

DIAMOND ESTATES WINES & SPIRITS INC.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTH PERIODS ENDED JUNE 30, 2018 AND 2017
(Unaudited - Prepared by Management)

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

DIAMOND ESTATES WINES & SPIRITS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT JUNE 30, 2018 AND MARCH 31, 2018
(Unaudited - Prepared by Management)

	<u>June 30</u> <u>2018</u>	<u>March 31</u> <u>2018</u>
ASSETS		
Current:		
Accounts receivable	\$ 4,947,506	\$ 2,795,576
Inventories	17,087,618	17,037,104
Biological assets	8,695	-
Prepaid expenses	469,254	539,834
	<u>22,513,073</u>	<u>20,372,514</u>
Long term:		
Property, plant and equipment	20,303,793	18,630,299
Intangible assets (Note 5)	3,226,846	3,192,152
Goodwill (Note 5)	280,333	-
	<u>\$ 46,324,045</u>	<u>\$ 42,194,965</u>
LIABILITIES		
Current:		
Accounts payable and accrued liabilities	\$ 6,756,359	\$ 6,070,159
Note payable (Note 7)	550,000	-
Current portion of term loans payable (Note 8)	453,943	454,287
Current portion of finance leases (Note 9)	195,724	198,226
	<u>7,956,026</u>	<u>6,722,672</u>
Long term:		
Term loans payable (Note 8)	19,710,674	18,895,188
Finance leases (Note 9)	273,215	322,505
Deferred income taxes (Note 5)	476,788	-
	<u>28,416,703</u>	<u>25,940,365</u>
SHAREHOLDERS' EQUITY		
Common shares (Notes 10 & 11)	18,218,082	16,657,513
Contributed surplus	581,797	589,982
Accumulated deficit	(892,537)	(992,895)
	<u>17,907,342</u>	<u>16,254,600</u>
	<u>\$ 46,324,045</u>	<u>\$ 42,194,965</u>

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

Approved on behalf of the Board:

"David Beutel" Director

"Keith Harris" Director

DIAMOND ESTATES WINES & SPIRITS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF
NET INCOME AND COMPREHENSIVE INCOME
THREE MONTH PERIODS ENDED JUNE 30, 2018 AND 2017
(Unaudited - Prepared by Management)

	<u>2018</u>	<u>2017</u>
Revenue	\$ 8,005,329	\$ 9,632,299
Cost of sales		
Change in inventories of finished goods and raw materials consumed	4,154,479	4,925,035
Freight in and other	171,731	323,021
Depreciation of property, plant and equipment used in production	163,965	166,111
	<u>4,490,175</u>	<u>5,414,167</u>
Gross profit	<u>3,515,154</u>	<u>4,218,132</u>
Expenses		
Employee compensation and benefits	1,639,208	1,596,241
General and administrative	735,424	739,368
Advertising and promotion	344,827	359,632
Delivery and warehousing	146,507	238,083
Interest on bank indebtedness	324,701	217,062
Financing costs	22,688	1,615
Amortization of intangible assets	85,306	85,871
Depreciation of property, plant and equipment used in selling and administration	80,251	79,081
Share based compensation	35,884	16,777
	<u>3,414,796</u>	<u>3,333,730</u>
Net income and comprehensive income	<u>\$ 100,358</u>	<u>\$ 884,402</u>
Net income and comprehensive income attributable to:		
Shareholders	\$ 100,358	\$ 865,507
Non-controlling interest	-	18,895
	<u>\$ 100,358</u>	<u>\$ 884,402</u>
Basic income per share (Note 10(a))	<u>\$ 0.00</u>	<u>\$ 0.01</u>
Diluted income per share (Note 10(a))	<u>\$ 0.00</u>	<u>\$ 0.01</u>

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

DIAMOND ESTATES WINES & SPIRITS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
PERIOD FROM APRIL 1, 2017 TO JUNE 30, 2018
(Unaudited - Prepared by Management)

	Note	Common shares Shares	Common shares Amount	Contributed surplus	Accumulated deficit	Shareholders' equity	Non-controlling interest	Total
As at April 1, 2017		140,248,841	\$ 16,635,745	\$ 1,021,226	\$ (1,001,177)	\$ 16,655,794	\$ 3,770,348	\$ 20,426,142
Net income and comprehensive income		-	-	-	865,507	865,507	18,895	884,402
Share based compensation		-	-	16,777	-	16,777	-	16,777
Purchase of non-controlling interest		-	-	(609,877)	-	(609,877)	(3,789,243)	(4,399,120)
As at June 30, 2017		140,248,841	16,635,745	428,126	(135,670)	16,928,201	-	16,928,201
Net loss and comprehensive loss		-	-	-	(857,225)	(857,225)	-	(857,225)
Exercise of options		125,000	21,768	(8,018)	-	13,750	-	13,750
Share based compensation		-	-	169,874	-	169,874	-	169,874
As at March 31, 2018		140,373,841	16,657,513	589,982	(992,895)	16,254,600	-	16,254,600
Net income and comprehensive income		-	-	-	100,358	100,358	-	100,358
Exercise of options	10(c)	150,000	26,439	(9,939)	-	16,500	-	16,500
Settlement of DSUs	10(d)	200,405	34,130	(34,130)	-	-	-	-
Share based compensation		-	-	35,884	-	35,884	-	35,884
Common shares issued on acquisition of Backyard Vineyards Inc.	5	4,687,500	1,500,000	-	-	1,500,000	-	1,500,000
As at June 30, 2018		145,411,746	\$ 18,218,082	\$ 581,797	\$ (892,537)	\$ 17,907,342	\$ -	\$ 17,907,342

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

DIAMOND ESTATES WINES & SPIRITS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTH PERIODS ENDED JUNE 30, 2018 AND 2017
(Unaudited - Prepared by Management)

	<u>June 30</u> <u>2018</u>	<u>June 30</u> <u>2017</u>
Operating activities		
Net income	\$ 100,358	\$ 884,402
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	244,216	262,690
Amortization of intangible assets	85,306	85,871
Share based compensation	35,884	16,777
Amortization of deferred finance fees	11,236	-
Interest expense	324,701	217,062
Interest paid	<u>(245,530)</u>	<u>(217,062)</u>
	556,171	1,249,740
Change in non-cash working capital items		
Accounts receivable	(2,116,661)	(1,595,644)
Inventories	710,486	1,749,615
Biological assets	(8,695)	(12,062)
Prepaid expenses	107,330	(35,071)
Accounts payable and accrued liabilities	1,061,741	1,000,987
Unearned revenue and deposits received	-	(390,730)
	<u>310,372</u>	<u>1,966,835</u>
Investing activities		
Acquisition of non-controlling interest (Note 12)	-	(4,399,120)
Acquisition of Backyard Vineyards Corp., net of cash acquired (Note 5)	(609,386)	-
Purchase of property, plant and equipment	(469,600)	(1,405,199)
Purchase of intangible assets	-	(26,878)
	<u>(1,078,986)</u>	<u>(5,831,197)</u>
Financing activities		
Repayment of loan payable - non-controlling interest	-	(224,570)
Repayment of finance leases	(51,792)	(49,441)
Net drawings on revolving term loans and operating lines payable	928,906	4,321,260
Repayment on non-revolving term loans payable	(125,000)	(182,887)
Proceeds on exercise of options	16,500	-
	<u>768,614</u>	<u>3,864,362</u>
Change in cash	-	-
Cash, beginning of period	-	-
Cash, end of period	<u>\$ -</u>	<u>\$ -</u>
Non-cash transactions:		
Property, plant and equipment acquired under finance leases (Note 9)	\$ -	\$ 43,334
Issuance of note payable in exchange for shares (Note 5)	550,000	-
Issuance of common shares in exchange for shares (Note 5)	1,500,000	-

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

DIAMOND ESTATES WINES & SPIRITS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTH PERIODS ENDED JUNE 30, 2018 AND 2017
(Unaudited - Prepared by Management)

1. **NATURE OF OPERATIONS**

Diamond Estates Wines & Spirits Inc. ("Diamond" or the "Company") is a public company listed on the TSX-V whose shares trade under the symbol "DWS.V". Its principal business activities include the production, marketing and sale of wine, and through its agency division, Kirkwood Diamond Canada Partnership ("KDC"), distribution and marketing activities for various beverage alcohol brands that it represents in Canada. 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. The operations and principal place of business of KDC are located at 1155 North Service Road West, Oakville, Ontario, L6M 3E3.

2. **SIGNIFICANT ACCOUNTING POLICIES**

(a) **Basis of presentation and statement of compliance**

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" as issued by the IASB, and accordingly do not include all the information required for full annual financial statements by IFRS. They have been prepared using the same accounting policies that were described in note 2 to the Company's annual consolidated financial statements for the year ended March 31, 2018 which were prepared in accordance with IFRS as issued by the IASB, except for the accounting policies listed below in note 2(b) and note 2(c).

The unaudited interim condensed consolidated financial statements have not been reviewed by the Company's external auditors. They were authorized for issuance by the Board of Directors on August 27, 2018.

(b) **Basis of consolidation**

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

◆	Diamond Estates Wines & Spirits Ltd.	100%
◆	De Sousa Wines Toronto Inc.	100%
◆	Backyard Vineyards Corp. (See note 5)	100%
◆	Kirkwood Diamond Canada (partnership) (See note 12)	100%

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

DIAMOND ESTATES WINES & SPIRITS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(c) **Business combinations**

Business combinations 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.

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

Acquisition costs are expensed during the period in which they are incurred and are included in general and administrative expenses.

The Company measures the identifiable assets acquired and liabilities assumed at their fair values on the date of acquisition. This requires estimates and judgments to be made, which are inherently subjective. As such, the amounts assigned to individual identifiable assets and liabilities, including the fair value of inventories, long-lived assets, the recognition and measurement of any unrecorded intangible assets and the determination of goodwill or the gain on acquisition are impacted. Due to the nature of these estimates, the purchase price allocation impacts the Company's reported assets and liabilities and future net earnings due to the impact on future cost of goods sold, amortization and impairment tests.

3. **RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS**

- (a) **IFRS 9: "Financial Instruments: Classification and Measurement of Financial Assets and Financial Liabilities"** was issued by the IASB in July, 2014 and replaced IAS 39 "Financial Instruments: Recognition and Measurement". In addition, IFRS 7 "Financial Instruments: Disclosures" was amended to include additional disclosure requirements on transition to IFRS 9. The mandatory effective date of applying these standards is for annual periods beginning on or after January 1, 2018. The standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach is based on how an entity manages its financial instruments (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. The standard requires that for financial liabilities measured at fair value, any changes in an entity's own credit risk are generally to be presented in other comprehensive income instead of net earnings. A new hedge accounting model is included in the standard, as well as increased disclosure requirements about risk management activities for entities that apply hedge accounting. The new standard was adopted effective April 1, 2018 and the adoption did not have a significant impact on the consolidated financial statements.
- (b) **IFRS 15: "Revenue from Contracts with Customers"** was issued by the IASB in May, 2014 and supercedes IAS 18 "Revenue" and IAS 11 "Construction Contracts". The standard details a revised model for the recognition of revenue from contracts with customers. The standard is effective for first interim periods within annual periods beginning on or after January 1, 2018. The Company has adopted the accounting standard effective April 1, 2018, using a full retrospective approach and the adoption did not have a significant impact on the consolidated financial statements.

DIAMOND ESTATES WINES & SPIRITS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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4. **NEW AND REVISED IFRS STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

As at the date of authorization of these unaudited interim condensed consolidated financial statements, the IASB has issued the following new or revised standards:

- (a) **IFRS 16 "Leases"** was issued by the IASB in January 2016 and will ultimately replace IAS 17, "Leases" and related interpretations. The new standard will be effective for fiscal years beginning on or after January 1, 2019, with early adoption permitted provided the Company has adopted IFRS 15, Revenue from Contracts with Customers. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all leases contracts, and record it on the statement of financial position, except with respect to lease contracts that meet limited exception criteria. Given that the Company has significant contractual obligations in the form of operating leases under IAS 17, there will be a material increase to both assets and liabilities on adoption of IFRS 16, and material changes to the timing of recognition of expenses associated with the lease arrangements. The Company is analyzing the new standard to determine the impact of adopting this standard. The Company intends to adopt this standard effective April 1, 2019.

DIAMOND ESTATES WINES & SPIRITS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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5. **ACQUISITION**

On June 28, 2018, the Company acquired 100% of the common shares of Backyard Vineyards Corp. ("Backyard") for total consideration of \$2,800,000, of which \$750,000 was funded in cash, \$1,500,000 was funded by the issuance of 4,687,500 common shares and \$550,000 was funded by the assumption of a note payable (*see note 7*). Backyard generates annual sales of approximately \$2,000,000 and employs approximately 12 people. The results of operations from June 29th onward have been included in these interim condensed consolidated financial statements and this acquisition has been accounted for as a business combination.

The following table summarizes the amounts paid or payable at the purchase date and the preliminary allocation of the purchase price to the identifiable assets acquired and liabilities assumed based on management's estimate of the fair values at the date of acquisition.

	Backyard Vineyards Corp.
Assets acquired:	
Cash	\$ 140,614
Accounts receivable	35,269
Inventories	1,325,959
Prepays and deposits	36,750
	1,538,592
Property, plant and equipment	1,470,000
Intangible assets - customer list	70,000
Intangible assets - brand	50,000
Goodwill	280,333
	3,408,925
Liabilities assumed:	
Accounts payable and accrued liabilities	132,137
Deferred income taxes	476,788
	608,925
Net assets acquired	\$ 2,800,000

6. **SEASONALITY**

Revenue is subject to seasonal variation in demand from its customers for beverage alcohol products. The fourth quarter is traditionally the lowest for revenue in all major sales channels due to softness in demand during the winter months.

DIAMOND ESTATES WINES & SPIRITS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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7. **NOTE PAYABLE**

The note payable is due to Azura Management (Kelowna) Corp., bears interest at 5% and is due June 28, 2019.

8. **TERM LOANS PAYABLE**

As at June 30, 2018, the balances outstanding on the Company's term loans were as follows:

	<u>June 30 2018</u>	<u>March 31 2018</u>
BMO term loans:		
Revolving operating term loan	\$ 10,524,583	\$ 9,595,677
Non-revolving term loan	9,750,000	9,875,000
	20,274,583	19,470,677
Financing costs	<u>(109,966)</u>	<u>(121,202)</u>
	20,164,617	19,349,475
Current portion	<u>(453,943)</u>	<u>(454,287)</u>
	\$ 19,710,674	\$ 18,895,188

The BMO credit agreement executed on September 29, 2017 is guaranteed by a general security agreement covering the assets of the Company and its subsidiaries and is subject to the following facilities and terms:

The revolving operating term loan is for working capital and general corporate requirements and is subject to the following terms:

- (a) Revolving credit facility of up to \$13,000,000, subject to specified borrowing base margining limitations
- (b) Monthly interest only payments at CAD prime rate +1.00%
- (c) Due on September 26, 2020
- (d) Standby fee of 0.50% on available unused revolving term credit to be paid on the last day of each quarter

The non-revolving term loan is for the purpose of refinancing the existing MCU term debt and funding scheduled fiscal 2018 capital expenditures. The loan is subject to the following terms:

- (a) Initial principal of \$10,000,000, amortized over a period of 20 years
- (b) Monthly interest only payments at CAD prime rate +1.25%
- (c) Quarterly principal payments of \$125,000

DIAMOND ESTATES WINES & SPIRITS INC.
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8. **TERM LOANS PAYABLE, CONTINUED**

The BMO credit agreement includes the following sub-facilities:

- (a) Letter of credit sub-facility included under the umbrella of the \$13,000,000 revolving term loan, up to a maximum of \$1,000,000 at a rate of CAD prime +2.50% having a term of up to 1 year. As at June 30, 2018 there was a letter of credit in the amount of \$24,641 was outstanding with BMO (March 31, 2018 - \$24,641).
- (b) Bankers' acceptance sub-facility included under the umbrella of the revolving and non-revolving term loans, with a minimum draw of \$1,000,000, terms of 28 to 182 days at rates of CAD prime +2.50% to CAD prime +2.75%. As June 30, 2018 a bankers' acceptance was in place on the non-revolving term loan to fix the interest rate at 1.65% for the period from June 1, 2018 to July 3, 2018. As at March 31, 2018 a bankers' acceptance was in place on the non-revolving term loan to fix the interest rate at 1.58% for the period from March 1, 2018 to April 2, 2018.
- (c) Treasury risk management facility of up to \$1,500,000 to facilitate hedging of interest rate risk and foreign exchange risk at market rates as determined by the lender. As at June 30, 2018 and March 31, 2018 there were no amounts outstanding on this facility.

The Company also has available a delayed draw term loan of \$2,500,000 to finance future capital expenditures at a rate of CAD prime +1.25%, repayable in quarterly principal instalments commencing at the end of the fiscal quarter in which the initial draw takes place. A standby fee in the amount of 0.55% to be payable quarterly is due on the undrawn portion of this loan. There was no balance drawn on this facility as at June 30, 2018 and March 31, 2018.

A master lease finance line facility of \$2,500,000 is available to the Company to finance equipment under the BMO Equipment Leasing Group and shall reduce monthly in accordance with agreed upon terms based on market rates at the time of each advance. There was no balance drawn on this facility as at March 31, 2018.

The BMO credit agreement is subject to the following major financial covenants:

- (a) Minimum fixed charge coverage ratio of 1.25 | 1
- (b) Maximum ratio of total liabilities to tangible net worth of 2.00 | 1
- (c) Annual capital expenditures are not to exceed \$5,000,000 in fiscal 2018 and \$1,500,000 in subsequent years without prior bank approval

The Company repaid the balances on its previous MCU term loans in full on September 29, 2017 with the proceeds from the BMO loans.

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9. **FINANCE LEASES**

On August 2, 2016, the Company executed a Master Lease Agreement (“MLA”) with Element Fleet Management Inc. for the acquisition, management and disposal of automobiles to support sales and marketing functions. The leases are primarily for a 48 month period, expiring at various times up to March 2021 and provide for the transfer of the risks and rewards of ownership of the automotive equipment to the Company. Accordingly, each lease has been classified as a finance lease and a corresponding asset and lease obligation has been recognized in the financial statements. The effective interest rates implicit in each lease range from 3.31% to 3.41%.

The following is a schedule of future minimum annual lease payments for vehicles under finance leases together with the balance of the obligations as at June 30, 2018.

	Minimum lease payments	Present value of minimum lease payments
Not later than one year	\$ 208,137	\$ 195,724
Later than one year and up to lease expiry	<u>282,023</u>	<u>273,215</u>
	490,160	468,939
Less: interest	<u>(21,221)</u>	<u>-</u>
Total obligations under finance leases	468,939	468,939
Less: current portion	<u>(195,724)</u>	<u>(195,724)</u>
	<u>\$ 273,215</u>	<u>\$ 273,215</u>
Estimated principal repayments are as follows:		
Year ending March 31, 2019		\$ 147,415
Year ending March 31, 2020		193,238
Year ending March 31, 2021		<u>128,286</u>
		<u>\$ 468,939</u>

Vehicles acquired under finance leases during the three month period ended June 30, 2018 totalled \$Nil (2017 - \$43,334). Interest expense on the finance leases for the three month period ended June 30, 2018 was \$4,399 (2017 - \$6,059).

DIAMOND ESTATES WINES & SPIRITS INC.
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10. **SHARE CAPITAL AND OTHER EQUITY INSTRUMENTS**

Authorized

Unlimited Common shares, no par value

Continuity schedules for each component of the Company's share capital and other equity instruments are disclosed in the unaudited interim condensed consolidated statements of changes in shareholders' equity for the period from April 1, 2017 to June 30, 2018. Details of major changes in each component during that period are as follows:

(a) **Income per share**

Basic income per share is computed using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three month period ended June 30, 2018 was 140,804,177 (2017 - 140,248,841).

As at June 30, 2018, the following potentially dilutive equity instruments were all outstanding: (1) 6,850,000 options (2017 - 6,150,000), and (2) 1,362,833 deferred share units (2017 - 1,124,882). The fully diluted number of common shares outstanding for the three June 30, 2018 was 154,149,984 (2017 - 147,523,722).

(b) **Issuance of common shares**

On June 28, 2018, the Company issued 4,687,500 common shares valued at \$0.32 per share in settlement of \$1,500,000 of the purchase consideration paid to acquire Backyard Vineyards Corp. (see note 5).

(c) **Exercise of options**

On April 10, 2018, 150,000 of the stock options originally granted on November 24, 2014 were exercised at the purchase price of \$0.11 for total proceeds of \$16,500.

(d) **Settlement of Deferred Share Units**

On April 3, 2018, on the retirement of a member of the Board of Directors, 200,405 DSUs were settled in common shares of the Company.

(e) **Expiry of options**

During the first quarter of fiscal 2019, a total of 175,000 options, initially granted on November 24, 2014 expired unexercised on the departure of two executives of the Company.

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11. **DEFERRED SHARE UNITS ("DSUs")**

On June 21, 2016, the Board of Directors approved an increase in the maximum number of common shares reserved for issuance under the Company's DSU plan (the "DSU Plan") from 1,000,000 to 2,000,000, which is approximately 1.4% of the then issued and outstanding common shares. The DSU Plan provides that the maximum number of DSUs issuable to insiders (as that term is defined by the Exchange) pursuant to the DSU Plan, together with any common shares issuable pursuant to any other security-based compensation arrangement of the Company, will not exceed 10% of the total number of outstanding common shares.

On July 27, 2016, the Company issued an aggregate of 305,749 DSUs to non-executive directors under the DSU plan in settlement of \$41,063 of deferred directors' compensation. The DSUs are to be settled in common shares of the Company when the director retires from all positions with the Company.

On August 29, 2017, the Company issued an aggregate of 438,356 DSUs to non-executive directors under the DSU Plan in settlement of \$128,000 of deferred directors' compensation.

To date, a total of 1,563,238 DSUs have been issued, of which 1,362,833 remain outstanding, after the settlement of 200,405 DSUs into common shares of the company on retirement of a member of the Board of Directors on April 3, 2018. The DSUs are to be settled in common shares of the Company when the director retires from all positions with the Company.

12. **KIRKWOOD DIAMOND CANADA PARTNERSHIP AND NON-CONTROLLING INTEREST**

On May 5, 2017, the Company closed on the previously announced acquisition of the 49.99% interest in KDC, its agency business, that was owned by its partner. As such, the Company now owns 100% of KDC.

The purchase price of \$4,399,120 was allocated by eliminating the non-controlling interest balance of \$3,789,243, with the remaining \$609,887 being recorded as a reduction to contributed surplus as detailed in the Consolidated Statement of Changes in Shareholders' Equity.

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13. **SEGMENTED INFORMATION**

Business segments

The Company operates in two business segments, namely (i) sales of manufactured wines and (ii) distribution and sales of products represented in Canada under agency agreements with third parties. The following table presents selected financial information associated with each of these segments for the threes ended June 30, 2018 and 2017:

	<u>June 30, 2018</u>		
	Agency	Manufactured	Consolidated
	\$	wines	\$
Gross revenue	3,442,463	4,660,908	8,103,371
Inter-segment revenue	<u>(98,042)</u>	<u>-</u>	<u>(98,042)</u>
Net revenue	<u>3,344,421</u>	<u>4,660,908</u>	<u>8,005,329</u>
Gross profit	1,539,289	1,975,865	3,515,154
Interest on bank indebtedness	29,797	294,904	324,701
Depreciation and amortization	113,706	215,816	329,522
Additions of property, plant and equipment and intangible assets	33,522	436,078	469,600

Statement of financial position balances as at

	<u>June 30, 2018</u>		
Intangible assets	2,339,585	887,261	3,226,846
Goodwill	-	280,333	280,333
Total assets	8,280,992	38,043,053	46,324,045
Total liabilities	3,585,978	24,830,725	28,416,703

June 30, 2017

	Agency	Manufactured	Consolidated
	\$	wines	\$
Gross revenue	4,320,412	5,441,893	9,762,305
Inter-segment revenue	<u>(130,006)</u>	<u>-</u>	<u>(130,006)</u>
Net revenue	<u>4,190,406</u>	<u>5,441,893</u>	<u>9,632,299</u>
Gross profit	1,671,187	2,546,945	4,218,132
Interest on bank indebtedness	32,261	184,801	217,062
Depreciation and amortization	106,615	224,448	331,063
Additions of property, plant and equipment and intangible assets	43,334	1,432,077	1,475,411

Statement of financial position balances as at

	<u>March 31, 2018</u>		
Intangible assets	2,420,115	772,037	3,192,152
Total assets	7,538,034	34,656,931	42,194,965
Total liabilities	2,794,625	23,145,740	25,940,365

Transactions between segments are measured at the exchange amount, which approximates fair value. All of the Company's assets are located in Canada.

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13. **SEGMENTED INFORMATION, CONTINUED**

Geographic information

	<u>2018</u>	<u>2017</u>
Revenue		
Canada	\$ 5,764,361	\$ 6,998,563
China and other	<u>2,240,968</u>	<u>2,633,736</u>
	<u>\$ 8,005,329</u>	<u>\$ 9,632,299</u>

14. **FINANCIAL INSTRUMENTS AND RISK FACTORS**

(a) **Fair value of derivative financial instruments**

The fair value of the foreign exchange forward contracts is determined based on the difference between the contract rate and the forward rate at the date of valuation and is included in accounts receivable in the interim condensed consolidated statements of financial position.

(b) **Unrealized gain on derivative financial instruments**

The unrealized (loss) gain on derivative financial instruments, namely foreign exchange forward contracts, for the three month period ended June 30, 2018 was \$Nil (three month period ended June 31, 2017 - \$7,605).

(c) **Fair value hierarchy**

The fair value of the foreign exchange forward contracts liability has been measured using Level 2 inputs in the fair value hierarchy, namely significant observable inputs from other than quoted prices.

(d) **Foreign exchange forward contracts and currency risk**

The Company uses a hedging program to reduce its exposure to significant fluctuations as they relate to commitments to source products in foreign currencies. The Company's strategy is to hedge approximately 70% of its annual requirements a minimum of two months prior to the purchase obligation arising. As at June 30, 2018, the Company had no foreign exchange forward contracts outstanding. On forward exchange contracts outstanding as at June 30, 2017, a 1% increase or decrease to the exchange rate of the US dollar would impact the Company's net earnings by approximately \$3,000.

15. **COMPARATIVE FIGURES**

Certain of the comparative figures have been reclassified, where applicable, to conform to the presentation adopted in the current fiscal year.