

DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

THREE MONTH PERIODS ENDED JUNE 30, 2015 AND 2014

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The following management discussion and analysis ("MD&A") of Diamond Estates Wines & Spirits Inc. ("Diamond" or "the Company") provides a review of corporate developments, results of operations and financial position for the three month periods ended June 30, 2015 ("Q1 2016") and June 30, 2014 ("Q1 2015"). This discussion is prepared as of August 19, 2015 and should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes of Diamond for Q1 2015 and Q1 2014 and the audited consolidated financial statements for the fiscal years ended March 31, 2015 and March 31, 2014. All note references are made in reference to these unaudited interim condensed consolidated financial statements. Additional information regarding Diamond is available on Diamond's SEDAR profile at www.sedar.com. The results reported in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars, which is the Company's functional currency.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements. Forward-looking statements can often be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such forward-looking statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, the ability of the Company to obtain necessary financing, the economy generally, the global financial crisis, conditions in the target market of the Company, consumer interest in the services and products of the Company, competition and anticipated and unanticipated costs. Such statements could also be materially affected by environmental regulation, liquor regulation, taxation policies, competition, the lack of available and qualified personnel or management, stock market volatility and the ability to access sufficient capital from internal or external sources. Actual results, performance or achievement could differ materially from those expressed herein. While the Company anticipates that subsequent events and developments may cause its views to change, the Company specifically disclaims any obligation to update these forward-looking statements, except as required by applicable law. These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to the date of this MD&A. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. Readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the Company. Additional factors are noted in this MD&A under "Risk Factors".

NON-IFRS FINANCIAL MEASURE

Management uses net loss as presented in the unaudited interim condensed consolidated statements of net loss and comprehensive loss as well as "standardized EBITDA" as a measure to assess performance of the Company. Standardized EBITDA is another financial measure and is reconciled to net income (loss) and comprehensive income (loss) below under "Results of Operations".

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Standardized EBITDA is a supplemental financial measure to further assist readers in assessing the Company's ability to generate income from operations before taking into account the Company's financing decisions, depreciation of property, plant and equipment and amortization of intangible assets. Standardized EBITDA comprises gross profit less operating costs before financial expenses, depreciation and amortization, non-cash expenses, one-time and other unusual items, and income tax.

Standardized EBITDA does not represent the actual cash provided by the operating activities, nor is it a recognized measure of financial performance under IFRS. Readers are cautioned that this measure should not be considered as a replacement for those as per the unaudited interim condensed consolidated financial statements prepared under IFRS. The Company's definitions of this non-IFRS financial measure may differ from those used by other companies.

COMPANY OVERVIEW

Diamond Estates Wines and Spirits Inc. is a producer of high quality wines and a sales agent for over 120 beverage alcohol brands across Canada. The company operates two wineries in the Niagara region of Ontario producing VQA and blended wines under such well-known brand names as 20 Bees, EastDell Estates, Lakeview Cellars, Dois Amigos, Dan Aykroyd, Riders Valley, Benchmark and Seasons. Through its partnership, Kirkwood Diamond Canada, the Company is the sales agent for top selling international brands in all regions of the country as well as being a distributor in the western provinces. These recognizable brands include Fat Bastard wines from France, Fireball Whiskey Shooter from Canada, Hpnotiq Liqueur from France, Anciano wines from Spain, Francois Lurton wines from France and Argentina, Brick Brewing from Canada, Buffalo Trace Bourbon from USA, Flor de Cana rum from Nicaragua, Iceberg Vodka from Canada and many others.

The Company's mission is to build profitable beverage alcohol brands that celebrate life and achievement in a socially responsible manner. To meet this goal, the Company has made significant investments in processing, winemaking, brand marketing and sales programming. Based on its analysis of the market, the Company believes in the long-term growth prospects for the domestic and import beverage alcohol markets in Canada.

The Company is committed to delivering these results through its distribution network focused on the provincial liquor boards, licensed restaurants and bars, Diamond's three retail locations and export channels. The Company supports this focus through the enhanced efforts of its sales, marketing and brand promotional activities and through the ongoing review of its manufacturing efficiencies and costs. The Company has a total workforce of approximately 113 employees, including 54 engaged in the selling and marketing of its brands, 20 in the manufacturing and distribution of its brands, 20 involved in the retailing of its domestic products through our retail facilities and 19 in accounting and administration.

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.

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While the Company has generated profit of \$60,315 in Q1 2016, it has incurred losses in prior fiscal periods (Q1 2015 - \$197,681). However, working capital as at June 30, 2015 improved significantly 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.

LAUNCH OF KIRKWOOD DIAMOND CANADA PARTNERSHIP

On October 1, 2014, the Company and The Kirkwood Group ("TKG") formed a new partnership named Kirkwood Diamond Canada ("KDC" or the "partnership") (see note 4) 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 ("MCU"), 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	<u>3,716,053</u>	
		\$ <u>3,716,053</u>
Fair value of KDC assets acquired and liabilities assumed		
Inventories	\$ 5,161,228	
Loans payable - partner companies	(5,161,228)	
Intangible assets	<u>7,259,389</u>	
		\$ 7,259,389
Net assets acquired before non-controlling interest		<u>(3,543,336)</u>
		\$ <u>3,716,053</u>

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The non-controlling interest in the partnership is 49.99%. It has been measured at fair value, primarily based on the proportionate relative value of each partner's intangible assets as described above. 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 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

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RESULTS OF OPERATIONS

	Q1 2016	Q1 2015
Revenue	\$ 7,559,287	\$ 5,166,577
Change in inventories of finished goods and raw materials consumed	3,850,828	2,574,621
	<hr/>	<hr/>
Gross profit	3,708,459	2,591,956
<i>Gross margin %</i>	49.1	50.2
Operating expenses	2,938,645	2,221,510
<i>Operating expenses %</i>	38.9	43.0
	<hr/>	<hr/>
Standardized EBITDA	769,814	370,446
Interest on bank indebtedness	336,697	332,009
Depreciation and amortization	308,227	225,479
Financing costs	19,312	3,682
	<hr/>	<hr/>
Income (loss) from operations	105,578	(190,724)
Share based payments	45,263	-
Loss on sale of capital assets	-	6,957
	<hr/>	<hr/>
Net income (loss) and comprehensive income (loss)	\$ 60,315	\$ (197,681)
	<hr/>	<hr/>
Portion attributable to:		
Shareholders	30,346	(197,681)
Non-controlling interest	29,969	-
	<hr/>	<hr/>
	\$ 60,315	\$ (197,681)
	<hr/>	<hr/>

See definition of selected terms under the heading "Non-IFRS Financial Measures"

Sales for Q1 2016 were \$7,559,287 versus \$5,166,577 for Q1 2015, a 46.3% increase. Gross profit was up 43.1% to \$3,708,459 in Q1 2016 from \$2,591,956 in Q1 2015. Gross margin declined to 49.2% in Q1 2016 from 50.1% in Q1 2015. Standardized EBITDA also increased significantly to \$769,814 in Q1 2016 from \$370,446 in Q1 2015 aided by operating expenses that as a percent of revenue declined by 4.1%. The Company generated a net profit in Q1 2016 of \$60,315 versus a net loss of \$197,681 in Q1 2015. The net profit attributable to Diamond's shareholders was \$30,346, a year over year improvement of \$228,027.

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The sales increase primarily related to distribution rights acquired from the business combination with TKG to form Kirkwood Diamond Canada Partnership (“KDC”). TKG had a strong presence in Western Canada where the Company operates as both sales agent and distributor for its suppliers’ brands, which resulted in an increase in the distributorship (“buy/sell”) sales mix to 35.2% of revenues in Q1 2016 from 16.7% in Q1 2015. This affected overall gross profit margins as revenues in Eastern Canada are predominantly commission based (100% margin). As a result of the merger, buy/sell sales tripled in Q1 2016 to \$2,658,635 from \$865,061 in Q1 2015 and commission revenue doubled to \$1,088,368 from \$528,976 respectively. Sales in the winery division increased by 1.1% to \$3,812,284 in Q1 2016 from \$3,772,540 in Q1 2015. Strong growth in export and licensee sales were partially offset by restrained volume in the LCBO channel as brand rationalization, lower promotional activity and price increases dampened performance.

Operating expenses increased \$717,135 or 32.3% in Q1 2016 over Q1 2015, primarily as a result of the combination of the agency businesses. The increased cost base relative to the prior year reflects larger sales, marketing and administration teams that enable KDC to compete more effectively as a leading national agent for suppliers with internationally recognized brands. Interest expense increased nominally to \$336,697 in Q1 2016 from \$332,009 in Q1 2015 as the addition of the KDC credit facility was offset by a reduction in the Company’s borrowing base by applying the proceeds from the private placement completed on April 29, 2015 (*see note 12(a)*) against the line of credit. Depreciation and amortization expense increased by \$82,478, primarily related to the distribution rights vended into KDC by TKG. Financing charges of \$19,312 in Q1 2016 reflect legal costs and fees from MCU to complete the amendments to the credit facilities that were effective in Q4 2015.

Non-operating related expenses of \$45,263 in Q1 2016 were comprised of stock compensation expense for options granted in previous periods.

As reflected in the unaudited interim condensed consolidated statements of cash flows, the Company generated positive cash flow from operations before changes in non-cash working capital items for Q1 2016 of \$413,805 compared to \$34,755 in Q1 2015, an improvement of \$379,050. Coincident with the private placement, the Company accelerated retirement of term debt in the amount of \$456,069 that had an interest rate of 12%.

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QUARTERLY PERFORMANCE (UNAUDITED)

The following table highlights certain key quarterly financial highlights. Commentary on the selected highlights is included under "Results of Operations" and "Liquidity and Capital Resources".

	Jun-2015 Q1 2016	Mar-2015 Q4 2015	Dec-2014 Q3 2015	Sep-2014 Q2 2015	Jun-2014 Q1 2015	Mar-2014 Q4 2014	Dec-2013 Q3 2014	Sep-2013 Q3 2014
	\$	\$	\$	\$	\$	\$	\$	\$
Balance sheet								
Working capital (deficiency)	4,293,031	1,931,098	(939,511)	(137,038)	(273,636)	(108,319)	(98,660)	(1,437,925)
Bank indebtedness (total)	9,624,679	11,076,910	12,274,083	12,757,982	12,568,764	13,013,129	11,876,916	10,311,902
Term debt	11,175,371	11,915,608	9,422,538	9,525,288	9,677,203	9,828,516	10,000,000	10,000,000
Total equity	13,450,631	10,297,441	10,210,288	7,522,030	7,319,042	7,516,723	8,265,487	8,847,560
Income statement								
Revenue	7,559,287	6,823,707	7,877,312	5,863,300	5,166,577	4,027,823	5,412,780	5,255,155
Gross profit	3,850,828	2,980,019	3,724,721	3,065,401	2,574,621	1,999,316	2,592,652	2,391,051
Standardized EBITDA	769,814	68,207	352,664	796,870	370,446	149,151	247,578	(354,198)
Net profit (loss)	60,315	(763,039)	(861,553)	116,320	(197,681)	(715,739)	(589,130)	(2,431,770)

See definition of selected terms under the heading "Non-IFRS Financial Measures"

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LIQUIDITY AND CAPITAL RESOURCES

	June 30 2015	March 31 2015
Accounts receivable	\$ 5,294,866	\$ 3,747,303
Inventory	15,371,707	16,934,283
Restricted cash	-	500,000
Other	173,582	209,623
	<u>20,840,155</u>	<u>21,391,209</u>
Total current assets		
Property, plant and equipment	15,125,694	15,328,378
Other	4,144,685	4,225,705
	<u>19,270,379</u>	<u>19,554,083</u>
Total assets	<u>\$ 40,110,534</u>	<u>\$ 40,945,292</u>
Bank indebtedness	\$ 9,624,679	\$ 11,076,910
Current portion of term loan payable	1,062,592	1,227,868
Shareholder loan payable	500,000	-
Loan payable - non-controlling interest	854,568	1,375,547
Other current liabilities	4,505,285	5,779,786
	<u>16,547,124</u>	<u>19,460,111</u>
Total current liabilities		
Term loan payable, net of current portion	10,112,779	10,687,740
Shareholder loan payable	-	500,000
	<u>10,112,779</u>	<u>11,187,740</u>
Total liabilities	26,659,903	30,647,851
Shareholders' equity	9,329,259	6,206,038
Non-controlling interest	4,121,372	4,091,403
	<u>13,450,631</u>	<u>10,297,441</u>
	<u>\$ 40,110,534</u>	<u>\$ 40,945,292</u>

The Company's consolidated financial position has improved as at June 30, 2015 from that as at March 31, 2015 with the completion of a private placement on April 29, 2015. As detailed in note 12(a)), 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. Working capital increased by \$2,361,933 to \$4,293,031 as at June 30, 2015 to \$1,931,098 as at March 31, 2015. Total bank indebtedness decreased by \$1,452,231 to \$9,624,679 as at June 30, 2015 compared to \$11,076,910 as at March 31, 2015. During Q1 2016, principal payments of \$740,237 (Q1 2015 - \$151,313) were made against the various MCU term loans (see notes 8 and 11 for further details on the MCU credit facilities).

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The debt to equity ratio improved significantly to 1.65:1 as at June 30, 2015 compared to 2.41:1 as at March 31, 2015, where debt is defined as total liabilities less other current liabilities and equity is defined as shareholders' equity plus non-controlling interest.

The credit agreement now specifies the following overall terms:

(I) Credit facilities

- (a) Operating line of \$10,000,000, due on demand, bearing interest at prime plus 2.50%, interest payable monthly; the operating line is limited to:
 - (i) 85% of acceptable Canadian receivables aged 120 days and under, less certain exclusions, plus
 - (ii) 75% of all other acceptable receivables aged 90 days and under, less certain exclusions, plus
 - (iii) 70% of acceptable wine inventory to a maximum of \$8,500,000, less
 - (iv) priority payables or claims purporting to have priority over MCU
- (b) 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.
- (c) 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.
- (d) 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 (*see 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*).

(II) 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 MCU by De Sousa Wines Toronto Inc., each of which is supported by respective general security agreements.

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(III) Financial covenants

- (a) 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 MCU less loans to shareholders and related parties and less 50% of pre-1993 winery licenses and 100% of other intangible assets;
- (b) 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);
- (c) Maintain a DSR of not less than 1.25|1.00, measured annually, measurement commencing effective the fiscal year 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
- (d) 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.

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 reflects the following major terms:

- (a) operating line of up to \$3,000,000
- (b) payments of interest only, interest at prime plus 2%
- (c) 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
- (d) 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

In March, 2014, the Company's largest shareholder advanced \$500,000 to the Company in the form of a loan. This loan is unsecured, due on April 1, 2016, bears interest at 8% per annum and has been included in the determination of effective net worth under the provisions of the MCU credit agreement.

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Note payable - non-controlling interest

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

CAPITALIZATION

Diamond can issue an unlimited number of common shares. The Company has common shares and other equity instruments outstanding at each reporting date as follows:

	June 30, 2015	March 31, 2015	Change in period
Common shares	100,137,037	73,403,749	26,733,288
Broker warrants	288,220	288,220	-
Stock options	<u>6,682,400</u>	<u>6,682,400</u>	<u>-</u>
Total equity instruments	<u>107,107,657</u>	<u>80,374,369</u>	<u>26,733,288</u>

The only change in equity instruments during Q1 2016 were the following:

- (a) Issuance of 26,733,288 common shares under a private placement that closed on April 29, 2015 (see Liquidity and Capital Resources).

STRATEGIC OUTLOOK AND DIRECTION

Diamond is committed to building enduring, high quality beverage alcohol brands that celebrate life and achievement in a socially responsible manner. The Company believes in the development of leading brands that recognize the consumer's interest in wines and spirits, addressing their desire to explore with the many exciting offerings that the Company has available. Vertically integrated, Diamond combines a modern and efficient production facility for Niagara wines with a national marketing agency for its broad portfolio of leading international wines and spirits. The Company is well positioned to add to its throughput of wine production and leverage its national sales force to increase the number of brands under agency without a significant change in its cost structure.

The Canadian wine market continues to grow strongly, outpacing most consumer categories. Statistics Canada recently reported¹ that in the year ending March 31, 2014, Canadian wine sales increased 1.0% to 461.7 million litres (\$6.4 billion) compared to the year ending March 31, 2013. This is equivalent to 15.7 litres per capita, up 3.2 litres since March 31, 2005, which is a 25.6% increase. Conversely, spirits sales by volume decreased by 1.6% to 157.7 million litres, or 5.3 litres per capita in 2014. Similarly, beer sales declined by 1.5% to 2.2 billion litres in year ending March 31, 2014 or 75.9 litres per capita. The market share for wine was 31% in the year ending March 31, 2014, up from 25% in the year ending March 31, 2005. The market share for beer was 42% and 49% respectively. Spirits sales represented 23.3% of the market in the year ending March 31, 2014, up slightly from 22.6% in the year ending March 31, 2005. The remaining market share is made up of Ciders, Coolers and Other Refreshment Beverages (CCORB), which sold 127 million litres in the year ending March 31, 2014, up 12% from the previous year.

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Ontario wineries have a 42% share of the total market in the province. In most other international wine regions, the domestic share is consistently above 70%. There are significant opportunities to grow the sales and market share of Ontario wine given increasing consumption, competitive pricing and continuous quality improvements as the industry matures². Diamond will continue to focus on further developing its existing brands of Vintner Quality Alliance (“VQA”) certified wines that include Lakeview Cellars, EastDell, Seasons, 20 Bees, Dan Aykroyd, Fresh and its new International Canadian Blend (“ICB”) brand, Riders Valley. The ICB segment represents 75% of wine sold within the Ontario market². This continued focus will include additional investment in marketing, promotion and advertising to insure top of mind awareness and preference for our brands.

Within its portfolio of international brands, the Company’s emphasis will be on building awareness, sales and profit for its existing customer base and will continue to identify new brand entrants that the Company can represent within the Canadian market. These will include international wines and spirits from a variety of regions globally with a specific focus on brands that currently do not have distribution within the Canadian marketplace or which are dissatisfied with their current distribution arrangements.

¹ <http://www.statcan.gc.ca/daily-quotidien/150504/dq150504a-eng.htm>

² <http://www.wgao.ca/industry-facts.htm>

RISKS FACTORS

BUSINESS RISKS

The following risk factors should be carefully considered in evaluating the Company and the industry it operates in. The risks presented below may not be all of the risks that Diamond may face. It is believed that these are the factors that could cause actual results to be different from expected and historical results. New risks may emerge and management may not be able to predict all of them, or be able to predict how they may cause actual results to be different from those contained in any forward-looking statements.

ADDITIONAL FINANCING

Diamond will require additional financing in order to make further investments or take advantage of future opportunities. The ability of Diamond to arrange such financing in the future will depend in part upon prevailing capital market conditions, as well as upon the business success of Diamond. There can be no assurance that Diamond will be successful in its efforts to arrange additional financing on terms satisfactory to Diamond. If additional financing is raised by the issuance of shares or other forms of convertible securities from treasury, control of Diamond may change and shareholders may suffer additional dilution. If adequate funds are not available, or are not available on acceptable terms, Diamond may not be able to take advantage of opportunities, or otherwise respond to competitive pressures and remain in business.

PROFITABILITY

There is no assurance that Diamond will earn profits in the future, or that profitability will be sustained. There is no assurance that future revenues will be sufficient to generate the funds required to continue Diamond’s business development and marketing activities. If Diamond does not have sufficient capital to fund its operations, it may be required to reduce its sales and marketing efforts or forego certain business opportunities.

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DEPENDENCE ON MANAGEMENT AND KEY PERSONNEL

Diamond will depend on the business and technical expertise of its management team and there is little possibility that this dependence will decrease in the near term. Diamond's success will depend in large measure on certain key personnel. The loss of the services of such key personnel may have a material adverse effect on Diamond's business, financial condition, results of operations and prospects. The contributions of the existing management team to the immediate and near term operations of Diamond are likely to be of central importance. In addition, the competition for qualified personnel in the industry is competitive and there can be no assurance that Diamond will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Diamond.

GOVERNMENT REGULATION OF LIQUOR INDUSTRY

Diamond will operate in the highly regulated retail liquor industry in the Province of Ontario and throughout Canada. The Alcohol and Gaming Commission of Ontario (the "AGCO"), the Liquor Control Board of Ontario (the "LCBO") and similar Liquor Boards throughout Canada, may issue decisions, enact rules, new legislation or regulations or may make changes to existing legislation or regulations, all of which can impact the operation of Diamond both favourably and unfavourably. There is no assurance that new legislation or regulations or changes to existing legislation or regulations or decisions of any regulatory bodies in the retail liquor industry in Canada will not adversely affect the operations, profitability, or distributable cash of Diamond.

SIGNIFICANT COMPETITION

The alcoholic beverage industry in Canada is intensely competitive, consisting of many large and small Canadian corporations and international corporations with some possessing extensive experience and financial resources.

MANAGEMENT OF GROWTH

Diamond may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of Diamond to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of Diamond to deal with this growth may have a material adverse effect on Diamond's business, financial condition, results of operations and prospects.

ISSUANCE OF DEBT

From time to time, Diamond may enter into transactions to acquire assets or the shares of other organizations or seek to obtain additional working capital. These transactions may be financed in whole or in part with debt, which may increase Diamond's debt levels above industry standards for companies of similar size. Depending on future plans, Diamond may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms to Diamond. The level of Diamond's indebtedness, from time to time, could impair its ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

LABOUR COSTS AND SHORTAGES AND LABOUR RELATIONS

The success of Diamond's business depends on a large number of both hourly and salaried employees. Changes in the general conditions of the employment market could affect the ability of Diamond to hire or retain staff at current wage levels. The occurrence of either of these events could have an adverse effect on Diamond's results of operations. Diamond does not currently have unionized staff but no assurance can be made that some or all of the employees of Diamond will not unionize in the future. If successful, such an occurrence could increase labour costs and thereby have an adverse effect on Diamond's results of operations.

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AGRICULTURAL RISK

The production and sale of wine is dependent upon a consistent supply of high-quality grapes available at reasonable prices. Should some or all of the wineries that Diamond works with be unable to produce the quality of grapes necessary to produce wine, such a shortfall in product could adversely affect the operations, profitability, and/or distributable cash of Diamond.

Diamond expects to continue to increase its share of the premium wine business in Canada, principally through the sale of VQA wines, and as a result is more dependent on the quality and supply of domestically grown premium quality grapes. If any of Diamond's vineyards experience certain weather variations, natural disasters, pestilence, other severe environmental problems or other occurrences, Diamond may not be able to secure a sufficient supply of grapes and there could be a decrease in our production of certain products from those regions and/or an increase in costs. In the past, where there was a significant reduction in domestically sourced grapes, the Government of Ontario, in conjunction with the Wine Council of Ontario and the Ontario Grape Growers Marketing Board, agreed to temporarily increase the blending of imported wines, which enables Diamond to continue to supply wines to the market. There is no certainty that such intervention will be available to the same extent in the future, if at all. The inability to secure premium quality grapes could impair the ability of Diamond to supply wines to its customers.

FOREIGN EXCHANGE

Foreign exchange risk exists on the purchases of all agency brand inventories purchased in foreign currencies for British Columbia and Alberta, which are predominately in Euros and Australian dollars. Diamond currently does not enter into foreign exchange contracts.

ENERGY COSTS

Diamond could experience an increase in energy costs which could result in higher transportation, freight and other operating costs. Diamond's future operating expenses and margins will be dependent on its ability to manage the impact of cost increases. Diamond cannot guarantee that it will be able to pass along increased energy costs to its customers through increased prices.

TAXATION

Canada imposes excise and other taxes on beverage alcohol products in varying amounts which have been subject to change. Significant increases in excise and other taxes on beverage alcohol products could materially and adversely affect Diamond's financial condition or results of operations. In addition, federal and provincial governmental agencies extensively regulate the beverage alcohol products industry concerning such matters as licensing, trade practices, permitted and required labelling, advertising and relations with consumers and retailers. Certain federal and provincial regulations also require warning labels and signage. New or revised regulations or increased licensing fees, requirements or taxes could also have a material adverse effect on Diamond's financial condition or results of operations.

TRADEMARKS

Diamond considers its trademarks, particularly certain brand names and product packaging, advertising and promotion design and artwork to be of significant importance to its business and ascribes a significant value to these intangible assets. Diamond will rely on trademark laws and other arrangements to protect its proprietary rights. There can be no assurance that the steps taken by Diamond to protect its intellectual property rights will preclude competitors from developing confusingly similar brand names or promotional materials. Diamond believes that its proprietary rights do not infringe upon the proprietary rights of third parties, but there can be no assurance in this regard.

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IMPORTANCE OF INVENTORY, WAREHOUSE AND DISTRIBUTION SYSTEMS

Diamond's inventory, warehouse and distribution systems are critical components of its operations. Diamond's ability to maintain and upgrade the capabilities of these systems is important to its future performance. If Diamond is unable to maintain the inventory, warehouse and distribution systems or fails to adequately upgrade these systems, Diamond's operations could be adversely affected with the further material adverse effect being on financial results of operations.

WHOLESALE COST INCREASES

Wholesale costs are dependent on a number of factors, including inflation and fuel prices. Any attempt to pass on an increase in wholesale costs to consumers through product price increases could have a material adverse effect on Diamond's sales while a failure to effectively pass any such increases on to consumers could have a material adverse effect on Diamond's result of operations.

DISTRIBUTION BUSINESS

Diamond's business model includes a number of wine and alcohol brands that are represented on an agency basis. There is a risk that such agency brands are sold to an entity that has a pre-existing distribution agency relationship with a provider other than Diamond, and Diamond's revenues and profitability could suffer as result. Furthermore, Diamond's distribution business depends on the ability to retain its current brands as well as attracting additional brands in the future, and a failure to do so could negatively impact revenues and profitability of Diamond.

CREDIT RISK

Credit risk arises from credit exposure to customers through outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the Company's financial assets. The objective of managing counter-party credit risk is to prevent losses in financial assets. The Company assesses the credit quality of its counter-parties, taking into account their financial position, past experience and other factors. As the large majority of the Company's accounts receivable balances are collectable from government-controlled liquor boards, management believes the Company's credit risk relating to accounts receivable is at an acceptably low level.

EXPOSURE TO INTEREST RATE FLUCTUATIONS

The Company has a high level of floating rate debt. Interest rate risk exists as an increase in interest rates would increase the Company's overall financing costs and have a material impact on Diamond's financial position over the long term.

ENVIRONMENTAL COMPLIANCE

Environmental liabilities may potentially arise when companies are in the business of manufacturing products and, thus, required to handle potentially hazardous materials. As an owner and lessor of property, the Company is subject to various federal and provincial laws relating to environmental matters. Such laws provide that the Company could be held liable for the cost of removal and remediation of hazardous substances on its properties. Management is of the opinion that the risk of environmental liabilities is considered minimal.

PACKAGING

The Company purchases glass, bag in box and other components used in the bottling and packaging of wine. The largest component in the packaging of wine is glass, of which there are few domestic or international suppliers. Diamond sources glass from various distributors and manufacturers both domestically and internationally to insure an adequate supply. As there is currently only one commercial supplier of glass in Canada, any interruption in supply could have an adverse impact on the Company's ability to supply its markets.

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INDUSTRY CONSOLIDATION

In recent years, the global beverage alcohol industry has experienced a significant amount of consolidation. Industry consolidation can have varying degrees of impact and, in some cases, may even create exceptional opportunities. Either way, management believes that the Company is well positioned to deal with this or other changes to the competitive landscape in Canada.

RISKS RELATED TO COMMON SHARE INVESTMENTS

PRICE VOLATILITY OF PUBLICLY TRADED SECURITIES

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price. There can be no assurance that continuing fluctuations in price will not occur. It may be anticipated that any quoted market for Diamond's shares will be subject to market trends generally, notwithstanding any potential success of Diamond in creating revenues, cash flows or earnings. The value of Diamond's shares will be affected by such volatility. A public trading market in the Common Shares having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of common shares at any given time, which presence is dependent on the individual decisions of investors over which Diamond has no control. There can be no assurance that an active trading market in securities of Diamond will be established and sustained. The market price for Diamond's securities could be subject to wide fluctuations, which could have an adverse effect on the market price of Diamond. The stock market has, from time to time, experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance, net asset values or prospects of particular companies. If an active public market for Diamond's shares does not develop, the liquidity of a shareholder's investment may be limited and the share price may decline.

DILUTION

Diamond may make future acquisitions or enter into financings or other transactions involving the issuance of securities of Diamond which may be dilutive to the existing shareholders.

DIVIDENDS

Diamond has not paid any dividends on its outstanding common shares. Any payments of dividends on the common shares of Diamond will be dependent upon the financial requirements to finance future growth, the financial condition of Diamond and other factors which Diamond's board of directors may consider appropriate in the circumstance. It is unlikely that Diamond will pay dividends in the immediate or foreseeable future.

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GLOBAL FINANCIAL CRISIS

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and continued in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions (including a downgrade of the US sovereign debt credit rating from AAA, by certain credit rating agencies in 2011) caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted the ability to raise capital, and sales cycles, will continue to impact the performance of the global economy going forward. If market conditions do not recover in a timely manner, future revenues may be adversely impacted. Volatility in the global financial markets may impact the ability of Diamond to obtain equity or debt financing in the future on terms favourable to Diamond, if at all. If such increased levels of volatility and market turmoil continue, Diamond's operations could be adversely impacted and the trading price of its common shares may be adversely affected.

FINANCIAL MARKET TURMOIL

Global financial market and economic conditions can pose a significant threat to economic growth in almost all sectors and economies, causing a decline in consumer and business confidence, a reduction in credit availability and a dampening in business and household spending.

USES OF ESTIMATES AND JUDGEMENTS

The preparation of these unaudited interim condensed consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, include, but are not limited to, the following:

FAIR VALUE OF GRAPES AT THE POINT OF HARVEST

Where possible, the fair value of grapes at the point of harvest is determined by reference to local market prices for grapes of a similar quality and the same varietal. For grapes for which local market prices are not readily available, the average price of similar grapes is used. The fair value of grapes is included in the cost of bulk wine inventory.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment represent a significant proportion of the asset base of the Company as they amount to 37.7% of total assets as at June 30, 2015 (March 31, 2014 - 37.4%). Therefore, estimates and assumptions made to determine their carrying value and related depreciation are critical to the Company's financial position and performance.

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IFRS requires management to test for impairment of property, plant and equipment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate.

The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. The useful lives and residual values of the Company's assets are determined by management at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their life

GROSS VERSUS NET PRESENTATION

When deciding the most appropriate basis for presenting revenue or costs of revenue, both the legal form and substance of the agreement between the Company and its business partners are reviewed to determine each party's respective role in the transaction. Where the Company's role in a transaction is that of principal, revenue is recognized on a gross basis. This requires revenue to comprise the gross value of the transaction billed to the customer, after trade discounts, with any related expenditure charged as an operating cost. Where the Company's role in a transaction is that of an agent, revenue is recognized on a net basis with revenue representing the margin earned.

USEFUL LIFE OF INTANGIBLE ASSETS

Significant judgement is involved in the determination of useful life for the computation of depreciation of intangible assets. No assurance can be given that actual useful lives will not differ significantly from current assumptions.

APPLYING THE ACQUISITION METHOD TO BUSINESS COMBINATIONS

Applying the acquisition method to business combinations requires each identifiable asset and liability to be measured at its acquisition date fair value. The excess, if any, of the fair value of consideration over the fair value of the net identifiable assets acquired is recognized as goodwill. Non-cash consideration paid must also be measured at its acquisition date fair value. The determination of acquisition date fair values often requires management to make assumptions and estimates about future events. The assumptions with respect to the fair value of intangible assets require a high degree of judgement and include estimates for anticipated future cash flows and discount factors.