# DIAMOND ESTATES WINES & SPIRITS INC.

## INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## THREE MONTH PERIODS ENDED JUNE 30, 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 JUNE 30, 2015 AND MARCH 31, 2015
## (Unaudited - Prepared by Management)

| | June 30 2015 | March 31 2015 |
|---|---|---|
| **ASSETS** | | |
| **Current:** | | |
| Accounts receivable (Note 5) | **$ 5,294,866** | $ 3,747,303 |
| Inventories (Note 6) | **15,371,707** | 16,934,283 |
| Prepaid expenses | **173,582** | 209,623 |
| Restricted cash (Note 7) | **-** | 500,000 |
| | **20,840,155** | 21,391,209 |
| **Long term:** | | |
| Biological assets | **86,030** | 86,030 |
| Property, plant and equipment | **15,125,694** | 15,328,378 |
| Intangible assets | **4,058,655** | 4,139,675 |
| | **$ 40,110,534** | $ 40,945,292 |
| **LIABILITIES** | | |
| **Current:** | | |
| Bank indebtedness (Note 8) | **$ 9,624,679** | $ 11,076,910 |
| Accounts payable and accrued liabilities (Note 9) | **4,505,285** | 5,751,831 |
| Deposits received | **-** | 27,955 |
| Shareholder loan payable | **500,000** | - |
| Loan payable - non-controlling interest (Note 10) | **854,568** | 1,375,547 |
| Current portion of term loans payable (Note 11) | **1,062,592** | 1,227,868 |
| | **16,547,124** | 19,460,111 |
| **Long term:** | | |
| Term loans payable (Note 11) | **10,112,779** | 10,687,740 |
| Shareholder loan payable | **-** | 500,000 |
| | **26,659,903** | 30,647,851 |
| **SHAREHOLDERS' EQUITY** | | |
| Common shares (Note 12(a)) | **42,626,410** | 39,578,798 |
| Contributed surplus | **154,620** | 154,620 |
| Reserve for warrants | **128,863** | 128,863 |
| Reserve for share based payments (Note 13) | **493,052** | 447,789 |
| Non-controlling interest (Note 4) | **4,121,372** | 4,091,403 |
| Accumulated deficit | **(34,073,686)** | (34,104,032) |
| | **13,450,631** | 10,297,441 |
| | **$ 40,110,534** | $ 40,945,292 |

**Going concern** (Note 1(b))

**Contingency** (Note 16)

*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 MONTH PERIODS ENDED JUNE 30, 2015 AND 2014
## (Unaudited - Prepared by Management)

| | **2015** | 2014 |
|---|---|---|
| **Revenue** | **$ 7,559,287** | $ 5,166,577 |
| **Expenses** | | |
| Change in inventories of finished goods and raw materials consumed | **3,850,828** | 2,574,621 |
| Employee compensation and benefits | **1,474,123** | 941,730 |
| General and administrative | **680,325** | 503,798 |
| Advertising and promotion | **467,865** | 614,314 |
| Interest on bank indebtedness | **336,697** | 332,009 |
| Freight and warehousing | **316,332** | 161,668 |
| Financing costs | **19,312** | 3,682 |
| Depreciation of property, plant and equipment | **227,207** | 225,047 |
| Amortization of intangible assets | **81,020** | 432 |
| Loss on sale of capital assets | **-** | 6,957 |
| Share based payments (Note 13(d)) | **45,263** | - |
| | **7,498,972** | 5,364,258 |
| **Net income (loss) and comprehensive income (loss)** | **$ 60,315** | $ (197,681) |
| **Net income (loss) and comprehensive income (loss) attributable to:** | | |
| Shareholders | **$ 30,346** | $ (197,681) |
| Non-controlling interest | **29,969** | - |
| | **$ 60,315** | $ (197,681) |
| **Income (loss) per share - basic and diluted** (Note 12(b)) | **$ 0.001** | $ (0.003) |

*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 JUNE 30, 2015
## (Unaudited - Prepared by Management)

| | Note | Common shares Shares | Common shares Amount | Warrants | Share based payments | Contributed surplus | 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** |
| Net loss and comprehensive loss | | - | - | - | - | - | (197,681) | (197,681) | - | (197,681) |
| **As at June 30, 2014** | | **73,403,749** | **39,578,798** | **128,863** | **254,554** | **154,620** | **(32,797,793)** | **7,319,042** | **-** | **7,319,042** |
| Acquisition of partnership interest | **4** | - | - | - | - | - | - | - | 3,543,336 | 3,543,336 |
| Capital contribution by non-controlling interest to KDC | **4** | - | - | - | - | - | - | - | 750,100 | 750,100 |
| Share based payments | | - | - | - | 193,235 | - | - | 193,235 | - | 193,235 |
| Net loss and comprehensive loss | | - | - | - | - | - | (1,306,239) | (1,306,239) | (202,033) | (1,508,272) |
| **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 | **12(a)** | 26,733,288 | 3,207,995 | - | - | - | - | 3,207,995 | - | 3,207,995 |
| Share issuance costs | **12(a)** | - | (160,383) | - | - | - | - | (160,383) | - | (160,383) |
| Net income and comprehensive income | | - | - | - | - | - | 30,346 | 30,346 | 29,969 | 60,315 |
| Share based payments | **13(d)** | - | - | - | 45,263 | - | - | 45,263 | - | 45,263 |
| **As at June 30, 2015** | | **100,137,037** | **$ 42,626,410** | **$ 128,863** | **$ 493,052** | **$ 154,620** | **$ (34,073,686)** | **$ 9,329,259** | **$ 4,121,372** | **$ 13,450,631** |

*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
## THREE MONTH PERIODS ENDED JUNE 30, 2015 AND 2014
## (Unaudited - Prepared by Management)

| | 2015 | 2014 |
|---|---|---|
| **Operating activities** | | |
| **Net income (loss)** | **$ 60,315** | $ (197,681) |
| Add (deduct) items not affecting cash | | |
| Depreciation of property, plant and equipment | **227,207** | 225,047 |
| Amortization of intangible assets | **81,020** | 432 |
| Share based payments | **45,263** | - |
| Loss on sale of property, plant and equipment | **-** | 6,957 |
| | **413,805** | 34,755 |
| **Change in non-cash working capital items** | | |
| Accounts receivable | **(1,547,563)** | 214,398 |
| Inventory | **1,562,576** | 559,230 |
| Prepaid expenses | **36,041** | 20,246 |
| Accounts payable and accrued liabilities | **(1,246,546)** | (153,624) |
| Deposits received | **(27,955)** | (38,900) |
| | **(809,642)** | 636,105 |
| **Investing activities** | | |
| Purchase of property, plant and equipment | **(24,523)** | (40,429) |
| **Financing activities** | | |
| Bank indebtedness | **(952,231)** | (444,363) |
| Net proceeds from issuance of common shares | **3,047,612** | - |
| Loan payable - non-controlling interest | **(520,979)** | - |
| Principal payments on term loans payable | **(740,237)** | (151,313) |
| | **834,165** | (595,676) |
| **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*

# DIAMOND ESTATES WINES & SPIRITS INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
## THREE MONTH PERIODS ENDED JUNE 30, 2015 AND 2014
## (Unaudited - Prepared by Management)

### 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 three month period ended June 30, 2015, it has incurred losses in prior fiscal periods (three month period ended June 30, 2014 - $197,681). However, working capital improved significantly as at June 30, 2015 to $4,293,031 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 12(a))*.

The Company's ability to meet the covenant measurements under the terms of its credit agreements with its lender are 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 August 12, 2015.

### (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.

### 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) **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.

(b) **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.

(c) **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 their 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.

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 n 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 8(d))*. On January 1, 2015, KDC purchased the inventory from the Company and TKG, thereby integrating the two businesses.

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 10) | **(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.

## 4. Business Acquisition And Non-Controlling Interest, continued

Summarized financial data for KDC as at June 30, 2015, and for the three month period then ended, before consolidation eliminations, are as follows:

| | $ |
|---|---|
| Accounts receivable | 3,431,000 |
| Inventories | 3,634,000 |
| Intangible assets | 6,764,000 |
| Bank indebtedness | (2,277,000) |
| Accounts payable | (2,767,000) |
| Loan payable - partner company | (855,000) |
| | |
| Revenues | 3,875,000 |
| Net income | 59,000 |

## 5. Accounts Receivable

| | **June 30 2015** | March 31 2015 |
|---|---|---|
| Trade receivables | **$ 4,912,855** | $ 3,605,237 |
| Accrued receivables | **382,011** | 142,066 |
| | **$ 5,294,866** | $ 3,747,303 |

## 6. Inventories

| | **June 30 2015** | March 31 2015 |
|---|---|---|
| Bulk wine | **$ 7,876,300** | $ 8,721,635 |
| Bottled wine and spirits | **6,996,936** | 7,734,554 |
| Bottling supplies and packaging | **498,471** | 478,094 |
| | **$ 15,371,707** | $ 16,934,283 |

## 7. 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 8)*. They were used to fund the partial repayment of non-revolving term loan #3 *(see note 11)* that was made on May 6, 2015.

## 8. 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 8(d))*.

As at June 30, 2015, the components of the Company's bank indebtedness are as follows:

| | **June 30 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 $10,000,000, subject to certain margin limits in respect of accounts receivable and inventory | **$ 7,348,002** | $ 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 $3,000,000, subject to certain margin limits in respect of accounts receivable and inventory similar to Diamond's facility (Note 8(d)) | **2,276,677** | 1,848,082 |
| | **$ 9,624,679** | $ 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 11)*, 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 11)*, 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.

**8. BANK INDEBTEDNESS, CONTINUED**

(iv) Non-revolving instalment based loan #3 to a maximum of $1,250,000 *(see note 11)*, $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 12(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 7)*.

(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 June 30, 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.

(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:

## 8. Bank Indebtedness, continued

(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

## 9. Accounts Payable And Accrued Liabilities

| | **June 30 2015** | March 31 2015 |
|---|---|---|
| Trade accounts payable | **$ 3,814,988** | $ 5,001,335 |
| Accrued liabilities | **680,870** | 740,030 |
| Government remittances payable | **9,427** | 10,466 |
| | **$ 4,505,285** | $ 5,751,831 |

## 10. 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.

| | **June 30 2015** | March 31 2015 |
|---|---|---|
| Loan payable - non-controlling interest | **$ 854,568** | $ 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 8(d)).

## 11. Term Loans Payable

As more fully described in note 8(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 June 30, 2015, the amount outstanding was as follows:

| | **June 30 2015** | March 31 2015 |
|---|---|---|
| Meridian Credit Union term loans: | | |
| Non-revolving loan #1 | **$ 9,053,058** | $ 9,212,699 |
| Non-revolving loan #2 (Note 8(a)(ii)) | **1,460,739** | 1,489,837 |
| Non-revolving loan #3 (Note 8(a)(iii)) | **661,574** | 1,213,072 |
| | **11,175,371** | 11,915,608 |
| Less: current portion | **(1,062,592)** | (1,227,868) |
| | **$ 10,112,779** | $ 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 8, 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 June 30, 2016 | **$ 1,062,592** |
| Twelve months ended June 30, 2017 | **1,142,881** |
| Twelve months ended June 30, 2018 | **924,173** |
| Twelve months ended June 30, 2019 | **7,105,807** |
| Seven months ending January 31, 2020 | **939,918** |
| | **$ 11,175,371** |

## 12. 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 June 30, 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 8(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) **Income (loss) per share**

Basic and diluted 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 month period ended June 30, 2015 was 91,617,638 (three month period ended June 30, 2014 - 73,403,749). Diluted income (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 June 30, 2015, the following potentially dilutive equity instruments were all outstanding: (1) 288,220 warrants (June 30, 2014 - 399,973), (2) 6,682,400 options (June 30, 2014 - 3,632,400).

## 13. 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.

### 13. STOCK OPTIONS, CONTINUED

Stock option activity for the period from April 1, 2014 to June 30, 2015 was as follows:

| | **Three month period ended June 30, 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 13(a))* | **-** | **-** | 500,000 | 0.25 |
| Granted to Oakwest *(see note 13(b))* | **-** | **-** | 1,400,000 | 0.12 |
| Granted to Chairman *(see note 13(b))* | **-** | **-** | 600,000 | 0.12 |
| Granted to key management *(see note 13(c))* | **-** | **-** | 1,050,000 | 0.11 |
| Outstanding, end of period | **6,682,400** | **0.17** | 6,682,400 | 0.17 |

As at June 30, 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 | 1,333,334 | 0.20 | 3.24 | September 23, 2018 |
| September 24, 2013 | 532,400 | 532,400 | 0.20 | 1.71 | March 7, 2017 |
| September 24, 2013 | 600,000 | 399,996 | 0.25 | 3.24 | September 23, 2018 |
| June 5, 2014 | 500,000 | 125,000 | 0.25 | 3.93 | June 5, 2019 |
| November 10, 2014 | 1,400,000 | 280,000 | 0.12 | 4.37 | November 9, 2019 |
| November 10, 2014 | 600,000 | 120,000 | 0.12 | 4.37 | November 9, 2019 |
| November 24, 2014 | 1,050,000 | - | 0.11 | 4.41 | November 23, 2019 |
| | 6,682,400 | 2,790,730 | | 3.69 | |

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 June 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 period.

### 13. STOCK OPTIONS, CONTINUED

(b) **Share based payments:**

Share based payments were recognized for the year June 30, 2015 of $45,263 (2014 - $Nil) based on accrual of previously granted options expected to vest in the reporting period.

### 14. RELATED PARTY TRANSACTIONS AND BALANCES

During the three month periods ended June 30, 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 | **$ 137,300** | $ 169,000 |
| Director fees | **21,000** | 37,000 |
| Share based payments under stock option plan *(see note 13(b))* | **45,263** | - |
| Interest on shareholder loan *(see note )* | **10,000** | - |
| Winery lease payments *(see note )* | **17,260** | - |

Accounts payable and accrued liabilities as at June 30, 2015 includes $115,686 (March 31, 2015 - $100,300) with respect to balances owing to related parties for the transactions disclosed above.

### 15. 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 three month periods ended June 30, 2015 and 2014:

| | **2015** | 2014 |
|---|---|---|
| ***Revenues*** | | |
| Manufactured wines | **$ 3,812,284** | $ 3,772,540 |
| Third-party wines and spirits | **2,658,635** | 865,061 |
| Commission and other | **1,088,368** | 528,976 |
| | **$ 7,559,287** | $ 5,166,577 |
| ***Changes in inventories of finished goods and raw materials consumed*** | | |
| Manufactured wines | **$ 2,069,730** | $ 2,021,076 |
| Third-party wines and spirits | **1,781,098** | 559,302 |
| | **$ 3,850,828** | $ 2,574,621 |

## 15. Segmented Information, continued

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.

**Geographic information**

| | 2015 | 2014 |
|---|---|---|
| ***Revenues*** | | |
| Canada | **$ 6,458,980** | $ 4,408,879 |
| China and other | **1,100,307** | 757,698 |
| | **$ 7,559,287** | $ 5,166,577 |

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

## 16. Contingency

(a) 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.