. To address this, we have developed our own sales force to support and complement the efforts of wholesalers. The replacement of, or poor performance by, our major wholesalers could adversely affect our results. In Australia, where we were previously dependent on sales through distributors, the acquisition of Amberley has allowed us to eliminate our distributors and establish our own sales force in all important regions of the country.

There has been a continuing trend toward retailer consolidation in the markets we participate in. This trend is most pronounced in Australia and the United Kingdom. In Australia, two major retail chains now control more than 55% of the retail wine sales and in the U.K., six retail chains control more than 70% of retail wine sales. This degree of concentration exerts pressure on our margins in these markets. In response, we will continue our marketing efforts to differentiate and build consumer awareness of our brands and to increase the demand for our products by meeting the needs of our customers and consumers of our products.

International Operations

Vincor conducts its business on an international basis. We have significant operations in Canada, the U.S., U.K., Australia and New Zealand, and our goal is to continue to expand these operations with synergistic brand and winery acquisitions, as well as to establish bases of operation in other key regions for the production and consumption of New World wine. Risks in building and maintaining an international business include addressing constraints associated with local laws, challenges in collecting accounts receivable and compliance with complex international tax requirements.

Packaging – *Interruptions in the Company's ability to procure adequate supplies of packaging materials could adversely affect operations.*

We use glass bottles and other materials, such as caps, corks, capsules, labels and cardboard cartons, in the bottling and packaging of wine. Glass bottle costs is one of the largest components of our cost of goods sold. The glass bottle industry is highly concentrated with only a small number of producers; in Canada, there is only one commercial glass supplier. To date, we have not experienced any significant difficulty in satisfying our requirements; however, the inability of suppliers to satisfy our requirements would adversely affect our operations and potentially increase costs.

General Economic Conditions

As a consumer products business, we are affected by general economic conditions, consumer confidence and spending, and the prices of our products. A sharp and sustained decline in economic growth might cause lower demand for our products. The economic slowdown experienced in the early part of this decade and uncertainty in the global economy have not significantly reduced demand for wine in general, or our products in particular. Sales in the ultra-premium and specialty segments of the wine market in the U.S., which are primarily consumed in restaurants, were negatively affected for a period subsequent to September 11, 2001. Similarly, the outbreak of Severe Acute Respiratory Syndrome ("SARS") in 2003 affected business and tourist travel for a period of time and reduced sales of our Icewine in Asia as well as through duty-free retail outlets.

Foreign Exchange

- *Translation:* We are subject to risks in conducting business internationally through fluctuations in currency exchange rates. The Company derived 48% of its total revenue from sales outside Canada in fiscal 2005. Canadian sales and expenses are denominated in Canadian dollars, and non-Canadian sales and expenses are denominated in local currencies. To the extent that we make sales denominated in currencies other than the Canadian dollar, gains and losses on the translation of such sales to Canadian dollars may, in the future, contribute to fluctuations in our business and operating results. A 1% decline in the following currencies against the Canadian dollar would decrease our earnings before tax by $0.1 million for the U.S. dollar, $0.2 million for the U.K. pound and $0.1 million for the Australian dollar.

- *Transaction:* Approximately 13% of our Canadian costs are in U.S. dollars and approximately 38% of our U.K. costs are in South African rands. Fluctuations in exchange rates will affect costs and it may not be possible to adjust product prices, blends or sourcing to offset such fluctuations. The Company buys foreign currency approximately one year in advance of its requirements. A 1% decline in the U.S. dollar and South African rand would improve our earnings before tax by approximately $0.2 million and $1.0 million, respectively.

8) Accounting Matters

i) New Accounting Pronouncements

In fiscal 2005, we adopted the new accounting standards related to the application of hedge accounting, the recognition, measurement and disclosure of Asset Retirement Obligations, the consolidation of Variable Interest Entities and the accounting for vendor rebates. The adoption of these accounting standards did not have a material impact on our consolidated financial statements.

ii) Critical Accounting Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates on historical experience and various other assumptions that we believe are reasonable in the circumstances. The more significant estimates include provisions for inventory obsolescence, allowance for doubtful accounts, business combination costs, stock-based compensation plans and fair market values for goodwill impairment tests:

- *Provisions for inventory obsolescence* – inventories are valued at the lower of cost or market. We identify slow-moving, excess or obsolete inventories and record provisions as needed based on market and economic conditions and forecasted demand. Inventory valuation involves a high degree of judgment, as it is an estimation of the impact of current and anticipated future events. To the extent that actual results differ from our estimates, a change in the valuation of inventory and the resultant estimated obsolescence provision could occur.

- *Allowance for doubtful accounts* – we record an allowance for doubtful accounts related to accounts receivable that may potentially be impaired. The allowance is based on our knowledge of the financial condition of our customers, the aging of the receivables, the current business environment and historical experience. A change in these factors could affect the estimated allowance and the provision for bad debts recorded in selling and administrative expenses.

- *Business combination costs* – we include in the cost of a business combination direct costs which consist of incremental costs incurred to effect the business combination. Any estimates of these costs are subject to revision in future periods based on actual costs incurred and any differences are treated as an adjustment to goodwill. When the amount of any contingent consideration can be reasonably estimated at the date of acquisition and the outcome of the contingency can be determined beyond a reasonable doubt, the contingent consideration is recognized as part of the cost of the purchase. Where the amount or outcome of the contingency cannot be determined beyond a reasonable doubt, a liability is not recognized until the contingency is resolved and consideration is issued, which may result in an adjustment to the cost of the purchase.

- *Stock-based compensation plans* – Vincor has stock-based compensation plans for which compensation expense is recognized based on management's assumptions. These expenses are recorded based on the fair value method of accounting. The fair value of options granted is based on assumptions related to the weighted average risk-free interest rate, dividend yield, expected life of the options and the volatility of the Company's common shares. To the extent that the factors underlying these assumptions change, actual results could differ from management's assumptions and result in a change in compensation expenses.

- *Goodwill* – we perform an annual goodwill impairment test and for 2005 we concluded that no impairment existed in the goodwill recorded. This test is conducted more frequently if warranted by circumstances or relevant developments. Impairment is tested at the reporting unit level by comparing the reporting unit's carrying value to its fair value. The process of determining fair value is subjective and requires management to exercise judgment in making assumptions about future results, including revenues and cash flows at the entity level. Future goodwill impairment tests may result in impairment charges.

III) FUTURE ACCOUNTING CHANGES

In January 2005, new accounting standards were published in relation to the presentation of comprehensive income, the recognition and measurement of financial assets, financial liabilities and non-financial derivative instruments and the accounting for hedging relationships. These accounting standards will be effective for interim and annual periods commencing April 1, 2007. We are currently assessing the impact of the new standards.

9) Disclosure Controls

Our Chief Executive Officer and Chief Financial Officer have concluded that our Company's disclosure controls and procedures are effective, based on their evaluation of the effectiveness of these controls and procedures as of the end of the period covered by this report.

10) Quarterly Financial Data

(in millions of dollars, except pershare amounts)	Net sales	Operating income	Net income	Earnings per share Basic	Earnings per share Diluted
Fiscal 2005					
First quarter	$ 113.2	$ 16.8	$ 10.2	$ 0.31	$ 0.30
Second quarter	165.7	25.0	10.9	0.33	0.32
Third quarter	206.2	31.9	19.2	0.58	0.57
Fourth quarter	168.9	16.3	8.3	0.25	0.25
Fiscal 2004					
First quarter	$ 107.1	$ 16.8	$ 9.6	$ 0.35	$ 0.35
Second quarter	120.7	23.4	14.1	0.52	0.51
Third quarter	134.7	26.0	15.9	0.58	0.58
Fourth quarter	113.6	11.7	6.7	0.23	0.22

11) Fourth Quarter – 2005

i) Market Overview

We believe that our key wine markets experienced the following volume growth in the three months ended March 31, 2005 ("Q4 2005") compared to the three months ended March 31, 2004 ("Q4 2004"):

	Total Wine Market Growth	Vincor Growth	
	Volume	Volume	Revenue
Wine:			
Canada	+ 3%	+ 7%	+ 11%
United States	+ 3%	+ 12%	+ 20%
Australia	+ 4%	+ 47%	+ 66%
New Zealand	+ 3%	+ 143%	+ 115%
United Kingdom	+ 5%	N/A	N/A
Refreshment:			
Canada	(4)%	+ 1%	(1)%
Wine kits:			
Canada	(2)%	(3)%	(3)%

Our business continued to show significant growth in Q4 2005, with our total sales volume increasing by 55% to 4.4 million cases, compared to 2.8 million cases in Q4 2004. Our net sales in Q4 2005 of $168.9 million was 49% higher than the same period last year, with an organic growth rate, excluding the impact of currency translation, of 13%. Approximately 80% of the revenue increase was attributable to the acquisitions of Western Wines and Amberley.

II) FINANCIAL HIGHLIGHTS

Following are the financial highlights for Q4 2005:

(all values in millions of dollars, except percentages, volume values and share data)	Q4 2005	Q4 2004	% Change 2005 vs. 2004
Sales volume (millions of 9-litre case equivalents)	4.4	2.8	+ 57 %
Net sales	$ 168.9	$ 113.6	+ 49 %
Gross margin	$ 73.1	$ 55.4	+ 32 %
% net sales	43.3 %	48.8 %	(5.5) pp
Operating income	$ 16.3	$ 11.7	+ 39 %
% net sales	9.7 %	10.3 %	(0.6) pp
Interest expense	$ 5.3	$ 2.0	+ 165 %
Net income	$ 8.3	$ 6.7	+ 24 %
Diluted earnings per share	$ 0.25	$ 0.22	+ 14 %

Net income for Q4 2005 includes a charge of $1.2 million for the expensing as compensation a portion of the purchase price of Western Wines, $1.1 million for the amortization of the customer relationship intangibles associated with the Western Wines acquisition and a gain on derivative instruments of $0.4 million related to the amortization of deferred credits on foreign exchange forward contracts.

The adjusted net income for Q4 2005 after add-back of these charges is presented in the following table:

(all values in millions of dollars, except per share amounts)		Q4 2005
Reported net income		$ 8.3
Add:	Expensing of a portion of Western Wines purchase price	1.2
	Amortization of Western Wines intangibles	1.1
	Gain on derivative instruments	(0.4)
Less:	Income taxes related to above	(0.2)
Adjusted net income		**$ 10.0**
Adjusted diluted earnings per share		**$ 0.29**

Adjusted net income for Q4 2005 of $10.0 million was 49% higher than Q4 2004, with adjusted diluted earnings per share up $0.07, or 32%, over last year.

Our reporting is denominated in Canadian dollars; however, we also operate in the U.S., U.K., Australia and New Zealand, where business is transacted in the local currency.

The following table shows the Canadian dollar exchange rates used for translation of the local currency financial results of our foreign subsidiaries:

	Average exchange rate for the three months ended March 31	
	2005	2004
$ CDN = $ 1 U.S.	1.2260	1.3297
$ CDN = £ 1 U.K.	2.3220	N/A
$ CDN = $ 1 AUS	0.9528	1.0174
$ CDN = $ 1 NZ	0.8784	0.8873

Overall, the currency translation effect due to changes in exchange rates had a negative impact on reported net sales for Q4 2005 of $3.1 million, and on reported net income of $0.3 million or $0.01 per share. The discussion that follows compares year over year, inclusive of the effects of currency translation. All comparisons and growth rates are in relation to the fourth quarter of 2004, unless otherwise noted.

iii) NET SALES

Net sales increased by 49% to $168.9 million in Q4 2005 with an organic growth rate, excluding the impact of currency translation, of 13%. Of the total increase, $43.9 million, or 80%, was attributable to the acquisition of Western Wines and Amberley. Total Canadian sales revenue in Q4 2005 of $74.9 million increased by 8% compared to Q4 2004. This included a growth in wine revenues of 11% and volume growth of 7% in the quarter. Sales revenue in the U.S. increased by 20% over the same period last year, excluding the effect of currency translation. The effects of currency translation reduced this growth to 10% compared to Q4 2004. Depletions of key brands in the U.S., as well as the movement of product from wholesalers to retailers during Q4 2005, grew by 8%.

Sales in Australia increased by 66% during the quarter, excluding the effect of currency translation, or 56% in Canadian dollar terms. The increase during the quarter is mainly due to the inclusion of Amberley, which was acquired in March 2004.

Sales in New Zealand more than doubled to $2.8 million from $1.3 million last year, with volume growth of 143%.

iv) GROSS MARGIN

Gross margin increased 32% to $73.1 million in Q4 2005 compared to Q4 2004. As a percentage of sales, however, gross margin decreased by 5.5 percentage points to 43.3% of sales. This reduction in gross margin is due to the inclusion in Q4 2005 of Western Wines, which operates at a lower gross margin level in relation to our other businesses. The impact of currency translation reduced our gross margin for the quarter by $1.9 million.

v) SELLING AND ADMINISTRATIVE COSTS ("S&A")

S&A was $52.0 million, or 30.8% of sales, in Q4 2005, an increase of $11.7 million over S&A of $40.3 million, or 35% of sales, in the previous year. The increase in costs is a result of the addition of Western Wines and Amberley in the current year, combined with marketing and promotional costs to support higher sales volume.

vi) DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense for Q4 2005 was $4.8 million, compared to $3.5 million a year ago. This increase in expense is mainly due to the amortization of customer relationship intangibles of $1.2 million associated with the Western Wines acquisition.

vii) OPERATING INCOME

As a result of the above, operating income in Q4 2005 increased by 39% to $16.3 million, compared to $11.7 million last year. Excluding the impact of currency translation, operating income grew by 44%.

viii) INTEREST EXPENSE

Interest expense in Q4 2005 of $5.3 million was significantly higher than interest expense of $2.0 million in Q4 2004. The increase in interest expense is mainly due to the incurrence of incremental debt to finance the acquisition of Western Wines. Additionally in Q4 2004, we earned interest income on short-term investments of $166.0 million resulting from the proceeds of our issuance of 6,037,500 common shares in February 2004. Currency translation had a positive impact of $0.2 million on the interest on our U.S. dollar denominated debt.

12) Related Party Transactions

In fiscal 2005, the Company purchased grapes valued at $283,000 ($16,000 in fiscal 2004 and $192,000 in fiscal 2003) under an arrangement with Mr. Triggs. The arrangement is based on similar contracts with other third-party suppliers in Ontario and is annually reviewed and approved by the Compensation, Organization, Nominating and Governance Committee of the Board of Directors. On April 26, 2000, as part of the acquisition of Sumac Ridge, a subsidiary of the Company entered into a grape purchase agreement with a joint venture in which Harry McWatters, a senior officer of Sumac Ridge Estate Winery Ltd., together with his wife, have an indirect 26% interest and the Company has a 48% interest. During fiscal 2005, the Company purchased grapes valued at $634,000 ($653,000 in fiscal 2004 and $634,000 in fiscal 2003) from the joint venture. On August 25, 2000, as part of the acquisition of R.H. Phillips Inc., a wholly-owned subsidiary of the Company, entered into a grape purchase agreement with JK Vineyards, LLC, an entity controlled by John and Karl Giguiere, two senior officers of R.H. Phillips, Inc. In fiscal 2005, the Company purchased grapes valued at US$1,520,000 (US$206,000 in fiscal 2004) from JK Vineyards, LLC. In fiscal 2005, the Company purchased grapes valued at NZ$615,000 (NZ$150,000 in fiscal 2004) from Comely Bank Vineyards Ltd., pursuant to agreements that were existing prior to our acquisition of Kim Crawford Wines Limited. Comely Bank Vineyards Ltd. is partly owned (18%) by KCW Trust, of which Erica Crawford (an officer of Kim Crawford) is a trustee. In addition, the Company bought NZ$2,000 of grapes from Deliverance Vineyard, a vineyard wholly owned by KCW Trust. Each of these agreements is at market price and is reviewed annually, and the grapes supplied or to be supplied pursuant to these agreements do not represent a material portion of the Company's grape supply requirements.

13) Non-GAAP Measures

We have included throughout this document certain non-GAAP performance measures. These non-GAAP performance measures, namely "adjusted net income" and "adjusted earnings per share", do not have any standard meaning, nor are they necessarily comparable to similar measures of other companies. We believe that this information is useful in evaluating the Company's performance. The data is intended to provide additional information that should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of Vincor International Inc. have been prepared by management and approved by the Board of Directors. Management is responsible for the information and representations contained in these financial statements and in other sections of this Annual Report.

Management, to meet its responsibility for the integrity and objectivity of data in the consolidated financial statements, has developed and maintains a system of internal accounting controls. Management believes that this system of internal accounting controls provides reasonable assurance that the financial records are reliable and form a proper basis for preparation of financial statements, and that the assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for financial statements in this Annual Report principally through its Audit Committee. The Shareholders' auditors have full access to the Audit Committee, with and without management being present.

The consolidated financial statements have been examined by the Shareholders' auditors, KPMG LLP Chartered Accountants, and their report is shown as part of the consolidated financial statements.

Donald L. Triggs
President and
Chief Executive Officer
June 3, 2005

Richard G. Jones
Executive Vice President,
Finance and Administration

Auditors' Report to Shareholders

We have audited the consolidated balance sheets of Vincor International Inc. as at March 31, 2005 and 2004 and the consolidated statements of operations, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
Toronto, Canada
May 13, 2005

Consolidated Balance Sheets

(in thousands of dollars)
March 31, 2005 and 2004

	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	$ 40,968	$ –
Short-term investments	–	166,086
Accounts receivable	115,014	64,910
Future income taxes	2,093	1,890
Inventories	257,076	220,322
Prepaid expenses and other	8,277	4,841
	423,428	458,049
Fixed assets	219,738	206,413
Other assets	11,568	8,233
Goodwill and other intangible assets	517,121	212,762
	$ 1,171,855	$ 885,457
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	$ 22,362	$ 19,686
Accounts payable and accrued liabilities	126,052	66,898
Income taxes payable	9,930	3,839
Current portion of long-term debt	11,741	24,603
	170,085	115,026
Long-term debt	300,239	107,790
Other long-term liabilities	8,791	3,482
Future income taxes	32,009	18,277
Shareholders' equity:		
Capital stock	481,046	478,973
Contributed surplus	1,192	461
Cumulative translation adjustment	(43,363)	(11,719)
Retained earnings	221,856	173,167
	660,731	640,882
Commitments *(note 13)*		
	$ 1,171,855	$ 885,457

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Mark L. Hilson
Director

Robert W. Luba
Director

Consolidated Statements of Operations

(in thousands of dollars, except per share data)
Years ended March 31, 2005 and 2004

	2005	2004
Net sales	$ 653,915	$ 476,135
Operating expenses:		
Cost of goods sold	365,005	234,975
Selling and administration	182,614	149,062
Depreciation and amortization	16,291	14,191
	563,910	398,228
Operating income	90,005	77,907
Interest, net	16,013	11,561
Debt extinguishment costs	8,543	–
Loss on derivative instruments	94	–
Income before income taxes	65,355	66,346
Income taxes	16,666	20,076
Net income	$ 48,689	$ 46,270
Earnings per common share:		
Basic	$ 1.46	$ 1.67
Diluted	1.44	1.64
Weighted average shares (in thousands):		
Basic	33,367	27,737
Effect of stock options	444	444
Diluted	33,811	28,181

See accompanying notes to consolidated financial statements.

Consolidated Statements of Retained Earnings

(in thousands of dollars)
Years ended March 31, 2005 and 2004

	2005	2004
Retained earnings, beginning of year	$ 173,167	$ 126,897
Net income	48,689	46,270
Retained earnings, end of year	$ 221,856	$ 173,167

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands of dollars)
Years ended March 31, 2005 and 2004

	2005	2004
Cash provided by (used in):		
Operating activities:		
Net income	$ 48,689	$ 46,270
Operating charges not affecting cash:		
Depreciation and amortization	16,291	14,191
Future income taxes	(3,181)	2,744
Other non-cash items	1,603	(2,150)
	63,402	61,055
Change in non-cash working capital	(33,542)	(31,432)
Cash provided by operating activities	29,860	29,623
Financing activities:		
Repayment of long-term debt	(267,604)	(18,430)
Issuance of term bank debt	297,878	–
Increase in bank indebtedness	3,062	19,024
Increase in other long-term liabilities	5,344	888
Issuance of common shares	2,073	171,476
Cash provided by financing activities	40,753	172,958
Investing activities:		
Redemption (purchase) of short-term investments	166,086	(134,311)
Purchase of fixed assets	(33,939)	(21,197)
Acquisitions, net of cash acquired	(160,087)	(46,602)
Proceeds from fixed asset disposals	183	199
Cash used in investing activities	(27,757)	(201,911)
Effect of exchange rate changes on cash and cash equivalents	(1,888)	(670)
Increase in cash and cash equivalents, being cash and cash equivalents, end of year	$ 40,968	$ –
Supplemental cash flow information:		
Interest paid	$ 16,894	$ 11,479
Income taxes paid	$ 11,751	$ 14,187

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(in thousands of dollars, except per share data)
Years ended March 31, 2005 and 2004

1) Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. Significant accounting policies adopted by the Company are as follows:

a) principles of consolidation

The consolidated financial statements include the accounts of the Company, its subsidiaries and its proportionate share of the assets, liabilities, sales and expenses of joint ventures after elimination of significant intercompany balances and transactions.

Effective January 1, 2005, the Company retroactively adopted the new accounting standards in relation to the consolidation of Variable Interest Entities (VIEs). VIEs are entities that have insufficient equity and/or their equity investors lack one or more specified characteristics of a controlling interest. The guideline provides specific guidance for determining when an entity is a VIE and what entity, if any, should consolidate the VIE for financial reporting purposes. The adoption of this standard did not have an impact on the Company's consolidated financial statements for the year ended March 31, 2005, as the Company does not have any VIEs.

b) revenue recognition

Revenue from sale of product is recognized when title passes to customers. All of the Company's customers are considered to be of a similar type. Items deducted from gross sales to arrive at net sales are excise tax, which is collected on behalf of the government, prompt payment discounts, discounts for distributors and off-invoice customer discounts.

c) cash and cash equivalents

Cash and cash equivalents are comprised of highly liquid investments with original maturities of less than 90 days. Cash equivalents are carried at cost, which approximates market value.

d) short-term investments

Short-term investments are recorded at cost, which approximates market value.

e) inventories

Packaging materials and supplies are valued at the lower of cost and replacement cost. Bulk wine and finished goods are valued at the lower of cost and net realizable value. Cost includes the cost of materials plus direct labour applied to the product and the applicable share of manufacturing overheads. Cost is determined on a first-in, first-out basis.

Effective January 1, 2005, the Company adopted the new accounting standards in relation to the accounting for certain consideration received from vendors. Accordingly, the Company recognizes the benefit of non-discretionary rebates for achieving specified cumulative purchasing levels as a reduction of the cost of purchases, provided the rebate is probable and can be reasonably estimated. The adoption of the accounting standard did not have an impact on the Company's consolidated financial statements.

f) employee future benefits

The Company accrues its obligations under employee benefit plans and related costs, net of plan assets. The cost of pension benefits earned by employees is determined using:

- the projected benefit method pro-rated on years of service;
- management's best estimate of the plans' expected investment performance, salary escalation and the retirement age of employees; and
- a discount rate based on market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

For purposes of calculating the expected return on plan assets, those assets are valued at fair value.

Past service costs arising from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment.

Transitional assets and obligations that arose in fiscal 2001 upon implementation of new accounting standards for employee future benefits are amortized on a straight-line basis over 14 to 16 years, which was the average remaining service period of employees expected to receive benefits under the plans.

Actuarial gains or losses are amortized on a straight-line basis over the average remaining service period of active employees. At December 31, 2004, the latest date of measurement of the Company's employee benefit plans, the average remaining service period of active employees ranged from 14 to 16 years, with a weighted average period of 15 years.

The Company recognizes a pension cost for defined contribution plans when the employee provides services to the Company. The Company does not sponsor a post-employment benefit plan other than the pension plans.

g) Fixed Assets

Fixed assets acquired are recorded at cost, net of related investment tax credits and government assistance. Costs of maintenance and repairs are expensed as incurred. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets of 40 years for buildings, 25 years for storage tanks and up to 12 years for machinery and equipment. Vineyard development costs are amortized over the lesser of 25 years or the lease term and commence at the earlier of six years from the initial capitalization of development costs or when 70% of normal annual production is reached.

h) Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price of business acquisitions over the fair value of identifiable net assets acquired in such acquisitions. The Company records identifiable intangible assets apart from goodwill. Other intangible assets include brands, customer relationships and contract intangibles. Customer relationship intangibles are amortized on a straight-line basis over their estimated useful lives to a maximum of 20 years. Goodwill and brands, which have been assessed as having an indefinite life, are not amortized but are tested for impairment at least annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

The impairment test is carried out in two steps. In the first step, the carrying value of the Company's reporting units is compared with the fair value of the reporting units. Where the carrying value of a reporting unit exceeds its fair value, the second step of the impairment test is carried out, whereby the implied fair value of that reporting unit's goodwill is compared to its carrying value to measure the amount of impairment loss. In addition, the carrying values of the identifiable intangible assets are also compared to their fair value. Management has determined that there is no impairment in either goodwill or intangible assets with indefinite lives as at March 31, 2005.

i) Deferred Financing Costs

Deferred financing costs are amortized on a straight-line basis over the term of the related debt.

j) Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rate is recognized in income during the period that includes the date of enactment or substantive enactment.

1) Significant Accounting Policies (continued)

k) foreign exchange translation

Assets and liabilities of self-sustaining foreign operations are translated into Canadian dollars at year-end exchange rates. Income and expenses are translated at average exchange rates during the year. Cumulative exchange differences arising on translation of the financial statements of foreign operations are deferred and reported in shareholders' equity. The exchange gains or losses that arise on the translation of foreign currency denominated debt, which hedges the Company's investment in foreign operations, are also deferred in shareholders' equity. For domestic transactions made in foreign currencies, revenues and expenses are translated at rates in effect at the time of the transaction. Foreign exchange gains and losses are included in income.

l) derivative financial instruments

The Company uses various derivative financial instruments in the management of interest rate and foreign currency exposures. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes.

On April 1, 2004, the Company adopted the new accounting guideline issued by the Canadian Institute of Chartered Accountants with respect to hedging relationships. This guideline outlines the identification, designation, documentation and effectiveness measurement of hedging relationships for the purpose of applying hedge accounting.

Under the guideline derivative financial instruments that do not qualify for hedge accounting are to be recorded on the balance sheet at fair value, with changes in the value recognized in net income. During the year ended March 31, 2005, the Company recorded a loss on derivative instruments of $94 ($64, net of income taxes) for the amortization of deferred liabilities associated with the foreign exchange forward contracts existing on April 1, 2004.

The Company formally documents all relationships between hedging instruments and the hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets or liabilities on the balance sheet, or to specific net investments in self-sustaining operations or to specific firm commitments or anticipated transactions. The Company also formally assesses, both at the inception of the hedge and on a quarterly basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of the hedged items.

The Company uses foreign exchange contracts to hedge future cash flows associated with anticipated purchases in foreign currencies. The gains and losses related to these foreign exchange contracts are recognized in earnings when the hedged transaction takes place.

Interest rate swap agreements are used as part of the Company's program to manage the fixed and floating interest rate mix of the Company's total debt portfolio and related overall cost of borrowing. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment of interest expense on the hedged debt instrument. The related amount payable to, or receivable from, counterparties is included as an adjustment to accrued interest.

The Company utilizes foreign currency denominated debt to create a partial hedge for the assets and liabilities of self-sustaining foreign operations. Gains and losses on translation of the foreign currency denominated debt are deferred in a separate component of shareholders' equity to the extent that they are offset by the gains and losses on translation to Canadian dollars of the related financial statements of foreign operations.

In the event a designated hedging item ceases to be effective prior to maturity, or the hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss from that point forward is recognized in income.

m) stock-based compensation

The Company has stock-based compensation plans, which are described in note 9. Compensation expense is recognized based on the fair value method of accounting for stock options granted under the Company's stock option plan on or after April 1, 2003. Compensation expense is recognized over

the period that the stock options vest, with a corresponding increase to contributed surplus. When stock options are exercised, the proceeds, together with the amount recorded in contributed surplus, are added to share capital.

The Company accounted for employees' stock options granted from April 1, 2002 through to March 31, 2003 using the intrinsic value method and, accordingly, did not record compensation expense, but has provided pro forma information in note 9.

The Company has established a Deferred Share Unit Plan for Outside Directors and a Restricted Share Unit Plan and a Deferred Share Unit Plan for the senior management group. The Company records a compensation expense that equals the market value of the Company's common share at the date of the grant prorated over the vesting period. Changes in the market price of the underlying common shares are recognized in income during the period in which the change occurs.

N) NET EARNINGS PER SHARE

Net earnings per share is based on the weighted average number of common shares outstanding during the year. The treasury stock method is used to calculate diluted earnings per share. Under the treasury stock method, potential proceeds from the exercise of stock options are assumed to be used to purchase the Company's common shares at the average market price during the period, thereby reducing the number of shares otherwise used to calculate diluted net earnings per share.

O) IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, including fixed assets and intangible assets with finite lives, are amortized over their useful lives. The Company performs an impairment assessment of its long-lived assets held for use whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposal of long-lived assets is less than their carrying values, these assets are considered to be impaired, and an impairment loss is measured as the amount by which the carrying value exceeds fair value.

P) ASSET RETIREMENT OBLIGATIONS

Effective April 1, 2004, the Company adopted the new accounting standard for the recognition, measurement and disclosure of asset retirement obligations and the related asset retirement costs. The Company does not have any material asset retirement obligations, and the adoption of these standards did not have any impact on the Company's consolidated financial statements for the year ended March 31, 2005.

Q) USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

R) FUTURE ACCOUNTING CHANGES

In January 2005, the Canadian Institute of Chartered Accountants issued new accounting pronouncements related to the presentation of a statement of comprehensive income, the recognition and measurement of financial assets, financial liabilities and non-financial derivatives and the use of hedge accounting. The new standards will be effective for interim and annual financial statements commencing April 1, 2007. Most significantly for the Company, the new standards will require presentation of a separate statement of comprehensive income. Foreign exchange gains and losses on the translation of financial statements of self-sustaining subsidiaries previously recorded in a separate section of shareholders' equity will be presented in comprehensive income. Derivative financial instruments will be recorded in the balance sheet at fair value and changes in fair value of derivatives designated as cash flow hedges will be reported in comprehensive income. The hedging principles under the current accounting guidelines as detailed in note 1L) will remain unchanged. The Company is currently assessing the impact of the new standards.

2) Acquisitions

On July 30, 2004, the Company completed the acquisition of Western Wines Holdings Ltd. ("Western Wines") in the United Kingdom. The purchase price for Western Wines was £84.0 million ($204.1 million – £1 = $2.43), which together with debt assumed of £51.3 million ($124.7 million), net of cash on hand of £3.8 million ($9.3 million), resulted in an aggregate enterprise value of £131.5 million ($319.5 million). The purchase price included an amount of £24.7 million ($60.0 million) in loan notes payable over 42 months from the closing of the acquisition. Of the purchase price, £4.8 million ($11.6 million) is being charged to income as compensation expense over 42 months.

The acquisition was accounted for by the purchase method, with the results of operations included in the financial statements from the date of acquisition. The following table summarizes the amounts paid or payable at the date of the acquisition and the allocation of the purchase price based on management's estimates of the fair values of the assets and liabilities assumed:

Purchase consideration:	
Purchase price	$ 204,120
Less: Compensation expense portion of purchase price	11,579
	192,541
Add: Transaction and related costs, net of income taxes	3,310
	$ 195,851
Allocation:	
Goodwill and identifiable intangible assets	$ 335,536
Fixed assets	1,174
Inventories	14,544
Accounts receivable	42,905
Cash	9,309
Other assets	9,271
	412,739
Debt	(124,672)
Accounts payable, accruals and other liabilities	(92,216)
Net assets acquired	$ 195,851

The acquired intangible assets include $47,612 attributable to brands and $32,065 attributable to customer relationship related intangible assets. The intangible assets related to brands are not subject to amortization while the intangible assets related to customer relationships are being amortized on a straight-line basis over their estimated useful lives to a maximum of 20 years.

On March 18, 2004, the Company acquired all the shares of Amberley Estate Pty Ltd. of Margaret River, Australia, for a cash consideration of AUS$33,835 ($34,714 – AUS$1 = $1.026) including acquisition costs. The acquisition was accounted for by the purchase method, with the results of operations included in the financial statements from the date of acquisition.

Net assets acquired, at management's estimate of fair values, are as follows:

Goodwill and identifiable intangible assets	$ 26,621
Fixed assets	6,534
Inventories	6,876
Accounts receivable	2,287
Other current assets	1,052
	43,370
Total liabilities	(8,656)
Net assets acquired	$ 34,714
Cash consideration	$ 34,714

Goodwill and identifiable intangible assets include $6,156 attributable to brands.

On May 15, 2003, the Company purchased all the shares of Kim Crawford Wines of Auckland, New Zealand, for a purchase price of NZ$19,867 ($16,102 – NZ$1 = $0.8105), including acquisition costs, and a performance based earn-out, payable in 2008, with a minimum value of NZ$3,200 ($2,593). The latter is subject to prepayment in certain circumstances. Any excess earn-out payable will be recorded when the amount is known and is no longer contingent, with a corresponding adjustment to goodwill. The acquisition was accounted for by the purchase method, with the results of operations included in the financial statements from the date of acquisition.

Net assets acquired, at management's estimate of fair values, are as follows:

Goodwill and identifiable intangible assets	$ 12,948
Fixed assets	263
Inventories	5,227
Accounts receivable	530
Other current assets	304
	19,272
Total liabilities	3,170
Net assets acquired	$ 16,102
Cash consideration	$ 11,888
Equity (61,039 shares issued)	1,621
Minimum earn-out payable in 2008	2,593

Goodwill and identifiable intangible assets include $5,674 attributable to brands.

3) Inventories

	2005	2004
Packaging materials and supplies	$ 20,809	$ 18,997
Bulk wine	133,154	120,960
Finished goods	103,113	80,365
	$ 257,076	$ 220,322

4) Fixed Assets

2005	Cost	Accumulated depreciation	Net book value
Land	$ 19,972	$ –	$ 19,972
Vineyards	65,604	9,723	55,881
Buildings	64,452	11,771	52,681
Storage tanks, machinery and equipment	156,205	65,001	91,204
	$ 306,233	$ 86,495	$ 219,738

2004	Cost	Accumulated depreciation	Net book value
Land	$ 18,334	$ –	$ 18,334
Vineyards	63,563	7,074	56,489
Buildings	62,868	10,205	52,663
Storage tanks, machinery and equipment	134,168	55,241	78,927
	$ 278,933	$ 72,520	$ 206,413

5) Other Assets

	2005	2004
Deferred financing costs, net of amortization of $613 (2004 – $354)	$ 3,924	$ 869
Deferred pension costs *(note 11)*	5,925	5,489
Other	1,719	1,875
	$ 11,568	$ 8,233

6) Goodwill and Other Intangible Assets

	2005	2004
Goodwill	$ 401,067	$ 167,354
Indefinite life intangibles	87,175	45,408
Other intangibles, net of amortization of $1,124	28,879	–
	$ 517,121	$ 212,762

Indefinite life intangibles represent amounts allocated in business combinations to brands, while other intangibles relate to customer relationships that are subject to amortization. The amortization expense for the year ended March 31, 2005 was $1,124 (2004 – nil).

7) Long-term Debt and Bank Indebtedness

	2005	2004
Bank loan at interest rates of Bankers' Acceptance plus 1.00% to 1.75% at an effective rate of 5.64% (2004 – 8.2%)	$ 144,000	$ 132,162
Senior secured notes bearing a fixed rate of 6.23%	121,580	–
Bank loan at interest rates of LIBOR plus 1.00% to 1.75% (effective rate of 6.85% at March 31, 2005)	13,473	–
Loan notes related to Western Wines' acquisition at an interest rate of 2.5% (*note 2*)	31,877	–
Other	1,050	231
	311,980	132,393
Less: current portion	11,741	24,603
	$ 300,239	$ 107,790

On July 30, 2004, the Company entered into an agreement with a banking syndicate for the refinancing of the Company's banking and credit facilities. These credit facilities include a revolving term facility with a borrowing limit of $100,000 expiring on July 30, 2009, a non-revolving term credit facility of $170,000 expiring on July 30, 2009 and a non-revolving credit facility of $50,000 for the financing of future needs, with any drawing thereunder repayable over a period expiring on the second anniversary of such drawing. The Canadian dollar borrowings against these facilities bear interest at the Bankers' Acceptance rate plus 1.00% to 1.75% while the British pound denominated borrowings bear interest at LIBOR plus 1.00% to 1.75%. The Company has entered into a series of swap agreements at fixed interest rates as a hedge against interest rate exposure resulting in an effective interest rate at March 31, 2005 of 5.64% on the Canadian dollar borrowings and 6.85% on the British pound denominated borrowings.

The Company has drawn $123,473 on the non-revolving term credit facility of $170,000, with the balance utilized for the issuance of letters of credit described below. The Company has not drawn any amounts under the non-revolving credit facility of $50,000 and any borrowings will be subject to bank covenant restrictions to be determined on utilization of this facility. At March 31, 2005, the Company had an unused borrowing capacity of $30,821 on the revolving term facility, subject to bank covenant restrictions. These restrictions include the requirement to operate within defined debt and fixed charge coverage ratios as well as maintaining a minimum level of shareholders' equity. At March 31, 2005, the use of the Company's unused borrowing capacity would not have triggered a covenant violation.

At March 31, 2005, outstanding letters of credit issued under the Company's credit facilities totalled $74,604. This included letters of credit of $42,979 (£18,908) issued under the Company's non-revolving term facility to guarantee the loan notes issued to the vendors of Western Wines, and $31,625 issued under the revolving term facility.

On July 30, 2004, the Company issued senior secured notes to John Hancock Life Insurance Company and its affiliates with an aggregate principal amount of $121,580 (US$100,000). These notes have an average life of nine years and are repayable based on an amortization schedule between September 1, 2009 and August 1, 2014.

The credit facilities and the senior notes are secured against the Company's receivables, inventories and trademarks in Canada.

The maximum aggregate amount of principal payments on long-term debt in each of the next five years is as follows: $11,741 in 2006; $11,260 in 2007; $9,177 in 2008; $5,316 in 2009; and $167,006 in 2010.

As a result of the repayment of the previous credit facilities, the Company recorded a charge against earnings of $8,543, representing the loss on the unwinding of the interest rate swaps which hedged the floating interest rate exposure on a portion of the U.S. dollar and Canadian dollar denominated debt, and the write-down of deferred financing costs associated with the credit facilities.

Bank indebtedness at year-end represents borrowings against the Company's credit facilities in Australia and New Zealand. These credit facilities in Australia and New Zealand have limits of AUS$15,000 and NZ$10,000, respectively, and are guaranteed by letters of credit issued under the Company's credit facilities with its banking syndicate in Canada.

Interest on long-term debt amounted to $16,124 (2004 – $11,809) for the year.

8) Financial Instruments

Cash and cash equivalents, short-term investments, accounts receivable, bank indebtedness and accounts payable and accrued liabilities are reflected in the financial statements at carrying values which approximate fair values because of the short-term maturities of these instruments. Long-term debt has a mix of fixed and floating interest rates and its carrying value, as reflected in the financial statements, approximates fair value.

In August 2004 and February 2005, the Company entered into five-year interest rate swaps for a notional principal amount of $110,000 and £5,927 ($13,473), respectively, to hedge the floating interest rate exposure on the amounts drawn under the Company's non-revolving term credit facility. The hedged debt bears interest as described in note 7. The interest rate swaps hedge the benchmark interest rate risk exposure to changes in the Bankers' Acceptance or LIBOR rates, resulting in an effective interest rate on this debt of 4.35% against the Bankers' Acceptance and 5.1% against the LIBOR plus 1.00% to 1.75%. Unrealized gains and losses on outstanding contracts are not recorded in the consolidated financial statements until maturity of the underlying transactions. The fair value of these swaps has been determined by the calculation of the cost of unwinding the swaps with the counterparty at March 31, 2005 market rates, and amounted to a loss of $2,242.

The Company has entered into a series of short-term foreign currency forward contracts to manage its exposure to movements in the U.S. dollar and the euro against the Canadian dollar. The forward contracts are designated and qualify for hedge accounting under the new accounting guidelines as hedges against future anticipated U.S. dollar and euro purchases. At March 31, 2005, the nominal value of the U.S. dollar forward contracts amounted to US$22,500 (March 31, 2004 – US$25,500) and had a fair value loss of $1,146 (March 31, 2004 – fair value loss of $628) and the nominal value of the euro forward contracts amounted to €13,500 (March 31, 2004 – nil) and had a fair value loss of $319.

9) Capital Stock

a) Authorized and Issued Share Capital

The authorized share capital of the Company consists of an unlimited number of preferred shares issuable in one or more series and an unlimited number of common shares.

Common share transactions were as follows:

	Number of shares	
	2005	2004
Balance, beginning of year	33,253,935	27,054,865
Shares issued, equity offerings	–	6,037,500
Stock options exercised	148,375	59,400
Shares issued, other	40,000	102,170
Balance, end of year	33,442,310	33,253,935

	2005	2004
Balance, beginning of year	$ 478,973	$ 307,958
Shares issued, equity offerings	–	168,226
Stock options exercised	1,713	782
Shares issued, other	360	2,007
Balance, end of year	$ 481,046	$ 478,973

Weighted average number of shares were as follows:

	Number of shares	
	2005	2004
Basic	33,367,295	27,737,684
Effect of stock options	443,856	443,800
Diluted	33,811,151	28,181,484

b) Stock Option Plan

The Company has a stock option plan for employees and Directors. Under the plan, options may be granted to purchase common shares at a price which is not less than the market price on the date of the grant. All of these options have a 10-year life and vest over four years (15%, 20%, 25% and 40% on the first, second, third and fourth anniversaries, respectively, following the date of grant). To ensure that options are exercised only after the share performance of the Company justifies the compensation, the options may not be exercised until after the closing price of the common shares, averaged over 21 consecutive trading days, exceeds the exercise price of the options by at least 25%. In addition, for options issued on or after April 1, 2003, vested options may not be exercised until at least the sixth anniversary of the date of grant, except in the case of termination, resignation, retirement or death.

Prior to April 1, 2003, the Company did not recognize compensation expense for its outstanding stock options. Effective April 1, 2003, the Company uses the fair-value based method to account for employee stock options and the Black-Scholes option pricing model to measure the compensation expense from the options granted.

During the year ended March 31, 2005, the Company granted 80,000 stock options under the plan at an exercise price of $32.85 and a fair value of $1,028 or $12.85 per option. The following assumptions were used in the estimation of the fair values of the Company's stock option grants: weighted average risk-free interest rate of 3.85%; dividend yield of 0%; expected life of 8 years; and volatility of 25%.

If the fair value recognition provisions had been adopted effective April 1, 2002 for the stock options granted between April 1, 2002 and March 31, 2003, the Company's pro forma net income and pro forma earnings per share for the year ended March 31, 2005 and 2004 would have been as follows:

	2005	2004
Stock option expense included in employee compensation expense	$ 731	$ 461
Net income, as reported	$ 48,689	$ 46,270
Pro forma adjustment for the fair value of stock options granted during the year ended March 31, 2003	387	708
Pro forma net income	$ 48,302	$ 45,562
Earnings per share:		
Basic:		
As reported	$ 1.46	$ 1.67
Pro forma	$ 1.45	$ 1.64
Diluted:		
As reported	$ 1.44	$ 1.64
Pro forma	$ 1.43	$ 1.62

Contributed surplus consists of accumulated stock option compensation expense less the fair value of options at the grant date that have been exercised and reclassified to share capital. The following is a continuity schedule of contributed surplus:

	2005	2004
Balance, beginning of year	$ 461	$ –
Stock compensation expense	731	461
Balance, end of year	$ 1,192	$ 461

9) Capital Stock (continued)

The table below is a summary of the status of the outstanding options under the Company's stock option plan:

	2005		2004	
	Weighted average exercise price	Number	Weighted average exercise price	Number
Balance, beginning of year	$ 15.68	1,078,900	$ 14.31	1,028,300
Granted	32.85	80,000	27.12	110,000
Exercised	11.34	(148,375)	13.17	(59,400)
Cancelled	23.63	(16,400)	–	–
Balance, end of year	$ 17.57	994,125	$ 15.68	1,078,900

The Company has reserved 2,335,000 options under the plan. As at March 31, 2005, 744,150 options were available to be granted under the plan.

Details of employee and director options outstanding and vested as at March 31, 2005 are as follows:

Range of exercise price	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)	Number vested	Weighted average exercise price
Under $10.00	297,250	$ 8.56	3	297,250	$ 8.56
$10.01 – $15.00	222,750	13.78	4	213,150	13.81
$15.01 – $20.00	107,625	16.29	6	70,975	16.29
$20.01 – $25.00	140,000	24.89	7	49,975	24.87
$25.01 – $30.00	146,500	27.19	8	30,475	27.23
$30.01 – $35.00	80,000	32.85	9	–	–
	994,125	$ 17.57		661,825	$ 13.17

c) Outside Directors Share Compensation Plan

Each Outside Director receives an annual retainer and may choose to receive this fee pursuant to either the Company's Share Compensation Plan or Share Unit Plan.

i) Outside Directors Share Compensation Plan:

The Company has reserved 75,000 common shares for issuance under this plan, of which 51,999 remain unissued at March 31, 2005. No shares were issued under this plan in 2005 (2004 – 1,131).

ii) Outside Directors Deferred Share Unit Plan:

Under this plan, units representing the value of common shares are credited to the Outside Directors' accounts based on the market value of a common share of the Company on the crediting date. As at March 31, 2005, 34,812 (2004 – 20,737) units have been allocated under this plan. The holder of a unit is entitled to redeem the unit upon ceasing to be a director for a cash amount equal to the market price of the Company's common shares on the redemption date. The Company has recorded compensation expense in the amount of $557 in 2005 (2004 – $70) relating to its obligations under the Outside Directors' Deferred Share Unit Plan. This liability is adjusted at period ends based on the changes in the market price of the Company's common shares.

d) EMPLOYEE STOCK PURCHASE PLAN

The Company's Employee Stock Purchase Plan is designed to encourage employees of the Company to own Vincor's common shares. Under the terms of the plan, employees can choose each year to have up to 3% of their annual base earnings, to a maximum of $1,500 per year, withheld to purchase the Company's common stock at the market price at the date of purchase. The Company matches $0.40 for every eligible dollar, plus a bonus amount of up to $0.25 if the Company achieves defined performance targets for the year. Approximately 51% of the eligible salaried employees and 14% of the eligible hourly employees participate in the plan. During the year, the Company purchased 6,678 shares from the market for matching purposes, representing compensation expense in the amount of $210. The shares purchased for matching purposes will vest on March 31, 2006.

e) EMPLOYEE DEFERRED SHARE UNIT PLAN

During 2004, the Company introduced a Deferred Share Unit Plan as an incentive measure for the senior management group. These units vest upon retirement or death. Under the plan, 11,080 units (2004 – 13,635 units) were awarded during the year. As at March 31, 2005, 24,715 units were awarded and outstanding under the plan. During 2005, the Company recorded a compensation expense of $417 (2004 – $341) with a corresponding increase in other long-term liabilities. This liability is adjusted at the end of each period based on the changes in the market price of the Company's common shares.

f) EMPLOYEE RESTRICTED SHARE UNIT PLAN

During 2004, the Company introduced a Restricted Share Unit Plan as an incentive measure for the senior management group. These units vest over a three-year period from the date granted and are settled 50% in common shares and 50% in cash at the fair market value on the date vested. There were 76,964 units (2004 – 92,991 units) granted during the year. As at March 31, 2005, 169,955 units were outstanding under the plan. The compensation expense associated with the units awarded under the plan is recorded over the vesting period of the units. The related liability is adjusted at the end of each period for changes in the market price of the Company's common shares. During 2005, the Company recorded a compensation expense of $1,706 (2004 – $387) with a corresponding increase in other long-term liabilities.

10) Income Taxes

The Company's consolidated effective income tax rate is as follows:

	2005	2004
Combined federal and provincial statutory income tax rate	30.6 %	34.3 %
Manufacturing and processing profits deduction	(2.0) %	(2.4) %
Permanent differences	2.0 %	0.3 %
Large Corporations Tax	0.7 %	0.7 %
Adjustment to future tax assets and liabilities for enacted changes in tax rates	– %	1.0 %
Effect of lower tax rates in non-Canadian jurisdictions	(5.8) %	(3.6) %
	25.5 %	30.3 %

The components of income tax expense are as follows:

	2005	2004
Current income taxes	$ 19,847	$ 17,332
Future income taxes:		
Recognition of loss carryforwards	$ (7,777)	$ (673)
Change in enacted tax rates	–	697
Change in temporary differences and other	4,596	2,720
	$ (3,181)	$ 2,744
	$ 16,666	$ 20,076

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at March 31, 2005 and 2004 are presented as follows:

	2005	2004
Future income tax assets:		
Accounts receivable	$ 260	$ 288
Inventories	3,739	3,250
Non-depreciable assets	35	1
Intangible assets	–	306
Other assets	4,431	4,917
Accounts payable and accrued liabilities	3,036	3,755
Loss carryforwards	18,930	10,417
	30,431	22,934
Less: valuation allowance	1,866	336
	28,565	22,598
Less: current portion	2,093	1,890
Non-current future income tax assets	26,472	20,708
Future income tax liabilities:		
Inventories	4,942	5,225
Intangible assets	21,830	–
Fixed assets	29,606	31,958
Deferred pension costs	2,103	1,802
Non-current future income tax liabilities	58,481	38,985
Net non-current future income tax liabilities	$ 32,009	$ 18,277

As at March 31, 2005, the Company had operating loss carryforwards of $46,454 expiring at various dates as follows: 2009 – $1,828; 2010 – $8,728; 2011 – $1,489; 2012 – $4,369; 2013 – $4,289; 2014 – $4,017; 2015 – $19,709; and indefinite – $2,025.

11) Employee Future Benefits

The Company maintains defined benefit pension plans covering substantially all of its employees in Canada. Employees participate in plans that provide pension benefits based on years of service, retirement age and either final average earnings or career average earnings with periodic upgrades. The Company also maintains defined contribution plans for certain employees. The retirement plans are contributory for most employees.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of December 31, 2004 and the next required valuation will be as of December 31, 2007.

Total cash amounts recognized as paid or payable for employee future benefits in fiscal 2005, consisting of employer contributions to the defined benefit pension plans and cash payments directly to beneficiaries of the unfunded benefit plan, were $125 (2003 – $125).

The following table presents the funded status of the pension plans and the amounts recognized in the consolidated balance sheets:

	2005	2004
Accrued benefit obligation:		
Balance, beginning of year	$ 36,165	$ 34,257
Current service cost	3,050	2,590
Interest cost	2,280	2,188
Benefits paid	(1,828)	(1,822)
Actuarial losses (gains)	2,951	(2,107)
Plan amendments	–	1,059
Balance, end of year	42,618	36,165
Plan assets:		
Fair value, beginning of year	51,068	43,394
Actual return on plan assets	7,014	8,163
Employer contributions	125	125
Employees' contributions	1,182	1,208
Benefits paid	(1,828)	(1,822)
Fair value, end of year	57,561	51,068
Funded status – surplus	14,943	14,903
Unamortized net actuarial gain	(5,330)	(5,371)
Unamortized past service costs	1,113	1,196
Unamortized transitional asset	(4,801)	(5,239)
Accrued benefit asset (included in other assets) – (*note 5*)	$ 5,925	$ 5,489

The actuarial valuation of the accrued benefit obligations at December 31, 2004 resulted in the recognition of an actuarial loss of $2,951. A change in the estimated actuarial retirement age during 2004 resulted in an actuarial gain of $2,107. During fiscal 2004, plan amendments related to past service costs resulted in an increase of $1,059 to the accrued benefit obligation.

Included in the above accrued benefit obligation at March 31, 2005 is an amount of $1,614 (March 31, 2004 – $1,637) in respect of plans that are not funded and do not have any plan assets.

11) Employee Future Benefits (continued)

Plan assets consist of:

Asset category	Percentage of plan assets 2005	2004
Equity securities	76.6%	74.9%
Debt securities	21.7%	21.4%
Other	1.7%	3.7%
Total	100.0%	100.0%

No plan assets are invested in the Company's securities.

Significant assumptions are as follows:

	2005	2004
Assumptions used to determine accrued benefit obligation:		
Discount rate	6.0%	6.0%
Rate of compensation increase	4.0%	4.0%
Assumptions used to determine benefit costs for the years:		
Discount rate	6.0%	6.0%
Expected long-term rate of return on assets	7.5%	7.5%
Rate of compensation increase	4.0%	4.0%

The elements of the Company's defined benefit plan costs recognized in the year are as follows:

	2005	2004
Current service cost, net of employees' contributions	$ 1,868	$ 1,382
Interest cost	2,280	2,188
Actual return on plan assets	(7,014)	(8,163)
Actuarial losses (gains)	2,951	(2,107)
Plan amendments	–	1,059
Elements of employee future benefit costs before adjustments	85	(5,641)
Adjustments to recognize the long-term nature of employee future benefit costs:		
Difference between expected return and actual return on plan assets for the year	3,214	4,990
Difference between recognized actuarial (gains) losses and actual actuarial (gains) losses on the accrued benefit obligation for the year	(3,317)	2,054
Difference between amortization of past service costs and actual plan amendments for the year	83	(1,006)
Amortization of transitional asset	(438)	(438)
Net benefit plan expense (income)	$ (373)	$ (41)

12) Other Long-term Liabilities

	2005	2004
Kim Crawford purchase price (NZ$3,200)	$ 2,771	$ 2,754
Western Wines purchase price (expense portion)	3,169	–
Long-term incentive plans	2,851	728
	$ 8,791	$ 3,482

13) Commitments

Lease commitments:

Future minimum lease payments under long-term, non-cancellable lease agreements for land, vineyards, buildings, retail store premises and equipment are as follows:

2006	$ 16,013
2007	13,557
2008	8,818
2009	5,898
2010	3,861
Thereafter	35,204
	$ 83,351

Grape grower commitments:

Approximately 29% of the Company's current grape requirements are sourced through long-term contracts of varying lengths. The estimated grape grower commitments based on contracted quantities valued at market prices are as follows:

2006	$ 30,345
2007	31,192
2008	30,678
2009	30,139
2010	27,169
	$ 149,523

At March 31, 2005, the Company has other purchase commitments for 2006 of $56,425 and outstanding letters of credit of $74,604.

14) Segmented Information

The Company's operations, which constitute a single operating segment, consist primarily of the production, marketing and distribution of wines and related refreshment beverages, principally in Canada, the United Kingdom, United States and Australia. Net sales and identifiable assets are as follows:

	2005	2004
Net sales:		
Canada	$ 339,839	$ 317,843
United Kingdom	129,346	–
United States	130,804	124,187
Australia	33,441	21,816
Other	20,485	12,289
	$ 653,915	$ 476,135
Tangible assets:		
Canada	$ 282,401	$ 246,129
United Kingdom	74,737	–
United States	188,761	189,826
Australia	64,161	61,680
Other	44,669	175,060
	$ 654,734	$ 672,695
Intangible assets:		
Canada	$ 72,816	$ 72,816
United Kingdom	312,882	–
United States	62,130	67,711
Australia	55,460	58,489
Other	13,833	13,746
	$ 517,121	$ 212,762

Sales to government liquor control boards in Canada represent approximately 36% (2004 – 48%) of the Company's total net sales and 70% (2004 – 71%) of net sales in Canada.

15) Related Party Transactions

The Company made payments totalling $283 (2004 – $16) under an arrangement to purchase grapes from vineyards owned by Mr. D.L. Triggs, President and Chief Executive Officer of Vincor International Inc. This arrangement is reviewed and approved by the Compensation, Organization, Nominating and Governance Committee of the Board of Directors annually and is based on similar contracts with third-party suppliers in Ontario.

As part of the acquisition of R.H. Phillips Inc., the Company has a grape purchase agreement with JK Vineyards, LLC, a company controlled by John and Karl Giguiere, two senior officers of R.H. Phillips Inc., which is a subsidiary of the Company. Under this agreement, JK Vineyards, LLC has acquired 275 plantable acres of land and the Company has agreed to purchase all wine grapes grown on this property. The initial term of the agreement is for 15 harvest years, with the right to extend at the option of the Company. The agreement is at market prices and is reviewed annually. Purchases under the agreement totalled $1,999 (US$1,520) (2004 – $281 (US$206)) during the year.

As an element of the acquisition of the assets of Sumac Ridge, the Company has a grape purchase agreement with a joint venture in which Harry McWatters, a senior officer of Sumac Ridge Winery Ltd., which is a subsidiary of the Company, has a 26% interest and the Company has a 48% interest. The grape purchase agreement is through an evergreen contract which renews annually unless specifically terminated. The purchases under the agreement are at market prices and are reviewed annually. Purchases under the agreement totalled $634 (2004 – $653) during the year.

According to the terms of an agreement which pre-dates the acquisition of Kim Crawford Wines, the Company purchased grapes at market prices totalling $529(NZ$615) (2004 – $124 (NZ$150)) from Comely Bank Vineyards Ltd. Comely Bank Vineyards Ltd. is 18% owned by KCW Trust; Erica Crawford, a trustee of KCW Trust and a senior officer of Kim Crawford Wines, a subsidiary of the Company. In addition, the Company bought NZ$2 of grapes from Deliverance Vineyard, a vineyard wholly owned by KCW Trust.

Directors and Officers

Directors

Mark L. Hilson
Chair, Board of Directors
Managing Director of Onex Corporation

Donald L. Triggs
President and Chief Executive Officer
Vincor International Inc.

Michael Bregman
President and Chief Executive Officer
Tailwind Capital

Jonathan H. Deitcher
Vice President
RBC Dominion Securities

Pierre Marc Johnson
Senior Counsel
Heenan Blaikie

Robert W. Luba
President
Luba Financial Inc.

Richard Peddie
President and Chief Executive Officer
Maple Leaf Sports and Entertainment Ltd.

George Rosenthal
Chairman and Chief Executive Officer
Raleigh Enterprises

Hugh Segal
President
The Institute for Research on Public Policy

Officers and Senior Management

Donald L. Triggs
President and Chief Executive Officer

Jonathan Bamberger
Executive Vice President
Corporate Development

Kim Crawford
Managing Director
Vincor New Zealand

Richard Hanen
Managing Director
Vincor Australia

Mike Jaeger
Managing Director
Vincor USA

Richard Jones
Executive Vice President
Finance and Administration

Mike Paul
Managing Director
Vincor U.K.

Roger Provost
Executive Vice President International and
Chief Marketing Officer

Debbie Simpson
Vice President and Treasurer

Frank Syer
Corporate Vice President
Human Resources

Jay Wright
President
Vincor Canada

Corporate Data

Corporate Data

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Auditors
KPMG LLP
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Bankers
Bank of Nova Scotia
Toronto, Ontario

Transfer Agent
Computershare Trust Company of Canada
Toronto, Ontario

Stock Symbol
Vincor's shares are listed on the
TSX under the trading symbol VN

Annual Meeting
August 4, 2005, at 4:00 p.m.
The Design Exchange
234 Bay Street, Toronto, Ontario

Principal Operating Divisions and Subsidiaries

Wholly-owned Subsidiaries

Vincor (Québec) Inc.
Rougemont, Quebec

Inniskillin Okanagan Vineyards Inc.
Oliver, British Columbia

Inniskillin Wines Inc.
Niagara-on-the-Lake, Ontario

Sumac Ridge Estate Winery Ltd.
Summerland, British Columbia

Hawthorne Mountain Vineyards Ltd.
Okanagan Falls, British Columbia

Spagnol's Wine & Beer Making Supplies Ltd.
Vancouver, British Columbia and
Kitchener, Ontario

R.H. Phillips, Inc.
Esparto, California

The Hogue Cellars, Ltd.
Prosser, Washington

Goundrey Wines Pty. Ltd.
Mount Barker, Western Australia

Amberley Estate Pty. Ltd.
Margaret River, Western Australia

Kim Crawford Wines Limited
Auckland, New Zealand

Western Wines Limited
Telford, United Kingdom

Wineries

Niagara Falls, Ontario
Niagara-on-the-Lake, Ontario
Okanagan Falls, British Columbia
Oliver, British Columbia
Rougemont, Quebec
Scoudouc, New Brunswick
Summerland, British Columbia
Esparto, California
Prosser, Washington
Mount Barker, Western Australia
Margaret River, Western Australia
Blenheim, South Island, New Zealand

Concept, Design and Production by The Equicom Group Inc.

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