DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

THREE MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

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The following management discussion and analysis ("MD&A") of Diamond Estates Wines & Spirits Inc. ("Diamond" or "the Company") provides a review of corporate developments, results of operations and financial position for the three month periods ended June 30, 2016 ("Q1 2017") and June 30, 2015 ("Q1 2016"). This discussion is prepared as of August 19, 2016 and should be read in conjunction with the (i) unaudited interim condensed consolidated financial statements and accompanying notes of Diamond for Q1 2017 and Q1 2016 and (ii) both the audited consolidated financial statements and MD&A for the fiscal years ended March 31, 2016 and March 31, 2015. All note references are made in reference to these unaudited interim condensed consolidated financial statements. Additional information regarding Diamond is available on Diamond's SEDAR profile at www.sedar.com. The results reported in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars, which is the Company's functional currency.

FORWARD-LOOKING STATEMENTS

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

NON-IFRS FINANCIAL MEASURE

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

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

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

COMPANY OVERVIEW

Diamond Estates Wines and Spirits Inc. is a producer of high quality wines and a sales agent for over 120 beverage alcohol brands across Canada. The Company operates two wineries in the Niagara region of Ontario producing VQA and blended wines under such well-known brand names as 20 Bees, EastDell Estates, Lakeview Cellars, Dois Amigos, Dan Aykroyd, Riders Valley, Benchmark and Seasons. Through its Partnership, Kirkwood Diamond Canada, the Company is the sales agent for top selling international brands in all regions of the country as well as being a distributor in the western provinces. These recognizable brands include Fat Bastard wines from France, Kaiken wines from Argentina, Charles Wells beers from England, Hpnotiq Liqueur from France, Anciano wines from Spain, Francois Lurton wines from France and Argentina, Brick Brewing from Canada, Blue Nun wines from Germany, coolers and spirits from Independent Distillers in New Zealand, Evan Williams Bourbon from USA, Flor de Cana rum from Nicaragua and Iceberg Vodka from Canada.

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

The Company is committed to delivering these results through its distribution network focused on the provincial liquor boards, licensed restaurants and bars, Diamond's three retail locations and export channels. The Company supports this focus through the enhanced efforts of its sales, marketing and brand promotional activities and through the ongoing review of its manufacturing efficiencies and costs. The Company has a total workforce of approximately 104 employees, including 49 engaged in the selling and marketing of its brands, 22 in the manufacturing and distribution of its brands, 15 involved in the retailing of its domestic products through our retail facilities and 18 in accounting and administration.

GOING CONCERN

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

While the Company has generated a profit in Q1 2017 of $716,202 (Q1 2016 - $59,239), it has incurred repeated losses as net loss and comprehensive loss for the year ended March 31, 2016 was $1,745,162 (year ended March 31, 2015 - $1,710,255) and reported a working capital deficiency as at March 31, 2016 of $6,115,079. The operations and net loss for the year ended March 31, 2016 resulted in the Company being in breach of one of its financial covenants under the terms of its current credit agreement with Meridian Credit Union ("MCU"), its primary lender *(see note 8)*. This covenant breach required the non-current portion of the MCU term loans of $9,264,045 as at March 31, 2016 to be classified as a current liability under IFRS *(see note 8)*. As of July 19, 2016, MCU had indicated in writing that it was prepared to waive the default, subject to no further defaults occurring and the expectation that the covenant in default would be met at the next stipulated reporting period, being June 30, 2016. The Company is now in compliance with the terms of this financial covenant as at June 30, 2016, such that the non-current portion of the MCU term loans has been classified appropriately as long term. These circumstances still lend significant doubt as to the ability of the company to continue as a going concern and, accordingly, the appropriateness ultimately of the use of accounting principles applicable to the going concern assumption.

The Company's ability to meet the covenant measurements under the terms of its credit agreements with its lender is still dependent upon continued improvements in profitable commercial operations and continued funding support from shareholders and lenders. However, there is no assurance these initiatives will be successful or sufficient. These unaudited interim condensed consolidated financial statements do not include any adjustments to the carrying value of assets or liabilities to the recoverable amounts or the reported expenses and unaudited interim condensed consolidated balance sheet classifications that would be necessary if the going concern assumption were inappropriate. Such adjustments could be material.

RESTATEMENT OF COMPARATIVE BALANCES

The comparative financial statements and notes thereto for Q1 2016 have been restated to reflect a correction in classification of certain costs relating to revenue recognition *(see note 3(c))*. The Company has reviewed its financial statement presentation of various costs, including customer incentive programs (such as Air Miles), discount programs and product returns, previously included in advertising and promotion and excise taxes included in change in inventories of finished goods and raw materials consumed and delivery and warehousing. Following this review, management has determined that these costs are better presented as deductions from revenue.

The impact of the restatement of Q1 2016 statement of net income and comprehensive income is a reduction of $332,271 in revenues and offsetting reductions of $266,550 in advertising and promotion, $39,982 in change in inventories of finished goods and $25,739 in warehousing and receiving. There was no impact to previously reported equity, net income and comprehensive income or cash flows.

QUARTERLY PERFORMANCE (UNAUDITED)

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

	Jun-2016 Q1 2017 $	Mar-2016 Q4 2016 $	Dec-2015 Q3 2016 $	Sep-2015 Q2 2016 $	Jun-2015 Q1 2016 $	Mar-2015 Q4 2015 $	Dec-2014 Q3 2015 $	Sep-2014 Q2 2015 $
Balance sheet								
Working capital surplus (deficiency)	3,813,331	(6,115,079)	4,596,716	4,650,888	4,293,032	1,931,098	(939,511)	(137,038)
Bank indebtedness (total)	17,676,320	10,217,851	8,838,028	9,580,031	9,624,679	11,076,910	12,274,083	12,757,982
Term debt	10,113,287	10,386,559	10,655,417	10,918,203	11,175,371	11,915,608	9,422,538	9,525,288
Total equity	12,569,465	11,844,230	13,898,966	13,868,639	13,449,556	10,293,140	10,207,062	7,519,879
Income statement								
Revenue (restated)	9,149,120	6,122,684	7,856,521	7,987,895	7,227,016	6,516,868	7,405,397	5,593,488
Gross margin	4,006,465	1,896,265	3,017,018	3,647,707	3,281,750	2,565,995	3,079,672	2,762,702
Standardized EBITDA	1,330,514	(799,137)	671,247	1,021,360	745,367	67,013	329,454	795,282
Net income (loss)	716,202	(2,109,709)	(76,434)	381,742	59,239	(764,313)	(862,430)	115,245

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

RESULTS OF OPERATIONS

	Q1 2017	Q1 2016 (Restated)
Revenue	**$ 9,149,120**	$ 7,227,016
Cost of sales	**5,142,655**	3,945,266
Gross margin	**4,006,465**	3,281,750
Gross margin (% of revenue)	***43.8***	*45.4*
Operating expenses	**2,675,951**	2,537,050
Operating expenses (% of revenue)	***29.2***	*35.1*
Standardized EBITDA	**1,330,514**	744,700
Interest	**318,011**	330,895
Depreciation and amortization	**287,268**	309,303
Income from operations	**725,235**	104,502
Share based compensation	**9,033**	45,263
Net income and comprehensive income	**$ 716,202**	$ 59,239
Portion attributable to:		
Shareholders	**$ 606,864**	$ 29,270
Non-controlling interest	**109,338**	29,969
	$ 716,202	$ 59,239

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

Revenue in Q1 2017 was $9,149,120 versus $7,227,016 for Q1 2016, a 26.6% increase. The Company defines gross margin as gross profit excluding depreciation of property, plant and equipment used in production. Gross margin was up 22.1% to $4,006,465 in Q1 2017 from $3,281,750 in Q1 2016. Standardized EBITDA also increased to $1,330,514 in Q1 2017 from $744,700 in Q1 2016 as operating expenses declined to 29.2% of revenue from 35.1% respectively. The Company recorded net income in Q1 2017 of $716,202 versus $59,239 in Q1 2016. The net income attributable to Diamond's shareholders was $606,864 in Q1 2017 versus $29,270 in Q1 2016, a year over year increase of $577,594.

Revenue in the agency division increased 17.9% to $4,227,489 in Q1 2017 from $3,585,565 in Q1 2016 as there was growth in the western region, partially due to the addition of a new supplier, Charles Wells, that the Company did not represent in Q1 2016. Revenue in Q1 2017 included $228,000 accrued for severance in lieu of notice related to a supplier that separated from the Company on June 1, 2016.

Revenue in the winery division increased 35.2% to $4,921,631 in Q1 2017 compared to $3,641,451 in Q1 2016. Export revenue increased 94.6% to $2,140,677 in Q1 2017 from $1,100,307 in Q1 2016, consistent with expectations that were previously announced by the Company. Revenue grew in other winery sales channels by $239,810 to $2,780,954 in Q1 2017 from $2,541,144 in Q1 2016 as the Company added new direct delivery (licensee) customers and the LCBO channel benefitted as new packaging for the core brands, 20 Bees, EastDell and Fresh began to appear in stores during the quarter.

Gross margin in the agency division increased 7.2% to $1,860,039 in Q1 2017 from $1,734,690 in Q1 2016. Gross margin (as a % of revenue) decreased to 44.0% in Q1 2017 from 48.4% in Q1 2016 as costs in the western region increased on products sourced in foreign currencies due to the depreciation of the Canadian dollar in the second half of fiscal 2016. The gross margin in the winery division increased 56.2% to $1,788,564 in Q1 2017 from $1,145,244 in Q1 2016. The gross margin as a percent of revenue was up 5% to 36.3% in Q1 2017 from 31.5% in Q1 2016 as the export sales growth favoured higher margin products, such as reserve wines and the Company increased prices on its Dan Aykroyd wines.

Operating expenses in Q1 2017 were $2,675,951 compared to Q1 2016 expenses of $2,537,050, an increase of $138,901 or 5.5%. Advertising and promotion expenses increased by $100,306 to $240,353 in Q1 2017 from $140,047 in Q1 2016. This is due to higher promotional activity in the growing western region. Delivery and warehousing expenses increased by $56,004 to $271,813 in Q1 2017 from $215,809 in Q1 2016. This reflects higher finished goods inventory levels and the growing licensee business where the Company delivers directly to commercial customers. These increases were partially offset by a foreign exchange gain of $28,491 in Q1 2017, an increase of $34,293 from the loss of $5,802 in Q1 2016 as the Canadian dollar strengthened against the US dollar during the quarter. All other operating expenses did not change significantly from the prior year.

Interest expense decreased slightly to $318,011 in Q1 2017 from $330,895 in Q1 2016. Depreciation and amortization expense decreased to $287,268 in Q1 2017 from $309,303 in Q1 2016. Share based compensation decreased to $9,033 in Q1 2017 from $45,263 in Q1 2016 as most stock options awarded have been fully expensed.

As reflected in the consolidated statements of cash flows, the Company generated cash flow from operations, before changes in non-cash working capital items, of $1,001,928 in Q1 2017 compared to cash flow of $413,805 in Q1 2016, an improvement of $588,123.

LIQUIDITY AND CAPITAL RESOURCES

	June 30 2016	March 31 2016
Cash	**$ 490,372**	$ -
Accounts receivable	**5,967,181**	4,031,973
Inventory	**16,284,476**	16,891,492
Other	**189,286**	151,735
Total current assets	**22,931,315**	21,075,200
Property, plant and equipment	**13,978,262**	14,127,405
Intangible assets	**3,748,376**	3,831,904
Total assets	**$ 40,657,953**	$ 39,034,509
Bank indebtedness	**$ 11,482,181**	$ 10,217,851
Accounts payable and accrued liabilities and other	**6,194,139**	6,285,902
Current portion of term loans payable	**1,142,783**	10,386,559
Loan payable - non-controlling interest	**298,881**	299,967
Total current liabilities	**19,117,984**	27,190,279
Term loans payable, net of current portion	**8,970,504**	-
Total liabilities	**28,088,488**	27,190,279
Shareholders' equity	**8,364,567**	7,748,670
Non-controlling interest	**4,204,898**	4,095,560
	$ 40,657,953	$ 39,034,509

The Company's consolidated financial position has improved as at June 30, 2016 from that as at March 31, 2016. Cash represents funds on deposit with Meridian Credit Union subsequent to the closing of the credit facility with CIBC that are not subject to offset. The increase in accounts receivable is related to the growth in sales. On June 29, 2016, the Company secured insurance from Export Development Bank of Canada for $500,000 of balances outstanding from its largest export customer. Inventory balances declined with the drawdown of bulk wine ahead of the annual harvest period. This was partially offset by increases in finished goods stock in the growing western region. Working capital increased by $9,928,410 to a surplus of $3,813,331 as at June 30, 2016 compared to a deficiency of $6,115,079 as at March 31, 2016, almost entirely due to the non-current portion of the MCU term debt being classified appropriately as long term with the company now in compliance with the MCU debt covenant relating to minimum effective net worth as at June 30, 2016. Total bank indebtedness increased by $1,172,567 to $17,676,320 as at June 30, 2016 compared to $16,503,753 as at March 31, 2016. During Q1 2017, principal payments of $273,272 (Q1 2016 - $740,237) were made against term loans (see notes 7 and 8 for further details on the MCU credit facilities).

The debt to equity ratio improved to 1.74:1 as at June 30, 2016 compared to 1.76:1 as at March 31, 2016, where debt is defined as total liabilities less other current liabilities and equity is defined as shareholders' equity plus non-controlling interest.

On April 7, 2016, KDC entered into a new credit agreement with CIBC *(see note 7(c))*. The transaction closed on June 2, 2016 and existing obligations to MCU were repaid in full. The CIBC credit agreement includes the following major components: (i) various CAD and USD credit facilities to a maximum of CAD $4,500,000, (ii) conventional margining on accounts receivable and 70% of eligible inventory value (to a maximum of $2,250,000) (iii) bears interest at the CAD prime rate plus 1.25% and/or USD base rate plus 1.25%, and (iv) secured by (a) a first-priority security in all present and future property of KDC and (b) assignments and postponements of claim from the corporate partners.

The financial covenants included are: (i) ratio of total liabilities less postponed debt to effective tangible net worth is not to exceed 3.00|1.00 at any time, tested quarterly, and (ii) fixed charge coverage ratio ("FCCR") of not less than 1.10|1.00 at any time, tested quarterly, calculated on a trailing twelve month basis. The FCCR is defined as the ratio of EBITDA (defined as earnings before interest, income taxes, depreciation and amortization) to the sum of debt service requirements, capital withdrawals, advances to affiliates and unfunded capital expenditures.

SUBSEQUENT EVENT

On July 27, 2016, the Company announced the issuance of an aggregate of 305,749 deferred share units ("DSUs") to non-executive directors under the Company's deferred share unit plan (the "DSU Plan") in settlement of $41,063 of deferred directors' compensation. The DSUs are to be settled in common shares of the Company ("Common Shares") when the director retires from all positions with the Company.

CAPITALIZATION

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

	June 30, 2016	March 31, 2016	Change in period
Common shares	100,137,037	100,137,037	-
Deferred share units	819,133	819,133	-
Stock options	6,682,400	6,682,400	-
Total equity instruments	107,638,570	107,638,570	-

There were no changes to the Company's overall capitalization during Q1 2017.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Early adoption of IAS 16: "Property, Plant, and Equipment" and IAS 41: "Agriculture"

During May 2014 the IASB issued amendments to IAS 16 – Property, Plant, and Equipment and IAS 41 – Agriculture, which requires bearer plants to be classified as property, plant, and equipment and accounted for under IAS 16. The amended standards are effective for annual periods beginning on or after January 1, 2016.

The Company controls bearer plants consisting of grape vines and has elected to apply these amendments effective April 1, 2015, which is prior to the mandatory effective date. The earliest comparative period presented in the financial statements after adopting the amended standards began on April 1, 2014. The Company has elected to measure bearer plants using their fair value on that date as their deemed cost, resulting in the reclassification of $86,030 from biological assets to property, plant and equipment as at April 1, 2014.

Early adoption of IAS 1:

The Company has chosen to early adopt the provisions of IAS 1 to assist users in better understanding the Company's financial performance, namely through the use of sub-totals (in the statement of net loss and comprehensive loss) to present cost of goods sold and gross profit calculations. The comparative numbers have been reclassified to conform to the presentation adopted in the current year with no impact to previously reported equity, net loss and comprehensive loss or cash flows.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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