# DIAMOND ESTATES WINES & SPIRITS INC.

## CONSOLIDATED FINANCIAL STATEMENTS

## YEARS ENDED MARCH 31, 2015 AND 2014

## Independent Auditors' Report

To the Shareholders of Diamond Estates Wines & Spirits Inc.

We have audited the accompanying consolidated financial statements of Diamond Estates Wines & Spirits Inc., which comprise the consolidated statements of financial position as at March 31, 2015 and 2014, and the consolidated statements of net loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Diamond Estates Wines & Spirits Inc. as at March 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**Emphasis of Matter**

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which highlights the existence of a material uncertainty relating to conditions that cast significant doubt on Diamond Estates Wines & Spirits Inc.'s ability to continue as a going concern.

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Ontario
July 7, 2015

MNP LLP

# DIAMOND ESTATES WINES & SPIRITS INC.
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
## AS AT MARCH 31, 2015 AND 2014

| | 2015 | 2014 |
|---|---|---|
| **ASSETS** | | |
| **Current:** | | |
| Accounts receivable (Note 7) | **$ 3,747,303** | $ 3,035,264 |
| Inventories (Note 8) | **16,934,283** | 12,466,162 |
| Prepaid expenses | **209,623** | 139,222 |
| Restricted cash (Note 9) | **500,000** | - |
| Assets held for sale (Notes 5 & 10) | **-** | 1,880,916 |
| | **21,391,209** | 17,521,564 |
| **Long term:** | | |
| Biological assets (Note 11) | **86,030** | 86,030 |
| Property, plant and equipment (Note 12) | **15,328,378** | 15,992,766 |
| Intangible assets (Note 13) | **4,139,675** | 758,647 |
| | **$ 40,945,292** | $ 34,359,007 |
| **LIABILITIES** | | |
| **Current:** | | |
| Bank indebtedness (Note 14) | **$ 11,076,910** | $ 12,175,284 |
| Bank indebtedness associated with assets held for sale (Notes 10 & 14) | **-** | 837,845 |
| Accounts payable and accrued liabilities (Note 15) | **5,751,831** | 3,461,589 |
| Deposits received | **27,955** | 39,050 |
| Shareholder loan payable (Note 16) | **-** | 500,000 |
| Loan payable - non-controlling interest (Note 17) | **1,375,547** | - |
| Current portion of term loans payable (Note 18) | **1,227,868** | 616,115 |
| | **19,460,111** | 17,629,883 |
| **Long term:** | | |
| Term loans payable (Note 18) | **10,687,740** | 9,212,401 |
| Shareholder loan payable (Note 16) | **500,000** | - |
| | **30,647,851** | 26,842,284 |
| **SHAREHOLDERS' EQUITY** | | |
| Common shares (Note 19(a)) | **39,578,798** | 39,578,798 |
| Contributed surplus | **154,620** | 154,620 |
| Reserve for warrants (Note 19(c)) | **128,863** | 128,863 |
| Reserve for share based payments (Note 20) | **447,789** | 254,554 |
| Non-controlling interest (Note 4) | **4,091,403** | - |
| Accumulated deficit | **(34,104,032)** | (32,600,112) |
| | **10,297,441** | 7,516,723 |
| | **$ 40,945,292** | $ 34,359,007 |

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

**Commitments and contingency** (Note 27)

**Subsequent events** (Note 28)

*The accompanying notes form an integral part of these consolidated financial statements*

**Approved on behalf of the Board:**

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

# DIAMOND ESTATES WINES & SPIRITS INC.
## CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
## YEARS ENDED MARCH 31, 2015 AND 2014

| | **2015** | 2014 |
|---|---|---|
| **Revenue** | **$ 25,730,896** | $ 20,668,440 |
| **Expenses** | | |
| Change in inventories of finished goods and raw materials consumed | **13,374,556** | 10,890,758 |
| Employee compensation and benefits | **5,054,845** | 3,961,364 |
| General and administrative | **2,528,866** | 2,180,841 |
| Advertising and promotion | **2,228,704** | 2,214,348 |
| Interest on bank indebtedness | **1,386,509** | 1,590,902 |
| Freight and warehousing | **962,693** | 766,650 |
| Financing costs | **75,117** | 426,169 |
| Depreciation of property, plant and equipment (Note 12) | **907,742** | 1,056,088 |
| Share based payments (Note 20(d)) | **193,235** | 190,666 |
| Amortization of intangible assets (Note 13) | **162,899** | 348,801 |
| | **26,875,166** | 23,626,587 |
| **Loss from operations before undernoted items** | **(1,144,270)** | (2,958,147) |
| Restructuring charges (Note 4) | **475,404** | - |
| Loss on sale of capital assets (Notes 5 & 10) | **86,279** | 2,213 |
| Non-cash loss on completion of reverse takeover (Note 6) | **-** | 749,787 |
| Listing expenses (Note 6) | **-** | 352,598 |
| Impairment provision - assets held for sale (Note 10) | **-** | 260,000 |
| Share price guarantees (Note 23) | **-** | (247,332) |
| **Net loss and comprehensive loss** | **$ (1,705,953)** | $ (4,075,413) |
| **Net loss and comprehensive loss attributable to:** | | |
| Shareholders | **$ (1,503,920)** | $ (4,075,413) |
| Non-controlling interest | **(202,033)** | - |
| | **$ (1,705,953)** | $ (4,075,413) |
| **Loss per share - basic and diluted** (Note 19(d)) | **$ (0.02)** | $ (0.09) |

*The accompanying notes form an integral part of these consolidated financial statements*

# DIAMOND ESTATES WINES & SPIRITS INC.
## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
## FOR THE YEARS ENDED MARCH 31, 2015 AND 2014

| | Note | Common shares | | Preference shares | | Warrants | Shares to be issued | Share based payments | Contributed surplus | Accumulated deficit | Shareholders' equity | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Shares | Amount | Shares | Amount | | | | | | | | |
| **As at April 1, 2013** | | **14,999,716** | **$ 26,991,074** | **4,431,386** | **$ 2,065,441** | **$ 128,863** | **$ 129,699** | **$ 154,620** | **$ -** | **$ (28,433,615)** | **$ 1,036,082** | **$ -** | **$ 1,036,082** |
| Share price guarantees | **23** | 4,346,659 | 869,332 | - | - | - | - | - | - | - | 869,332 | - | 869,332 |
| Convertible debentures | **19(a)(i)** | 1,787,278 | 321,710 | - | - | - | - | - | - | - | 321,710 | - | 321,710 |
| Preference shares converted | **19(b)(i)** | 4,431,386 | 2,065,441 | (4,431,386) | (2,065,441) | - | - | - | - | - | - | - | - |
| Payment of 8% dividend | **19(b)(ii)** | 367,973 | 220,783 | - | - | - | (220,783) | - | - | - | - | - | - |
| Accounts payable settled | **19(a)(i)** | 390,677 | 79,571 | - | - | - | - | - | - | - | 79,571 | - | 79,571 |
| Shares and options deemed issued in connection with RTO | **19(a)(ii)** | 5,324,000 | 1,064,800 | - | - | - | - | 63,888 | - | - | 1,128,688 | - | 1,128,688 |
| Elimination of Diamond shares | **6** | (26,275,310) | (5,255,062) | - | - | - | - | - | - | - | (5,255,062) | - | (5,255,062) |
| Shares issued to Diamond shareholders under RTO | **6** | 26,275,310 | 5,255,062 | - | - | - | - | - | - | - | 5,255,062 | - | 5,255,062 |
| Private placement | **19(a)(iii)** | 41,756,060 | 8,351,212 | - | - | - | - | - | - | - | 8,351,212 | - | 8,351,212 |
| Share issue costs | **19(a)(iii)** | - | (385,125) | - | - | - | - | - | - | - | (385,125) | - | (385,125) |
| Preference share dividends | **19(b)(ii)** | - | - | - | - | - | 91,084 | - | - | (91,084) | - | - | - |
| Share based payments | **20(d)** | - | - | - | - | - | - | 190,666 | - | - | 190,666 | - | 190,666 |
| January, 2013 options cancelled | **20** | - | - | - | - | - | - | (154,620) | 154,620 | - | - | - | - |
| Net loss and comprehensive loss | | - | - | - | - | - | - | - | - | (4,075,413) | (4,075,413) | - | (4,075,413) |
| **As at March 31, 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 | **4** | - | - | - | - | - | - | - | - | - | - | 3,543,336 | 3,543,336 |
| Capital contribution by non-controlling interest to KDC | **4** | - | - | - | - | - | - | - | - | - | - | 750,100 | 750,100 |
| Net loss and comprehensive loss | | - | - | - | - | - | - | - | - | (1,503,920) | (1,503,920) | (202,033) | (1,705,953) |
| Share based payments | **20(d)** | - | - | - | - | - | - | 193,235 | - | - | 193,235 | - | 193,235 |
| **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** |

*The accompanying notes form an integral part of these consolidated financial statements*

# DIAMOND ESTATES WINES & SPIRITS INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

## YEARS ENDED MARCH 31, 2015 AND 2014

| | 2015 | 2014 |
|---|---|---|
| **Operating activities** | | |
| **Net loss** | **$ (1,705,953)** | $ (4,075,413) |
| Add (deduct) items not affecting cash | | |
| Depreciation of property, plant and equipment | **907,742** | 1,056,088 |
| Share based payments | **193,235** | 190,666 |
| Loss on sale of property, plant and equipment | **86,279** | 2,213 |
| Amortization of intangible assets | **162,899** | 348,801 |
| Non-cash loss on completion of reverse takeover | **-** | 749,787 |
| Impairment provision - assets held for sale (Note 10) | **-** | 260,000 |
| Non-cash financing costs | **-** | 15,860 |
| Gain on settlement of share price guarantees (Note 23) | **-** | (247,332) |
| | **(355,798)** | (1,699,330) |
| **Change in non-cash working capital items** | | |
| Accounts receivable | **(712,039)** | (63,449) |
| Inventory | **(4,468,121)** | (1,187,825) |
| Prepaid expenses | **(70,401)** | 25,364 |
| Accounts payable and accrued liabilities | **2,290,242** | (469,373) |
| Deposits received | **(11,095)** | 20,962 |
| Shareholder loan payable | **-** | 500,000 |
| | **(3,327,212)** | (2,873,651) |
| **Investing activities** | | |
| Purchase of property, plant and equipment | **(243,354)** | (55,418) |
| Proceeds on disposition of assets held for sale | **1,800,000** | - |
| | **1,556,646** | (55,418) |
| **Financing activities** | | |
| Bank indebtedness | **(1,098,374)** | (15,122,428) |
| Restricted cash | **(500,000)** | - |
| Bank indebtedness associated with assets for sale | **(837,845)** | - |
| Loan payable - non-controlling interest | **1,375,547** | - |
| Proceeds from term loans payable | **2,750,000** | 10,000,000 |
| Principal payments on term loans payable | **(668,862)** | (171,484) |
| Capital contribution to KDC by non-controlling interest | **750,100** | - |
| Proceeds from issuance of common shares | **-** | 8,351,212 |
| Share issue costs | **-** | (385,125) |
| Cash acquired in reverse takeover | **-** | 440,894 |
| Payment against share price guarantee (Note 23) | **-** | (184,000) |
| | **1,770,566** | 2,929,069 |
| **Change in cash** | **-** | - |
| Cash, beginning of year | **-** | - |
| **Cash, end of year** | **$ -** | $ - |
| **Supplemental cash flow disclosure** | | |
| Intangible assets contributed on acquisition | **$ 3,543,336** | $ - |

*The accompanying notes form an integral part of these consolidated financial statements*

### 1. NATURE OF OPERATIONS AND GOING CONCERN

#### (a) Nature of operations

Diamond Estates Wines & Spirits Inc. ("Diamond" or the "Company") (formerly Whiteknight Acquisitions II Inc.) ("WKN") was a Capital Pool Company as defined in the policies of the TSX Venture Exchange ("TSX-V" or the "Exchange") and was incorporated pursuant to the provisions of the Business Corporations Act of Ontario on December 31, 2011. On September 24, 2013, the Company completed a Qualifying Transaction as defined in the policies of the Exchange when it acquired 100% of the issued and outstanding shares of Diamond Estates Wines & Spirits Ltd. ("Diamond Ltd."). The transaction constituted a reverse takeover of WKN by Diamond Ltd. as more fully described in note 6. The Company reconstituted its board of directors and senior management team at that time and changed its name to Diamond Estates Wines & Spirits Inc.

The Company's common shares are listed on the TSX-V under the symbol "DWS.V".

The principal business activities of the Company 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 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 consolidated financial statements. Such adjustments could be material.

The Company has incurred repeated losses as net loss and comprehensive loss for the year ended March 31, 2015 was $1,705,953 (2014 - $4,075,413). Working capital as at March 31, 2015 was $1,931,098 compared with a deficiency of $108,319 as at March 31, 2014. The Company has continued to receive the support of Meridian Credit Union, its primary lender, by virtue of revised and/or renewed credit agreements *(see note 14)* since going public in September, 2013. It also completed a private placement for net proceeds of $3,038,372 on April 29, 2015 (*see note 28(a))* that has significantly improved its working capital position.

The Company's ability to meet the covenant measurements under the terms of its credit agreements with its lender are dependent upon improvements in profitability. The losses incurred to date 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). They were authorized for issuance by the Board of Directors on June 25, 2015.

### (b) Basis of consolidation

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

| | | |
|---|---|---|
| ♦ | Diamond Estates Wines & Spirits Ltd. *(see note 6)* | 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. *(see note 28(b))*. 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 as detailed in note 5.

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 consolidated financial statements. All intercompany balances, income and expenses, and unrealized gains and losses resulting from intercompany transactions are eliminated in full.

### (c) Financial instruments

The Company's financial assets consist entirely of accounts receivable and restricted cash. The Company's financial liabilities consist of bank indebtedness, accounts payable and accrued liabilities, shareholder loan payable, term loans payable and loan payable - non-controlling interest.

## 2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### (c) Financial instruments, continued

**Measurement of financial instruments**

Financial instruments are measured at fair value on initial recognition of the instrument and classified into one of the following categories:

- Fair value through profit or loss ("FVTPL")
- Loans and receivables
- Held-to-maturity investments
- Available-for-sale financial assets, or
- Other financial liabilities

Subsequent measurement of financial instruments is based on their initial classification. Financial instruments classified as FVTPL are measured at fair value and changes in fair value are recognized in profit and loss. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. The remaining categories of financial instruments are measured at amortized cost using the effective interest rate method.

Transaction costs related to financial assets and liabilities at FVTPL are recognized in profit and loss. When incurred, transaction costs are deducted against the fair value of the all other financial instruments on initial recognition.

Accounts receivable have been classified as loans and receivables. The remaining financial instruments have been classified as other financial liabilities.

The fair values of accounts receivable, restricted cash, bank indebtedness, accounts payable and accrued liabilities, shareholder loan payable and loan payable - non-controlling interest approximate their fair values due to the short-term or demand nature of these balances. The fair values of the respective term loans approximate their carrying values as the contracted lending rates approximate the rates currently available for similar borrowing arrangements.

**Impairment of financial assets**

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty
- Default or delinquency in interest or principal payments, or
- It becoming probable that the borrower will enter bankruptcy or financial reorganization

## 2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### (c) Financial instruments, continued

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

### (d) Inventory

Inventory that is purchased by the Company, including raw materials and wine, is valued at the lower of cost and net realizable value, with cost being determined on a first-in, first-out basis. Grapes produced from vineyards controlled by the Company that are part of inventory are measured at their fair value less costs to sell at the point of harvest.

Inventory of wine that is produced by the Company is valued at the lower of cost and net realizable value, with cost being determined on an average cost basis.

Inventories include all costs to purchase, convert and bring the inventories to their present location and condition. Such costs include purchase price net of discounts and rebates, applicable duties and taxes, transport and handling costs.

The Company tracks other inventory costs, such as direct labour, fixed and variable production overhead, including depreciation of equipment, maintenance of production buildings and equipment and production management. These costs are allocated to inventory on a per litre basis.

### (e) Property, plant and equipment

Depreciation is computed using the following annual rates and methods which reflect the estimated useful life of the assets as follows:

| | Asset | | Rate | Method |
|---|---|---|---|---|
| ♦ | Buildings | - | 4 - 10% | diminishing balance |
| ♦ | Machinery and equipment | - | 20% | diminishing balance |
| ♦ | Leasehold improvements | - | 20% | diminishing balance |
| ♦ | Equipment | - | 10 - 25% | diminishing balance |
| ♦ | Vehicles | - | 30% | diminishing balance |
| ♦ | Computer equipment | - | 30 - 45% | diminishing balance |

## 2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### (f) Biological assets

The Company measures biological assets, consisting of grape vines that are considered "bearer plants", at fair value less costs to sell. Agricultural produce, consisting of grapes grown on vineyards controlled by the Company, is measured at fair value less cost to sell at the point of harvest and becomes the basis for the cost of inventory after harvest.

Gains or losses arising from a change in fair value less costs to sell are recognized in profit and loss in the reporting period in which they arise.

### (g) Intangible assets

Intangible assets acquired separately are initially recorded at fair market value and subsequently at cost less accumulated amortization and impairment losses. Subsequent expenditures on development and maintenance of computer software are expensed as incurred.

Intangible assets with finite lives are amortized over their useful economic lives as follows:

- Computer software - 100% diminishing balance
- Distribution rights - 11 years
- Trademarks - 5 years

Gains and losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit and loss when the asset is derecognized.

Indefinite lived intangible assets are not subject to amortization and are assessed annually for impairment using the method described in the note 2(h). The pre-1993 winery licenses have an indefinite life.

**2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

### (h) Impairment testing of property, plant and equipment and intangible assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash flows (cash-generating units).

All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management.

Impairment losses for cash-generating units reduce the carrying amount of the assets in that cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount. Any reversal cannot result in the carrying amount exceeding the original value less the depreciation or amortization that would have been recognized.

### (i) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Tax on income is accrued using the tax rate that would be applicable to expected total annual earnings.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that the taxable profits will be available against which those deductible temporary differences can be utilized.

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit.

## 2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that the sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

### (j) Provisions and contingencies

Provisions are recognized when a legal or constructive obligation exists as a result of past events and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. Where the effect is material, the provision is discounted using an appropriate current market-based pre-tax discount rate. The increase in the provision due to passage of time is recognized as interest expense.

When a contingency substantiated by confirming events can be reliably measured and is likely to result in an economic outflow, a liability is recognized at the best estimate required to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or it is not probable to result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the consolidated financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### (k) Earnings per share

Basic loss per share amounts are calculated by dividing consolidated net loss for the reporting period attributable to common shareholders by the weighted average number of common shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the consolidated net loss attributable to common shareholders by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into common shares. Diluted loss per share amounts are not presented if their inclusion would be anti-dilutive.

### (l) Share based payments

The Company offers a share option plan for its directors, officers and employees. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured using the Black-Scholes option pricing model. Share based payments expense is recognized upon vesting over the tranche's vesting period by increasing the reserve for share based payments based on the number of awards expected to vest. Any consideration paid on exercise of share options is credited to share capital.

For equity settled transactions, the Company measures goods or services received at their fair value, unless that fair value cannot be estimated reliably, in which case the Company measures their value by reference to the fair value of the equity instruments granted.

### (m) Foreign currency translation

In preparing the consolidated financial statements of the Company, transactions in currencies other than the Company's functional currency are recorded at the rates of exchange prevailing at the dates of the transactions. These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company. At the end of each reporting period, monetary assets and liabilities are translated using the foreign exchange rate at that date. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. All gains and losses on translation of these foreign currency transactions are included in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### (n) Revenue recognition

The Company records a sale when it has transferred the risks and rewards of ownership of the goods to the buyer, namely: (i) the Company has no continuing managerial involvement over the goods, (ii) it is probable that the consideration will be received, and (iii) the amount of revenue and costs related to the transaction can be measured reliably.

For transactions with provincial liquor boards, licensee retail stores and wine kit retailers, the Company's terms are "FOB shipping point". Accordingly, sales are recorded when the product is shipped from the Company's distribution facility. Sales to consumers through retail stores, winery restaurants and estate wineries are recorded when the product is purchased. Commission income is recognized when products are sold.

Revenue from brand management is presented net of the related costs as the Company is acting as an agent in these transactions. Revenue is recognized when there is certainty about receipt of the consideration and all related costs have been incurred.

Excise taxes collected on behalf of the federal government, licensing fees and levies paid on wine sold through the Company's independent Ontario retail stores, product returns, breakage and discounts provided to customers are deducted from gross revenue to arrive at sales.

### (o) Uses of estimates and judgements

The preparation of these 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:

#### (i) 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.

#### (ii) Property, plant and equipment

Property, plant and equipment represent a significant proportion of the asset base of the Company as they amount to 37.4% (2014 - 46.5%) of total assets. Therefore, estimates and assumptions made to determine their carrying value and related depreciation are critical to the Company's financial position and performance.

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(o) **Uses of estimates and judgements, continued**

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.

(iii) **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.

(iv) **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.

(v) **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.

## 2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### (p) Business combinations

A business combination is a transaction or other event in which control over one or more businesses is obtained. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits. A business consists of inputs and processes applied to those inputs that have the ability to create outputs that provide a return to the Company and its shareholders.

Business acquisitions are accounted for using the acquisition method whereby acquired assets and liabilities are recorded at fair value as of the date of acquisition with the excess of the purchase consideration over such fair value being recorded as goodwill and allocated to cash generating units. Cash generating units are the smallest identifiable group of assets, liabilities and associated goodwill that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Non-controlling interest in an acquisition may be measured at either fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's net identifiable assets.

If the fair value of the net assets acquired exceeds the purchase consideration, the difference is recognized immediately as a gain in the consolidated statement of net loss and comprehensive loss.

Acquisition related costs are expensed during the period in which they are incurred, except for the cost of debt or equity instruments issued in relation to the acquisition which is included in the carrying amount of the related instrument.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will not exceed one year from the acquisition date.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depend on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recorded in profit or loss.

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

As at the date of authorization of these 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.

(d) **IAS 32: "Financial Instruments - Offsetting Financial Assets and Financial Liabilities"** provides further clarification on the application of the offsetting requirements. The Company will start the application of IAS 32 in the financial statements effective from March 31, 2015.

The Company has not early adopted any of these standards, but management is currently assessing the impact of their application in the 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 agent and distribution agreements with beverage alcohol suppliers, of their respective agencies to KDC in exchange for their respective partnership interests. For the three month period ended December 31, 2014, each partner operated their respective agency businesses independently and carved out the activity for the benefit of the partnership. Each partner therefore also retained ownership of their respective working capital during this period in order to continue to operate their own businesses independently. On a beneficial basis, each partner therefore contributed their respective inventories as at October 1, 2014 to the partnership offset by loans payable. However, accounts receivable and accounts payable balances at October 1, 2014 related to activity prior to the inception of the partnership were retained by the partners such that they did not form part of the business combination. The Company did not issue any equity or cash consideration, contingent or otherwise, to the owners of The Kirkwood Group as a result of this 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 14(f))*. 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:

| | Original | Revision | **Final** |
|---|---|---|---|
| **Consideration transferred to KDC by the Company** | | | |
| Inventories | $ 1,597,708 | $ - | **$ 1,597,708** |
| Loan payable - Diamond | (1,597,708) | - | **(1,597,708)** |
| Intangible assets (distribution rights) | 3,700,000 | 16,053 | **3,716,053** |
| | $ 3,700,000 | $ 16,053 | **$ 3,716,053** |
| **Fair value of KDC assets acquired and liabilities assumed** | | | |
| Inventories | $ 5,161,228 | - | **$ 5,161,228** |
| Loans payable - partner companies (Note 17) | (5,161,228) | - | **(5,161,228)** |
| Intangible assets (distribution rights) | 7,200,000 | 59,389 | **7,259,389** |
| Net assets acquired before non-controlling interest | 7,200,000 | 59,389 | **7,259,389** |
| Non-controlling interest | (3,500,000) | (43,336) | **(3,543,336)** |
| | $ 3,700,000 | $ 16,053 | **$ 3,716,053** |

### 4. BUSINESS ACQUISITION AND NON-CONTROLLING INTEREST, CONTINUED

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 March 31, 2015, and for the six month period then ended, before consolidation eliminations, are as follows:

| | $ |
|---|---|
| Accounts receivable | 2,300,000 |
| Inventories | 3,963,000 |
| Intangible assets | 6,929,000 |
| Bank indebtedness | (1,848,000) |
| Accounts payable | (2,434,000) |
| Loan payable - partner company | (1,376,000) |
| | |
| Revenues | 8,620,000 |
| Net loss | (404,000) |

The Company has recognized $4,971,234 of revenue and $527,318 of net loss in the six month period ended March 31, 2015 that would not have otherwise have been recorded in absence of this acquisition. Included in this amount are acquisition-related expenses of $49,544. The Company cannot reasonably determine the total revenue and net income amount that the partnership would have generated had the merger taken effect on April 1, 2014 as not all of the activities of The Kirkwood Group during that period related to the business that became part of the new partnership on October 1, 2014.

Restructuring costs of $475,404 were provided for in the six months ended March 31, 2015 to cover employee severance and lease termination costs.

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 14(f).

### 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 16. 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 *(see note 10)*, resulting in a loss on disposition of $80,916.

## 5. De Sousa Wine Cellars Corporation Sale And Leaseback, continued

(b) Approximately $780,000 of the proceeds were used to retire the remaining outstanding mortgage on the property *(see note 14)*, 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 since the sale and leaseback on November 10, 2014 total $27,041.

(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. Reverse Takeover Transaction ("RTO")

On September 24, 2013, Whiteknight Acquisitions II Inc. ("WKN"), now the Company, acquired 100% of the issued and outstanding shares of Diamond Estates Wines & Spirits Ltd. ("Diamond Ltd."), a private company. The transaction constituted the Qualifying Transaction of WKN as such term is defined in Policy 2.4 of the TSXV. To effect the transaction, WKN issued 26,275,310 common shares and 399,973 share purchase warrants in exchange for the all the issued and outstanding securities of Diamond Ltd. WKN subsequently changed its name to Diamond Estates Wines & Spirits Inc. ("Diamond"), such that Diamond is now the parent company of Diamond Ltd., its 100% owned-subsidiary.

Although the transaction resulted in Diamond Ltd. legally becoming a wholly-owned subsidiary of WKN, the transaction constituted a reverse takeover of WKN and was accounted for as a reverse takeover transaction in accordance with guidance provided in IFRS 2 Share Based Payments. As WKN did not qualify as a business according to the definition in IFRS 3, this reverse takeover transaction did not constitute a business combination. It was treated as an issuance of shares by Diamond Ltd. for the net monetary assets of WKN.

The transaction therefore has been accounted for as a capital transaction, with Diamond being identified as the accounting acquirer and the equity consideration measured at fair value. The resulting consolidated statement of financial position has been presented as a continuance of Diamond Ltd. operations and comparative figures presented in the consolidated financial statements after the reverse acquisition are those of Diamond Ltd. The results of operations, cash flows and the assets and liabilities of WKN have been included in these consolidated financial statements since September 24, 2013, the acquisition date.

## 6. REVERSE TAKEOVER TRANSACTION ("RTO"), CONTINUED

The consideration paid by Diamond Ltd. to acquire WKN was measured on the basis of the fair value of the equity instruments issued, considering the price per share of private placements closing concurrently with the transaction. In accordance with IFRS 2, the excess of the fair value of the equity instruments issued by Diamond over the value of the net monetary assets of WKN was recognized in the consolidated statements of comprehensive loss as a non-cash loss on completion of the RTO. In addition, as options granted prior to the transaction by WKN remain exercisable after the completion of the reverse acquisition, the fair value of the options at the acquisition date are also included as part of the consideration transferred. The fair value of the consideration and related allocation were as follows:

| | |
|---|---|
| **Fair value of consideration issued:** | |
| Deemed issuance of 5,324,000 common shares to former shareholders of WKN at $0.20 per share (Note 19(a)(ii)) | **$ 1,064,800** |
| Options deemed granted to former officers and directors of WKN | **63,888** |
| | **$ 1,128,688** |
| **Allocation of consideration:** | |
| Funds held in trust | **$ 440,894** |
| Accounts payable and accrued liabilities | **(61,993)** |
| Non-cash loss on completion of RTO | **749,787** |
| | **$ 1,128,688** |

The Company incurred costs of $352,598 related to the listing transaction, including legal, accounting and listing fees.

## 7. ACCOUNTS RECEIVABLE

| | **2015** | 2014 |
|---|---|---|
| Trade receivables | **$ 3,605,237** | $ 2,891,495 |
| Accrued receivables | **142,065** | 136,148 |
| Other | **-** | 7,621 |
| | **$ 3,747,303** | $ 3,035,264 |

## 8. INVENTORIES

| | **2015** | 2014 |
|---|---|---|
| Bulk wine | **$ 8,721,635** | $ 7,463,739 |
| Bottled wine and spirits | **7,734,554** | 4,530,831 |
| Bottling supplies and packaging | **478,094** | 471,592 |
| | **$ 16,934,283** | $ 12,466,162 |

## 9. RESTRICTED CASH

The funds received from the related company described in note 16 are 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 14)*. They were used to fund the partial repayment of non-revolving term loan #3 *(see note 18)* that was made on May 6, 2015 *(see note 28(a))*.

## 10. ASSETS HELD FOR SALE

On November 10, 2014, the assets held for sale were sold for $1,800,000 under the sale and leaseback transaction as described in note 5(a). Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. At the date of sale, the Company had assets held for sale with a carrying amount of $1,880,916 relating to its De Sousa Beamsville winery property (owned by De Sousa Wine Cellars Corp.) located at 3753 Quarry Road, Beamsville, Ontario.

The assets held for sale consisted of all the land, buildings, equipment and biological assets, net of accumulated depreciation and an impairment provision, as detailed below:

| | **2015** | 2014 |
|---|---|---|
| Land | **$ -** | $ 496,494 |
| Buildings | **-** | 966,307 |
| Equipment | **-** | 531,045 |
| Biological assets (Note 11) | **-** | 147,070 |
| Impairment provision | **-** | (260,000) |
| | **$ -** | $ 1,880,916 |

(a) These assets had been measured at the lower of their carrying amount and fair value less costs to sell. Based on a then-current valuation of the property, management recorded an impairment provision of $260,000 as at March 31, 2014.

(b) The property and buildings included in the assets held for sale acted as security for the De Sousa Loan *(see note 14)*. This loan amount was repaid in full out of the sale proceeds.

## 11. BIOLOGICAL ASSETS

Biological assets consist of grapes vines that are controlled by the Company. Fair value has been determined based on appraisals obtained for the grape vines held at various times and updated with analysis of market data for sales of similar properties. As at March 31, 2015, the Company held grape vines planted on 34 acres (2014 - 34 acres), 22 acres of which were held through the operating lease of the De Sousa Beamsville winery property *(see notes 5(c) and 10)*. During the year, the Company harvested 97 tons of grapes (2014 - 186 tons).

The changes in the carrying amount of biological assets are as follows:

| | **2015** | 2014 |
|---|---|---|
| **Carrying value, beginning of year** | **$ 86,030** | $ 233,100 |
| Transfer to assets held for sale (Note 10) | **-** | (147,070) |
| **Carrying value, end of year** | **$ 86,030** | $ 86,030 |

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings | Machinery and equipment | Leasehold improvements | Equipment | Vehicles | Computer equipment | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| **As at April 1, 2013** | **$ 1,616,149** | **$ 13,778,153** | **$ 8,686,931** | **$ 80,400** | **$ 1,133,113** | **$ 57,841** | **$ 316,421** | **$ 25,669,008** |
| Additions | - | 4,175 | 48,515 | - | - | - | 2,728 | 55,418 |
| Transfer to assets held for sale | (496,495) | (1,222,036) | - | - | (964,568) | - | (9,681) | (2,692,780) |
| **As at March 31, 2014** | **1,119,654** | **12,560,292** | **8,735,446** | **80,400** | **168,545** | **57,841** | **309,468** | **23,031,646** |
| Additions | 6,988 | 12,451 | 171,768 | - | - | 38,500 | 13,647 | 243,354 |
| **As at March 31, 2015** | **$ 1,126,642** | **$ 12,572,743** | **$ 8,907,214** | **$ 80,400** | **$ 168,545** | **$ 96,341** | **$ 323,115** | **$ 23,275,000** |
| **Accumulated depreciation** | | | | | | | | |
| **As at April 1, 2013** | **$ -** | **$ 2,243,295** | **$ 3,588,417** | **$ 42,558** | **$ 498,123** | **$ 25,713** | **$ 283,620** | **$ 6,681,726** |
| Depreciation | - | 431,171 | 542,011 | 7,445 | 47,357 | 9,639 | 18,465 | 1,056,088 |
| Transfer to assets held for sale | - | (255,729) | - | - | (434,518) | - | (8,687) | (698,934) |
| **As at March 31, 2014** | **-** | **2,418,737** | **4,130,428** | **50,003** | **110,962** | **35,352** | **293,398** | **7,038,880** |
| Depreciation | - | 384,969 | 487,730 | 6,672 | 6,554 | 12,521 | 9,296 | 907,742 |
| **As at March 31, 2015** | **$ -** | **$ 2,803,706** | **$ 4,618,158** | **$ 56,675** | **$ 117,516** | **$ 47,873** | **$ 302,694** | **$ 7,946,622** |
| **Net book value** | | | | | | | | |
| **As at March 31, 2014** | **$ 1,119,654** | **$ 10,141,555** | **$ 4,605,018** | **$ 30,397** | **$ 57,583** | **$ 22,489** | **$ 16,070** | **$ 15,992,766** |
| **As at March 31, 2015** | **$ 1,126,642** | **$ 9,769,037** | **$ 4,289,056** | **$ 23,725** | **$ 51,029** | **$ 48,468** | **$ 20,421** | **$ 15,328,378** |

## 13. INTANGIBLE ASSETS

| | Pre-1993 winery licenses | Distribution rights | Trademarks | Computer software | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **As at April 1, 2013 and March 31, 2014** | **$ 750,000** | **$ 5,276,427** | **$ 52,358** | **$ 136,351** | **$ 6,215,136** |
| Kirkwood acquisition | - | 3,543,336 | - | 591 | 3,543,927 |
| **As at March 31, 2015** | **$ 750,000** | **$ 8,819,763** | **$ 52,358** | **$ 136,942** | **$ 9,759,063** |
| **Accumulated amortization** | | | | | |
| **As at April 1, 2013** | **$ -** | **$ 4,929,787** | **$ 41,550** | **$ 136,351** | **$ 5,107,688** |
| Amortization | - | 346,640 | 2,161 | - | 348,801 |
| **As at March 31, 2014** | **-** | **5,276,427** | **43,711** | **136,351** | **5,456,489** |
| Amortization | - | 161,061 | 1,838 | - | 162,899 |
| **As at March 31, 2015** | **$ -** | **$ 5,437,488** | **$ 45,549** | **$ 136,351** | **$ 5,619,388** |
| **Net book value** | | | | | |
| **As at March 31, 2014** | **$ 750,000** | **$ -** | **$ 8,647** | **$ -** | **$ 758,647** |
| **As at March 31, 2015** | **$ 750,000** | **$ 3,382,275** | **$ 6,809** | **$ 591** | **$ 4,139,675** |

(a) The pre-1993 winery licenses issued to Lakeview Cellars Estate Winery Limited and De Sousa Wines Toronto Inc. grant the licensees considerably more flexibility than post-1993 licenses with respect to blending practices, location of operations and other wine-making matters. These licenses are transferable at the discretion of the Alcohol and Gaming Commission of Ontario ("AGCO").

(b) Distribution rights represent exclusive rights to act as an agent and/or distributor in certain provinces for various beverage alcohol products. These agency relationships are for either a fixed, renewable or unlimited term, subject to termination clauses in the agreements. Under these clauses, and under common law, the Company would be entitled to compensation, typically equal to nine months commission earnings, in the event that a contract is terminated. The distribution rights acquired as part of the Kirkwood Diamond Canada acquisition (see note 4) were valued at fiscal 2014 gross margin, normalized for variable selling costs and client relationships retained. The Company estimated that these distribution rights had an original useful life of 17 years, and that the acquisition cost would be amortized on a straight-line basis over their estimated remaining life (as of the acquisition date) of 11 years.

## 14. 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 14(f))*.

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

| | **2015** | 2014 |
|---|---|---|
| **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% (prime throughout the year was 3.00%, 2.85% as at March 31, 2015), total credit facility available is $10,000,000, subject to certain margin limits in respect of accounts receivable and inventory | **$ 9,228,828** | $ 12,175,284 |
| De Sousa Loan: loan bearing interest at prime plus 2.50%, interest plus principal of $8,215 payable monthly until August, 2023; due by August 31, 2014 *(see also note 10)* | **-** | 837,845 |
| | **9,228,828** | 13,013,129 |
| De Sousa Loan presented separately as associated with assets held for sale (Note 10) | **-** | (837,845) |
| 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 $3,000,000, subject to certain margin limits in respect of accounts receivable and inventory similar to Diamond's facility (Note 14(f)) | **1,848,082** | - |
| | **$ 11,076,910** | $ 12,175,284 |

(a) The revised credit agreement for Diamond dated January 12, 2015, amended on March 25, 2015, reflects the following major changes from the previous agreements dated September 17, 2014 and July 24, 2013:

(i) The operating line decreased from $13,000,000 to $10,000,000, interest rate unchanged (prime plus 2.5%). The margin limit for inventory decreased from $11,000,000 to $8,500,000 at 70% of the value of inventory from 90% previously.

(ii) $1,500,000 of the prior line of credit was converted to instalment based non-revolving loan #2 *(see notes 14(c)(iii) and 18)*. Should the Company issue new shareholder equity exceeding $3,250,000 (net of reasonable issuance expenses), MCU is entitled to an immediate lump-sum payment of $500,000.

## 14. BANK INDEBTEDNESS, CONTINUED

(iii) A non-revolving loan of $1,250,000, $750,000 of which is to be used for investment in Kirkwood Diamond Canada Partnership *(see note 4)* and $500,000 of the prior line of credit converted to instalment based non-revolving loan #3 *(see notes 14(c)(iv) and 18)*. Should the Company issue new shareholder equity exceeding $3,250,000 (net of reasonable issuance expenses), MCU is entitled to immediate repayment of 100% of the remaining loan balance.

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 28(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 9)*.

(iv) The security positions granted, margining calculations, reporting requirements and financial covenants are generally unchanged, except that the minimum effective net worth required increased from $7,000,000 to $7,500,000, but measurement commencing effective the fiscal year ended March 31, 2016 *(see note 14(e)(i))*.

(v) Maintenance of financial covenants measuring: the Debt Service Ratio ("DSR") of 1.25|1.00 on an annual basis *(see note 14(e)(iii))*, a trailing four quarter DSR of 1.25|1.00 on a quarterly basis *(see note 14(e)(iv))*, and the ratio of total debt to effective net worth measured annually *(see note 14(e)(ii))* were all deferred for one year so as to commence effective the fiscal year ended March 31, 2016.

(b) The revised credit agreement September 17, 2014 reflects the following major changes from the previous agreement dated July 24, 2013:

(i) the inclusion of pre-1993 branding licenses (an intangible asset) at 50% in the calculation of net effective worth
(ii) the debt to effective net worth ratio falling to 3.25:1 on March 31, 2016
(iii) maintaining at least three product listings with the Liquor Control Board of Ontario

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

(c) ***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 of $9,212,699 *(see note 18)*, 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) $1,500,000 instalment based non-revolving loan #2 *(see note 18)*, 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.

## 14. BANK INDEBTEDNESS, CONTINUED

(iv) Non-revolving loan #3 of $1,250,000 *(see note 18)*, $750,000 of which is to be 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.

(d) ***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 and assignment of funds on deposit in the amount of $500,000 *(see note 9)*.

(e) ***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 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
(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 March 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.

(f) 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:

(i) operating line of up to $3,000,000
(ii) payments of interest only, interest at prime plus 2%

### 14. BANK INDEBTEDNESS, CONTINUED

(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

### 15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | 2015 | 2014 |
|---|---|---|
| Trade accounts payable | **$ 5,001,335** | $ 3,023,310 |
| Accrued liabilities | **740,030** | 296,625 |
| Government remittances payable | **10,466** | 141,654 |
| | **$ 5,751,831** | $ 3,461,589 |

### 16. SHAREHOLDER LOAN PAYABLE

The loan, payable to the Company's largest shareholder, is unsecured and bears interest at 8% per annum. It is due by April 1, 2016, but may be renewed by agreement between the parties. Under the provisions of the MCU credit agreement, the amount of this loan has been included in the determination of effective net worth *(see note 14(e)(i))*.

### 17. 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 losses during the merger and integration of the two agency businesses. The loan is unsecured, non-interest bearing and due on demand.

| | 2015 | 2014 |
|---|---|---|
| Loan payable - non-controlling interest | **$ 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 14(f)).

## 18. TERM LOANS PAYABLE

As more fully described in note 14(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 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 described in note 14(c), 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 March 31, 2015, the amount outstanding was as follows:

| | **2015** | 2014 |
|---|---|---|
| Meridian Credit Union term loans: | | |
| Non-revolving loan #1 | **$ 9,212,699** | $ 9,828,516 |
| Non-revolving loan #2 (Note 14(a)(ii)) | **1,489,837** | - |
| Non-revolving loan #3 (Note 14(a)(iii)) | **1,213,072** | - |
| | **11,915,608** | 9,828,516 |
| Less: current portion | **(1,227,868)** | (616,115) |
| | **$ 10,687,740** | $ 9,212,401 |

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

(a) Remaining term of 3 years, 9 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 14, including general security agreements by each Company in the group, a collateral mortgage for $15,000,000 on the property and buildings at the Company's primary place of operations and assignment of funds on deposit in the amount of $500,000 *(see note 9)*.

Estimated principal repayments are as follows:

| | |
|---|---|
| Year ended March 31, 2016 | **$ 1,227,868** |
| Year ended March 31, 2017 | **1,329,939** |
| Year ended March 31, 2018 | **1,090,302** |
| Year ended March 31, 2019 | **8,267,499** |
| | **$ 11,915,608** |

## 19. 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 consolidated statements of changes in shareholders' equity for the years ended March 31, 2015 and 2014. Details of changes in each component during the year ended March 31, 2014 (there were none during the year ended March 31, 2015) are as follows:

(a) **Common share transactions**

(i) Effective just prior to the closing of the WKN reverse takeover, Diamond issued common shares in connection with the following:
- 4,431,386 common shares valued at $2,065,441 upon conversion of 4,431,386 Series B preference shares *(see note 19(b)(i))*;
- 367,973 common shares valued at $220,783 (deemed value of $0.60 per share) in satisfaction of the 8% dividend entitlement on the Series B preference shares *(see note 19(b)(ii))*;
- A net of 4,346,659 common shares valued at $869,332 in satisfaction of certain liabilities under share price guarantees *(see note 23)*;
- 1,787,278 common shares valued at $321,710 upon conversion of convertible debentures;
- 390,677 common shares valued at $79,571 in settlement of certain accounts payable and accrued liabilities, as follows:
  - 97,500 common shares valued at $19,500 for unpaid director fees
  - 251,461 common shares valued at $50,294 for interest on the convertible debentures, and
  - 41,716 common shares valued at $9,777 for settlement of certain accounts payable

(ii) On September 24, 2013, Diamond was deemed to have issued 5,324,000 common shares valued at $1,064,800 to the former shareholders of WKN pursuant to the reverse takeover *(see note 6)*.

(iii) On September 24, 2013, concurrent with the WKN transaction, the Company closed a private placement whereby 41,756,060 common shares were issued at $0.20 per share for gross cash proceeds of $8,351,212.

Share issue costs of $385,125 were incurred, made up of broker commissions and expenses of $289,168 and legal fees and disbursements of $95,957.

(iv) As at March 31, 2015, 19,689,656 (March 31, 2014 - 29,511,987) common shares are subject to escrow agreements. Under the terms of these agreements, 10% of the shares were released on October 2, 2013, the date of issuance of the Final Exchange Bulletin, the TSX-V's acceptance of the WKN transaction, and a further 15% were released on each of April 2, 2014 and October 2, 2014. 15% will be released on each dates which are 18 months, 24 months, 30 months and 36 months from the October 2, 2013 initial 10% release date.

## 19. SHARE CAPITAL AND OTHER EQUITY INSTRUMENTS, CONTINUED

(b) **Series B preference shares**

(i) Prior to closing of the WKN transaction, the 4,431,386 Series B preference shares valued at $2,065,441 were converted into common shares on a 1:1 ratio.

(ii) Prior to closing, the Company also settled the cumulative 8% dividend entitlement on the Series B preference shares through the issuance of 367,973 common shares at the stipulated price of $0.60 per share for a total value of $220,783. This amount represented payment for the period from June, 2012 to September, 2013. Of this amount, $129,699 had previously been recognized as at March 31, 2013 with the balance of $91,084 being recognized in the year ended March 31, 2014.

(c) **Reserve for warrants**

As at March 31, 2015, the Company had a total of 288,220 (2014 - 399,973) broker warrants outstanding, made up of the following:

(i) On July 31, 2008, Diamond issued 111,753 broker warrants in connection with a common share issuance financing. Each broker option was exercisable into one Diamond common share at an exercise price of $3.80 per share and expired 12 months after the completion of the "going public" transaction. No value was attributed to these warrants on transition to IFRS and they expired unexercised on September 24, 2014.

(ii) On June 6, 2011, Diamond issued 288,220 broker warrants in connection with the Series B preference share issuance financing. These warrants expire on June 6, 2016 and have an exercise price of $0.60 per share. A value of $128,863 was attributed to these broker warrants. To date, none of these outstanding warrants have been exercised. The remaining life of these broker warrants is 1.2 years (2014 - 2.2 years).

(d) **Loss per share**

Basic and diluted loss per share is computed using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the years ended March 31, 2015 was 73,403,749 (2014 - 45,144,187). 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 detailed above, as at March 31, 2015, the following potentially dilutive equity instruments were all outstanding: (1) 288,220 warrants (2014 - 399,973), (2) 6,682,400 options (2014 - 3,132,400).

## 20. 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.

### 20. STOCK OPTIONS, CONTINUED

Stock option activity for years ended March 31, 2015 and March 31, 2014 is as follows:

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **Options** | **Weighted -average exercise price ($)** | Options | Weighted-average exercise price ($) |
| Outstanding, beginning of year | **3,132,400** | **0.21** | 900,000 | 0.70 |
| Options cancellation | **-** | **-** | (900,000) | 0.70 |
| Granted to CEO | **-** | **-** | 2,000,000 | 0.20 |
| Assumed upon WKN closing | **-** | **-** | 532,400 | 0.20 |
| Granted to BOD | **-** | **-** | 600,000 | 0.25 |
| Granted to CFO *(see note 20(a))* | **500,000** | **0.25** | - | - |
| Granted to Oakwest *(see note 20(b))* | **1,400,000** | **0.12** | - | - |
| Granted to Chairman *(see note 20(b))* | **600,000** | **0.12** | - | - |
| Granted to key management *(see note 20(c))* | **1,050,000** | **0.11** | - | - |
| Outstanding, end of year | **6,682,400** | **0.17** | 3,132,400 | 0.21 |

As at March 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 | 1,333,334 | 0.20 | 3.49 | September 23, 2018 |
| September 24, 2013 | 532,400 | 532,400 | 0.20 | 1.96 | March 7, 2017 |
| September 24, 2013 | 600,000 | 399,996 | 0.25 | 3.49 | September 23, 2018 |
| June 5, 2014 | 500,000 | - | 0.25 | 4.18 | June 5, 2019 |
| November 10, 2014 | 1,400,000 | 280,000 | 0.12 | 4.62 | November 9, 2019 |
| November 10, 2014 | 600,000 | 120,000 | 0.12 | 4.62 | November 9, 2019 |
| November 24, 2014 | 1,050,000 | - | 0.11 | 4.65 | November 23, 2019 |
| | 6,682,400 | 2,665,730 | | | |

## 20. STOCK OPTIONS, CONTINUED

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

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

(i) On June 5, 2014, a grant of 500,000 options was made to the Company's new CFO. The options are exercisable at $0.25 per share with a term of five years (expiring June 4, 2019) and vest as at 25% of the total number of options granted on each anniversary date over 4 years.

(ii) The fair value of these options has been calculated with the Black-Scholes option pricing model. Using the assumptions of: (1) risk free interest rate of 1.31%, (2) expected volatility of 100%, (3) expected life of 4 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was $0.11.

(b) **November 10, 2014 grant to Oakwest and David Beutel**

(i) Concurrent with the sale and leaseback of the winery *(see note 5)*, the Company has executed an agreement with Oakwest on November 10, 2014 which will provide financial and operational consulting services over the lease term. In consideration of these services, the Company will pay $1 per year and has issued 1,400,000 stock options to Oakwest exercisable at $0.12 per option with a term of five years. The options vested as to 20% immediately and the remainder evenly on each anniversary date over the next 4 years. The Company has also issued 600,000 stock options under the same terms to David Beutel, Chair of its Board of Directors and a Vice President at Oakwest.

(ii) The fair value of these options has been calculated with the Black-Scholes option pricing model. Using the assumptions of: (1) risk free interest rate of 1.43%, (2) expected volatility of 100%, (3) expected life of 4 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was $0.07.

(c) **November 24, 2014 grant to key management personnel:**

(i) The Board of Directors approved the grant of 1,050,000 options to key management personnel. The options are exercisable at $0.11 per option with a term of five years (expiring November 23, 2019) and vest evenly on each anniversary date over 5 years.

(ii) The fair value of these options has been calculated with the Black-Scholes option pricing model. Using the assumptions of: (1) risk free interest rate of 1.43%, (2) expected volatility of 100%, (3) expected life of 4 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was $0.07.

(d) **Share based payments:**

Share based payments were recognized for the year March 31, 2015 of $193,235 (2014 - $190,666) based on accrual of previously granted options expected to vest in the reporting period.

## 21. INCOME TAXES

(a) **Income rate reconciliation**

The reconciliation of the combined Canadian federal and provincial statutory income tax rates on the net loss for the years ended March 31 is as follows:

| | | 2015 | | 2014 |
|---|---|---|---|---|
| **Net loss before recovery of income taxes** | **$** | **(1,705,953)** | $ | (4,075,413) |
| Expected income tax recovery | | **26.50%** | | 26.50% |
| Expected income tax recovery | **$** | **(452,080)** | $ | (1,079,980) |
| Decrease (increase) resulting from: | | | | |
| Tax rate changes and other adjustments | | **(84,630)** | | (50,500) |
| Non-deductible expenses | | **349,550** | | 397,470 |
| Expiry of tax losses not previously recognized | | **23,660** | | 734,920 |
| Change in tax benefits not recognized | | **163,500** | | (1,910) |
| **Recovery of income taxes** | **$** | **-** | $ | - |

(b) **Deferred tax**

The following table summarizes the components of deferred tax:

| | | 2015 | | 2014 |
|---|---|---|---|---|
| **Deferred tax asset** | | | | |
| Non-capital losses carried forward | **$** | **2,157,270** | $ | 2,314,900 |
| **Deferred tax liabilities** | | | | |
| Property, plant and equipment | | **(2,157,270)** | | (2,314,900) |
| Net deferred tax liabilities | **$** | **-** | $ | - |

## 21. INCOME TAXES, CONTINUED

(c) **Unrecognized deferred tax assets**

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

| | **2015** | 2014 |
|---|---|---|
| | **$** | $ |
| Non-capital losses carried forward | **14,953,230** | 13,829,870 |
| Capital losses carried forward | **444,100** | 440,100 |
| Share issuance costs | **641,470** | 1,160,800 |
| Intangible assets | **312,010** | 321,830 |
| Other | **22,800** | - |

The non-capital loss carry forwards expire as noted in the table below. The net capital loss carry forward may be carried forward indefinitely, but can only be used to reduce capital gains. Share issue and financing costs will be fully amortized in 2019. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

| | | |
|---|---|---|
| 2016 | $ | 1,519,120 |
| 2017 | | 838,080 |
| 2028 | | 325,420 |
| 2029 | | 2,372,950 |
| 2030 | | 6,958,790 |
| 2031 | | 4,018,810 |
| 2032 | | 1,952,480 |
| 2033 | | 2,694,660 |
| 2034 | | 1,728,580 |
| 2035 | | 684,980 |
| | $ | 23,093,870 |

## 22. RELATED PARTY TRANSACTIONS AND BALANCES

(a) **Key management personnel and directors compensation:**

During the years ended March 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:

## 22. RELATED PARTY TRANSACTIONS AND BALANCES, CONTINUED

| | 2015 | 2014 |
|---|---|---|
| Salary | $ **549,200** | $ 642,000 |
| Director fees | **177,000** | 70,000 |
| Share based payments under stock option plan *(see note 20(d))* | **193,235** | 190,666 |
| Severance payment | **-** | 58,500 |
| Interest on shareholder loan *(see note 16)* | **40,000** | - |
| Winery lease payments *(see note 5(c))* | **27,000** | - |
| Vineyard maintenance | **48,100** | 93,000 |
| Grape purchases | **91,800** | 138,000 |
| Proceeds on sale of Beamsville winery *(see note 10)* | **1,800,000** | - |

Accounts payable and accrued liabilities as at March 31, 2015 includes $146,100 (2014 - $100,300) with respect to balances owing to parties for the transactions disclosed above.

(b) **WKN closing:**

As a result of the WKN closing *(see note 6)*, the following transactions occurred with related parties during the year ended March 31, 2014:

(i) a director received 120,611 common shares upon conversion of a convertible debenture he held;
(ii) a director received 97,500 common shares in settlement of unpaid director fees *(see note 19(a)(i))*, and
(iii) Included in the settlement of the share price guarantees as detailed in note 23, 3,700,000 shares were issued at an agreed-upon price of $0.25 per share to a party related to a current director in settlement of the obligation remaining from a previous asset purchase by the Company.

## 23. SHARE PRICE GUARANTEES

In connection with prior purchases of various winery assets, the Company issued common shares and agreed to provide share price guarantees as detailed below. The liability had been adjusted to fair value at each reporting period based on the differential between the guaranteed price and the fair value of the common stock. The fair value for the share price was based on the value of any capital transactions with arm's length third parties involving shares. All agreements were indefinite and required the Company to uphold the guarantees upon a receipt by the holders of the guarantees of an offer to purchase the shares from an arm's length third party. The Company had the right of first refusal and could repurchase the shares by effecting the guarantee or price protections.

### 23. SHARE PRICE GUARANTEES, CONTINUED

In connection with the closing of the WKN transaction *(see note 6)*, the Company's obligations under its respective share price guarantees noted above were settled as follows:

(a) The guarantees at $4.00 and $3.00 were settled through the issuance of 4,346,659 common shares at an agreed-upon price of $0.25 per share *(see note 19(a)(i))*. Of this amount, 3,700,000 shares were issued to a party related to a current director in settlement of the remaining obligation from a previous asset purchase by the Company. The settlement of these two liabilities at a share price higher than the fair value of $0.20 as at the end of the previous reporting period resulted in a gain on settlement of $247,332.

(b) The guarantee at $2.25 was settled by a cash payment of $184,000, made up of a repurchase by the Company of the original 100,000 shares issued to the vendor valued at $20,000 and the remaining share price guarantee of $164,000.

### 24. 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 years ended March 31, 2015 and 2014:

| | **2015** | 2014 |
|---|---|---|
| ***Revenues*** | | |
| Manufactured wines | **$ 14,268,597** | $ 14,071,299 |
| Third-party wines and spirits | **7,846,653** | 3,603,029 |
| Commission and other | **3,615,646** | 2,994,112 |
| | **$ 25,730,896** | $ 20,668,440 |
| ***Changes in inventories of finished goods and raw materials consumed*** | | |
| Manufactured wines | **$ 8,085,623** | $ 8,375,561 |
| Third-party wines and spirits | **5,288,933** | 2,515,197 |
| | **$ 13,374,556** | $ 10,890,758 |

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.

## 24. SEGMENTED INFORMATION, CONTINUED

### Geographic information

| | 2015 | 2014 |
|---|---|---|
| ***Revenues*** | | |
| Canada | **$ 22,640,837** | $ 17,758,254 |
| China and other | **3,090,059** | 2,910,186 |
| | **$ 25,730,896** | $ 20,668,440 |

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

## 25. FINANCIAL RISK FACTORS

### Risk management

The Company is exposed to interest rate risk, credit risk, foreign currency risk, liquidity risk and concentration risk associated with its financial assets and liabilities. Management has the overall responsibility for the establishment and approval of the Company's risk management policies. The Company's objectives are to manage the risks and risk exposure through a combination of sound business practices and the involvement of management in the daily operations.

(a) **Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company is exposed to interest rate risk primarily through its floating interest rate bank indebtedness and credit facilities *(see note 14)*. Assuming that other variables remain constant, a 1% change in the prime lending rate as at March 31, 2015 would impact interest expense and net loss by $106,000 (2014 - $122,000).

(b) **Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the Company by failing to discharge its obligations. The Company is exposed to credit risk on its accounts receivable. Its exposure is generally limited to the carrying amount on the consolidated statements of financial position. The Company minimizes credit risk on cash by depositing with only reputable financial institutions.

Management reviews all balances greater than 90 days old, historical payment trends, customer history and events to assess if there should be any allowance for accounts receivable for balances that are impaired. Provisions are recognized, if necessary, in order to reflect risks related to bad debts.

## 25. FINANCIAL RISK FACTORS, CONTINUED

### (b) Credit risk, continued

Aged amounts for which a provision has not been recognized are as follows:

| | 2015 | 2014 |
|---|---|---|
| Current | **$ 2,268,530** | $ 1,930,348 |
| 30 days past due | **1,143,608** | 744,224 |
| 60 days past due | **4,314** | 144,305 |
| 90 days past due | **52,811** | 59,259 |
| 120 days past due | **278,040** | 157,128 |
| | **$ 3,747,303** | $ 3,035,264 |

The Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. Customers with no credit evaluation are required to pay cash with no credit terms. Based on the historical information and the credit quality of accounts receivable, management has assessed credit risk as low. It is reasonably possible that the actual amount of loss, if any, incurred on trade receivables will differ from management's estimate.

### (c) Foreign currency risk

Foreign currency risk is the risk that changes in foreign currency rates will adversely affect the Company. The Company conducts transactions with parties worldwide, and as a result, there are balances denominated in United States dollars ("USD"), New Zealand dollars ("NZD"), Australian dollars ("AUD"), Euros ("EUR") and British pounds ("GBP"). A significant change in currency exchange rate between the Canadian dollar relative to these currencies could have an effect on the operating results. The Company has not hedged its exposure to currency fluctuations.

The following summarizes the Company's exposure to currency risk through balances denominated in the following respective foreign currencies:

| | 2015 | 2014 |
|---|---|---|
| **Accounts receivable** | | |
| New Zealand dollars (NZD) | **-** | 2,670 |
| US dollars (USD) | **35,389** | 20,819 |
| Euros (EUR) | **85,657** | 36,015 |
| Australian dollars (AUD) | **11,932** | - |
| British pounds (GBP) | **6,390** | 1,376 |
| **Accounts payable** | | |
| US dollars (USD) | **433,354** | 301,996 |
| Euros (EUR) | **345,114** | 30,916 |
| Australian dollars (AUD) | **2,075** | 1,965 |

## 25. FINANCIAL RISK FACTORS, CONTINUED

Based on the above exposure and assuming that all other variables remain constant, a +/- 10% change in the value of the Canadian dollar relative to these currencies as at March 31, 2015 would affect net loss and comprehensive loss by approximately $86,000 (2014 - $73,000).

### (d) Liquidity risk

Liquidity risk is the risk arising from the Company not being able to meet its obligations as they come due. The Company manages its liquidity needs by carefully monitoring scheduled debt servicing payments for its financial liabilities as well as forecasting cash inflows and outflows due in day-to-day business. The data used for analyzing these cash flows is consistent with that used in the contractual maturity presented in bank indebtedness *(see note 14)*.

The total current liabilities as at March 31, 2015 of $19,460,111 (2014 - $17,629,883), which includes bank indebtedness, accounts payable and accrued liabilities, deposits received, loan payable - non-controlling interest and current portion of term loans payable, are considered current and are due within 12 months of the end of the reporting period.

As at March 31, 2015, the Company had positive working capital of $1,931,098 (2014 - deficiency $108,319) and no liquidity risk. Liquidity further improved after year-end with the completion of a private placement for net proceeds of $3,038,372 on April 29, 2015 (*see note 28(a))* that has significantly improved its working capital position.

### (e) Concentration risk

Concentration risk is the risk arising from a dependence on one customer or supplier for a significant portion of sales or purchases. The risk of a significant customer having financial difficulties would have a negative impact on the Company. During the year ended March 31, 2015, sales to two customers, including the Liquor Control Board of Ontario ("LCBO") comprised 31.4% (2014 - 40.9%) of total revenue. As at March 31, 2015, these two customers represented 16.4% of accounts receivable (2014 - 21.6%).

Management has many other sales to distributors and customers and, other than disclosed above, is not dependent on the sales to any one single customer.

## 26. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to provide a return for owners and ensure sufficient resources are available to meet day-to-day operations. Capital is considered to consist entirely of total equity and bank indebtedness. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company or in the light of changes in economic conditions and the risk characteristics of the underlying assets. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company is subject to externally imposed capital requirements related to its bank indebtedness and term loans *(see note 14)* and there has been no change in the overall capital risk management strategy during the year.

## 27. COMMITMENTS AND CONTINGENCY

(a) Under various lease agreements with varying terms, the Company leases a number of vehicles and pieces of equipment. The leases do not satisfy the conditions of finance leases and therefore have been treated as operating leases. Lease payments are recognized as an expense when paid. Total operating lease expense recognized in the current year was $12,375 (2014 - $39,022). Future remaining minimum lease payments as at March 31, 2015 are as follows:

| | |
|---|---|
| 2016 | $ 11,436 |
| 2017 | 11,436 |
| | $ 22,872 |

(b) Under various lease agreements with varying terms, the Company leases its offices in Halifax and Oakville, Ontario and its retail store in Toronto. Future remaining minimum lease payments as at March 31, 2015 are as follows:

| | |
|---|---|
| 2016 | $ 118,404 |
| 2017 | 99,761 |
| 2018 | 103,816 |
| 2019 | 79,932 |
| | $ 401,913 |

(c) 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.

## 28. SUBSEQUENT EVENTS

(a) On April 29, 2015, the Company completed a 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 $169,623 for net proceeds of $3,038,372. 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 14(a)(iii). 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) On April 1, 2015, two of the Company's subsidiaries, Diamond Estates Wines & Spirits Ltd. and Niagara Cellars Ltd. (o/a Diamond Estates - The Winery) were amalgamated and continued as Diamond Estates Wines & Spirits Ltd.

## 29. COMPARATIVE FIGURES

The consolidated statements of net loss and comprehensive loss for the year ended March 31, 2014 have been reclassified, where applicable, to conform to the presentation adopted in the current period. The changes, which do not affect prior year earnings, are as follows:

| | As originally reported | Reclassifications | As reclassified |
|---|---|---|---|
| | $ | $ | $ |
| Revenues | 20,587,964 | 80,476 | 20,668,440 |
| Change in inventories of finished goods and raw materials consumed | 10,827,940 | 62,818 | 10,890,758 |
| Employee compensation and benefits | 3,964,665 | (3,301) | 3,961,364 |
| General and administrative | 1,984,647 | 196,194 | 2,180,841 |
| Advertising and promotion | 2,244,225 | (29,877) | 2,214,348 |
| Bad debts | 145,358 | (145,358) | - |