DIAMOND ESTATES WINES & SPIRITS INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2016 AND 2015

July 22, 2016

Independent Auditor's Report

To the Shareholders of
Diamond Estates Wines & Spirits Inc.

We have audited the accompanying consolidated financial statements of Diamond Estates Wine & Spirits Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at March 31, 2016 and the consolidated statement of net loss and comprehensive loss, statement of cash flows and consolidated statements of changes in shareholders' equity for the year then ended, and the related notes, which comprise 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

PricewaterhouseCoopers LLP
PwC Centre, 354 Davis Road, Suite 600, Oakville, Ontario, Canada L6J 0C5
T: +1 905 815 6300, F: +1 905 815 6499, www.pwc.com/ca

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Diamond Estates Wines & Spirits Inc. and its subsidiaries as at March 31, 2016 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the corporation's ability to continue as a going concern.

Without modifying our opinion, we draw attention to Note 3 to the consolidated financial statements which describes the early adoption of IAS 1 - Presentation of financial statements, IAS 16 - Property, Plant & Equipment and IAS 41, Agriculture related to the accounting for biological assets.

Restated Comparative Information
The consolidated financial statements of Diamond Estates Wines & Spirits Inc. and its subsidiaries for the year ended March 31, 2015 (prior to the restatement of the comparative information described in Note 3) were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on July 7, 2015.

As part of our audit of the consolidated financial statements of Diamond Estates Wines & Spirits Inc. and its subsidiaries for the year ended March 31, 2016, we also audited the adjustments described in Note 3 that were applied to restate the consolidated financial statements for the year ended March 31, 2015. In our opinion, such adjustments are appropriate and have been properly applied.

We were not engaged to audit, review, or apply any procedures to the consolidated financial statements of Diamond Estates Wines & Spirits Inc. and its subsidiaries for the year ended March 31, 2015 other than with respect to the adjustments and, accordingly, we do not express an opinion or any form of assurance on consolidated financial statements for the year ended March 31, 2015 taken as a whole.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

DIAMOND ESTATES WINES & SPIRITS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT MARCH 31, 2016 AND 2015

	2016	2015 Restated (Note 3)
ASSETS		
Current:		
Accounts receivable (Note 7)	**$ 4,031,973**	$ 3,747,303
Inventories (Note 8)	**16,891,492**	16,934,283
Prepaid expenses	**151,735**	209,623
Restricted cash (Note 9)	**-**	500,000
	21,075,200	21,391,209
Long term:		
Property, plant and equipment (Note 10)	**14,127,405**	15,410,106
Intangible assets (Note 11)	**3,831,904**	4,139,675
	$ 39,034,509	$ 40,940,990
LIABILITIES		
Current:		
Bank indebtedness (Note 12)	**$ 10,217,851**	$ 11,076,910
Accounts payable and accrued liabilities (Note 13)	**6,239,376**	5,751,831
Deposits received	**46,526**	27,955
Loan payable - non-controlling interest (Note 15)	**299,967**	1,375,547
Current portion of term loans payable (Note 16)	**10,386,559**	1,227,868
	27,190,279	19,460,111
Long term:		
Term loans payable (Note 16)	**-**	10,687,740
Shareholder loan payable (Note 14)	**-**	500,000
	27,190,279	30,647,851
SHAREHOLDERS' EQUITY		
Common shares (Note 17)	**8,522,378**	39,578,798
Contributed surplus	**937,413**	731,272
Accumulated deficit	**(1,711,121)**	(34,108,334)
Non-controlling interest (Note 5)	**4,095,560**	4,091,403
	11,844,230	10,293,139
	$ 39,034,509	$ 40,940,990

Going concern (Note 1(b))

Commitments and contingencies (Note 22)

Subsequent events (Note 26)

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, 2016 AND 2015

	2016	2015 Restated (Note 3)
Revenue	**$ 29,194,116**	$ 24,296,115
Cost of sales		
Change in inventories of finished goods and raw materials consumed	**16,505,025**	13,249,809
Depreciation of property, plant and equipment used in production (Note 10)	**780,707**	813,167
Freight in and other	**846,351**	472,273
	18,132,083	14,535,249
Gross profit	**11,062,033**	9,760,866
Expenses		
Employee compensation and benefits	**5,520,019**	5,054,845
General and administrative	**2,642,895**	2,476,975
Interest	**1,304,962**	1,370,201
Delivery and warehousing	**1,007,167**	710,210
Advertising and promotion	**914,347**	770,962
Loss on foreign exchange	**119,475**	71,234
Amortization of intangible assets (Note 11)	**333,175**	162,899
Depreciation of property, plant and equipment used in selling and administration (Note 10)	**106,041**	98,877
Share based compensation (Note 18(d))	**206,141**	193,235
Re-organization costs	**-**	475,404
Loss on disposition of property, plant and equipment	**652,973**	86,279
	12,807,195	11,471,121
Net loss and comprehensive loss	**$ (1,745,162)**	$ (1,710,255)
Net loss and comprehensive loss attributable to:		
Shareholders	**$ (1,706,819)**	$ (1,508,222)
Non-controlling interest	**(38,343)**	(202,033)
	$ (1,745,162)	$ (1,710,255)
Basic and diluted loss per share (Note 17(d))	**$ (0.02)**	$ (0.02)

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

DIAMOND ESTATES WINES & SPIRITS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED MARCH 31, 2016 AND 2015

	Note	Common shares Shares	Common shares Amount	Contributed surplus	Accumulated deficit	Shareholders' equity	Non-controlling interest	Total
As at April 1, 2014 (Restated)	**3**	**73,403,749**	**$ 39,578,798**	**$ 538,037**	**$ (32,600,112)**	**$ 7,516,723**	**$ -**	**$ 7,516,723**
Acquisition of partnership interest	**5**	-	-	-	-	-	3,543,336	3,543,336
Capital contribution by non-controlling interest to KDC	**5**	-	-	-	-	-	750,100	750,100
Net loss and comprehensive loss		-	-	-	(1,508,222)	(1,508,222)	(202,033)	(1,710,255)
Share based compensation	**18(d)**	-	-	193,235	-	193,235	-	193,235
As at March 31, 2015 (Restated)		**73,403,749**	**39,578,798**	**731,272**	**(34,108,334)**	**6,201,736**	**4,091,403**	**10,293,139**
Proceeds on issuance of common shares	**17(b)**	26,733,288	3,207,995	-	-	3,207,995	-	3,207,995
Share issuance costs	**17(b)**	-	(160,383)	-	-	(160,383)	-	(160,383)
Net loss and comprehensive loss		-	-	-	(1,706,819)	(1,706,819)	(38,343)	(1,745,162)
Share based compensation	**18(d)**	-	-	206,141	-	206,141	-	206,141
Reduction of stated capital and deficit	**17(c)**	-	(34,104,032)	-	34,104,032	-	-	-
Property, plant and equipment contributed by non-controlling interest	**10**	-	-	-	-	-	42,500	42,500
As at March 31, 2016		**100,137,037**	**$ 8,522,378**	**$ 937,413**	**$ (1,711,121)**	**$ 7,748,670**	**$ 4,095,560**	**$ 11,844,230**

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, 2016 AND 2015

	2016	2015 Restated (Note 3)
Operating activities		
Net loss	**$ (1,745,162)**	$ (1,710,255)
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	**886,748**	912,044
Amortization of intangible assets	**333,175**	162,899
Share based compensation	**206,141**	193,235
Loss on sale of property, plant and equipment	**652,973**	86,279
Interest expense	**1,304,962**	1,370,201
Interest paid	**(1,290,862)**	(1,370,201)
	347,975	(355,798)
Change in non-cash working capital items		
Accounts receivable	**(284,670)**	(712,039)
Inventories	**42,791**	(4,468,121)
Prepaid expenses	**57,888**	(70,400)
Accounts payable and accrued liabilities	**473,445**	2,290,241
Deposits received	**18,571**	(11,095)
	656,000	(3,327,212)
Investing activities		
Purchase of intangible assets	**(25,404)**	-
Purchase of property, plant and equipment	**(214,520)**	(243,354)
Proceeds on disposition of assets held for sale	**-**	1,800,000
	(239,924)	1,556,646
Financing activities		
Net proceeds from issuance of common shares	**3,047,612**	-
Bank indebtedness	**(859,059)**	(1,098,374)
Restricted cash	**500,000**	(500,000)
Bank indebtedness associated with assets for sale	**-**	(837,845)
Proceeds from (repayment of) loan payable - non-controlling interest	**(1,075,580)**	1,375,547
Proceeds from term loans payable	**-**	2,750,000
Repayment on term loans payable	**(1,529,049)**	(668,862)
Capital contribution to KDC by non-controlling interest	**-**	750,100
Repayment of shareholder's loan payable	**(500,000)**	-
	(416,076)	1,770,566
Change in cash	**-**	-
Cash, beginning of year	**-**	-
Cash, end of year	**$ -**	$ -
Non-cash transactions:		
Property, plant and equipment contributed by non-controlling interest (Note 10)	**$ 42,500**	$ -

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") is a public company listed on the TSX-V whose shares trade under the symbol "DWS.V". Its principal business activities include the operation and consolidation of wineries, wine, spirit, and beer distribution agencies, and sales and brand development. The address of the Company's registered office and principal place of business is 1067 Niagara Stone Road, Niagara-On-The-Lake, Ontario, L0S 1J0. The operations and principal place of business of Kirkwood Diamond Canada Partnership are located at 1155 North Service Road West, Oakville, Ontario, L6M 3E3.

(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 as they come due in the foreseeable future 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, 2016 was $1,745,162 (2015 - $1,710,255) and reported a working capital deficiency as at March 31, 2016 of $6,115,079 compared to a working capital surplus of $1,931,098 as at March 31, 2015. The operations and net loss for the year have 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 12(e))*. This covenant breach has required the non-current portion of the MCU term loans of $9,264,045 to be classified as a current liability under IFRS as at March 31, 2016 *(see note 16)*. As of July 19, 2016, MCU has indicated in writing that it is prepared to waive the default, subject to no further defaults occurring and the expectation that the covenant in default is met at the next stipulated reporting period, being June 30, 2016, which has been satisfied. These circumstances 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 MCU. However, there is no assurance these initiatives will be successful or sufficient. These 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 consolidated balance sheet classifications that would be necessary if the going concern assumption were inappropriate, and these adjustments could be material.

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 July 21, 2016.

These consolidated financial statements are presented in Canadian dollars, unless otherwise stated.

(b) Basis of consolidation

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

- ♦ Diamond Estates Wines & Spirits Ltd. 100%
- ♦ De Sousa Wines Toronto Inc. 100%
- ♦ Kirkwood Diamond Canada (partnership) *(see note 5)* 50.01%

Diamond Estates Wines & Spirits Ltd. and Niagara Cellars (o/a Diamond Estates - The Winery) amalgamated on April 1, 2015 and carried on as Diamond Estates Wines & Spirits Ltd. The accounts of De Sousa Wine Cellars Corporation have been consolidated up to the date of sale of the shares of the company on November 10, 2014 *(see note 6)*.

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, deposits received, 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, deposits received, 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 an average 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%	declining balance
♦	Machinery and equipment	-	20%	declining balance
♦	Leasehold improvements	-	20%	declining balance
♦	Equipment	-	10 - 25%	declining balance
♦	Vehicles	-	30%	declining balance
♦	Computer equipment	-	30 - 45%	declining balance
♦	Vines	-	20 years	straight line

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(f) **Biological assets**

At March 31, 2016, the Company measures biological assets, consisting of grapes grown on vineyards controlled by the Company, at cost, which approximates fair value as there has been minimal biological transformation since the initial cost incurrence. The initial costs incurred are comprised of direct expenditures required to enable the biological transformation of agricultural produce.

At the point of harvest, the fair value of biological assets is determined by reference to local market prices for grapes of a similar quality and the same varietal. At this point, agricultural produce is measured at fair value less cost to sell, which becomes the basis for the cost of inventories after harvest.

Gains or losses arising from a change in fair value less costs to sell are included in the consolidated statements of loss and comprehensive loss in the 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 - 1 - 5 years
- 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 because the expected usage, period of control and other factors do not limit their 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, or "CGUs").

All individual assets or CGUs 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 CGU'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 CGU 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 CGUs reduce the carrying amount of the assets in that CGU. All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the CGU'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

(i) **Income taxes, 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) Loss 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 loss 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 compensation

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 contributed 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) Deferred share units (DSUs)

The Company grants DSUs to directors as part of their compensation. The DSUs vest immediately upon grant and are only settled in shares. The fair value of each DSU is measured at the date of the grant using the Black-Scholes option pricing model. The resulting compensation expense is charged to income as share based compensation with a corresponding increase to contributed surplus.

(n) 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

(o) 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.

The following are deducted from gross revenue to arrive at reported revenue: (i) excise taxes collected on behalf of the federal government, (ii) licensing fees and levies paid on wine sold through the Company's independent Ontario retail stores, (iii) incentive and discount programs and shelving payments provided to customers, (iv) product returns and (v) breakage.

(p) 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:

Fair value of grapes at the point of harvest

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

Property, plant and equipment

Property, plant and equipment represent a significant proportion of the asset base of the Company as they amount to 36.2% (2015 - 37.6%) 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**

(p) **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.

Gross versus net presentation

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

Useful life of intangible assets

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

Applying the acquisition method to business combinations

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

2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(q) 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.

2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(q) **Business combinations, continued**

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. **RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS AND RESTATEMENT**

(a) **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.

The following tables summarize the impact of adopting amended IAS 16 – Property, Plant, and Equipment and IAS 41 – Agriculture.

Impact on consolidated statements of financial position	March 31, 2015 (as reported) $	Impact of IAS 16 and IAS 41 changes $	March 31, 2015 (as restated) $	April 1, 2014 (as reported) $	Impact of IAS 16 and IAS 41 changes $	April 1, 2014 (as restated) $
Property, plant and equipment (i)	15,328,378	81,728	15,410,106	15,992,766	86,030	16,078,796
Biological assets (i)	86,030	(86,030)	-	86,030	(86,030)	-
Total assets	40,945,292	-	40,945,292	34,359,007	-	34,359,007
Accumulated deficit	(34,104,032)	(4,302)	(34,108,334)	(32,600,112)	-	(32,600,112)
Total shareholders' equity	10,297,441	(4,302)	10,293,139	7,516,723	-	7,516,723

3. **RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS AND RESTATEMENT, CONTINUED**

(a) **Early adoption of IAS 16: "Property, Plant, and Equipment" and IAS 41: "Agriculture", continued**

Impact on consolidated statements of net loss and comprehensive loss	**Year ended March 31, 2015 (as reported) $**	**Impact of IAS 16 and IAS 41 changes $**	**Year ended March 31, 2015 (as restated) $**
Depreciation of property, plant and equipment	907,742	4,302	912,044
Net loss and comprehensive loss	(1,705,953)	(4,302)	(1,710,255)
Net loss per share: basic and diluted	(0.02)	-	(0.02)

Impact on consolidated statements of cash flows [ii]	**Year ended March 31, 2015 (as reported) $**	**Impact of IAS 16 and IAS 41 changes $**	**Year ended March 31, 2015 (as restated)) $**
Net loss for year	(1,705,953)	(4,302)	(1,710,255)
Depreciation of property, plant and equipment	907,742	4,302	912,044
Cash flow from operating activities	(3,327,212)	-	(3,327,212)

(i) Under the amended standards, grape vines are within the scope of property, plant, and equipment rather than biological assets. The Company elected to measure the grape vines at fair value at April 1, 2014 and to use this measurement basis as the deemed cost when applying IAS 16 after this date. In applying IAS 16, the Company amortizes grape vines on owned property over a 20 year period. Prior to adoption of the amended standards, the grape vines were measured at fair value less cost to sell at each reporting period and revaluation adjustments were recorded in change in inventories of finished goods and raw materials consumed in the consolidated statements of net loss and comprehensive loss.

(ii) Certain items within operating activities in the consolidated statements of cash flows have been reclassified as a result of adopting the IAS 16 and IAS 41 amendments as illustrated above. Other than presentation, there was no impact on the consolidated statements of cash flows as a result of the adoption of the amendments to IAS 16 and IAS 41.

(b) **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.

3. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS AND RESTATEMENT, CONTINUED

(c) Restatement of comparative balances

The comparative financial statements and notes thereto for the year ended have been restated to reflect a correction in classification of certain costs relating to revenue recognition *(see note 2(o))*. 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 warehousing and receiving. Following this review, management has determined that these costs are better presented as deductions from revenue.

The impact of the restatement of the 2015 statements of net loss and comprehensive loss is a reduction of $1,434,781 in revenues and offsetting reductions of $1,320,010 in advertising and promotion, $69,823 in change in inventories of finished goods and raw materials consumed and $44,948 in delivery and warehousing. There was no impact to previously reported equity, net loss and comprehensive loss or cash flows.

4. 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.

4. NEW AND REVISED IFRS STANDARDS AND INTERPRETATIONS NOT YET ADOPTED, CONTINUED

(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 consolidated financial statements and intends to adopt these standards at their effective dates.

5. BUSINESS ACQUISITION AND NON-CONTROLLING INTEREST

On October 1, 2014, the Company and The Kirkwood Group ("TKG") formed a new partnership named Kirkwood Diamond Canada ("KDC" or the "partnership") and began the process of integrating their respective agency businesses. The Company has a 50.01% interest in the partnership and a tie-breaking vote on the Executive Committee of the partnership, effectively giving it strategic and directional control over the operations of the partnership. Accordingly, the partnership's financial results have been consolidated into the Company's financial statements starting October 1, 2014.

Each partner contributed intangible assets, consisting of sales agency and distribution agreements with beverage alcohol suppliers, of their respective agencies to KDC in exchange for their respective partnership interests. The Company did not issue any equity or cash consideration, contingent or otherwise, to the owners of TKG as a result of this transaction. Subsequent to the closing of the transaction in 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 12(f))*. On January 1, 2015, KDC purchased the inventory from the Company and TKG, thereby integrating the two businesses.

5. **BUSINESS ACQUISITION AND NON-CONTROLLING INTEREST, CONTINUED**

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) (Note 11)	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 15)	(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**

The non-controlling interest in the partnership is 49.99% and was 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, 2016 and March 31, 2015, and for the year ended and six month period then ended, before consolidation eliminations, are as follows:

	Year ended March 31 2016	Six months ended March 31 2015
	$	$
Accounts receivable	**2,909,000**	2,300,000
Inventories	**4,297,000**	3,963,000
Intangible assets	**6,278,000**	6,929,000
Bank indebtedness	**(1,709,000)**	(1,848,000)
Accounts payable	**(3,561,000)**	(2,434,000)
Loan payable - partner company	**(300,000)**	(1,376,000)
Revenues	**16,305,000**	8,272,000
Net loss	**(77,000)**	(404,000)

6. 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 9. 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, resulting in a loss on disposition of $80,916 during the year ended March 31, 2015.

(b) Approximately $780,000 of the proceeds were used to retire the remaining outstanding mortgage on the property, 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 under the terms of the leaseback for the year ended March 31, 2016 total $115,731 (2015 - $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.

7. ACCOUNTS RECEIVABLE

	2016	2015
Trade receivables	**$ 3,800,633**	$ 3,605,237
Accrued receivables	**204,653**	142,066
Government remittances recoverable	**46,665**	-
	$ 4,031,973	$ 3,747,303

8. INVENTORIES

	2016	2015
Bulk wine	**$ 8,892,403**	$ 8,721,635
Bottled wine and spirits	**7,475,048**	7,734,554
Bottling supplies and packaging	**524,041**	478,094
	$ 16,891,492	$ 16,934,283

Biological assets consist of grapes prior to harvest that are controlled by the Company. The Company owns land in Ontario to grow grapes in order to secure a supply of quality grapes for the making of wine. As at March 31, 2016, the Company held grape vines planted on 34 acres (2015 - 34 acres), 22 acres of which were held through the operating lease of the De Sousa Beamsville winery property *(see note 6(c))*. During the year ended March 31, 2016, the Company harvested 114 tons of grapes (2015 - 97 tons) valued at $101,032 (2015 - $85,739).

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

	2016	2015
Carrying value, beginning of year	**$ -**	$ -
Net increase in fair value less costs to sell due to biological transformation	**101,032**	85,739
Transferred to inventory on harvest	**(101,032)**	(85,739)
Carrying value, end of year	**$ -**	$ -

The Company is exposed to financial risk because of the long period of time between the cash outflow required to plant grape vines, cultivate vineyards, and harvest grapes and the cash inflow from selling wine and related products from the harvested grapes. Substantially all of the grapes from owned and leased vineyards are used in the Company's winemaking processes. Owned and leased vineyards, in combination with supply contracts with grape growers, are used to secure a supply of domestic grapes. These strategies reduce the financial risks associated with changes in the grape prices.

9. RESTRICTED CASH

The funds, received from the Company's largest shareholder, were held on deposit by Meridian Credit Union ("MCU") as security for the Company's indebtedness to MCU under the terms of its credit agreement dated January 12, 2015 *(see note 12)*. They were completely utilized to fund the partial repayment of non-revolving term loan #3 *(see note 16)* that was made on May 6, 2015.

10. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery, equipment and vines	Leasehold improvements	Equipment	Vehicles	Computer equipment	Total
Cost								
As at April 1, 2014	**$ 1,119,654**	**$ 12,560,292**	**$ 8,821,476**	**$ 80,400**	**$ 168,545**	**$ 57,841**	**$ 309,468**	**$ 23,117,676**
Additions	6,988	12,451	171,768	-	-	38,500	13,647	243,354
As at March 31, 2015	**1,126,642**	**12,572,743**	**8,993,244**	**80,400**	**168,545**	**96,341**	**323,115**	**23,361,030**
Additions	3,172	129,988	79,105	24,000	7,226	-	13,529	257,020
Disposals	-	(616,095)	(119,270)	(41,700)	(73,259)	(6,121)	-	(856,445)
As at March 31, 2016	**$ 1,129,814**	**$ 12,086,636**	**$ 8,953,079**	**$ 62,700**	**$ 102,512**	**$ 90,220**	**$ 336,644**	**$ 22,761,605**
Accumulated depreciation								
As at April 1, 2014	**$ -**	**$ 2,418,737**	**$ 4,130,428**	**$ 50,003**	**$ 110,962**	**$ 35,352**	**$ 293,398**	**$ 7,038,880**
Depreciation	-	384,969	492,032	6,672	6,554	12,521	9,296	912,044
As at March 31, 2015	**-**	**2,803,706**	**4,622,460**	**56,675**	**117,516**	**47,873**	**302,694**	**7,950,924**
Depreciation	-	370,609	471,475	8,745	6,426	14,541	14,952	886,748
Disposals	-	-	(115,481)	(34,140)	(47,958)	(5,893)	-	(203,472)
As at March 31, 2016	**$ -**	**$ 3,174,315**	**$ 4,978,454**	**$ 31,280**	**$ 75,984**	**$ 56,521**	**$ 317,646**	**$ 8,634,200**
Net book value								
As at March 31, 2015	**$ 1,126,642**	**$ 9,769,037**	**$ 4,370,784**	**$ 23,725**	**$ 51,029**	**$ 48,468**	**$ 20,421**	**$ 15,410,106**
As at March 31, 2016	**$ 1,129,814**	**$ 8,912,321**	**$ 3,974,625**	**$ 31,420**	**$ 26,528**	**$ 33,699**	**$ 18,998**	**$ 14,127,405**

Given the company's new plans for its expanded retail facility, previously capitalized design costs of $616,095 related to prior winery expansion plans were written off in the current year with their cancellation. Property, plant and equipment additions of $42,500 were contributed in the current year by the non-controlling interest.

11. INTANGIBLE ASSETS

	Pre-1993 winery licenses	Distribution rights	Trademarks	Computer software	Total
Cost					
As at April 1, 2014	**$ 750,000**	**$ 5,276,427**	**$ 52,358**	**$ 136,351**	**$ 6,215,136**
Kirkwood acquisition (Note 5)	-	3,543,336	-	591	3,543,927
As at March 31, 2015	**750,000**	**8,819,763**	**52,358**	**136,942**	**9,759,063**
Additions	-	-	-	25,404	25,404
As at March 31, 2016	**$ 750,000**	**$ 8,819,763**	**$ 52,358**	**$ 162,346**	**$ 9,784,467**
Accumulated amortization					
As at April 1, 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**
Amortization	-	322,120	1,362	9,693	333,175
As at March 31, 2016	**$ -**	**$ 5,759,608**	**$ 46,911**	**$ 146,044**	**$ 5,952,563**
Net book value					
As at March 31, 2015	**$ 750,000**	**$ 3,382,275**	**$ 6,809**	**$ 591**	**$ 4,139,675**
As at March 31, 2016	**$ 750,000**	**$ 3,060,155**	**$ 5,447**	**$ 16,302**	**$ 3,831,904**

(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").

The Company determined the recoverable amount of the pre-1993 winery licenses by estimating their value in use. Key assumptions used were:

	2016	2015
Pre-tax discount rate	**11%**	11%
Period of projected cash flows	**5 years**	5 years
Growth rate beyond period of projected cash flows	**4%**	4%

11. INTANGIBLE ASSETS, CONTINUED

The Company uses past experience and current expectations about future performance in projecting cash flows, which are based on financial budgets for five years. For the period after five years, the Company projects cash flows using an assumed growth rate, which is based on expectations about long-term economic growth in Canada and any known industry specific factors that may influence long-term growth in the Canadian wine industry. The discount rate is estimated by referring to external sources of information about the cost of capital and the leverage of companies that operate in a similar industry to the Company and that are of similar size. The rate determined is then adjusted to a pre-tax basis.

(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 5)* 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.

12. BANK INDEBTEDNESS

On March 31, 2016, the Company signed a new credit agreement with Meridian Credit Union ("MCU"), its primary lender, to replace previous agreements dated January 12, 2015, 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 12(f))*.

As at March 31, 2016, the components of the Company's bank indebtedness are as follows:

	2016	2015
Meridian Credit Union:		
Diamond Operating Line: revolving operating line of credit, due on demand, interest payments only required monthly, calculated at prime plus 2.50%, total credit facility available is $10,000,000, subject to certain margin limits in respect of accounts receivable and inventory	**$ 8,508,855**	$ 9,228,828
Kirkwood Diamond Operating Line: revolving operating line of credit, due on demand, interest payments only required monthly, calculated at prime plus 2%, total credit facility available is $3,000,000, subject to certain margin limits in respect of accounts receivable and inventory similar to Diamond's facility (Note 12(f))	**1,708,996**	1,848,082
	$ 10,217,851	$ 11,076,910

12. **BANK INDEBTEDNESS, CONTINUED**

(a) The revised credit agreement for Diamond dated March 31, 2016 reflected the following major changes from previous agreements and amendments, as follows:
  (i) The definition of the debt service ratio ("DRS") was amended to effectively include the Company's EBITDA from KDC.
  (ii) Measurement of compliance with the two DSR ratio covenants for the fiscal year ended March 31, 2016 has been postponed until later periods as per note 12(e).
  (iii) The equal monthly blended payments of principal and interest under non-revolving loans #2 and #3 have been changed to a combined total of $44,966 ($15,905 and $29,061 respectively) from a combined total of $64,773 ($16,338 and $48,435 respectively), a total monthly decrease of $19,807.

(b) 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 12(c)(iii) and 16)*. 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.

  (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 5)* and $500,000 of the prior line of credit converted to instalment based non-revolving loan #3 *(see notes 12(c)(iv) and 16)*. 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 17(b), 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 three month period ended March 31, 2016 *(see note 12(e)(i))*.

  (v) Maintenance of financial covenants measuring: the Debt Service Ratio ("DSR") of 1.25|1.00 on an annual basis *(see note 12(e)(iii))*, a trailing four quarter DSR of 1.25|1.00 on a quarterly basis *(see note 12(e)(iv))*, and the ratio of total debt to effective net worth measured annually *(see note 12(e)(i))* were all deferred for one year so as to commence effective the fiscal three month period ended March 31, 2016.

12. **BANK INDEBTEDNESS, CONTINUED**

The current credit agreement with MCU dated March 31, 2016 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 to a maximum of $8,618,756 *(see note 16)*, repayable in blended monthly payments of principal and interest of $94,319, bears interest at a fixed rate of 5.4%, due by December 31, 2018.
(iii) Non-revolving loan #2 to a maximum of $1,370,833 *(see note 16)*, amortized over 10 years (with 107 months remaining), repayable in equal blended payments of principal and interest of $15,905, bearing interest at fixed rate of 4.99%, due February 5, 2019.
(iv) Non-revolving loan #3 to a maximum of $452,029. The original loan was for $1,250,000 *(see note 16)*, $750,000 of which was used for investment in Kirkwood Diamond Canada Partnership *(see note 5)* and $500,000 of the prior line of credit converted to a non-revolving loan. As a result of the amendment dated March 25, 2015 and subsequent to the private placement that closed on April 29, 2015 *(see note 17(b))*, 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)*. The remaining loan is being amortized over 30 months (with 17 months remaining, is repayable in equal blended payments of principal and interest of $29,061, bears interest at a fixed 12% and is due by August 5, 2017.

(d) ***Security***

The above credit facilities are secured by general security agreements, collateral mortgage for $15,000,000 registered in the name of Diamond Estates Wines & Spirits Ltd. over its 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 each of Diamond Estates Wines & Spirits Inc. and De Sousa Wines Toronto Inc., each of which is supported by respective general security agreements.

(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 3.50|1.00 to be measured as at March 31, 2016, improving to 3.25|1.00 by March 31, 2017 and annually thereafter (where total debt is defined as the sum of current liabilities plus long term liabilities, less any postponed amounts);

12. BANK INDEBTEDNESS, CONTINUED

(e) **Financial covenants, continued**

(iii) Maintain a DSR of not less than 1.25|1.00, measured on an annual basis commencing with the fiscal year ended March 31, 2017 and annually thereafter; the DSR is defined as the ratio of consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") less 50% of KDC EBITDA to the sum of interest expense plus the current portion of long term debt and capital leases; and

(iv) Maintain a trailing four quarter DSR (as defined above) of not less than 1.25|1.00, measurement commencing effective the end of the third quarter following the March 31, 2016 fiscal year end.

As at March 31, 2016, the Company was not in compliance with the covenant relating to minimum effective net worth. This covenant breach has required the non-current portion of the MCU term loans of $9,264,045 to be classified as a current liability under IFRS as at March 31, 2016 *(see notes 1(b) and 16)*. As of July 19, 2016, MCU has indicated in writing that it is prepared to waive the default, subject to no further defaults occurring and the expectation that the covenant in default is met at the next stipulated reporting period, being June 30, 2016, which has been satisfied. The Company was in compliance with the covenant relating to total debt to effective net worth as at March 31, 2016. The DSR ratio covenant was not measured for fiscal 2016 by virtue of the new credit agreement dated March 31, 2016.

(f) ***Kirkwood Diamond Canada credit facility***

On January 23, 2015, the Company became a party to a credit agreement with MCU to finance the operations of Kirkwood Diamond Canada *(see note 5)*. The agreement was amended on March 31, 2015 such that it now reflects the following major terms:

(i) operating line of up to $3,000,000
(ii) payments of interest only, interest at prime plus 2%
(iii) credit facility secured by:
- general security agreement
- assignment of fire insurance
- guarantee and postponement of claim from The Kirkwood Group Ltd. in the amount of $1,500,000
- inter-creditor amongst concerned parties agreement limiting liability of the Company to $1,500,000

(iv) Financial covenants include:
- maintaining an effective net worth of $1,500,000, which is defined as the sum of partners' capital and loans from related parties less the sum of loans to related parties and intangible assets
- interest coverage ratio of 1.25|1.00, which is defined as the ratio of earnings before interest, taxes, depreciation and amortization less partner distributions to interest expense on all its debt obligations
- by virtue of the amendment dated March 31, 2015, MCU waived compliance by KDC with these financial covenants as at March 31, 2015 by revising the initial measurement date to be March 31, 2016. The Partnership was in compliance with all of its debt covenants for the fiscal year ended March 31, 2016.

12. BANK INDEBTEDNESS, CONTINUED

On April 7, 2016, the Partnership entered into a new credit agreement with CIBC *(see note 26)*. The agreement closed on June 2, 2016 and existing obligations to MCU were repaid in full.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2016	2015
Trade accounts payable	**$ 5,357,908**	$ 5,001,335
Accrued liabilities	**881,468**	740,079
Government remittances payable	**-**	10,417
	$ 6,239,376	$ 5,751,831

14. SHAREHOLDER LOAN PAYABLE

The loan, payable to the Company's largest shareholder, is unsecured and bears interest at 8% per annum. It was due by April 1, 2016, but was repaid in full on March 31, 2016. Under the provisions of the MCU credit agreement, any outstanding amount of this loan had been included in the determination of effective net worth *(see note 12(e)(i))*.

15. LOAN PAYABLE - NON-CONTROLLING INTEREST

Amounts due to The Kirkwood Group arise from the purchase of inventory as more fully described in note 5 and funding of operations during the merger and integration of the two agency businesses. The loan, payable to The Kirkwood Group Ltd., a company related to a corporate partner of KDC by common control, is unsecured, interest-bearing at 5% per annum and repayable on demand. Interest expense provided for on this loan during the year ended March 31, 2016 totalled $14,100 (2015 - $Nil).

	2016	2015
Loan payable - non-controlling interest	**$ 299,967**	$ 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 12(f)).

16. TERM LOANS PAYABLE

As more fully described in notes 12(a) and 12(b), the Company entered into a new credit agreement with MCU on January 12, 2015 under which:

- $1,500,000 of the prior line of credit was converted to an instalment based non-revolving loan (non-revolving loan #2)
- A non-revolving loan to a maximum of $1,250,000 was issued, $750,000 of which is to be used for investment in KDC *(see note 5)* and $500,000 of the prior line of credit converted to an instalment based non-revolving loan (non-revolving loan #3)

As part of the revised Meridian Credit Union agreement dated September 17, 2014, the due date of the Company's non-revolving loan #1 was extended to December, 2018 from December, 2016. All other terms and conditions, including interest rate and monthly payment, remained unchanged.

16. TERM LOANS PAYABLE, CONTINUED

As at March 31, 2016, the amounts outstanding were as follows:

	2016	2015
Meridian Credit Union term loans:		
Non-revolving loan #1	**$ 8,563,784**	$ 9,212,699
Non-revolving loan #2 (Note 12(b)(ii))	**1,370,684**	1,489,837
Non-revolving loan #3 (Note 12(b)(iii))	**452,091**	1,213,072
	10,386,559	11,915,608
Less: current portion	**(1,122,514)**	(1,227,868)
Remaining portion classified as long term due to covenant breach	**(9,264,045)**	-
	$ -	$ 10,687,740

As at March 31, 2016, the Company was not in compliance with the covenant relating to minimum effective net worth. This covenant breach has required the non-current portion of the MCU term loans of $9,264,045 to be classified as a current liability under IFRS as at March 31, 2016 *(see notes 1(b) and 12(e))*. As of July 19, 2016, MCU has indicated in writing that it is prepared to waive the default, subject to no further defaults occurring and the expectation that the covenant in default is met at the next stipulated reporting period, being June 30, 2016, which has been satisfied.

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

(a) Remaining term of 3 years, 6 months, due by December 31, 2018
(b) Amortized over a period of 129 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 12, including general security agreements by each Company in the group and a collateral mortgage for $15,000,000 on the property and buildings at the Company's primary place of operations.

Estimated principal repayments are as follows as a result of obtaining the waiver for the covenant breach:

Twelve months ending March 31, 2017	**$ 1,122,514**
Twelve months ending March 31, 2018	**996,685**
Twelve months ending March 31, 2019	**8,267,360**
	$ 10,386,559

17. 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 consolidated statements of changes in shareholders' equity for the years ended March 31, 2016 and 2015. Details of major changes in each component during that period are as follows:

17. SHARE CAPITAL AND OTHER EQUITY INSTRUMENTS, CONTINUED

(a) Warrants

As at March 31, 2016, the Company had a total of Nil (2015 - 288,220) 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 with an attributed value of $128,863. These warrants expired unexercised on September 24, 2015.

(b) Private placement

On April 29, 2015, the Company completed a brokered private placement of 26,733,288 common shares at an issuance price of $0.12 per common share for gross proceeds of $3,207,995, less issuance costs of $160,383, for net proceeds of $3,047,612. As a result of exceeding $3,000,000 from this equity raise, the Company was required to pay $456,069 against non-revolving loan #3 from Meridian Credit Union as described in note 12(b)(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.

(c) Reduction in stated capital

At the Company's Annual General Meeting on September 22, 2015, shareholders approved a reduction in stated capital. Effective that date, stated capital was reduced by $34,104,032 pursuant to the provisions of the Ontario Business Corporations Act. The reduction in stated capital decreased the accumulated deficit of the Company. No cash distribution was made in connection with the reduction in stated capital.

(d) Loss per share

Basic loss per share is computed using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the year ended March 31, 2016 were 98,018,826 (2015 - 73,403,749). 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 at March 31, 2016, the following potentially dilutive equity instruments were all outstanding: (1) Nil warrants (2015 - 288,220), (2) 6,682,400 options (2015 - 6,682,400), and (3) 819,133 deferred share units (2015 - Nil). The fully diluted number of common shares outstanding for the years ended March 31, 2016 and 2015 were 107,638,570 and 80,374,369 respectively.

18. **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.

Stock option activity for the years ended March 31, 2016 and 2015 was as follows:

	2016		2015	
	Options	**Weighted-average exercise price ($)**	Options	Weighted-average exercise price ($)
Outstanding, beginning of year	**6,682,400**	**0.17**	3,132,400	0.21
Granted to CFO *(see note 18(a))*	**-**	**-**	500,000	0.25
Granted to Oakwest *(see note 18(b))*	**-**	**-**	1,400,000	0.12
Granted to Chairman *(see note 18(b))*	**-**	**-**	600,000	0.12
Granted to key management	**-**	**-**	1,050,000	0.11
Outstanding, end of year	**6,682,400**	**0.17**	6,682,400	0.17

As at March 31, 2016, 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	2,000,000	0.20	2.49	September 23, 2018
September 24, 2013	532,400	532,400	0.20	0.96	March 7, 2017
September 24, 2013	600,000	600,000	0.25	2.49	September 23, 2018
June 5, 2014	500,000	125,000	0.25	3.18	June 5, 2019
November 10, 2014	1,400,000	560,000	0.12	3.62	November 9, 2019
November 10, 2014	600,000	240,000	0.12	3.62	November 9, 2019
November 24, 2014	1,050,000	262,500	0.11	3.62	November 23, 2019
	6,682,400	4,319,900	0.18	3.19	

18. **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 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 was 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 6)*, the Company 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 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 was 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 compensation:**

Total share based compensation recognized for the year ended March 31, 2016 of $206,141 (2015 - $193,235) based on accrual of previously granted options expected to vest in the reporting period and the issuance of DSUs as described in note 19.

19. DEFERRED SHARE UNITS ("DSUs")

At the Company's Annual General Meeting on September 22, 2015, shareholders approved the adoption of a deferred share unit plan (the "DSU Plan") for the benefit of the Company's directors, officers, employees and consultants. The DSU Plan has been established to assist the Company in the recruitment and retention of qualified persons and to encourage share ownership by those who are primarily responsible for the management and growth of the business.

The Board intends to use DSUs issued under the DSU Plan, as well as options issued under the stock option plan *(see note 18(d))*, as part of the Company's overall compensation plan. Since the value of DSUs increase or decrease with the price of the Company's common shares, DSUs reflect a philosophy of aligning the interests of management and directors with those of the shareholders by tying compensation to share price performance.

The maximum number of common shares reserved for issuance under the DSU Plan is 1,000,000, which is approximately 1% of the current issued and outstanding. 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 November 19, 2015, the Board of Directors approved the issuance of an aggregate of 819,133 DSUs to non-executive directors under its DSU Plan in settlement of $86,019 of deferred directors' compensation, resulting in a period charge to share based payments *(see note 18)*. The DSUs are to be settled in common shares of the Company when the director retires from all positions with the Company. Pursuant to the DSU Plan, the DSUs were priced based on the weighted average price per Common Share at which the Common Shares have traded on the TSX Venture Exchange during the last five trading days preceding the issuance.

20. 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:

	2016	2015
Net loss before recovery of income taxes	**$ (1,745,162)**	$ (1,710,255)
Expected income tax recovery	**26.50%**	26.50%
Expected income tax recovery	**$ (462,470)**	$ (453,220)
Decrease (increase) resulting from:		
Non-controlling interest and other	**(124,840)**	(84,630)
Non-deductible expenses	**66,250**	350,690
Expiry of tax losses not previously recognized	**-**	23,660
Change in tax benefits not recognized	**521,060**	163,500
Recovery of income taxes	**$ -**	$ -

20. **INCOME TAXES, CONTINUED**

(b) **Deferred tax**

The following table summarizes the components of deferred tax:

	2016	2015
Deferred tax asset		
Non-capital losses carried forward	**$ 1,967,123**	$ 2,157,270
Deferred tax liabilities		
Property, plant and equipment	**(1,901,313)**	(2,157,270)
Intangible assets	**(65,810)**	-
Net deferred tax liabilities	**$ -**	$ -

(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:

	2016	2015
	$	$
Non-capital losses carried forward	**17,567,696**	14,953,230
Capital losses carried forward	**794,780**	444,100
Share issuance costs	**853,830**	641,470
Intangible assets	**-**	312,010
Other	**37,960**	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.

2025	$ 643,240
2026	838,080
2027	325,420
2028	2,372,950
2029	6,958,790
2030	4,108,090
2031	1,952,480
2032	2,053,190
2033	660,700
2034	1,713,380
2035	1,387,850
2036	1,976,630
	$ 24,990,800

21. KEY MANAGEMENT COMPENSATION, RELATED PARTY TRANSACTIONS AND BALANCES

During the years ended March 31, 2016 and 2015, 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:

	2016	2015
Salary	**$ 523,200**	$ 549,200
Director fees	**85,231**	177,000
Share based compensation under stock option plan *(see note 18(d))* and DSU plan *(see note 19)*	**206,141**	193,235
Interest on loan payable - non-controlling interest *(see note 15)*	**14,100**	-
Interest on shareholder loan *(see note 14)*	**40,000**	40,000
Winery lease payments *(see note 6(c))*	**115,731**	27,041
Vineyard maintenance	**44,053**	48,100
Grape purchases	**115,406**	91,800
Proceeds on sale of Beamsville winery *(see note 6(a))*	**-**	1,800,000
Purchase of property, plant and equipment *(see note 10)*	**42,500**	-

Accounts payable and accrued liabilities as at March 31, 2016 includes $182,559 (2015 - $146,092) with respect to balances owing to related parties for the transactions disclosed above.

22. COMMITMENTS AND CONTINGENCIES

(a) Under various lease agreements with varying terms, the Company leases certain 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 $5,511 (2015 - $12,375). Future remaining minimum lease payments as at March 31, 2016 are as follows:

2017	$ 17,663
2018	5,707
	$ 23,370

(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, 2016 are as follows:

2017	$ 262,978
2018	282,349
2019	197,044
2020	94,295
2021	8,357
	$ 845,023

22. COMMITMENTS AND CONTINGENCIES, CONTINUED

(c) From time to time, 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.

23. SEGMENTED INFORMATION

Business segments

The Company operates in two business segments, namely the sales of manufactured wines and agency sales. The following table presents selected financial information associated with each of these segments for the years ended March 31, 2016 and 2015:

	Agency	Manufactured wines	Consolidated
		2016	
	$	$	$
Gross revenue	**16,304,680**	**13,442,953**	**29,747,633**
Inter-segment revenue	**(553,517)**	**-**	**(553,517)**
Net revenue	**15,751,163**	**13,442,953**	**29,194,116**
Gross profit	**6,717,459**	**4,344,574**	**11,062,033**
Interest on bank indebtedness	**257,556**	**1,047,406**	**1,304,962**
Depreciation and amortization	**384,663**	**835,260**	**1,219,923**
Additions of property, plant and equipment and intangible assets	**53,970**	**228,454**	**282,424**
Intangible assets	**3,074,602**	**757,302**	**3,831,904**
Total assets	**10,390,824**	**28,643,685**	**39,034,509**
Total liabilities	**5,570,368**	**21,619,911**	**27,190,279**
		2015	
	$	$	$
Gross revenue	11,706,511	13,490,513	25,197,024
Inter-segment revenue	(819,783)	(81,126)	(900,909)
Net revenue	10,886,728	13,409,387	24,296,115
Gross profit	5,329,299	4,431,567	9,760,866
Interest on bank indebtedness	362,068	1,008,133	1,370,201
Depreciation and amortization	206,395	868,548	1,074,943
Additions of property, plant and equipment and intangible assets	3,576,825	210,456	3,787,281
Intangible assets	3,389,084	750,591	4,139,675
Total assets	9,794,476	31,146,514	40,940,990
Total liabilities	5,696,083	24,951,768	30,647,851

Transactions between segments are measured at the exchange amount, which approximates fair value.

23. SEGMENTED INFORMATION, CONTINUED

Geographic information

	2016	2015
Revenue		
Canada	**$ 25,974,958**	$ 22,640,837
China and other	**3,219,158**	3,090,059
	$ 29,194,116	$ 24,296,115

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

24. FINANCIAL INSTRUMENTS AND 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) Classification of financial instruments

The classification and measurement of the financial assets and liabilities, as well as their carrying amounts and fair values are as follows:

			2016		**2015**	
Assets/liabilities	**Category**	**Measurement**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
			$	**$**	$	$
Accounts receivable	Loans and receivables	Amortized cost	**4,031,973**	**4,031,973**	3,747,303	3,747,303
Restricted cash	Loans and receivables	Amortized cost	**-**	**-**	500,000	500,000
Bank indebtedness	Other liabilities	Amortized cost	**10,217,851**	**10,217,851**	11,076,910	11,076,910
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	**6,239,376**	**6,239,376**	5,751,831	5,751,831
Deposits received	Other liabilities	Amortized cost	**46,526**	**46,526**	27,955	27,955
Loan payable - non-controlling interest	Other liabilities	Amortized cost	**299,967**	**299,967**	1,375,547	1,375,547
Term notes payable	Other liabilities	Amortized cost	**10,386,559**	**10,386,559**	11,915,608	11,915,608
Shareholder loan payable	Other liabilities	Amortized cost	**-**	**-**	500,000	500,000

24. FINANCIAL INSTRUMENTS AND RISK FACTORS, CONTINUED

(b) 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 12)*. Assuming that other variables remain constant, a 1% change in the prime lending rate as at March 31, 2016 would impact interest expense and net loss by $102,000 (2015 - $111,000).

(c) 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.

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

	2016	2015
Current	**$ 2,441,166**	$ 2,268,530
30 days past due	**713,787**	1,143,608
60 days past due	**247,791**	4,314
90 days past due	**169,517**	52,811
120 days past due	**479,690**	278,040
Amount provided for	**(19,978)**	-
	$ 4,031,973	$ 3,747,303

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.

24. **FINANCIAL INSTRUMENTS AND RISK FACTORS, CONTINUED**

(d) **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:

	2016	2015
Accounts receivable		
US dollars (USD)	**33,204**	35,389
Euros (EUR)	**48,555**	85,657
Australian dollars (AUD)	**4,591**	11,932
British pounds (GBP)	**13,334**	6,390
Accounts payable		
US dollars (USD)	**382,974**	433,354
Euros (EUR)	**727,646**	345,114
Australian dollars (AUD)	**-**	2,075
British pounds (GBP)	**1,750**	-

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, 2016 would affect net loss and comprehensive loss by approximately $145,000 (2015 - $86,000).

(e) **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 12)*.

Total current liabilities as at March 31, 2016 of $27,190,279 (2015 - $19,460,111), 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. Total current liabilities as at March 31, 2016 includes the non-current portion of the MCU term loans of $9,264,045 classified as a current liability with the Company not in compliance with the covenant relating to minimum effective net worth *(see notes 1(b), 12(e) and 16)*.

24. FINANCIAL INSTRUMENTS AND RISK FACTORS, CONTINUED

As at March 31, 2016, the Company had a working capital deficiency of $6,115,079 (2015 - surplus of $1,931,098). The completion of a private placement for net proceeds of $3,047,612 on April 29, 2015 *(see note 17(b))* that has improved the Company's liquidity.

(f) **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, 2016, sales to four customers, including the Liquor Control Board of Ontario ("LCBO") comprised 53.1% (2015 - 47.2%) of total revenue. As at March 31, 2016, these four customers represented 21.9% of accounts receivable (2015 - 22.9%).

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.

25. 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 12)* and there has been no change in the overall capital risk management strategy during the year.

26. SUBSEQUENT EVENTS

(a) On April 7, 2016, KDC entered into a new credit agreement with CIBC. The agreement closed on June 2, 2016 and existing obligations to MCU were repaid in full *(see note 12(f))*. 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.

26. **SUBSEQUENT EVENTS, CONTINUED**

(b) In June, 2016, the Board of Directors approved an increase in the maximum number of common shares reserved for issuance under the DSU plan *(see note 19)* from 1,000,000 to 2,000,000.