DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

YEARS ENDED MARCH 31, 2014 AND 2013

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The following management discussion and analysis ("MD&A") of Diamond Estates Wines & Spirits Inc. ("Diamond" or "the Company") provides a review of corporate developments, results of operations and financial position for the fiscal years ended March 31, 2014 ("FY2014") and March 31, 2013 ("FY2013"). This discussion is prepared as of June 18, 2014 and should be read in conjunction with the audited consolidated financial statements for the fiscal years ended March 31, 2014 and 2013. The MD&A should be read in conjunction with these consolidated financial statements, and all note references in this MD&A are made in reference to these consolidated financial statements. Additional information regarding Diamond, including the above-noted documents and the Filing Statement of Whiteknight Acquisitions II Inc. ("WKN") dated August 29, 2013, which details the reverse takeover of WKN by Diamond, is available on Diamond's SEDAR profile at www.sedar.com. The results reported in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars, which is the Company's functional currency.

FORWARD-LOOKING STATEMENTS

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

NON-IFRS FINANCIAL MEASURES

Management uses net income (loss) as presented in the consolidated statements of loss and comprehensive loss as well as "standardized EBITDA" and "adjusted EBITDA" as a measure to assess performance of the Company. Standardized and adjusted EBITDA are other financial measures and are reconciled to net loss and comprehensive loss below under "Results of Operations".

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

Adjusted EBITDA represents an indication of the Company's capacity to generate income from operations before taking into account certain non-cash transactions and one-time and unusual items. Adjusted EBITDA is a measure used by the Company to make strategic decisions, forecast future results and evaluate performance. It is a refined version of standardized EBITDA excluding share based payments, restructuring charges, changes in the fair value of certain assets (eg. biological assets) and liabilities, and other one-time and other unusual items.

Neither standardized EBITDA nor adjusted EBITDA represent the actual cash provided by the operating activities, nor are they recognized measures of financial performance under IFRS. Readers are cautioned that these measures should not be considered as replacements for those as per the consolidated financial statements prepared under IFRS. The Company's definitions of these non-IFRS financial measures may differ from those used by other companies.

COMPANY OVERVIEW

The Company is a producer, marketer and distributor of wines and spirits in Canada. The Company operates two wineries in the Niagara region of Ontario producing VQA and blended wines under such well-known brand names as 20 Bees, EastDell, Lakeview, Dois Amigos, Hat Trick, Dan Aykroyd, Benchmark and Seasons. The Company also imports fine wines and spirits from around the world and serves as the marketing and sales agent for these brands in all regions of the country. These brands include Fat Bastard wines from France, Fireball Whiskey Shooter from Canada, Hpnotiq Liqueur from France, Anciano wines from Spain, Francois Lurton wines from France and Argentina and a number of top bourbons.

The Company's mission is to build profitable sales volumes of its domestic and imported brands delivering the highest quality product to its customers and consumers. To meet this goal, the Company has made significant investments in processing, winemaking, brand marketing and sales programming. Based on its analysis of the market, the Company believes in the long-term growth prospects for the domestic and import wine and spirits markets.

The Company is committed to delivering these results through its distribution network focused on the provincial liquor boards, licensed restaurants and bars, Diamond's three retail locations and export channels. The Company supports this focus through the enhanced efforts of its sales, marketing and brand promotional activities and through the ongoing review of its manufacturing efficiencies and costs. The Company has a total workforce of approximately 90 employees, including 40 engaged in the selling and marketing of its brands, 20 in the manufacturing and distribution of its brands, 20 involved in the retailing of its domestic products through our retail facilities and 10 in accounting and administration.

GOING CONCERN

The accompanying consolidated financial statements have been prepared using the IFRS applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

The Company has incurred repeated significant losses as net loss and comprehensive loss for FY2014 was $4,075,413 (FY2013 - $2,438,716) with an accumulated deficit as at March 31, 2014 of $32,600,112 (2013 - $28,433,615). Working capital deficiency as at March 31, 2014 was $108,319 compared with $17,669,374 as at March 31, 2013.

The ability of the Company to continue as a going concern has improved significantly with the closing of the WKN transaction described below under "Reverse Takeover", the concurrent equity raise and the refinancing of existing credit facilities (see discussions under "Liquidity and Capital Resources" and "Capitalization"). As a result of those transactions, the Company's working capital increased by $17.8 million, based on the sum of: the (i) equity raise of $8.4 million, and (ii) new term loan financing from Meridian Credit Union of $10.0 million less the current portion of $0.6 million (for a net increase in working capital from the new term loan of $9.4 million). Management continues to work with the Company's lender to ensure that adequate working capital is available throughout the year to fund the necessary investments to operate and grow the business. However, the Company's ongoing losses, limited working capital and tight margin requirements with its lender indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

REVERSE TAKEOVER

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

Although the transaction resulted in Diamond Ltd. legally becoming a wholly-owned subsidiary of WKN, the transaction constitutes a reverse takeover of WKN and has been accounted for as such. As WKN did not qualify as a business according to the definition in IFRS 3, this reverse take-over has been treated as an issuance of shares by Diamond Ltd. for the net monetary assets of WKN.

As a result, it has been accounted for as a capital transaction, with Diamond Ltd. being identified as the accounting acquirer and the equity consideration being measured at fair value. The resulting statement of financial position is presented as a continuance of Diamond Ltd. operations and comparative figures presented in the consolidated financial statements after the reverse takeover are those of Diamond Ltd. The results of operations, cash flows and the assets and liabilities of WKN have been included in these consolidated financial statements since September 24, 2013, the acquisition date *(see note 4 of the consolidated financial statements for further information on the reverse takeover).*

RESULTS OF OPERATIONS (UNAUDITED)

	FY2014	FY2013
Revenue	$ 20,587,964	$ 23,398,883
Change in inventories of finished goods and raw materials consumed	10,827,940	12,154,250
Gross margin	9,760,024	11,244,633
Gross margin %	47.4	48.1
Operating expenses	9,107,758	8,974,028
Standard EBITDA	652,266	2,270,605
Interest on bank indebtedness	1,590,902	1,687,406
Depreciation and amortization	1,404,889	1,563,876
Financing costs	426,169	1,031,164
Adjusted EBITDA	(2,769,694)	(2,011,841)
Non-cash loss on RTO	749,787	-
Listing expenses	352,598	-
Share based payments	190,666	359,309
Share price guarantees	(247,332)	166,666
Impairment charge - assets held for sale	260,000	-
Change in fair value of biological assets	-	(99,100)
Net loss and comprehensive loss	$ (4,075,413)	$ (2,438,716)

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

Year over year

Sales for FY2014 declined 12.0% from FY2013 largely due to the sales declines of the imported wines and spirits business which undermined the strong growth evident in our domestic business. Overall, the sales agency portion of the business for FY2014 declined 34% over FY2013 as supplier losses from FY2013 and prior combined with the changes to the structural selling relationship (conversion of the relationship to a commissioned sales basis from a buy-sell arrangement) significantly reduced top-line revenue. Within the domestic portion of the business, overall, by sales channel, the anticipated growth in the LCBO channel in the second half of FY2014 did not materialize, despite continued increased spending on promotional activity. However, Diamond Estates' retail and export sales during the same period continued to perform well and this increased sales volume partially offset the sales declines on the balance of the portfolio. The growth in our domestic winery business of 15% for FY2014 over FY2013 was largely driven by a combination of growth in our retail winery sales, licensee business and exports of our ice and table wines. These growth trends are expected to continue into the next fiscal year and beyond.

Gross margin as a % of revenue remained consistent for FY2014 at 47.4% versus 9.3% for FY2013. Overall gross margin for FY2014 declined by $1,484,609, largely driven by the change in the sales relationship between Diamond and our international suppliers. In addition, a number of packaging and product write-offs were initiated in Q2 2014 as a direct result of the restructuring and reorganizing of the business.

Operating expenses for FY2014 increased by $133,730 (or 1.5%) from FY2013. Cost cutting initiatives enacted after the closing of the WKN transaction were offset by increased marketing expenditures in certain sales channels, including the key LCBO channel during the critical holiday season. Management will continue its focus on reducing fixed costs and improving profitability in the coming months, maintaining tight control over spending and non-essential investments.

Coincident with the completion of the closing of the WKN transaction, the Company restructured its operations to reduce fixed costs and focus business activity on profitable, growing sections of its business. The impact of listing expenses of $352,598 served to significantly increase FY2014 net loss. In addition, the company recorded an impairment provision of $260,000 to adjust the assets held for sale (re the Beamsville winery property) to their estimated fair value less costs to sell *(see note 7 of the consolidated financial statements for further details on assets held for sale).*

The Company incurred a non-cash expense of $190,666 in FY2014 for share based payments resulting from the issuance of stock options to the new CEO and Board of Directors granted after the WKN transaction closed on September 24, 2013 *(see note 18 of the consolidated financial statements for further details on options).*

Three month period ended March 31, 2014 ("Q4 2014") only

Sales for Q4 2014 totalled $3,944,085 compared to $4,348,566 for the same period last year, a decline of 9.3%. The declines in sales were the result of several factors, including the harsh winter weather experienced across much of North America, the continued soft performance of the major provincial retail authorities and some delayed export orders. Gross margin % for Q4 2014 was 53.0% compared to 56.2% for the same period last year. Standard EBITDA for Q4 2014 was $146,940 compared to $312,500 for Q4 2013, a decrease of $165,560.

Reverse takeover of WKN

Although the transaction resulted in Diamond Ltd. legally becoming a wholly-owned subsidiary of WKN, the transaction constitutes a reverse takeover of WKN and has been accounted for as such in accordance with guidance provided in IFRS 2 Share-based Payments. As WKN did not qualify as a business according to the definition in IFRS 3, this reverse take-over transaction does not constitute a business combination. It has been treated as an issuance of shares by Diamond Ltd. in return for the net monetary assets of WKN *(see note 4 of the consolidated financial statements for further information on the reverse takeover).*

The consideration paid by Diamond to acquire WKN was measured on the basis of the fair value of the equity instruments issued, considering the price per share of private placements closing concurrently with the transaction. In accordance with IFRS 2, any excess of the fair value of the shares issued by Diamond Ltd. over the value of the net monetary assets of WKN was recognized in the consolidated statements of net loss and comprehensive loss as a non-cash loss on completion of the RTO of $749,787 in FY2014, as calculated below. In addition, as options granted prior to the transaction by WKN remain exercisable after the completion of the reverse takeover, the fair value of the options at the acquisition date were also included as part of the consideration transferred.

The fair value of the consideration:		
Fair value of WKN shares deemed acquired upon closing (5,324,000 shares with a fair value of $0.20 per share)	$	1,064,800
Options deemed granted to former officers and directors of WKN		63,888
		1,128,688
The allocation of the consideration:		
Cash in trust		440,894
Accounts payable and accrued liabilities		(61,993)
Non-cash loss on RTO completion		749,787
Total assets	$	1,128,688

QUARTERLY PERFORMANCE (UNAUDITED)

The following table highlights certain key quarterly financial highlights. As the Company has just recently gone public, the quarters below are the only periods that the Company has effectively reported upon so far. Commentary on the selected highlights is included under "Results of Operations" and "Liquidity and Capital Resources".

	Mar-2014 Q4 2014 $	Dec-2013 Q3 2014 $	Sep-2013 Q2 2014 $	Jun-2013 Q1 2014 $	Mar-2013 Q4 2013 $	Dec-2012 Q3 2013 $	Sep-2012 Q2 2013 $	Jun-2012 Q1 2013 $
Balance sheet								
Working capital (deficiency)	(108,319)	(98,660)	(1,437,925)	(17,691,674)	(17,669,374)	(17,557,949)	(16,678,529)	(17,011,359)
Bank indebtedness	12,175,284	11,876,916	10,311,902	28,039,002	28,135,557	26,990,801	26,286,750	29,247,638
Term debt	9,828,516	10,000,000	10,000,000	-	-	-	-	-
Shareholders' equity	7,516,723	8,265,487	8,847,560	697,308	1,036,082	1,548,133	2,925,156	2,910,762
Income statement								
Revenue	3,944,085	5,123,058	5,524,621	5,996,200	4,348,566	5,514,218	6,846,871	6,689,228
Gross margin	2,089,672	2,233,513	2,636,227	2,800,612	2,444,739	2,272,658	3,493,555	3,033,681
Standard EBITDA	146,940	247,575	(354,072)	611,823	312,500	373,161	856,247	728,697
Net loss	(715,738)	(589,132)	(2,431,769)	(338,774)	(862,610)	(1,385,776)	14,396	(204,726)

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

LIQUIDITY AND CAPITAL RESOURCES (UNAUDITED)

	March 31 2014	March 31 2013
Accounts receivable	**$ 3,035,264**	$ 2,971,815
Inventory	**12,466,162**	11,278,337
Assets held for sale	**1,880,916**	-
Other	**139,222**	164,586
Total current assets	**17,521,564**	14,414,738
Property, plant and equipment	**15,992,766**	18,987,282
Other	**844,677**	1,340,548
Total assets	**$ 34,359,007**	$ 34,742,568
Bank indebtedness	**$ 12,175,284**	$ 28,135,557
Bank indebtedness associated with assets held for sale	**837,845**	-
Current portion of term loan payable	**616,115**	-
Shareholder loan payable	**500,000**	-
Other current liabilities	**3,500,639**	3,948,555
Total current liabilities	**17,629,883**	32,084,112
Term loan payable, net of current portion	**9,212,401**	-
Share price guarantees	**-**	1,300,664
Convertible debentures payable	**-**	321,710
Total liabilities	**26,842,284**	33,706,486
Shareholders' equity	**7,516,723**	1,036,082
	$ 34,359,007	$ 34,742,568

The Company's consolidated financial position has improved as at March 31, 2014 from that as at March 31, 2013. The working capital deficiency as at March 31, 2013 was $17,669,374 compared to $108,319 as at March 31, 2014, a decrease of $17,561,055. The two primary sources of the decrease in the deficiency were: (1) a private placement of 41,756,060 shares at $0.20 per share for gross proceeds of $8,351,212, less share issue costs of $385,125, for net proceeds of $7,966,087 (see further discussion under "Capitalization"), and (2) proceeds from a new credit facility detailed below from the Company's primary lender, Meridian Credit Union, that included a new $10,000,000 real estate and equipment term loan, the traditional classification of which resulted in the non-current portion being removed from working capital (*see notes 11 and 14 of the consolidated financial statements for further details on the Meridian credit facility).*

Total bank indebtedness decreased from $28,135,557 as at March 31, 2013 to $12,175,284 as at March 31, 2014, a decrease of $15,960,273. This decrease mirrors the decrease in the working capital deficiency detailed above, noting however that the non-current portion of the term loan of $9,212,401 has been essentially termed out. The proceeds of the equity raise and the new term loan were used to pay out the existing Scotiabank tem loan of approximately $7,121,000 and pay down components of Meridian's prior credit facility totalling about $8,553,000.

After payout of Scotiabank and these Meridian obligations, all remaining bank indebtedness as at March 31, 2014 is under the terms of the Meridian credit facility and consists of:

(a) operating line utilization of $12,175,284
(b) De Sousa loan of $837,845

The Company was granted a temporary increase in the inventory cap from $10,000,000 to $11,000,000 for the period from January 1, 2014 to May 31, 2014, which increased the amount available under the operating line by up to $900,000.

On July 24, 2013, the Company formally executed a new credit agreement with Meridian that specifies the following terms:

(I) Credit facilities

(a) Operating line of $13,000,000, due on demand, bearing interest at prime plus 2.5%, interest payable monthly; the operating line is limited to:
  (i) 85% of acceptable Canadian receivables aged 120 days and under, less certain exclusions, plus
  (ii) 75% of all other acceptable receivables aged 90 days and under, less certain exclusions, plus
  (iii) 90% of acceptable wine inventory to a maximum of $10,000,000, less
  (iv) priority payables or claims purporting to have priority over Meridian
(b) De Sousa term loan of $911,780, maturing August 31, 2014, repayable in monthly principal payments of $8,215 plus interest at prime plus 3%
(c) Real estate and equipment term loan of $10,000,000, maturing 3 years from initial advance date, bears interest at a fixed rate of 5.40%, repayable in equal monthly blended payments of principal and interest of $94,319

(II) Security

The above is secured by general security agreements, a collateral mortgage over both the Beamsville property and buildings and the Niagara Cellars property and buildings, assignment of fire and liability insurance over both properties and buildings, and corporate guarantees and postponements of claim in favour of Meridian by both De Sousa Wine Cellars Corporation and De Sousa Wines Toronto Inc., each of which is supported by respective general security agreements.

(III) Financial covenants

(a) Achieve a minimum effective net worth of not less than $7,000,000, which is defined as: shareholders' equity plus loans from shareholders postponed to Meridian less loans to shareholders and related parties and less intangible assets;
(b) To maintain a debt to effective net worth of 4.00|1.00 measured monthly, improving to 3.75|1.00 by March 31, 2014 and 3.50|1.00 by March 31, 2015; and
(c) Maintain a debt servicing coverage ("DSC") ratio of not less than 1.25|1.00, calculated on a rolling four quarter basis with the fourth quarter ending March 31, 2015

Throughout fiscal 2014 and as at March 31, 2014, the Company was in compliance with the covenants relating to minimum effective net worth and debt to effective net worth. The DSC ratio covenant was not measured for fiscal 2014 by virtue of an amendment to the credit agreement dated March 25, 2014.

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

CAPITALIZATION

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

	March 31 2014	March 31 2013	Change in year
Common shares (note a)	**73,403,749**	14,999,716	58,404,033
Series B preference shares (note b)	**-**	4,431,386	(4,431,386)
Broker warrants (note c)	**399,973**	399,973	-
Shares to be issued in payment of 8% dividend entitlement on Series B preference shares (note d)	**-**	216,165	(216,165)
Stock options (note e)	**3,132,400**	900,000	2,232,400
Total equity instruments	**76,936,122**	20,947,240	55,988,882

The changes in each equity instrument during FY2014 are as follows:

(a) **Common shares**

Private placement at $0.20 per share for gross cash proceeds of $8,351,212	41,756,060
Conversion of Series B preference shares on a 1:1 basis	4,431,386
In satisfaction of obligations under share price guarantees	4,346,659
Conversion of convertible debentures	1,787,278
Issuance of shares in payment of 8% dividend	367,973
Shares deemed issued in connection with RTO	5,324,000
In settlement of accounts payable and accrued liabilities	390,677
Total change during FY2014	58,404,033

(b) The Series B preference shares were converted into common shares on a 1:1 basis

(c) There was no change in the broker warrants issued

(d) Of the 367,973 common shares to be issued in payment of the 8% dividend on the Series B preference shares, a provision of 216,165 shares had previously been recognized

(e) **Stock options**

Previous Diamond options cancelled as part of WKN transaction	(900,000)
Option grant to new Diamond CEO	2,000,000
Option grant to new Diamond Board of Directors	600,000
Prior WKN option grant assumed by Diamond as part of WKN closing	532,400
Total change during reporting period	2,232,400

STRATEGIC OUTLOOK AND DIRECTION

Diamond remains committed to building its business through the production and marketing of quality domestic wines and the import and marketing of leading international wines and spirits. The Company believes in the development of leading brands that recognize and address the consumer's interest in wines and their desire to explore the different wine and spirit offerings the Company has available.

The Canadian wine and spirits market continues to grow strongly outpacing most consumer categories. Recently, industry reports and Statistics Canada forecast Canadian consumption of wine will reach 49.7 million litres ($6.5 billion) by 2014 representing a 19% increase since 2009. The Canadian market is dominated by red wines representing 54.5% of consumption in the most recent 12 month period. White wine represents 33.5% with the balance of the market made up of rose, sherry, port, ice wine and miscellaneous aperitifs.

Over the near term, within the domestic market, the Company will continue to focus on further developing its existing brands of VQA wines including Lakeview, EastDell, Seasons, 20 Bees, Dan Aykroyd, Hat Trick and Fresh. Further, the Company will invest in new International Canadian Blend ("ICB") wines which currently represent in excess of 75% of wine consumption within the Canadian market. This continued focus will include additional spending in marketing, promotion and advertising to insure top of mind awareness and preference for our brands.

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

RISKS FACTORS

BUSINESS RISKS

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

ADDITIONAL FINANCING

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

PROFITABILITY

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

DEPENDENCE ON MANAGEMENT AND KEY PERSONNEL

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

GOVERNMENT REGULATION OF LIQUOR INDUSTRY

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

SIGNIFICANT COMPETITION

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

MANAGEMENT OF GROWTH

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

ISSUANCE OF DEBT

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

LABOUR COSTS AND SHORTAGES AND LABOUR RELATIONS

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

AGRICULTURAL RISK

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

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

FOREIGN EXCHANGE

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

ENERGY COSTS

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

TAXATION

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

TRADEMARKS

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

IMPORTANCE OF INVENTORY, WAREHOUSE AND DISTRIBUTION SYSTEMS

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

WHOLESALE COST INCREASES

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

DISTRIBUTION BUSINESS

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

CREDIT RISK

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

EXPOSURE TO INTEREST RATE FLUCTUATIONS

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

ENVIRONMENTAL COMPLIANCE

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

PACKAGING

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

INDUSTRY CONSOLIDATION

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

RISKS RELATED TO COMMON SHARE INVESTMENTS

PRICE VOLATILITY OF PUBLICLY TRADED SECURITIES

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

DILUTION

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

DIVIDENDS

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

GLOBAL FINANCIAL CRISIS

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

FINANCIAL MARKET TURMOIL

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

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

As required by the IASB, the Company adopted the following standards and amendments to IFRS that became effective for annual periods beginning on or after January 1, 2013:

IFRS 7: "Financial Instruments: Amendment Regarding Offsetting Financial Assets and Financial Liabilities" enables users of financial statements to better compare financial statements prepared in accordance with IFRS and US Generally Accepted Accounting Principles. The adoption of IFRS 7 had no effect on the Company's consolidated financial statements.

IFRS 10: "Consolidated Financial Statements" provides guidance on the determination of control where this is difficult to assess and replaces the consolidation requirements in SIC 12 - "Consolidation - Special Purpose Entities". The adoption of IFRS 10 had no effect on the Company's consolidated financial statements.

IFRS 12: "Disclosure of Interests in Other Entities" provides disclosure guidance on interests in subsidiaries, joint arrangements, associates and unstructured entities. The adoption of IFRS 12 had no effect on the Company's consolidated financial statements.

IFRS 13: "Fair Value Measurements" defines fair value, sets out a single IFRS framework for measuring fair value and required disclosures about fair value measurements. IFRS 13 applies to IFRS that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. The adoption of IFRS 13 did not require any adjustment to the valuation techniques currently used to measure fair value and did not result in any measurement adjustments as at April 1, 2013.

CRITICAL ACCOUNTING ESTIMATES

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 biological assets

Determining the fair value of grape vines involves making assumptions about how market participants assign the value of a vineyard between vines, land, and other assets. The fair value of vineyards was determined by comparing reports from accredited appraisers to market values of similar properties and determining the portion of this fair value that was in respect of vines. Changes in the fair value of vines may occur as a result of changes in numerous factors, including, vine health and expected future yields.

To estimate the fair value of vines in the middle and later stages of development, the estimated fair value of mature vines was reduced by the net discounted cash outflows necessary to bring the vines to a fully developed state.

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 46.5% (2013 - 54.7%) 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.

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.