

DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 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 three months ended September 30, 2014 ("Q2 2015") and the six months ended September 30, 2014 ("YTD 2015") and the comparable fiscal periods ending September 30, 2013 ("Q2 2014" and "YTD 2014", respectively). This discussion is prepared as of November 19, 2014 and should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes of Diamond for Q2 2015 and YTD 2015 and Q3 2014 and YTD 2014 and the audited consolidated financial statements for the fiscal years ended March 31, 2014 and 2013. Additional information regarding Diamond is available on Diamond's SEDAR profile at www.sedar.com. The results reported in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars, which is the Company's functional currency.

FORWARD-LOOKING STATEMENTS

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

NON-IFRS FINANCIAL MEASURE

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

DIAMOND ESTATES WINES & SPIRITS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

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.

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

COMPANY OVERVIEW

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, Fresh, Lakeview Cellars, Dois Amigos, Hat Trick, Dan Aykroyd, De Sousa, Benchmark, Seasons and Riders Valley. The Company also imports fine wines and spirits from around the world as the marketing and sales agent for these brands in various regions of the country. These brands vary from time to time and currently include, but are not limited to, 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 beverage alcohol brands that celebrate life and achievement in a socially responsible manner. To meet this goal, the Company has made significant investments in processing, winemaking, brand marketing and sales programming. Based on its analysis of the market, the Company believes in the long term growth prospects for the domestic and import wine and spirits markets in Canada.

The Company is committed to delivering these results through its distribution network focused on the provincial liquor boards, licensed restaurants and bars, Diamond's three retail locations and export channels. The Company supports this focus through the enhanced efforts of its sales, marketing and brand promotional activities and through the ongoing review of its manufacturing efficiencies and costs. The Company has a total workforce of approximately 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 unaudited interim condensed 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 unaudited interim condensed consolidated financial statements. Such adjustments could be material.

The Company has incurred repeated losses as net loss and comprehensive loss for YTD 2015 was \$81,360 (YTD 2014 - \$2,770,544) with an accumulated deficit as at September 30, 2014 of \$32,681,472 (March 31, 2014 - \$32,600,112). Working capital deficiency as at September 30, 2014 was \$137,038 compared with \$108,319 as at March 31, 2014.

DIAMOND ESTATES WINES & SPIRITS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

The Company's ongoing losses, nominal working capital and narrow margins and tight covenant measurements under the terms of the credit agreement with its lender (*see note 8*) indicate the existence of material uncertainties that may cast significant doubt on its 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-subsiary.

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

DIAMOND ESTATES WINES & SPIRITS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

RESULTS OF OPERATIONS (UNAUDITED)

	Q2 2015	YTD 2015	Q2 2014	YTD 2014
Revenue	\$ 5,863,300	\$ 11,029,876	\$ 5,255,155	\$ 11,224,785
Change in inventories of finished goods and raw materials consumed	2,797,899	5,378,278	2,864,104	6,039,070
Gross profit	3,065,401	5,651,598	2,391,051	5,185,715
<i>Gross margin %</i>	52.3	51.2	45.5	46.2
Operating expenses	2,268,531	4,491,236	2,745,249	4,927,965
Operating expenses	38.7	40.7	52.2	43.9
Standard EBITDA	796,870	1,160,362	(354,198)	257,750
Interest on bank indebtedness	358,138	690,147	453,301	920,124
Depreciation and amortization	225,745	451,224	368,681	711,881
Financing costs	10,000	13,684	220,064	360,763
Net loss	202,987	5,307	(1,396,244)	(1,735,018)
Non-cash loss on RTO	-	-	749,787	749,787
Share based payments	86,667	86,667	190,666	190,666
Share price guarantees	-	-	(247,332)	(247,332)
Listing expenses	-	-	342,405	342,405
Net income (loss) and comprehensive (loss)	\$ 116,320	\$ (81,360)	\$ (2,431,770)	\$ (2,770,544)

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

Sales for YTD 2015 were very consistent with YTD 2014, showing a small decline of 1.7%, attributable to the timing of export sales. Overall winery sales in YTD 2015 are up \$146,000 (1.9%) from YTD 2014. The timing of export sales is more evenly spread than in the prior year, which explains the apparent year over year decline. This was offset by domestic sales increases, including direct sales from the winery, which were up significantly as a result of a contract to supply wine to Via Rail and increased sales to bars and restaurants. Year over year sales decline in the imported wines and spirits business was \$342,000 (10.2%) due to the flow through impact of lost revenue from brands no longer sold by the agency in 2015.

Sales for Q2 2015 were up \$608,000 over the same period in the prior year. The winery division (manufactured wines segment) accounted for \$645,000 of the increase, largely because export sales volume was \$606,000 higher in Q2 2015 than in the previous year. The agency division (third party wines and spirits) accounted for a \$37,000 decrease, a substantial improvement from Q1 2015. The Company has acquired several new brands as well as products listings with provincial boards for existing brands that are expected to generate further revenue growth in 2015.

DIAMOND ESTATES WINES & SPIRITS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

On relatively consistent sales volume, overall gross profit for YTD 2015 was \$5,651,598, an increase of \$465,883. Gross margin for YTD 2015 was 51.2% compared to 46.2% for YTD 2014. Gross margin for Q2 2015 was 52.3% compared to 45.5% for Q2 2014. Gross margin for the winery division for YTD 2015 was up 2.7% compared to YTD 2014 on the combined impact of price increases, product mix and higher throughput that reduced the rate at which fixed costs are allocated to products on a per litre basis. Gross margin for the agency division for YTD 2015 was up 5.6% compared to YTD 2014 as a result of strong sales performance in Ontario and Atlantic Canada.

Operating expenses for Q2 2015 and YTD 2015 decreased by \$476,718 and \$436,729 respectively compared to the same periods in the prior year. This is due to cost cutting initiatives enacted after the closing of the WKN transaction in September, 2013, but include one-time severance costs of \$234,000. Interest on bank indebtedness for Q2 2015 and YTD 2015 decreased by \$95,163 and \$229,977 respectively compared to the same periods in the prior year due to a significant reduction in the borrowing base. As a result of the private placement and debt restructuring that took place in September, 2013, the average bank indebtedness was \$22,284,000 in Q2 2015 versus \$27,438,000 in Q2 2014. Financing costs have virtually been eliminated given that the private placement and credit facility restructuring occurred concurrent with the WKN transaction that closed in September, 2013. The Company will continue its focus on cost management and improving profitability while it executes its strategic plan in the coming months.

As reflected on the interim condensed consolidated statements of cash flows, the company has generated positive cash flow from operations for YTD 2015 of \$462,054 compared to negative cash flow from operations for YTD 2014 of \$1,312,919, an increase of \$1,774,973. That change is comprised of the following major components:

Increase in gross profit	\$ 465,883
Decrease in operating expense	436,729
Decrease in interest expense	229,977
Decrease in financing expenses	347,079
Other	295,305
	<u>\$ 1,774,973</u>

The Company incurred a non-cash expense of \$86,667 and \$86,667 in Q2 2015 and YTD 2015 (\$190,666 and \$190,666 in Q2 2014 and YTD 2014) based on previously granted options that vested in the reporting period (*see note 13 of the unaudited interim condensed consolidated financial statements for further details on options*).

DIAMOND ESTATES WINES & SPIRITS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

QUARTERLY PERFORMANCE (UNAUDITED)

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

	Sep-2014 Q2 2015	Jun-2014 Q1 2015	Mar-2014 Q4 2014	Dec-2013 Q3 2014	Sep-2013 Q2 2014	Jun-2013 Q1 2014	Mar-2013 Q4 2013	Dec-2012 Q3 2013
	\$	\$	\$	\$	\$	\$	\$	\$
Balance sheet								
Working capital (deficiency)	(137,038)	(273,636)	(108,318)	(98,660)	(1,437,925)	(17,691,674)	(17,669,374)	(17,557,949)
Bank indebtedness (total)	12,757,982	12,568,764	13,013,129	11,876,916	10,311,902	28,039,002	28,135,557	26,990,801
Term debt	9,525,288	9,828,516	10,000,000	10,000,000	10,000,000	-	-	-
Shareholders' equity	7,522,030	7,516,723	8,265,487	8,847,560	8,265,487	697,308	1,036,082	1,548,133
Income statement								
Revenue	5,863,300	5,166,577	3,944,085	5,123,058	5,255,455	5,969,330	4,348,566	5,514,218
Gross margin	3,065,401	2,586,199	2,089,672	2,233,513	2,864,104	2,794,664	2,444,739	2,272,658
Standard EBITDA	796,870	363,491	146,940	247,575	(354,072)	611,823	312,500	373,161
Net loss	116,320	(197,681)	(715,758)	(589,132)	(2,431,769)	(338,774)	(862,610)	(1,385,776)

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

DIAMOND ESTATES WINES & SPIRITS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

LIQUIDITY AND CAPITAL RESOURCES (UNAUDITED)

	September 30 2014	March 31 2014
Accounts receivable	\$ 3,403,331	\$ 3,035,264
Inventory	12,058,974	12,466,162
Assets held for sale	1,880,916	1,880,916
Other	<u>154,339</u>	<u>139,222</u>
Total current assets	17,497,560	17,521,564
Property, plant and equipment	15,706,969	15,992,766
Other	<u>844,403</u>	<u>844,677</u>
Total assets	<u>\$ 34,048,932</u>	<u>\$ 34,359,007</u>
Bank indebtedness	\$ 11,969,435	\$ 12,175,284
Bank indebtedness associated with assets held for sale	788,547	837,845
Current portion of term loan payable	632,984	616,115
Shareholder loan payable	500,000	500,000
Other current liabilities	<u>3,743,632</u>	<u>3,500,639</u>
Total current liabilities	17,634,598	17,629,883
Term loan payable, net of current portion	<u>8,892,304</u>	<u>9,212,401</u>
Total liabilities	26,526,902	26,842,284
Shareholders' equity	<u>7,522,030</u>	<u>7,516,723</u>
	<u>\$ 34,048,932</u>	<u>\$ 34,359,007</u>

The Company's consolidated financial position has remained relatively consistent as at September 30, 2014 from that as at March 31, 2014. The working capital deficiency increased by \$28,719 to \$137,038 as at September 30, 2014 compared to \$108,319 as at March 31, 2014. Total bank indebtedness, including that associated with assets held for sale, decreased by \$255,147 to \$12,757,982 as at September 30, 2014 compared to \$13,013,129 as at March 31, 2014. Principal payments of \$303,228 have been made against the Meridian term loan during YTD 2015 (*see notes 8 and 11 for further details on the Meridian credit facility*).

DIAMOND ESTATES WINES & SPIRITS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

On September 17, 2014, the Company signed a new credit agreement with Meridian Credit Union ("MCU"), its primary lender, to replace the previous agreement dated July 24, 2013. The new credit agreement continues to provide a revolving line of credit of up to \$13,000,000, but is now subject to increased margin limits on inventory of \$11,000,000, up from \$10,000,000. The interest rate on the De Sousa Loan (for the Beamsville winery) has been reduced 50 basis points to prime plus 2.50%. Enhancements to the covenants include:

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

The credit agreement now specifies the following overall 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 \$11,000,000, less
 - (iv) priority payables or claims purporting to have priority over Meridian
- (b) De Sousa term loan of \$804,985, due on demand, repayable in monthly principal payments of \$8,215 plus interest at prime plus 2.50%
- (c) Real estate and equipment term loan of \$9,577,101, 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 are 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.

DIAMOND ESTATES WINES & SPIRITS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

(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 50% of intangible assets;
- (b) To maintain a debt to effective net worth of 3.75|1.00 measured monthly, improving to 3.25|1.00 by March 31, 2016; 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

From the signing of the initial credit agreement on July 24, 2013 through to September 30, 2014, the Company has been 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, and will be measured for the first time for the rolling four quarter period ended March 31, 2015.

In March, 2014, the Company's largest shareholder advanced \$500,000 to the Company in the form of a loan. This 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.

SUBSEQUENT EVENTS

Kirkwood Group Canada

On October 1, 2014, the Company and The Kirkwood Group merged their respective agency businesses into a new partnership named Kirkwood Diamond Canada. 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 will be consolidated into the Company's financial statements in the next reporting period.

Each partner's interest was based upon the value of the respective assets contributed to the partnership. The Company did not issue any equity or cash consideration as a result of this transaction.

De Sousa Winery

On November 10, 2014, the Company completed the sale and leaseback of its De Sousa Estates Winery in Beamsville, Ontario to Oakwest Corporation Limited, the related party described in note 16(b). The Company received \$1,800,000 in net proceeds for all of the common shares in De Sousa Wine Cellars Corporation, the entity that owns the winery property, currently classified as assets held for sale (*see note 7*). Of the net proceeds, approximately \$800,000 has been directed towards the retirement of the outstanding mortgage on the property (*see note 8(b)(ii)*), while the remaining proceeds will support working capital requirements. The Company will lease the winery from Oakwest for a period of five years with the option to extend for another five years. Minimum lease payments due over the first five year term total \$500,000 with profit sharing for amounts greater than \$25,000 in any given year being split 2/3rds in favour of the Company and 1/3rd for Oakwest. The Company will retain ownership and all rights to these brands. If Oakwest sells the property during the initial lease term, they will transfer to the Company's benefit all net proceeds in excess of \$1,800,000.

DIAMOND ESTATES WINES & SPIRITS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

Concurrent with the leasing of the winery, the Company has executed an agreement with Oakwest 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, vesting evenly on each anniversary date over the term of the grant. The Company has also issued 600,000 stock options under the same terms to David Beutel, Chair of its Board of Directors and a Vice President at Oakwest.

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:

	September 30, 2014	March 31, 2014	Change in period
Common shares	73,403,749	73,403,749	-
Broker warrants	399,973	399,973	-
Stock options	3,632,400	3,132,400	500,000
	<hr/>	<hr/>	<hr/>
Total equity instruments	77,436,122	76,936,122	500,000
	<hr/>	<hr/>	<hr/>

The only change in equity instruments during YTD 2015 was the granting of 500,000 options to the new CFO in June, 2014. The options are exercisable at \$0.25 per option with a term of 5 years, expiring June 4, 2019, and vest evenly on each anniversary date over the term of the grant.

STRATEGIC OUTLOOK AND DIRECTION

Diamond is committed to building enduring, high quality beverage alcohol brands that celebrate life and achievement in a socially responsible manner. The Company believes in the development of leading brands that recognize the consumer's interest in wines and spirits, addressing their desire to explore with the many exciting offerings that the Company has available. Vertically integrated, Diamond combines a modern and efficient production facility for Niagara wines with a national marketing agency for its broad portfolio of leading international wines and spirits. The company is well positioned to add to its throughput of wine production and leverage its national sales force to increase the number of brands under agency without a significant change in its cost structure.

The Canadian wine and spirits market continues to grow strongly, outpacing most consumer categories. Statistics Canada recently reported¹ that in the twelve months ending March 31, 2013, Canadian wine sales increased 4.9% to 506.6 million litres (\$6.8 billion) from 2012. This is equivalent to 17.4 litres per capita, up 4.3 litres since 2003, which is a 33% increase. Sales of spirits were up 2.9% in the same period from the previous year to \$5.4 billion. On a volume basis, it was up 2.7% to 222.4 million litres, or 7.6 litres per capita in 2013.

DIAMOND ESTATES WINES & SPIRITS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

Diamond will continue to focus on further developing its existing brands of Vintner Quality Alliance (“VQA”) certified wines that include Lakeview Cellars, EastDell, Seasons, 20 Bees, Dan Aykroyd, Hat Trick, Fresh and its new International Canadian Blend (“ICB”) brand, Riders Valley. The ICB segment represents 73% of wine sold within the Ontario market². This continued focus will include additional investment in marketing, promotion and advertising to insure top of mind awareness and preference for our brands.

Within its portfolio of international brands, the Company’s emphasis will be 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 which are dissatisfied with their current distribution arrangements.

¹ <http://www.statcan.gc.ca/daily-quotidien/140410/dq140410a-eng.htm>

² <http://www.wgao.ca/industry-facts>

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.

DIAMOND ESTATES WINES & SPIRITS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

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.

DIAMOND ESTATES WINES & SPIRITS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

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.

DIAMOND ESTATES WINES & SPIRITS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

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.

DIAMOND ESTATES WINES & SPIRITS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

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.

DIAMOND ESTATES WINES & SPIRITS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

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.

CRITICAL ACCOUNTING ESTIMATES

The preparation of these unaudited interim condensed 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.

DIAMOND ESTATES WINES & SPIRITS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

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 46.1% of total assets as at September 30, 2014 (March 31, 2014 - 46.5%). 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.