DIAMOND ESTATES WINES & SPIRITS INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2015 AND 2014

(Unaudited - Prepared by Management)

(These unaudited interim condensed consolidated financial statements, prepared by management, have not been reviewed by the company's external auditors)

DIAMOND ESTATES WINES & SPIRITS INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2015 AND MARCH 31, 2015
(Unaudited - Prepared by Management)

	December 31 2015	March 31 2015
ASSETS		
Current:		
Accounts receivable (Note 6)	**$ 5,485,613**	$ 3,747,303
Inventories (Note 7)	**16,165,611**	16,934,283
Prepaid expenses	**91,051**	209,623
Restricted cash (Note 8)	**-**	500,000
	21,742,275	21,391,209
Long term:		
Biological assets	**86,030**	86,030
Property, plant and equipment	**14,862,586**	15,328,378
Intangible assets	**3,910,985**	4,139,675
	$ 40,601,876	$ 40,945,292
LIABILITIES		
Current:		
Bank indebtedness (Note 9)	**$ 8,838,028**	$ 11,076,910
Accounts payable and accrued liabilities (Note 10)	**5,853,555**	5,751,831
Deposits received	**-**	27,955
Shareholder loan payable	**500,000**	-
Loan payable - non-controlling interest (Note 11)	**852,687**	1,375,547
Current portion of term loans payable (Note 12)	**1,101,292**	1,227,868
	17,145,562	19,460,111
Long term:		
Term loans payable (Note 12)	**9,554,125**	10,687,740
Shareholder loan payable	**-**	500,000
	26,699,687	30,647,851
SHAREHOLDERS' EQUITY		
Common shares (Note 13)	**8,522,378**	39,578,798
Contributed surplus	**154,620**	154,620
Reserve for warrants	**128,863**	128,863
Reserve for share based payments (Note 14)	**637,154**	447,789
Non-controlling interest (Note 4)	**4,405,827**	4,091,403
Retained earnings (accumulated deficit)	**53,347**	(34,104,032)
	13,902,189	10,297,441
	$ 40,601,876	$ 40,945,292

Going concern (Note 1(b))

Contingency (Note 18)

The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements

Approved on behalf of the Board:

"David Beutel" Director   *"Keith Harris"* Director

DIAMOND ESTATES WINES & SPIRITS INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2015 AND 2014

(Unaudited - Prepared by Management)

	Three months ended December 31 2015	**Nine months ended December 31 2015**	Three months ended December 31 2014	Nine months ended December 31 2014
Revenue	**$ 8,485,304**	**$ 24,425,699**	$ 7,877,312	$ 18,907,188
Expenses				
Change in inventories of finished goods and raw materials consumed	**4,453,690**	**12,469,790**	4,147,291	9,522,683
Employee compensation and benefits	**1,344,106**	**4,230,607**	1,612,168	3,548,302
General and administrative	**601,721**	**2,004,242**	835,228	1,866,757
Advertising and promotion	**857,216**	**1,898,335**	559,152	1,759,634
Interest on bank indebtedness	**326,699**	**1,015,834**	358,746	1,048,893
Freight and warehousing	**552,449**	**1,351,865**	378,187	717,849
Depreciation of property, plant and equipment	**234,510**	**652,696**	228,385	678,745
Amortization of intangible assets	**83,305**	**245,194**	451	1,316
Share based payments (Note 14(b))	**106,761**	**189,365**	49,613	136,280
Loss on disposal - assets held for sale	**-**	**-**	80,916	80,916
Re-organization costs	**-**	**-**	488,528	488,528
	8,560,457	**24,057,928**	8,738,665	19,849,903
Net income (loss) and comprehensive income (loss)	**$ (75,153)**	**$ 367,771**	$ (861,353)	$ (942,715)
Net income (loss) and comprehensive income (loss) attributable to:				
Shareholders	**$ (207,469)**	**$ 53,347**	$ (623,918)	$ (705,280)
Non-controlling interest	**132,316**	**314,424**	(237,435)	(237,435)
	$ (75,153)	**$ 367,771**	$ (861,353)	$ (942,715)
Basic and diluted income (loss) per share (Note 13(c))	**$ (0.002)**	**$ 0.001**	$ (0.008)	$ (0.010)

The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements

DIAMOND ESTATES WINES & SPIRITS INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

PERIOD FROM APRIL 1, 2014 TO DECEMBER 31, 2015

(Unaudited - Prepared by Management)

	Note	Common shares Shares	Common shares Amount	Warrants	Share based payments	Contributed surplus	Retained earnings (accumulated deficit)	Shareholders' equity	Non-controlling interest	Total
As at April 1, 2014		**73,403,749**	**$ 39,578,798**	**$ 128,863**	**$ 254,554**	**$ 154,620**	**$ (32,600,112)**	**$ 7,516,723**	**$ -**	**$ 7,516,723**
Acquisition of partnership interest		-	-	-	-	-	-	-	3,500,000	3,500,000
Net loss and comprehensive loss		-	-	-	-	-	(705,280)	(705,280)	(237,435)	(942,715)
Share based payments		-	-	-	136,280	-	-	136,280	-	136,280
As at December 31, 2014		**73,403,749**	**39,578,798**	**128,863**	**390,834**	**154,620**	**(33,305,392)**	**6,947,723**	**3,262,565**	**10,210,288**
Acquisition of partnership interest	**4**	-	-	-	-	-	-	-	43,336	43,336
Capital contribution by non-controlling interest to KDC	**4**	-	-	-	-	-	-	-	750,100	750,100
Share based payments		-	-	-	56,955	-	-	56,955	-	56,955
Net income (loss) and comprehensive income (loss)		-	-	-	-	-	(798,640)	(798,640)	35,402	(763,238)
As at March 31, 2015		**73,403,749**	**39,578,798**	**128,863**	**447,789**	**154,620**	**(34,104,032)**	**6,206,038**	**4,091,403**	**10,297,441**
Proceeds on issuance of common shares	**13(a)**	26,733,288	3,207,995	-	-	-	-	3,207,995	-	3,207,995
Share issuance costs	**13(a)**	-	(160,383)	-	-	-	-	(160,383)	-	(160,383)
Net income and comprehensive income		-	-	-	-	-	53,347	53,347	314,424	367,771
Share based payments	**14(b)**	-	-	-	189,365	-	-	189,365	-	189,365
Reduction of stated capital and deficit	**13(b)**	-	(34,104,032)	-	-	-	34,104,032	-	-	-
As at December 31, 2015		**100,137,037**	**$ 8,522,378**	**$ 128,863**	**$ 637,154**	**$ 154,620**	**$ 53,347**	**$ 9,496,362**	**$ 4,405,827**	**$ 13,902,189**

The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements

DIAMOND ESTATES WINES & SPIRITS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTH PERIODS ENDED DECEMBER 31, 2015 AND 2014
(Unaudited - Prepared by Management)

	Nine months ended December 31 2015	Nine months ended December 31 2014
Operating activities		
Net income (loss)	**$ 367,771**	$ (942,715)
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	**652,696**	678,745
Amortization of intangible assets	**245,194**	1,316
Share based payments	**189,365**	136,280
Loss on sale of property, plant and equipment	**-**	5,363
Loss on disposition - assets held for sale	**-**	80,916
	1,455,026	(40,095)
Change in non-cash working capital items		
Accounts receivable	**(1,738,311)**	325,024
Inventory	**768,672**	(1,484,318)
Prepaid expenses	**118,572**	36,338
Accounts payable and accrued liabilities	**101,724**	762,799
Deposits received	**(27,955)**	(27,300)
	677,728	(427,552)
Investing activities		
Purchase of intangible assets	**(13,921)**	-
Purchase of property, plant and equipment	**(189,486)**	(227,424)
Proceeds on disposition of assets held for sale	**-**	1,800,000
	(203,407)	1,572,576
Financing activities		
Bank indebtedness	**(1,738,882)**	98,799
Bank indebtedness associated with assets held for sale	**-**	(837,845)
Net proceeds from issuance of common shares	**3,047,612**	-
Loan payable - non-controlling interest	**(522,860)**	-
Principal payments on term loans payable	**(1,260,191)**	(405,978)
	(474,321)	(1,145,024)
Change in cash	**-**	-
Cash, beginning of period	**-**	-
Cash, end of period	**$ -**	$ -

The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

(a) **Nature of operations**

Diamond Estates Wines & Spirits Inc. ("Diamond" or the "Company") is a public company listed on the TSX-V whose shares trade under the symbol "DWS.V". Its principal business activities include the operation and consolidation of wineries, wine, spirit, and beer distribution agencies, and sales and brand development. The address of the Company's registered office and principal place of business is 1067 Niagara Stone Road, Niagara-On-The-Lake, Ontario, L0S 1J0.

(b) **Going concern**

The accompanying unaudited interim condensed consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") (as issued by the International Accounting Standard Board ("IASB")) applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying unaudited interim condensed consolidated financial statements. Such adjustments could be material.

While the Company has generated a profit in the nine month period ended December 31, 2015, it has incurred losses in prior fiscal periods (nine month period ended December 31, 2014 - loss of $942,715). However, working capital improved significantly as at December 31, 2015 to $4,596,713 from $1,931,098 as at March 31, 2015 as the Company completed a private placement for net proceeds of $3,047,612 on April 29, 2015 *(see note 13(a))*.

The Company's ability to meet the covenant measurements under the terms of its credit agreements with its lender is still dependent upon continued improvements in profitability. The losses incurred previously indicate the existence of material uncertainties that may cast doubt on its ability to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" as issued by the IASB, and accordingly do not include all the information required for full annual financial statements by IFRS. They have been prepared using the same accounting policies that were described in note 2 to the Company's annual consolidated financial statements for the year ended March 31, 2015.

The unaudited interim condensed consolidated financial statements have not been reviewed by the Company's external auditors. They were authorized for issuance by the Board of Directors on February 17, 2016.

(b) Basis of consolidation

These unaudited interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries:

- Diamond Estates Wines & Spirits Ltd. 100%
- Niagara Cellars Ltd. (o/a Diamond Estates - The Winery) 100%
- De Sousa Wines Toronto Inc. 100%
- De Sousa Wine Cellars Corporation 100%
- Kirkwood Diamond Canada (partnership) *(see note 4)* 50.01%

Diamond Estates Wines & Spirits Ltd. and Niagara Cellars (o/a Diamond Estates - The Winery) amalgamated on April 1, 2015 and carried on as Diamond Estates Wines & Spirits Ltd. The accounts of De Sousa Wine Cellars Corporation have been consolidated up to the date of sale of the shares of the company on November 10, 2014.

A subsidiary is an entity controlled by the Company. Control exists when the Company has power over an investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. The financial statements of a subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are changed when necessary to align them with the policies applied by the Company in these unaudited interim condensed consolidated financial statements. All intercompany balances, income and expenses, and unrealized gains and losses resulting from intercompany transactions are eliminated in full.

(c) Deferred service units (DSUs)

The Company grants DSUs to directors as part of their compensation. The DSUs vest immediately upon grant and are only settled in shares. The fair value of each DSU is measured at the date of the grant using the Black-Scholes option pricing model. The resulting compensation expense is charged to income as share based payments with a corresponding increase to reserve for share based payments.

3. NEW AND REVISED IFRS STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

As at the date of authorization of these unaudited interim condensed consolidated financial statements, the IASB has issued the following new or revised standards which are not yet effective:

(a) **IAS 1: "Presentation of Financial Statements"** was amended during December, 2014 to clarify the concept of materiality as it applies to information disclosed in financial statements. The amendments also provide guidance on the presentation of sub-totals, the structure of the notes to the financial statements and the disclosure of significant accounting policies.

(b) **IFRS 9: "Financial Instruments"** was issued by the IASB on November 12, 2009 and will replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

(c) **IFRS 15: "Revenue from Contracts with Customers"** provides new requirements for recognizing revenue. The new standard's core principle is for a company to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. IFRS 15 also included a cohesive set of disclosure requirements that would result in an entity providing comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The new standard provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple element arrangements. The IASB has decided to propose to defer the effective date to January 1, 2018 from the previously expected effective date of January 1, 2017.

(d) **IAS 41: "Agriculture"** currently requires all biological assets related to agricultural activity to be measured at fair value less costs to sell based on the principle that the biological transformation that these assets undergo during their lifespan is best reflected by fair value measurement. However, there is a subset of biological assets, known as bearer plants, which are used solely to grow produce over several periods. The Company's own biological assets, consisting of grape vines, fall under this subset known as bearer plants. At the end of their productive lives they are usually scrapped. Once a bearer plant is mature, apart from bearing produce (grapes in the Company's case), its biological transformation is no longer significant in generating future economic benefits. The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 Property, Plant and Equipment, because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. This standard is effective for annual periods beginning on or after January 1, 2016 with earlier application permitted.

3. NEW AND REVISED IFRS STANDARDS AND INTERPRETATIONS NOT YET ADOPTED, CONTINUED

(e) **IFRS 16 "Leases"** was issued in January 2016 and will ultimately replace IAS 17, "Leases". IFRS 16 specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lessees accounting model, requiring lessees to recognize assets and liability for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard is effective for annual periods beginning on or after January 1, 2019 and must be applied retrospectively.

The Company has not early adopted any of these standards, but management is currently assessing the impact of their application in the unaudited interim condensed consolidated financial statements and intends to adopt these standards at their effective dates.

4. BUSINESS ACQUISITION AND NON-CONTROLLING INTEREST

On October 1, 2014, the Company and The Kirkwood Group (“TKG”) formed a new partnership named Kirkwood Diamond Canada ("KDC" or the "partnership") and began the process of integrating their respective agency businesses. The Company has a 50.01% interest in the partnership and a tie-breaking vote on the Executive Committee of the partnership, effectively giving it strategic and directional control over the operations of the partnership. Accordingly, the partnership's financial results have been consolidated into the Company's financial statements starting October 1, 2014.

Each partner contributed intangible assets, consisting of sales agency and distribution agreements with beverage alcohol suppliers, of their respective agencies to KDC in exchange for their respective partnership interests. The Company did not issue any equity or cash consideration, contingent or otherwise, to the owners of TKG as a result of this transaction. Subsequent to the closing of the transaction in January 2015, each partner contributed $750,000 in cash to the partnership. In addition, a $3,000,000 operating line was secured from Meridian Credit Union, with conventional margin limits on accounts receivable and inventory *(see note 9(d))*. On January 1, 2015, KDC purchased the inventory from the Company and TKG, thereby integrating the two businesses.

4. BUSINESS ACQUISITION AND NON-CONTROLLING INTEREST, CONTINUED

The following summarizes the consideration transferred to the partnership by the Company and the partnership assets acquired and liabilities assumed at the acquisition date:

Consideration transferred to KDC by the Company	
Inventories	**$ 1,597,708**
Loan payable - Diamond	**(1,597,708)**
Intangible assets (distribution rights)	**3,716,053**
	$ 3,716,053
Fair value of KDC assets acquired and liabilities assumed	
Inventories	**$ 5,161,228**
Loans payable - partner companies (Note 11)	**(5,161,228)**
Intangible assets (distribution rights)	**7,259,389**
Net assets acquired before non-controlling interest	**7,259,389**
Non-controlling interest	**(3,543,336)**
	$ 3,716,053

The non-controlling interest in the partnership is 49.99% and has been measured using the fair value method. The primary input for that valuation was the use of each partner's fiscal 2014 gross margin, normalized for variable selling costs and client relationships retained. None of the intangible assets recognized are expected to be deductible for income tax purposes. No value has been attributed to the Company's own intangible assets transferred to the partnership as there can be no gain on disposition within the consolidated entity.

Summarized financial data for KDC as at December 31, 2015, and for the nine month period then ended, before consolidation eliminations, are as follows:

	$
Accounts receivable	4,017,000
Inventories	4,119,000
Intangible assets	6,445,000
Bank indebtedness	(1,103,000)
Accounts payable	(4,037,000)
Loan payable - partner company	(853,000)
Revenues	13,222,000
Net income	629,000

5. DE SOUSA WINE CELLARS CORPORATION SALE AND LEASEBACK

On November 10, 2014, the Company completed the sale and leaseback of its De Sousa Estates Winery in Beamsville, Ontario to Oakwest Corporation Limited ("Oakwest"), the related party described in note 8. This was done through the sale of the common shares in De Sousa Wine Cellars Corporation, the entity that owns the winery property. The details of the sale and leaseback, both done at fair value, are as follows:

(a) The share sale was for cash proceeds of $1,800,000 and resulted in the effective disposition of the winery property, previously classified under assets held for sale, resulting in a loss on disposition of $80,916 in the three and nine month period ended December 31, 2014.

(b) Approximately $780,000 of the proceeds were used to retire the remaining outstanding mortgage on the property *(see note 9)*, with the balance of the proceeds used for working capital requirements.

(c) The Company will lease the winery from Oakwest for a period of five years with the option to extend for another five years. Management has determined that the lease is an operating lease as it is a lease for premises with a limited duration. Minimum lease payments due over the first five year term total $500,000. Operating lease payments expensed under the terms of the leaseback for the nine month period ended December 31, 2015 total $51,781 (nine month period ended December 31, 2014 - $9,780).

(d) The Company will continue to operate the winery under a profit-sharing arrangement with Oakwest under which profits greater than $25,000 in any given year are to be split two thirds in favour of the Company and one third for Oakwest. To date, profits under the profit-sharing arrangement are below the threshold level.

The Company has maintained ownership and all rights to these brands, and funds all working capital requirements.

(e) If Oakwest sells the property during the initial lease term, it will transfer to the Company's benefit all net proceeds in excess of $1,800,000.

6. ACCOUNTS RECEIVABLE

	December 31 2015	March 31 2015
Trade receivables	**$ 4,769,543**	$ 3,605,237
Accrued receivables	**716,071**	142,066
	$ 5,485,613	$ 3,747,303

7. INVENTORIES

	December 31 2015	March 31 2015
Bulk wine	**$ 8,831,006**	$ 8,721,635
Bottled wine and spirits	**6,938,715**	7,734,554
Bottling supplies and packaging	**395,890**	478,094
	$ 16,165,611	$ 16,934,283

8. Restricted Cash

The funds, received from the Company's largest shareholder, were held on deposit by Meridian Credit Union ("MCU") as security for the Company's indebtedness to MCU under the terms of its credit agreement dated January 12, 2015 *(see note 9)*. They were used to fund the partial repayment of non-revolving term loan #3 *(see note 12)* that was made on May 6, 2015.

9. Bank Indebtedness

On January 12, 2015, the Company signed a new credit agreement with Meridian Credit Union ("MCU"), its primary lender, to replace previous agreements dated September 17, 2014 and July 24, 2013. The January 12, 2015 agreement was amended on March 25, 2015. In addition, on January 23, 2015, the Company entered into an additional credit agreement with MCU with respect to the financing of Kirkwood Diamond Canada *(see note 9(d))*.

As at December 31, 2015, the components of the Company's bank indebtedness are as follows:

	December 31 2015	March 31 2015
Meridian Credit Union:		
Diamond Operating Line: revolving operating line of credit, due on demand, interest payments only required monthly, calculated at prime plus 2.50%, total credit facility available is $10,000,000, subject to certain margin limits in respect of accounts receivable and inventory	**$ 7,735,333**	$ 9,228,828
Kirkwood Diamond Operating Line: revolving operating line of credit, due on demand, interest payments only required monthly, calculated at prime plus 2%, total credit facility available is $3,000,000, subject to certain margin limits in respect of accounts receivable and inventory similar to Diamond's facility (Note 9(d))	**1,102,695**	1,848,082
	$ 8,838,028	$ 11,076,910

The credit agreement with MCU dated January 12, 2015, amended on March 25, 2015, now specifies the following overall terms:

(a) ***Credit facilities***

(i) Operating line of $10,000,000, due on demand, bearing interest at prime plus 2.50%, interest payable monthly.

(ii) Non-revolving loan #1 to a maximum of $9,442,538 *(see note 12)*, repayable in blended monthly payments of principal and interest of $94,319, bears interest at a fixed rate of 5.4%, due by December 31, 2018.

(iii) Non-revolving instalment based loan #2 to a maximum of $1,500,000 *(see note 12)*, amortized over 10 years, repayable in equal blended payments of principal and interest of $16,338, bearing interest at fixed rate of 4.99%, due January 15, 2019.

9. BANK INDEBTEDNESS, CONTINUED

(iv) Non-revolving instalment based loan #3 to a maximum of $1,250,000 *(see note 12)*, $750,000 of which was used for investment in Kirkwood Diamond Canada Partnership *(see note 4)* and $500,000 of the prior line of credit converted to a instalment based non-revolving loan, amortized over 30 months, repayable in equal blended payments of principal and interest of $48,435, bearing interest at a fixed 12%, due by July 15, 2017. As a result of the amendment dated March 25, 2015 and subsequent to the private placement that closed on April 29, 2015 as described in note 13(a), the Company repaid the remaining principal of the $500,000 portion of the loan described above in the amount of $456,069 out of the funds held as restricted cash *(see note 8)*.

(b) ***Security***

The above credit facilities are secured by general security agreements, collateral mortgages over the Niagara Cellars property and buildings, assignment of fire and liability insurance over both properties and buildings, and corporate guarantees and postponements of claim in favour of Meridian by De Sousa Wines Toronto Inc., each of which is supported by respective general security agreements.

(c) ***Financial covenants***

The credit facilities are subject to the following financial covenants:

(i) Achieve a minimum effective net worth of not less than $7,500,000 commencing the fiscal year ending March 31, 2016, which is defined as: shareholders' equity plus loans from shareholders postponed to Meridian less loans to shareholders and related parties and less 50% of pre-1993 winery licenses and 100% of other intangible assets;
(ii) To maintain a debt to effective net worth of 3.75|1.00 to be measured as at March 31, 2016, improving to 3.25|1.00 by March 31, 2017 (where total debt is defined as the sum of current liabilities plus long term liabilities, less any postponed amounts);
(iii) Maintain a DSR of not less than 1.25|1.00, measured annually, measurement commencing effective the fiscal three month period ended March 31, 2016; the DSR is defined as the ratio of earnings before interest, taxes, depreciation and amortization to the sum of interest expense plus the current portion of long term debt; and
(iv) Maintain a trailing four quarter DSR of not less than 1.25|1.00, measurement commencing effective the end of the first quarter following the March 31, 2016 fiscal year end.

From the signing of the initial credit agreement on July 24, 2013 through to December 31, 2015, due to the various amendments, the Company has been in compliance with the covenants relating to minimum effective net worth and total debt to effective net worth. The DSR ratio covenant was not measured for fiscal 2015 by virtue of the amendment to the credit agreement dated March 25, 2015.

9. BANK INDEBTEDNESS, CONTINUED

(d) ***Kirkwood Diamond Canada credit facility***

On January 23, 2015, the Company became a party to a credit agreement with MCU to finance the operations of Kirkwood Diamond Canada *(see note 4)*. The agreement was amended on March 31, 2015 such that it now reflects the following major terms:

(i) operating line of up to $3,000,000
(ii) payments of interest only, interest at prime plus 2%
(iii) credit facility secured by:
- general security agreement
- assignment of fire insurance
- guarantee and postponement of claim from The Kirkwood Group Ltd. in the amount of $1,500,000
- inter-creditor amongst concerned parties agreement limiting liability of the Company to $1,500,000

(iv) Financial covenants include:
- maintaining an effective net worth of $1,500,000, which is defined as the sum of partners' capital and loans from related parties less the sum of loans to related parties and intangible assets
- interest coverage ratio of 1.25|1.00, which is defined as the ratio of earnings before interest, taxes, depreciation and amortization less partner distributions to interest expense on all its debt obligations
- by virtue of the amendment dated March 31, 2015, MCU waived compliance by KDC with these financial covenants as at March 31, 2015 by revising the initial measurement date to be March 31, 2016

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31 2015	March 31 2015
Trade accounts payable	**$ 5,075,748**	$ 5,001,335
Accrued liabilities	**733,619**	740,030
Government remittances payable	**44,188**	10,466
	$ 5,853,555	$ 5,751,831

11. LOAN PAYABLE - NON-CONTROLLING INTEREST

Amounts due to The Kirkwood Group arise from the purchase of inventory as more fully described in note 4 and funding of operations during the merger and integration of the two agency businesses. The loan is unsecured, non-interest bearing and due on demand.

	December 31 2015	March 31 2015
Loan payable - non-controlling interest	**$ 852,687**	$ 1,375,547

On January 23, 2015, the partnership entered into its own credit facility agreement with Meridian Credit Union, the Company's primary lender, as more fully described in note 9(d)).

12. TERM LOANS PAYABLE

As more fully described in note 9(a), the Company entered into a new credit agreement with MCU on January 12, 2015 under which:

- $1,500,000 of the prior line of credit was converted to an instalment based non-revolving loan (non-revolving loan #2)
- A non-revolving loan to a maximum of $1,250,000 was issued, $750,000 of which is to be used for investment in KDC (see note 4) and $500,000 of the prior line of credit converted to an instalment based non-revolving loan (non-revolving loan #3)

As part of the revised Meridian Credit Union agreement dated September 17, 2014, the due date of the Company's non-revolving loan #1 was extended to December, 2018 from December, 2016. All other terms and conditions, including interest rate and monthly payment, remained unchanged. As at December 31, 2015, the amount outstanding was as follows:

	December 31 2015	March 31 2015
Meridian Credit Union term loans:		
Non-revolving loan #1	**$ 8,729,954**	$ 9,212,699
Non-revolving loan #2 (Note 9(a)(ii))	**1,401,238**	1,489,837
Non-revolving loan #3 (Note 9(a)(iii))	**524,225**	1,213,072
	10,655,417	11,915,608
Less: current portion	**(1,101,292)**	(1,227,868)
	$ 9,554,125	$ 10,687,740

The major terms of non-revolving loan #1 are now as follows:

(a) Remaining term of 3 years, 6 months, due by December 31, 2018
(b) Amortized over a period of 143 months
(c) Bears interest at fixed rate of 5.40%:
(d) Repayable in blended monthly payments of principal and interest of $94,319

All the non-revolving loans are secured under the terms of the credit facility as described in note 9, including general security agreements by each Company in the group and a collateral mortgage for $15,000,000 on the property and buildings at the Company's primary place of operations.

Estimated principal repayments are as follows:

Twelve months ended December 31, 2016	**$ 1,101,292**
Twelve months ended December 31, 2017	**1,066,700**
Twelve months ended December 31, 2018	**7,475,922**
Twelve months ended December 31, 2019	**143,639**
Four months ending January 31, 2020	**867,864**
	$ 10,655,417

13. SHARE CAPITAL AND OTHER EQUITY INSTRUMENTS

Authorized
Unlimited Common shares

Continuity schedules for each component of the Company's share capital and other equity instruments are disclosed in the unaudited interim condensed consolidated statements of changes in shareholders' equity for the period from April 1, 2014 to December 31, 2015. Details of major changes in each component during that period are as follows:

(a) **Private placement**

On April 29, 2015, the Company completed a brokered private placement of 26,733,288 common shares at an issuance price of $0.12 per common share for gross proceeds of $3,207,995, less issuance costs of $160,383, for net proceeds of $3,047,612. As a result of exceeding $3,000,000 from this equity raise, the Company was required to pay $456,069 against non-revolving loan #3 from Meridian Credit Union as described in note 9(a)(iv). The remaining proceeds are intended to be used for working capital, the construction of a new retail outlet at the Company's Diamond Estates Winery, sales and marketing initiatives and general corporate purposes.

(b) **Reduction in stated capital**

At the Company's Annual General Meeting on September 22, 2015, shareholders approved a reduction in stated capital. Effective that date, stated capital was reduced by $34,104,032 pursuant to the provisions of the Ontario Business Corporations Act. The reduction in stated capital decreased the accumulated deficit of the Company. No cash distribution was made in connection with the reduction in stated capital.

(c) **Income (loss) per share**

Basic income (loss) per share is computed using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three and nine month periods ended December 31, 2015 were 100,137,037 and 97,317,890 respectively (three and nine month periods ended December 31, 2014 - 73,403,749 and 73,403,749 respectively). Diluted loss per share and the weighted average number of common shares exclude all potentially dilutive equity instruments since their effect is anti-dilutive.

As at December 31, 2015, the following potentially dilutive equity instruments were all outstanding: (1) 288,220 warrants (December 31, 2014 - 399,973), (2) 6,682,400 options (December 31, 2014 - 6,682,400), and (3) 180,867 deferred service units (December 31, 2014 - Nil). The fully diluted number of common shares outstanding for the nine month periods ended December 31, 2015 and December 31, 2014 were 107,288,524 and 80,486,122 respectively.

14. STOCK OPTIONS

The Company has adopted a stock option plan under which it may grant options to acquire shares of the Company to directors, officers and consultants of the Company. The maximum number of common shares issuable pursuant to the plan is equal to 10% of the issued and outstanding common shares at the close of business on the date of any grant, with an additional restriction of 5% to any one individual in a twelve month period.

Stock option activity for the period from April 1, 2014 to December 31, 2015 was as follows:

	Nine month period ended December 31, 2015		Year ended March 31, 2015	
	Options	**Weighted -average exercise price ($)**	Options	Weighted-average exercise price ($)
Outstanding, beginning of period	**6,682,400**	**0.17**	3,132,400	0.21
Granted to CFO *(see note 14(a))*	**-**	**-**	500,000	0.25
Granted to Oakwest *(see note 14(b))*	**-**	**-**	1,400,000	0.12
Granted to Chairman *(see note 14(b))*	**-**	**-**	600,000	0.12
Granted to key management	**-**	**-**	1,050,000	0.11
Outstanding, end of period	**6,682,400**	**0.17**	6,682,400	0.17

As at December 31, 2015, the issued and outstanding options to acquire common shares of the Company are as follows:

	Number of options				
Grant date	**Granted**	**Exercisable**	**Exercise price ($)**	**Remaining life**	**Expiry date**
September 24, 2013	2,000,000	2,000,000	0.20	2.74	September 23, 2018
September 24, 2013	532,400	532,400	0.20	1.21	March 7, 2017
September 24, 2013	600,000	600,000	0.25	2.74	September 23, 2018
June 5, 2014	500,000	125,000	0.25	3.43	June 5, 2019
November 10, 2014	1,400,000	560,000	0.12	3.87	November 9, 2019
November 10, 2014	600,000	240,000	0.12	3.87	November 9, 2019
November 24, 2014	1,050,000	262,500	0.11	3.87	November 23, 2019
	6,682,400	4,319,900	0.18	3.19	

14. STOCK OPTIONS, CONTINUED

The details of the changes in the options during the reporting period are as follows:

(a) **June 5, 2014 grant:**

During the three month period ended September 30, 2015, 125,000 of the 500,000 options granted on June 5, 2014 to a company executive vested. No other options were granted, exercised, cancelled, expired or vested during the year.

(b) **Share based payments:**

Total share based payments recognized for the three and nine month periods ended December 31, 2015 of were $106,761 and 189,365 respectively (three and nine month periods ended December 31, 2014 - $49,613 and $136,280 respectively) based on accrual of previously granted options expected to vest in the reporting period and previously described issuance of DSUs.

15. DEFERRED SHARE UNITS ("DSUS")

At the Company's Annual General Meeting on September 22, 2015, shareholders approved the adoption of a deferred share unit plan (the "DSU Plan") for the benefit of the Company's directors, officers, employees and consultants. The DSU Plan has been established to assist the Company in the recruitment and retention of qualified persons and to encourage share ownership by those who are primarily responsible for the management and growth of the business.

The Board intends to use DSUs issued under the DSU Plan, as well as options issued under the stock option plan *(see note 14)*, as part of the Company's overall compensation plan. Since the value of DSUs increase or decrease with the price of the Company's common shares, DSUs reflect a philosophy of aligning the interests of management and directors with those of the shareholders by tying compensation to share price performance.

The maximum number of common shares reserved for issuance under the DSU Plan is 1,000,000, which is approximately 1% of the current issued and outstanding. The DSU Plan provides that the maximum number of DSUs issuable to insiders (as that term is defined by the Exchange) pursuant to the DSU Plan, together with any common shares issuable pursuant to any other security-based compensation arrangement of the Company, will not exceed 10% of the total number of outstanding common shares.

On November 19, 2015, the Board of Directors approved the issuance of an aggregate of 819,133 DSUs to non-executive directors under its DSU Plan in settlement of $86,019 of deferred directors' compensation, resulting in a period charge to share based payments. The DSUs are to be settled in common shares of the Company when the director retires from all positions with the Company. Pursuant to the DSU Plan, the DSUs were priced based on the weighted average price per Common Share at which the Common Shares have traded on the TSX Venture Exchange during the last five trading days preceding the issuance.

16. RELATED PARTY TRANSACTIONS AND BALANCES

During the nine month periods ended December 31, 2015 and 2014, the Company had the following related party transactions, including (i) compensation of key management personnel and directors, and (ii) transactions with entities related to or controlled by directors, as follows:

	2015	2014
Salary	**$ 411,900**	$ 459,150
Director fees	**127,188**	135,000
Share based payments under stock option plan *(see note 14(b))*	**189,365**	136,280
Interest on shareholder loan	**30,000**	30,000
Winery lease payments	**51,781**	9,780
Vineyard maintenance	**44,053**	33,684
Grape purchases	**115,406**	71,207
Proceeds on sale of Beamsville winery *(see note)*	**-**	1,800,000

Accounts payable and accrued liabilities as at December 31, 2015 includes $71,215 (March 31, 2015 - $100,300) with respect to balances owing to related parties for the transactions disclosed above.

17. SEGMENTED INFORMATION

Business segments

The Company operates in three business segments, namely the sales of manufactured wines, sales of third-party wines and spirits and commission and other income. The following table represents revenues and direct costs associated with each of these segments for the nine month periods ended December 31, 2015 and 2014:

	2015	2014
Revenues		
Manufactured wines	**$ 11,686,568**	$ 11,420,776
Third-party wines and spirits	**9,137,165**	4,956,804
Commission and other	**3,601,966**	2,529,608
	$ 24,425,699	$ 18,907,188
Changes in inventories of finished goods and raw materials consumed		
Manufactured wines	**$ 6,351,826**	$ 6,277,110
Third-party wines and spirits	**6,117,964**	3,245,573
	$ 12,469,790	$ 9,522,683

The Company uses the above as the measures of profit within the segments and reviews the assets and liabilities, as well as the amortization of intangible assets, depreciation of property, plant and equipment and interest and financing costs on an entity-wide basis.

17. SEGMENTED INFORMATION, CONTINUED

Geographic information

	2015	2014
Revenues		
Canada	**$ 21,445,029**	$ 16,607,944
China and other	**2,980,670**	2,299,244
	$ 24,425,699	$ 18,907,188

All of the Company's assets are located in Canada.

18. CONTINGENCY

The Company is involved in potential litigation matters arising out of the ordinary course and conduct of its business.

On June 24, 2014, the Company was served with a statement of claim by a former management employee for wrongful termination. The Company has filed a statement of defense and with the advice of counsel, management believes that the claim has no merit. No provision for loss has been recorded as a result.