DIAMOND ESTATES WINES & SPIRITS INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2014 AND 2013

MNP LLP

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Diamond Estates Wines & Spirits Inc.

We have audited the accompanying consolidated financial statements of Diamond Estates Wines & Spirits Inc., which comprise the consolidated statement of financial position as at March 31, 2014, and the consolidated statements of net loss and comprehensive loss, changes in shareholders' equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

ACCOUNTING › CONSULTING › TAX
701 EVANS AVENUE, 8TH FLOOR, TORONTO ON, M9C 1A3
P: 416.626.6000 F: 416.626.8650 MNP.ca

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Diamond Estates Wines & Spirits Inc. as at March 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which highlights the existence of a material uncertainty relating to conditions that cast significant doubt on Diamond Estates Wines & Spirits Inc.'s ability to continue as a going concern.

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
June 17, 2014

DIAMOND ESTATES WINES & SPIRITS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT MARCH 31, 2014 AND 2013

	2014	2013
ASSETS		
Current:		
Accounts receivable (Note 5)	**$ 3,035,264**	$ 2,971,815
Inventories (Note 6)	**12,466,162**	11,278,337
Prepaid expenses	**139,222**	164,586
Assets held for sale (Note 7)	**1,880,916**	-
	17,521,564	14,414,738
Long term:		
Biological assets (Note 8)	**86,030**	233,100
Property, plant and equipment (Note 9)	**15,992,766**	18,987,282
Intangible assets (Note 10)	**758,647**	1,107,448
	$ 34,359,007	$ 34,742,568
LIABILITIES		
Current:		
Bank indebtedness (Note 11)	**$ 12,175,284**	$ 28,135,557
Bank indebtedness associated with assets held for sale (Notes 7 and 11)	**837,845**	-
Accounts payable and accrued liabilities (Note 12)	**3,319,935**	3,749,758
Government remittances payable	**141,654**	180,709
Deposits received	**39,050**	18,088
Shareholder loan payable (Note 13)	**500,000**	-
Current portion of term loan payable (Note 14)	**616,115**	-
	17,629,883	32,084,112
Long term:		
Term loan payable (Note 14)	**9,212,401**	-
Share price guarantees (Note 15)	**-**	1,300,664
Convertible debentures payable (Note 16)	**-**	321,710
	26,842,284	33,706,486
SHAREHOLDERS' EQUITY		
Common shares (Note 17(a))	**39,578,798**	26,991,074
Preference shares (Note 17(b))	**-**	2,065,441
Contributed surplus	**154,620**	-
Reserve for warrants (Note 17(c))	**128,863**	128,863
Shares to be issued	**-**	129,699
Reserve for share based payments (Note 18)	**254,554**	154,620
Accumulated deficit	**(32,600,112)**	(28,433,615)
	7,516,723	1,036,082
	$ 34,359,007	$ 34,742,568

Going concern (Note 1(b))

Commitments and contingencies (Note 25)

Subsequent event (Note 26)

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

Approved on behalf of the Board:

"David Beutel" Director *"Keith Raymond Harris"* Director

DIAMOND ESTATES WINES & SPIRITS INC.
CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
YEARS ENDED MARCH 31, 2014 AND 2013

	2014	2013
Revenue	**$ 20,587,964**	$ 23,398,883
Expenses		
Change in inventories of finished goods and raw materials consumed	**10,827,940**	12,154,250
Employee compensation and benefits	**3,964,665**	3,674,241
Advertising and promotion	**2,244,225**	1,993,898
General and administrative	**1,984,647**	2,204,973
Interest on bank indebtedness	**1,590,902**	1,687,406
Freight and warehousing	**766,650**	937,921
Financing costs	**426,169**	1,031,164
Bad debts	**145,358**	137,969
Depreciation of property, plant and equipment (Note 9)	**1,056,088**	1,211,634
Amortization of intangible assets (Note 10)	**348,801**	352,242
Share based payments (Note 18(e))	**190,666**	359,309
Loss on sale of property, plant and equipment	**2,213**	25,026
	23,548,324	25,770,033
Loss from operations before undernoted items	**(2,960,360)**	(2,371,150)
Change in fair value of biological assets (Note 8)	**-**	(99,100)
Listing expenses (Note 4)	**352,598**	-
Non-cash loss on completion of reverse takeover (Note 4)	**749,787**	-
Share price guarantees (Note 15)	**(247,332)**	166,666
Impairment provision - assets held for sale (Note 7)	**260,000**	-
Net loss and comprehensive loss	**$ (4,075,413)**	$ (2,438,716)
Loss per share - basic and diluted (Note 17(e))	**$ (0.09)**	$ (0.17)

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

DIAMOND ESTATES WINES & SPIRITS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED MARCH 31, 2014 AND 2013

	Note	Common shares Shares 17(a)	Common shares Amount 17(a)	Preference shares Shares 17(b)	Preference shares Amount 17(b)	Reserve for warrants 17(c)	Top-up shares 17(d)	Shares to be issued	Share based payments 18	Contributed surplus	Accumulated deficit	Total
As at April 1, 2012		**14,005,435**	**$ 26,786,385**	**3,602,753**	**$ 1,568,261**	**$ 128,863**	**$ 324,248**	**$ 129,699**	**$ -**	**$ -**	**$ (25,821,967)**	**$ 3,115,489**
Share compensation	**17(a)(v)**	994,281	204,689	-	-	-	-	-	-	-	-	204,689
Preference share dividends to be settled in shares	**17(b)(iv)**	-	-	-	-	-	-	172,932	-	-	(172,932)	-
Issuance of Series B preference shares in satisfaction of top-up share feature	**17(d)**	-	-	540,413	324,248	-	(324,248)	-	-	-	-	-
Payment of 8% dividend in shares	**17(b)(iv)**	-	-	288,220	172,932	-	-	(172,932)	-	-	-	-
Share based payments		-	-	-	-	-	-	-	154,620	-	-	154,620
Net loss and comprehensive loss		-	-	-	-	-	-	-	-	-	(2,438,716)	(2,438,716)
As at March 31, 2013		**14,999,716**	**26,991,074**	**4,431,386**	**2,065,441**	**128,863**	**-**	**129,699**	**154,620**	**-**	**(28,433,615)**	**1,036,082**
Share price guarantees settled (net)	**15**	4,346,659	869,332	-	-	-	-	-	-	-	-	869,332
Convertible debentures converted	**16**	1,787,278	321,710	-	-	-	-	-	-	-	-	321,710
Preference shares converted	**17(b)**	4,431,386	2,065,441	(4,431,386)	(2,065,441)	-	-	-	-	-	-	-
Payment of 8% dividend in shares	**17(b)**	367,973	220,783	-	-	-	-	(220,783)	-	-	-	-
Accounts payable and accrued liabilities settled in shares	**17(a)(i)**	390,677	79,571	-	-	-	-	-	-	-	-	79,571
Shares and options deemed issued in connection with RTO	**4**	5,324,000	1,064,800	-	-	-	-	-	63,888	-	-	1,128,688
Elimination of Diamond shares	**4**	(26,275,310)	(5,255,062)	-	-	-	-	-	-	-	-	(5,255,062)
Shares issued to Diamond shareholders in connection with RTO	**4**	26,275,310	5,255,062	-	-	-	-	-	-	-	-	5,255,062
Private placement	**17(a)(iii)**	41,756,060	8,351,212	-	-	-	-	-	-	-	-	8,351,212
Share issue costs	**17(a)(iii)**	-	(385,125)	-	-	-	-	-	-	-	-	(385,125)
Preference share dividends	**17(b)**	-	-	-	-	-	-	91,084	-	-	(91,084)	-
Share based payments	**18**	-	-	-	-	-	-	-	190,666	-	-	190,666
January, 2013 options cancelled	**18**	-	-	-	-	-	-	-	(154,620)	154,620	-	-
Net loss and comprehensive loss		-	-	-	-	-	-	-	-	-	(4,075,413)	(4,075,413)
As at March 31, 2014		**73,403,749**	**$ 39,578,798**	**-**	**$ -**	**$ 128,863**	**$ -**	**$ -**	**$ 254,554**	**$ 154,620**	**$ (32,600,112)**	**$ 7,516,723**

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

DIAMOND ESTATES WINES & SPIRITS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2014 AND 2013

	2014	2013
Operating activities		
Net loss	**$ (4,075,413)**	$ (2,438,716)
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	**1,056,088**	1,211,634
Amortization of intangible assets	**348,801**	352,242
Loss on sale of property, plant and equipment	**2,213**	25,026
Gain on settlement of share price guarantees (Note 15)	**(247,332)**	166,666
Change in fair value of biological assets (Note 8)	**-**	(99,100)
Share based payments (Note 18)	**190,666**	359,309
Non-cash loss on completion of reverse takeover (Note 4)	**749,787**	-
Non-cash financing costs	**15,860**	-
Impairment provision - assets held for sale (Note 7)	**260,000**	-
	(1,699,330)	(422,939)
Change in non-cash working capital items		
Accounts receivable	**(63,449)**	556,115
Inventories	**(1,187,825)**	2,252,381
Prepaid expenses	**25,364**	83,981
Accounts payable and accrued liabilities	**(430,318)**	(1,208,942)
Shareholder loan payable	**500,000**	-
Government remittances payable	**(39,055)**	24,829
Deposits received	**20,962**	18,088
	(2,873,651)	1,303,513
Investing activities		
Purchase of property, plant and equipment	**(55,418)**	(78,686)
Proceeds from disposition of property, plant and equipment	**-**	8,019
	(55,418)	(70,667)
Financing activities		
Term loan payable (Note 14)	**10,000,000**	-
Proceeds from issuance of common shares (Note 17(a)(iii))	**8,351,212**	-
Bank indebtedness	**(15,122,428)**	(1,491,846)
Principal payments on term loan payable	**(171,484)**	-
Proceeds from issuance of convertible debentures payable	**-**	300,000
Payment against share price guarantee (Note 15)	**(184,000)**	(41,000)
Share issue costs (Note 17(a)(iii))	**(385,125)**	-
Cash acquired in reverse takeover (Note 4)	**440,894**	-
	2,929,069	(1,232,846)
Change in cash	**-**	-
Cash, beginning of year	**-**	-
Cash, end of year	**$ -**	$ -

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

1. Nature of Operations and Going Concern

(a) Nature of operations

Diamond Estates Wines & Spirits Inc. ("Diamond" or the "Company") (formerly Whiteknight Acquisitions II Inc.) ("WKN") was a Capital Pool Company as defined in the policies of the TSX Venture Exchange ("TSX-V" or the "Exchange") and was incorporated pursuant to the provisions of the Business Corporations Act of Ontario on June 30, 2011. On September 24, 2013, the Company completed a Qualifying Transaction as defined in the policies of the Exchange when it acquired 100% of the issued and outstanding shares of Diamond Estates Wines & Spirits Ltd. ("Diamond Ltd."). The transaction constituted a reverse takeover of WKN by Diamond Ltd. as more fully described in note 4. The Company reconstituted its board of directors and senior management team at that time and changed its name to Diamond Estates Wines & Spirits Inc.

The Company's common shares are listed on the TSX-V under the symbol "DWS.V".

The principal business activities of the Company include the operation and consolidation of wineries, wine, spirit, and beer distribution agencies, and sales and brand development. The address of the Company's registered office and principal place of business is 1067 Niagara Stone Road, Niagara-On-The-Lake, Ontario, L0S 1J0.

(b) Going concern

The accompanying consolidated financial statements have been prepared using International Financial Reporting Standards 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 the year ended March 31, 2014 was $4,075,413 (2013 - $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 above, the concurrent equity raise and the refinancing of existing credit facilities. 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 *(see note 17(a)(iii))*, and (ii) new term loan financing from Meridian Credit Union of $10.0 million *(see note 14)* less the current portion of $0.6 million (for a net increase in working capital from the new term loan of $9.4 million). However, the Company's ongoing losses, current nominal working capital and tight margin requirements with its lender indicate the existence of material uncertainties that may cast significant doubt on its ability to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB"). They were authorized for issuance by the Board of Directors on June 17, 2014.

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.

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(b) Basis of consolidation

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

- Diamond Estates Wines & Spirits Ltd. *(see note 4)*
- Niagara Cellars Ltd. (o/a Diamond Estates - The Winery)
- De Sousa Wines Toronto Inc.
- De Sousa Wine Cellars Corporation

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

(c) Financial instruments

The Company's financial assets consist entirely of accounts receivable. The Company's financial liabilities consist of bank indebtedness, accounts payable and accrued liabilities, government remittances payable, shareholder loan payable, term loan payable, share price guarantees and convertible debentures payable.

Measurement of financial instruments

Financial instruments are measured at fair value on initial recognition of the instrument and classified into one of the following categories:

- Fair value through profit or loss ("FVTPL")
- Loans and receivables
- Held-to-maturity investments
- Available-for-sale financial assets, or
- Other financial liabilities

Subsequent measurement of financial instruments is based on their initial classification. Financial instruments classified as FVTPL are measured at fair value and changes in fair value are recognized in profit and loss. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. The remaining categories of financial instruments are measured at amortized cost using the effective interest rate method.

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(c) Financial instruments, continued

Transaction costs related to financial assets and liabilities at FVTPL are recognized in profit and loss. When incurred, transaction costs are deducted against the fair value of the all other financial instruments on initial recognition.

Accounts receivable have been classified as loans and receivables. The share price guarantee and price protections are classified as FVTPL. The remaining financial instruments have been classified as other financial liabilities.

The fair values of accounts receivable, bank indebtedness, accounts payable and accrued liabilities, government remittances payable and shareholder loan payable approximate their fair values due to the short-term or demand nature of these balances. The fair value of the term loan approximates its carrying value as the contracted lending rates approximate the rates currently available for similar borrowing arrangements.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty
- Default or delinquency in interest or principal payments, or
- It becoming probable that the borrower will enter bankruptcy or financial reorganization

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

2. Significant Accounting Policies, continued

(d) Inventory

Inventory that is purchased by the Company, including raw materials and wine, is valued at the lower of cost and net realizable value, with cost being determined on a first-in, first-out basis. Grapes produced from vineyards controlled by the Company that are part of inventory are measured at their fair value less costs to sell at the point of harvest.

Inventory of wine that is produced by the Company is valued at the lower of cost and net realizable value, with cost being determined on an average cost basis.

Inventories include all costs to purchase, convert and bring the inventories to their present location and condition. Such costs include purchase price net of discounts and rebates, applicable duties and taxes, transport and handling costs.

Additionally, the Company tracks other inventory costs, such as direct labour, fixed and variable production overhead, including depreciation of equipment, maintenance of production buildings and equipment and production management. These costs are allocated to inventory on a per litre basis.

(e) Property, plant and equipment

Depreciation is computed using the following annual rates and methods which reflect the estimated useful life of the assets as follows:

♦	Buildings	-	4 - 10%	diminishing balance
♦	Machinery and equipment	-	20%	diminishing balance
♦	Leasehold improvements	-	20%	diminishing balance
♦	Equipment	-	10 - 25%	diminishing balance
♦	Vehicles	-	30%	diminishing balance
♦	Computer equipment	-	30 - 45%	diminishing balance

(f) Biological assets

The Company measures biological assets, consisting of grape vines, at fair value less costs to sell. Agricultural produce, consisting of grapes grown on vineyards controlled by the Company, is measured at fair value less cost to sell at the point of harvest and becomes the basis for the cost of inventory after harvest.

Gains or losses arising from a change in fair value less costs to sell are recognized in profit and loss in the reporting period in which they arise.

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Intangible assets

Intangible assets acquired separately are initially recorded at fair market value and subsequently at cost less accumulated amortization and impairment losses. Subsequent expenditures on development and maintenance of computer software are expensed as incurred.

Intangible assets with finite lives are amortized over their useful economic lives as follows:

♦ Computer software	-	100%	diminishing balance
♦ Agency contracts	-	2 - 4	years
♦ Trademarks	-	5	years

Gains and losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit and loss when the asset is derecognized.

Indefinite lived intangible assets and goodwill are not subject to amortization and are assessed annually for impairment using the method described in the note 2(h). The pre-1993 winery licenses have an indefinite life.

(h) Impairment testing of property, plant and equipment and intangible assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash flows (cash-generating units).

All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management.

Impairment losses for cash-generating units reduce the carrying amount of the assets in that cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount. Any reversal cannot result in the carrying amount exceeding the original value less the depreciation or amortization that would have been recognized.

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(i) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Tax on income is accrued using the tax rate that would be applicable to expected total annual earnings.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that the taxable profits will be available against which those deductible temporary differences can be utilized.

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that the sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(j) **Provisions and contingencies**

Provisions are recognized when a legal or constructive obligation exists as a result of past events and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. Where the effect is material, the provision is discounted using an appropriate current market-based pre-tax discount rate. The increase in the provision due to passage of time is recognized as interest expense.

When a contingency substantiated by confirming events can be reliably measured and is likely to result in an economic outflow, a liability is recognized at the best estimate required to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or it is not probable to result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the consolidated financial statements.

(k) **Earnings per share**

Basic loss per share amounts are calculated by dividing consolidated net loss for the reporting period attributable to common shareholders by the weighted average number of common shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the consolidated net loss attributable to common shareholders by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into common shares. Diluted loss per share amounts are not presented if their inclusion would be anti-dilutive.

(l) **Share based payments**

The Company offers a share option plan for its directors, officers and employees. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured using the Black-Scholes option pricing model. Share based payments expense is recognized upon vesting over the tranche's vesting period by increasing the reserve for share based payments based on the number of awards expected to vest. Any consideration paid on exercise of share options is credited to share capital.

For equity settled transactions, the Company measures goods or services received at their fair value, unless that fair value cannot be estimated reliably, in which case the Company measures their value by reference to the fair value of the equity instruments granted.

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(m) **Foreign currency translation**

In preparing the consolidated financial statements of the Company, transactions in currencies other than the Company's functional currency are recorded at the rates of exchange prevailing at the dates of the transactions. These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company. At the end of each reporting period, monetary assets and liabilities are translated using the foreign exchange rate at that date. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. All gains and losses on translation of these foreign currency transactions are included in profit or loss.

(n) **Revenue recognition**

The Company records a sale when it has transferred the risks and rewards of ownership of the goods to the buyer, namely: (i) the Company has no continuing managerial involvement over the goods, (ii) it is probable that the consideration will be received, and (iii) the amount of revenue and costs related to the transaction can be measured reliably.

For transactions with provincial liquor boards, licensee retail stores and wine kit retailers, the Company's terms are "FOB shipping point". Accordingly, sales are recorded when the product is shipped from the Company's distribution facility. Sales to consumers through retail stores, winery restaurants and estate wineries are recorded when the product is purchased. Commission income is recognized when products are sold.

Revenue from brand management is presented net of the related costs as the Company is acting as an agent in these transactions. Revenue is recognized when there is certainty about receipt of the consideration and all related costs have been incurred.

Excise taxes collected on behalf of the federal government, licensing fees and levies paid on wine sold through the Company's independent Ontario retail stores, product returns, breakage and discounts provided to customers are deducted from gross revenue to arrive at sales.

(o) **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:

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(o) **Critical accounting estimates, continued**

(i) **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.

(ii) **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.

(iii) **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

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(o) Critical accounting estimates, continued

(iv) 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.

3. NEW AND REVISED IFRS STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

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

(b) **IFRS 15: "Revenue from Contracts with Customers"** provides new requirements for recognizing revenue. The new standard's core principle is for a company to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard sets out enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual periods beginning on or after January 1, 2017.

(c) **IAS 32: "Financial Instruments - Offsetting Financial Assets and Financial Liabilities"** provides further clarification on the application of the offsetting requirements. The Company will start the application of IAS 32 in the financial statements effective from March 31, 2015.

The Company has not early adopted any of these standards, but management is currently assessing the impact of their application in the consolidated financial statements.

4. Reverse Takeover Transaction ("RTO")

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 TSXV. To effect the transaction, WKN issued 26,275,310 common shares and 399,973 share purchase warrants in exchange for the all the issued and outstanding securities of Diamond Ltd. 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 constituted a reverse takeover of WKN and has been 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 does not constitute a business combination. It has been treated as an issuance of shares by Diamond Ltd. for the net monetary assets of WKN.

The transaction therefore has been accounted for as a capital transaction, with Diamond being identified as the accounting acquirer and the equity consideration measured at fair value. The resulting consolidated statement of financial position has been presented as a continuance of Diamond Ltd. operations and comparative figures presented in the consolidated financial statements after the reverse acquisition 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.

The consideration paid by Diamond Ltd. 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, the excess of the fair value of the equity instruments issued by Diamond over the value of the net monetary assets of WKN was recognized in the consolidated statements of comprehensive loss as a non-cash loss on completion of the RTO. In addition, as options granted prior to the transaction by WKN remain exercisable after the completion of the reverse acquisition, the fair value of the options at the acquisition date are also included as part of the consideration transferred. The fair value of the consideration and related allocation were as follows:

Fair value of consideration issued:	
Deemed issuance of 5,324,000 common shares to former shareholders of WKN at $0.20 per share (Note 17(a)(ii))	**$ 1,064,800**
Options deemed granted to former officers and directors of WKN (Note 18(c))	**63,888**
	1,128,688
Allocation of consideration:	
Funds held in trust	**440,894**
Accounts payable and accrued liabilities	**(61,993)**
Non-cash loss on completion of RTO	**749,787**
	$ 1,128,688

The Company incurred costs of $352,598 related to the listing transaction, including legal, accounting and listing fees.

5. Accounts Receivable

	2014	2013
Trade receivables	**$ 2,892,643**	$ 2,791,926
Accrued receivables	**135,000**	164,079
Other	**7,621**	15,810
	$ 3,035,264	$ 2,971,815
Allowance for doubtful accounts	**$ 90,166**	$ 41,078

Further details of accounts receivable aging are detailed in note 23(b).

6. Inventories

	2014	2013
Bulk wine	**$ 7,463,739**	$ 6,814,129
Bottled wine	**4,530,831**	4,118,035
Bottling supplies and packaging	**471,592**	346,173
	$ 12,466,162	$ 11,278,337
Allowance for obsolescence	**$ 6,151**	$ 15,889

The balance of inventory expensed in the consolidated statements of net loss and comprehensive loss is included as changes in inventories of finished goods and raw materials consumed for the years ended March 31, 2014 and 2013.

The allowance for obsolescence is based on prior period experience and management's judgment as to future net realizable value of inventory items. The allowance is the result of this process and has been included in changes in inventories of finished goods and raw materials consumed for the years ended March 31, 2014 and 2013.

7. Assets Held For Sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The Company has assets held for sale of $1,880,916 as at March 31, 2014 relating to its De Sousa Beamsville winery property (owned by De Sousa Wine Cellars Corp.) located at 3753 Quarry Road, Beamsville, Ontario. As the winery property is no longer in active use and not included in the Company's long-term operating plans, management has commenced an active process to sell it.

The assets held for sale consist of all of the land, buildings, equipment and biological assets, net of accumulated depreciation and an impairment provision, as detailed below:

	2014	2013
Land	**$ 496,494**	$ -
Buildings	**966,307**	-
Equipment	**531,045**	-
Biological assets (Note 8)	**147,070**	-
Impairment provision	**(260,000)**	-
	$ 1,880,916	$ -

7. ASSETS HELD FOR SALE, CONTINUED

(a) The assets have been reclassified from property, plant and equipment to assets held for sale as of December 31, 2013 in that:

(i) the asset is available for immediate sale;
(ii) although not formally listed on the MLS service, an active programme to locate a buyer has been initiated both internally and externally;
(iii) management considers the likelihood of sale within 12 months as highly probable; and
(iv) current circumstances indicate that the plan to sell will not be significantly changed or withdrawn.

(b) These assets have been measured at the lower of their carrying amount and fair value less costs to sell. Based on a current valuation of the property, management has recognized an impairment provision of $260,000.

(c) The property and buildings included in the assets held for sale act as security for the De Sousa Loan *(see note 11)*. After repayment of the De Sousa Loan, the terms of the Meridian credit facility require the Company to apply 50% of the remaining net sales proceeds as lump sum payment against the term loan described in note 14.

8. BIOLOGICAL ASSETS

Biological assets consist of grapes vines that are controlled by the Company. Fair value has been determined based on appraisals obtained for the grape vines held at various times and updated with analysis of market data for sales of similar properties. As at March 31, 2014, the Company held grape vines planted on 34 acres (2013 - 34 acres). During the year, the Company harvested 186 tons of grapes (2013 - 144 tons).

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

	2014	2013
Carrying value, beginning of year	**$ 233,100**	$ 120,000
Additions	**-**	14,000
Change in fair value	**-**	99,100
Transfer to assets held for sale (Note 7)	**(147,070)**	-
Carrying value, end of year	**$ 86,030**	$ 233,100

9. Property, Plant and Equipment

	Land	Buildings	Machinery and equipment	Leasehold improvements	Equipment	Vehicles	Computer equipment	Total
Cost								
As at April 1, 2012	**$ 1,607,881**	**$ 13,750,367**	**$ 8,699,885**	**$ 79,023**	**$ 1,143,823**	**$ 57,841**	**$ 312,357**	**$ 25,651,177**
Additions	22,268	27,786	-	1,377	787	-	26,468	78,686
Disposals	-	-	(12,532)	-	(11,497)	-	(22,404)	(46,433)
Transfer to biological assets	(14,000)	-	-	-	-	-	-	(14,000)
As at March 31, 2013	**1,616,149**	**13,778,153**	**8,687,353**	**80,400**	**1,133,113**	**57,841**	**316,421**	**25,669,430**
Additions	-	4,175	48,515	-	-	-	2,728	55,418
Transfer to assets held for sale	(496,495)	(1,222,036)	-	-	(964,568)	-	(9,681)	(2,692,780)
As at March 31, 2014	**$ 1,119,654**	**$ 12,560,292**	**$ 8,735,868**	**$ 80,400**	**$ 168,545**	**$ 57,841**	**$ 309,468**	**$ 23,032,068**
Accumulated depreciation								
As at April 1, 2012	**$ -**	**$ 1,783,727**	**$ 2,996,684**	**$ 34,100**	**$ 422,499**	**$ 11,944**	**$ 234,948**	**$ 5,483,902**
Depreciation	-	459,568	605,543	8,458	75,624	13,769	48,672	1,211,634
Disposals	-	-	(13,388)	-	-	-	-	(13,388)
As at March 31, 2013	**-**	**2,243,295**	**3,588,839**	**42,558**	**498,123**	**25,713**	**283,620**	**6,682,148**
Depreciation	-	431,171	542,011	7,445	47,357	9,639	18,465	1,056,088
Transfer to assets held for sale	-	(255,729)	-	-	(434,518)	-	(8,687)	(698,934)
As at March 31, 2014	**$ -**	**$ 2,418,737**	**$ 4,130,850**	**$ 50,003**	**$ 110,962**	**$ 35,352**	**$ 293,398**	**$ 7,039,302**
Net book value								
As at March 31, 2013	**$ 1,616,149**	**$ 11,534,858**	**$ 5,098,514**	**$ 37,842**	**$ 634,990**	**$ 32,128**	**$ 32,801**	**$ 18,987,282**
As at March 31, 2014	**$ 1,119,654**	**$ 10,141,555**	**$ 4,605,018**	**$ 30,397**	**$ 57,583**	**$ 22,489**	**$ 16,070**	**$ 15,992,766**

10. INTANGIBLE ASSETS

	Pre-1993 winery licenses	Agency contracts	Trademarks	Computer software	Total
Cost					
As at April 1, 2012, March 31, 2013 and March 31, 2014	**$ 750,000**	**$ 5,276,427**	**$ 52,358**	**$ 136,351**	**$ 6,215,136**
Accumulated amortization					
As at April 1, 2012	**$ -**	**$ 4,583,149**	**$ 35,946**	**$ 136,351**	**$ 4,755,446**
Amortization	-	346,638	5,604	-	352,242
As at March 31, 2013	**-**	**4,929,787**	**41,550**	**136,351**	**5,107,688**
Amortization	-	346,640	2,161	-	348,801
As at March 31, 2014	**$ -**	**$ 5,276,427**	**$ 43,711**	**$ 136,351**	**$ 5,456,489**
Net book value					
As at March 31, 2013	**$ 750,000**	**$ 346,640**	**$ 10,808**	**$ -**	**$ 1,107,448**
As at March 31, 2014	**$ 750,000**	**$ -**	**$ 8,647**	**$ -**	**$ 758,647**

(a) The pre-1993 winery licenses issued to Lakeview Cellars Estate Winery Limited and De Sousa Wines Toronto Inc. grant the licensees considerably more flexibility than post-1993 licenses with respect to blending practices, location of operations and other wine-making matters. These licenses are transferable at the discretion of the Alcohol and Gaming Commission of Ontario ("AGCO").

(b) Agency contracts are exclusive distributorships in certain provinces for various imported wines and spirits. These agency relationships are for either a fixed, renewable or unlimited term, subject to termination clauses in the agreements. Under these clauses, and under common law, the Company would be entitled to compensation, typically equal to six months commission earnings, in the event that a contract is terminated. These agency contracts were valued at 1.5 times annual net earnings as at the dates of acquisition. The Company had previously estimated that agency contracts had a useful life of 15 years over which the cost had been amortized on a straight-line basis.

In 2011, the Company determined that these contracts had a remaining useful life of 2 - 4 years over which the remaining cost is now being amortized using the straight-line method.

11. BANK INDEBTEDNESS

	2014	2013
Meridian Credit Union:		
Operating Line: revolving operating line of credit, due on demand, interest payments only required monthly, calculated at prime plus 2.50% (currently 5.50%); total credit facility available is $13,000,000, subject to certain margin limits in respect of accounts receivable and inventory	**$ 12,175,284**	$ 14,259,377
De Sousa Loan: loan bearing interest at prime plus 3% (currently 6.00%), interest plus principal of $8,215 payable monthly until August, 2023; due by August 31, 2014 *(see also note 7)*	**837,845**	936,425
2012 Grapes: loan bearing interest at prime plus 5% per annum, interest only payable monthly; loan was callable on demand, maximum of $1,244,214	**-**	1,244,214
Equipment Loan: loan bearing interest at prime plus 3% per annum, interest only payable monthly; loan was callable on demand	**-**	1,029,000
2011 Grapes: loan bearing interest at prime plus 5%, interest only payable monthly; loan was callable on demand	**-**	2,500,000
2012 Grapes Shortfall Loan: loan bearing interest at prime plus 5%, interest only payable monthly, loan was callable on demand	**-**	250,000
Professional Fees Loan: loan bearing interest at prime plus 5%, interest only payable monthly, loan was callable on demand, maximum of $500,000	**-**	404,962
Accrued Interest Loan: loan bearing interest at prime plus 5%, interest only payable monthly, loan was callable on demand	**-**	280,166
	13,013,129	20,904,144
De Sousa Loan presented separately as associated with assets held for sale (Note 7)	**(837,845)**	-
Bank of Nova Scotia:		
Non-revolving term credit, due on demand, bearing interest at prime plus 2.5% per annum, payable in monthly principal payments of $25,000 plus interest; loan was due in full on March 31, 2013, extension granted to August 31, 2013	**-**	7,231,413
	$ 12,175,284	$ 28,135,557

On July 24, 2013, the Company formally executed a new credit agreement with Meridian Credit Union ("MCU"), its primary lender, under which its existing credit facilities have been refinanced concurrent with the equity raise *(see note 17(a))* and the WKN closing *(see note 4)*.

Total bank indebtedness has 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. The proceeds of the equity raise and the new term loan *(see note 14)* were used to pay out the existing Scotiabank term loan and pay down components of Meridian's prior credit facility of approximately $7,121,000 and $8,553,000 respectively.

11. Bank Indebtedness, continued

The credit agreement specifies the following terms:

(a) ***Credit facilities***

(i) Operating line of $13,000,000, due on demand, bearing interest at prime plus 2.5%, interest payable monthly.
(ii) De Sousa Loan of $911,780, maturing August 31, 2014, repayable in monthly principal payments of $8,215 plus interest at prime plus 3% *(see also note 7(c))*.
(iii) Real estate and equipment term loan of $10,000,000 *(see note 14)*, repayable in blended monthly payments of principal and interest of $94,319, bears interest at a fixed rate of 5.4%, due by December, 2016.

The Company's operating line of $13,000,000 is subject to separate accounts receivable and inventory caps that determine the amount available under the operating line umbrella. 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.

(b) ***Security***

The above is secured by general security agreements, a collateral mortgage over both the Beamsville property and buildings *(see note 7(c))* 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.

(c) ***Financial covenants***

The credit facilities are subject to the following financial covenants:

(i) 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;
(ii) 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
(iii) 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.

(d) The Bank of Nova Scotia term loan was repaid in full in September, 2013.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2014	2013
Trade payables	**$ 3,023,310**	$ 3,401,877
Accrued liabilities	**295,887**	325,308
Other	**738**	22,573
	$ 3,319,935	$ 3,749,758

13. SHAREHOLDER LOAN PAYABLE

The loan, payable to the Company's largest shareholder, is unsecured and bears interest at 8% per annum. It is due by March 31, 2015, but may be renewed by agreement between the parties. Under the provisions of the MCU credit agreement, the amount of this loan has been included in the determination of effective net worth *(see note 11(c)(ii))*.

14. TERM LOAN PAYABLE

As part of the Meridian Credit Union refinancing described in note 11, the Company obtained a real estate and equipment financing loan for $10,000,000, as follows:

	2014	2013
Meridian Credit Union term loan	**$ 9,828,516**	$ -
Less: current portion	**(616,115)**	-
	$ 9,212,401	$ -

The major terms of the real estate and equipment term loan are:

(a) Interest only until December 31, 2013
(b) Term of 3 years, due by December, 2016
(c) Amortized over a period of 148 months
(d) Bears interest at fixed rate of 5.40%:
(e) Repayable after December 31, 2013 in blended monthly payments of principal and interest of $94,319
(f) Secured under the terms of the credit facility as described in note 11, including general security agreements by each Company in the group and a collateral mortgage for $10,000,000 on the property and buildings at the Company's primary place of operations

Estimated principal repayments are as follows:

Fiscal year ending March 31, 2015	**$ 616,115**
Fiscal year ending March 31, 2016	**648,931**
Fiscal year ending March 31, 2017	**8,563,470**
	$ 9,828,516

15. Share Price Guarantees

In connection with prior purchases of various winery assets, the Company issued common shares and agreed to provide share price guarantees as detailed below. The liability had been adjusted to fair value at each reporting period based on the differential between the guaranteed price and the fair value of the common stock. The fair value for the share price was based on the value of any capital transactions with arm's length third parties involving shares. All agreements were indefinite and required the Company to uphold the guarantees upon a receipt by the holders of the guarantees of an offer to purchase the shares from an arm's length third party. The Company had the right of first refusal and could repurchase the shares by effecting the guarantee or price protections.

	2014	2013
Fair value of common stock	**$0.20**	$0.20
250,000 common shares at $4.00	**$ -**	$ 950,000
66,666 common shares at $3.00	**-**	186,664
100,000 common shares at $2.25	**-**	164,000
	$ -	$ 1,300,664

In connection with the closing of the WKN transaction *(see note 4)*, the Company's obligations under its respective share price guarantees noted above were settled as follows:

(a) The guarantees at $4.00 and $3.00 were settled through the issuance of 4,446,659 common shares at an agreed-upon price of $0.25 per share *(see note 17(a)(i))*. Of this amount, 3,700,000 shares were issued to a party related to a current director in settlement of the remaining obligation from a previous asset purchase by the Company. The settlement of these two liabilities at a share price higher than the fair value of $0.20 as at the end of the previous reporting period resulted in a gain on settlement of $247,332.

(b) The guarantee at $2.25 was settled by a cash payment of $184,000, made up of a repurchase by the Company of the original 100,000 shares issued to the vendor valued at $20,000 and the remaining share price guarantee of $164,000.

(c) The adjustment of the liability to fair value as at March 31, 2013 based on the differential between the guaranteed price and the fair value of the common stock at that date resulted in the recognition of an expense of $166,666 in the prior year.

16. Convertible Debentures Payable

	2014	2013
Balance	**$ -**	$ 321,710

(a) Upon closing of the WKN transaction, the Company redeemed all the convertible debentures through the issuance of 1,787,278 common shares *(see note 17(a)(i))*. The shares were issued at a 10% discount to the price of the common shares of the Company at the time of the closing of the WKN Qualifying Transaction of $0.20, or at $0.18 per share.

(b) During the year ended March 31, 2013, the Company issued debentures totalling $321,710. Included in this amount was $21,710 issued to a director who was owed director fees which had been recorded in accounts payable and accrued liabilities as at March 31, 2012. All debentures were unsecured, bearing interest at 10% per annum, no specified terms of repayment and a maturity date of June 6, 2014.

(c) Management determined that the fair value of the debt component of the convertible debenture was not materially different from the carrying value due to the interest rate of 10% approximating the market rate. Accordingly, no residual amount was allocated to the derivative representing the conversion option.

(d) The conversion options were as follows:

(i) The holders of the convertible debentures could convert the debenture, and any interest owing thereon, into common shares at any time upon the achievement of a public listing of the Company (at the price of such common shares at the time of the listing).

(ii) The Company could redeem all or part of the indebtedness at any time at a price equal to the principal and any interest owing up to the date for redemption by issuance of common shares at a 10% discount to the price of the common shares of the Company at the time of a public listing of the Company.

17. Share Capital and Other Equity Instruments

Authorized
Unlimited Common shares

Continuity schedules for each component of the Company's share capital and other equity instruments are disclosed in the consolidated statements of changes in shareholders' equity for the years ended March 31, 2014 and 2013. Details of changes in each component during that year are as follows:

(a) **Common share transactions**

(i) Effective just prior to the closing of the WKN reverse takeover, Diamond issued common shares in connection with the following:

17. SHARE CAPITAL AND OTHER EQUITY INSTRUMENTS, CONTINUED

- 4,431,386 common shares valued at $2,065,441 upon conversion of 4,431,386 Series B preference shares *(see note 17(b)(i))*;
- 367,973 common shares valued at $220,783 (deemed value of $0.60 per share) in satisfaction of the 8% dividend entitlement on the Series B preference shares *(see note 17(b)(ii))*;
- A net of 4,346,659 common shares valued at $869,332 in satisfaction of certain liabilities under share price guarantees *(see note 15)*;
- 1,787,278 common shares valued at $321,710 upon conversion of convertible debentures *(see note 16)*, and
- 390,677 common shares valued at $79,571 in settlement of certain accounts payable and accrued liabilities, as follows:
  - 97,500 common shares valued at $19,500 for unpaid director fees *(see note 20)*,
  - 251,461 common shares valued at $50,294 for interest on the convertible debentures *(see note 16)*, and
  - 41,716 common shares valued at $9,777 for settlement of certain accounts payable

(ii) On September 24, 2013, Diamond was deemed to have issued 5,324,000 common shares valued at $1,064,800 to the former shareholders of WKN pursuant to the reverse takeover *(see note 4)*.

(iii) On September 24, 2013, concurrent with the WKN transaction, the Company closed a private placement whereby 41,756,060 common shares were issued at $0.20 per share for gross cash proceeds of $8,351,212.

Share issue costs of $385,125 were incurred, made up of broker commissions and expenses of $289,168 and legal fees and disbursements of $95,957.

(iv) As at March 31, 2014, 29,511,987 (2013 - Nil) common shares are subject to escrow agreements. Under the terms of these agreements, 10% of the shares were released on October 2, 2013, the date of issuance of the Final Exchange Bulletin, the TSX-V's acceptance of the WKN transaction. 15% will be released on each of the dates which are 6 months, 12 months, 18 months, 24 months, 30 months and 36 months from the October 2, 2013 initial 10% release.

(v) In January, 2013, the Company issued 979,699 shares to certain shareholders in an attempt to correct inaccuracies in past transactions. Upon further investigation, it was determined that the original number of shares issued and disclosed was, in fact, correct. Accordingly, the issuance of these shares for no consideration was recorded as share based payments expense of $195,940 using a fair value of $0.20 per share.

The Company has a compensation plan under which employees are entitled to bonuses based on performance and other criteria established by management. Employees may choose to receive a portion of these bonuses in shares, with the price per share determined as of April 1 of the fiscal year in respect of which their performance is measured.

During the year ended March 31, 2013, compensation expense of $8,749 was recorded with respect to 14,582 common shares issued to employees at $0.60 per share. There were no such payments in the current year.

17. SHARE CAPITAL AND OTHER EQUITY INSTRUMENTS, CONTINUED

(b) **Series B preference shares**

(i) Prior to closing of the WKN transaction, the 4,431,386 Series B preference shares valued at $2,065,441 were converted into common shares on a 1:1 ratio.

(ii) Prior to closing, the Company also settled the cumulative 8% dividend entitlement on the Series B preference shares through the issuance of 367,973 common shares at the stipulated price of $0.60 per share for a total value of $220,783. This amount represented payment for the period from June, 2012 to September, 2013. Of this amount, $129,699 had previously been recognized as at March 31, 2013 with the balance of $91,084 being recognized in the current fiscal year.

(iii) As the Company did not obtain a public listing within 18 months of the initial subscription for the preference shares, 540,413 preference shares were issued in January, 2013 in satisfaction of the top-up share feature as described in note 17(d).

(iv) In January, 2013, 288,220 preference shares were issued as payment on the 8% dividend entitlement for the twelve month period up to June, 2012.

(c) **Reserve for warrants**

The Company has a total of 399,973 broker warrants outstanding as at March 31, 2014 and 2013, made up of the following:

(i) On July 31, 2008, Diamond issued 111,753 broker warrants in connection with a common share issuance financing. Each broker option is exercisable into one Diamond common share at an exercise price of $3.80 per share and expires 12 months after the completion of a going public transaction, or by September 24, 2014. To date, none of these outstanding options have been exercised and no value has been attributed to them on transition to IFRS.

(ii) On June 6, 2011, Diamond issued 288,220 broker warrants in connection with the Series B Preference share issuance financing. These warrants expire on June 6, 2016 and have an exercise price of $0.60 per share. A value of $128,863 was attributed to these broker warrants. To date, none of these outstanding warrants have been exercised.

The weighted average exercise price and remaining life of the broker warrants is $1.49 (2013 - $1.49) and 1.71 years (2013 - 3.2 years) respectively.

17. SHARE CAPITAL AND OTHER EQUITY INSTRUMENTS, CONTINUED

(d) Top-up share feature

The holders of the Series B preference shares were also entitled to a "top-up" adjustment in additional Series B preference shares for an amount equal to 15% of the Series B shares that the holder subscribed for, if the Company did not achieve a public listing within 18 months of the date of subscription. At the time of initial recognition, it was more likely than not that the 18 month period would lapse due to the financial constraints on the Company and the short time frame to pursue and complete a public listing. Consequently, the Company separated this instrument from the Series B preference shares and recognized it as a separate component of equity. The fair value of the top-up share feature was determined using the then-current fair value of $0.60 per common share and 15% of the total subscription of 3,602,753 Series B preference shares, or an additional 540,413 Series B preference shares, amounting to $324,248.

As the Company did not achieve a public listing within 18 months of the issuance of the Series B preference shares, the obligation under the top-up share feature was settled in January, 2013 as detailed in note 17(b)(iii).

(e) Loss per share

Basic and diluted loss per share is computed using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the years ended March 31, 2014 was 45,144,187 (2013 - 14,168,878). Diluted loss per share and the weighted average number of common shares exclude all potentially dilutive equity instruments since their effect is anti-dilutive.

As detailed above, as at March 31, 2014, the following potentially dilutive equity instruments were all outstanding: (1) Nil Class B preference shares (2013 - 4,431,386), (2) 399,973 warrants (2013 - 399,973), (3) Nil shares to be issued (2013 - 216,165) and (4) 3,132,400 options (2013 - 900,000).

18. STOCK OPTIONS

The Company has adopted a stock option plan under which it may grant options to acquire shares of the Company to directors, officers and consultants of the Company. The maximum number of common shares issuable pursuant to the plan is equal to 10% of the issued and outstanding common shares at the close of business on the date of any grant, with an additional restriction of 5% to any one individual in a twelve month period.

Stock option activity for the years ended March 31, 2014 and 2013 is as follows:

	2014		2013	
	Options	**Weighted -average exercise price ($)**	Options	Weighted-average exercise price ($)
Outstanding, beginning of year	**900,000**	**0.70**	-	-
Options cancellation and grant *(see note 18(a))*	**(900,000)**	**0.70**	900,000	0.70
Granted to CEO *(see note 18(b))*	**2,000,000**	**0.20**	-	-
Assumed upon WKN closing *(see note 18(c))*	**532,400**	**0.20**	-	-
Granted to BOD *(see note 18(d))*	**600,000**	**0.25**	-	-
Outstanding, end of year	**3,132,400**	**0.21**	900,000	0.70

As at March 31, 2014, the issued and outstanding options to acquire common shares of the Company are as follows:

		Number of options				
Grant date	**Note**	**Granted**	**Exercisable**	**Exercise price ($)**	**Remaining life**	**Expiry date**
September 24, 2013	*18(b)*	2,000,000	666,667	0.20	4.48	September 24, 2018
September 24, 2013	*18(c)*	532,400	532,400	0.20	2.92	March 7, 2017
September 24, 2013	*18(d)*	600,000	200,000	0.25	4.48	September 24, 2018
		3,132,400	1,399,067			

18. STOCK OPTIONS, CONTINUED

The details of each specific option grant are as follows:

(a) **January, 2013 grant:**

In January, 2013, the Board of Directors approved a stock option plan approving the issuance of 900,000 stock options to key management personnel and directors. The options had an exercise price of $0.70, vested immediately and were set to expire in January, 2018. However, as a condition of the equity raise described in note 17(a)(iii), these options were cancelled prior to the closing of the WKN transaction. The previously attributed value of $154,620 was transferred from the reserve for share based payments to contributed surplus upon cancellation.

(b) **September 24, 2013 grant to CEO:**

(i) On September 24, 2013, a grant of 2,000,000 options was made to the Company's new CEO. The options are exercisable at $0.20 per option with a term of five years (expiring September 24, 2018). The options vest as to 1/3 immediately, 1/3 after one year and 1/3 after two years.

(ii) The fair value of these options has been calculated with the Black-Scholes option pricing model. Using the assumptions of: (1) risk free interest rate of 1.45%, (2) expected volatility of 100%, (3) expected life of 3.00 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was $0.12.

(c) **September 24, 2013 WKN assumption:**

(i) On September 24, 2013 in connection with the WKN transaction *(see note 4)*, the Company assumed 532,400 options granted to former officers and directors of WKN at an exercise price of $0.20. The stock options were valued at $0.12 each, or $63,888 in total, using the Black Scholes option pricing model. The assumptions used were: (1) risk free interest rate of 1.45%, (2) expected volatility of 100%, (3) expected life of 2.50 years, and (4) dividend yield of 0.0%. The options vest immediately.

(ii) The options have retained their original expiry date of March 7, 2017. However, if the option holder does not continue to be a director, officer, technical consultant or employee of Diamond, these options must be exercised within the greater of twelve months after completion of the WKN transaction and ninety days after the option holder ceases to be a director, officer, technical consultant or employee of Diamond, at which time they will expire.

(d) **September 24, 2013 grant to BOD:**

(i) The Board of Directors approved the grant of 600,000 options to certain directors exercisable at $0.25 per option with a term of five years (expiring September 24, 2018). The options vest as to 1/3 immediately, 1/3 after one year and 1/3 after two years.

(ii) The fair value of these options has been calculated with the Black-Scholes option pricing model. Using the assumptions of: (1) risk free interest rate of 1.45%, (2) expected volatility of 100%, (3) expected life of 3.00 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was $0.12.

18. STOCK OPTIONS, CONTINUED

(e) **Share based payments:**

Share based payments for the years ended March 31, 2014 and 2013 were comprised of the following:

	2014	2013
Vesting of grant to CEO *(see note 18(b))*	**146,666**	-
Vesting of grant to BOD *(see note 18(d))*	**44,000**	-
January, 2014 corrective issuance *(see note 17(a)(v))*	**-**	195,940
Vesting of January, 2013 grant *(see note 18(a))*	**-**	154,620
Employee bonus payments *(see note 17(a)(vi))*	**-**	8,749
	$ 190,666	$ 359,309

19. INCOME TAXES

(a) **Income rate reconciliation**

The reconciliation of the combined Canadian federal and provincial statutory income tax rates on the net loss for the years ended March 31 is as follows:

	2014	2013
Net loss before recovery of income taxes	**$ (4,075,413)**	$ (2,438,716)
Expected income tax recovery	**26.50%**	26.50%
Expected income tax recovery	**$ (1,079,980)**	$ (646,260)
Decrease (increase) resulting from:		
Tax rate changes and other adjustments	**(50,500)**	-
Non-deductible expenses	**397,470**	185,460
Expiry of tax losses not previously recognized	**734,920**	-
Change in tax benefits not recognized	**(1,910)**	460,800
Recovery of income taxes	**$ -**	$ -

(b) **Deferred income tax**

The following table summarizes the components of deferred income tax:

	2014	2013
Deferred tax asset		
Non-capital losses carried forward	**$ 2,314,900**	$ 2,579,780
Deferred tax liabilities		
Property, plant and equipment	**(2,314,900)**	(2,457,300)
Intangible assets	**-**	(122,480)
Net deferred tax liabilities	**$ -**	$ -

19. INCOME TAXES, CONTINUED

(c) Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2014	2013
	$	$
Non-capital losses carried forward	**13,829,870**	14,379,810
Capital losses carried forward	**440,100**	850,720
Share issuance costs	**1,160,880**	532,460
Other	**321,380**	52,130

The net operating loss carry forwards expire as noted in the table below. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

2025	$	1,519,120
2026		838,080
2027		325,420
2028		2,460,100
2029		7,084,380
2030		4,216,380
2031		1,960,660
2032		2,170,480
2034		1,990,720
	$	22,565,340

20. RELATED PARTY TRANSACTIONS AND BALANCES

(a) **Operating transactions:**

During the years ended March 31, 2014 and 2013, the Company had the following transactions with an entity controlled by a director

- Sales of $Nil (2013 - $43,000)
- Grape purchases of $138,000 (2013 - $17,000) at standard Grape Growers of Ontario prices
- Vineyard maintenance expenses paid of $93,000 (2013 - $79,000)

(b) **Key management personnel and directors compensation:**

During the years ended March 31, 2014 and 2013, the Company incurred the following in compensation of key management personnel and directors:

	2014	2013
Salary	**$ 642,000**	$ 470,000
Director fees	**70,200**	40,000
Share based payments under stock option plan *(see note 18(e))*	**190,666**	154,620
Other share based payments	**-**	12,850
Severance payment	**58,500**	-

Accounts payable and accrued liabilities as at March 31, 2014 includes $100,310 (2013 - $133,512) with respect to balances owing to parties for the transactions disclosed above.

(c) **WKN closing:**

As a result of the WKN closing *(see note 4),* the following transactions occurred with related parties:

(i) a director received 120,611 common shares upon conversion of a convertible debenture he held *(see note 16)*;
(ii) a director received 97,500 common shares in settlement of unpaid director fees (see note 17(a)(i)), and
(iii) Included in the settlement of the share price guarantees as detailed in note 15, 3,700,000 shares were issued at an agreed-upon price of $0.25 per share to a party related to a current director in settlement of the obligation remaining from a previous asset purchase by the Company.

21. PENSION PLAN

With the acquisition of Kriscott Distributors Limited in 2006, the Company took over the administration of its pension plan. The pension plan is a defined contribution plan that is available to Kriscott employees after two years of continuous employment. Currently, there are six employees enrolled in the plan. The Company is required to contribute 3% of each member's earnings annually to the plan, while employees are permitted to make voluntary contributions. In addition, the Company, at its discretion, has the right to make additional contributions, as determined by the Company, subject to the maximum permitted under the relevant legislation. Payments made under this pension plan are not material.

22. SEGMENTED INFORMATION

Business segments

The Company operates in three business segments, namely the sales of manufactured wines, sales of third-party wines and spirits and commission and other income. The following table represents revenues and direct costs associated with each of these segments for the years ended March 31, 2014 and 2013:

	2014	2013
Revenues		
Manufactured wines	**$ 14,071,299**	$ 13,163,735
Third-party wines and spirits	**3,603,029**	7,297,255
Commission and other	**2,913,636**	2,937,893
	$ 20,587,964	$ 23,398,883
Changes in inventories of finished goods and raw materials consumed		
Manufactured wines	**$ 8,375,561**	$ 7,363,745
Third-party wines and spirits	**2,452,379**	4,790,505
	$ 10,827,940	$ 12,154,250

The Company uses the above as the measures of profit within the segments and reviews the assets and liabilities, as well as the amortization of intangible assets, depreciation of property, plant and equipment and interest and financing costs on an entity-wide basis.

Geographic information

	2014	2013
Revenues		
Canada	**$ 17,679,520**	$ 20,933,294
China and other	**2,908,444**	2,465,589
	$ 20,587,964	$ 23,398,883

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

23. FINANCIAL RISK FACTORS

Risk management

The Company is exposed to interest rate risk, credit risk, foreign currency risk, liquidity risk and concentration risk associated with its financial assets and liabilities. Management has the overall responsibility for the establishment and approval of the Company's risk management policies. The Company's objectives are to manage the risks and risk exposure through a combination of sound business practices and the involvement of management in the daily operations.

(a) **Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company is exposed to interest rate risk primarily through its floating interest rate bank indebtedness and credit facilities *(see note 11)*. Assuming that other variables remain constant, a 1% change in the prime lending rate as at March 31, 2014 would impact interest expense and net loss by $122,000 (2013 - $281,000).

(b) **Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the Company by failing to discharge its obligations. The Company is exposed to credit risk on its accounts receivable. Its exposure is generally limited to the carrying amount on the consolidated statements of financial position. The Company minimizes credit risk on cash by depositing with only reputable financial institutions.

Management reviews all balances greater than 90 days old, historical payment trends, customer history and events to assess if there should be any allowance for accounts receivable for balances that are impaired. Provisions are recognized, if necessary, in order to reflect risks related to bad debts.

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

	2014	2013
Current	**$ 1,930,348**	$ 1,879,245
30 days past due	**744,224**	442,832
60 days past due	**144,305**	176,646
90 days past due	**59,259**	73,146
120 days past due	**157,128**	399,946
	$ 3,035,264	$ 2,971,815

23. FINANCIAL RISK FACTORS, CONTINUED

(b) Credit risk, continued

The Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. Customers with no credit evaluation are required to pay cash with no credit terms. Based on the historical information and the credit quality of accounts receivable, management assess credit risk as low. It is reasonably possible that the actual amount of loss, if any, incurred on trade receivables will differ from management's estimate.

The Company is exposed to credit risk on its accounts receivable to the maximum extent of the entire balance.

(c) Foreign currency risk

Foreign currency risk is the risk that changes in foreign currency rates will adversely affect the Company. The Company conducts transactions with parties worldwide, and as a result, there are balances denominated in United States dollars ("USD"), New Zealand dollars ("NZD"), Australian dollars ("AUD"), Euros ("EUR") and British pounds ("GBP"). A significant change in currency exchange rate between the Canadian dollar relative to these currencies could have an effect on the operating results. The Company has not hedged its exposure to currency fluctuations.

The following summarizes the Company's exposure to currency risk through balances denominated in the following respective foreign currencies:

	2014	2013
Accounts receivable		
New Zealand dollars (NZD)	**2,670**	3,805
US dollars (USD)	**20,819**	12,067
Euros (EUR)	**36,015**	62,696
British pounds (GBP)	**1,376**	932
Accounts payable		
US dollars (USD)	**301,996**	218,718
Euros (EUR)	**300,916**	429,250
Australian dollars (AUD)	**1,965**	-

Based on the above exposure and assuming that all other variables remain constant, a +/- 10% change in the value of the Canadian dollar relative to these currencies as at March 31, 2014 would affect net loss and comprehensive loss by approximately $73,000 (2013 - $69,000).

23. FINANCIAL RISK FACTORS, CONTINUED

(d) **Liquidity risk**

Liquidity risk is the risk arising from the Company not being able to meet its obligations as they come due. The Company manages its liquidity needs by carefully monitoring scheduled debt servicing payments for its financial liabilities as well as forecasting cash inflows and outflows due in day-to-day business. The data used for analysing these cash flows is consistent with that used in the contractual maturity presented in bank indebtedness *(see note 11)*.

The total current liabilities as at March 31, 2014 of $17,629,883 (2013 - $32,084,112), which includes bank indebtedness, accounts payable and accrued liabilities, government remittances payable, shareholder loan payable, deposits received and current portion of term loan payable, are considered current and are due within 12 months of the end of the reporting period.

As at March 31, 2014, the Company currently has a working capital deficiency of $108,319 (2013 - $17,669,374) and a high liquidity risk.

(e) **Concentration risk**

Concentration risk is the risk arising from a dependence on one customer or supplier for a significant portion of sales or purchases. The risk of a significant customer having financial difficulties would have a negative impact on the Company. During the year ended March 31, 2014, sales to two customers, including the Liquor Control Board of Ontario ("LCBO") comprised 40.9% (2013 - 34.6%) of total revenue. As at March 31, 2014, these two customers represented 21.6% of accounts receivable (2013 - 21.0%).

Management has many other sales to distributors and customers and, other than disclosed above, is not dependent on the sales to any one single customer.

24. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to provide a return for owners and ensure sufficient resources are available to meet day-to-day operations. Capital is considered to consist entirely of total equity and bank indebtedness. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company or in the light of changes in economic conditions and the risk characteristics of the underlying assets. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company is subject to externally imposed capital requirements related to its bank indebtedness *(see note 11)* and there has been no change in the overall capital risk management strategy during the year.

25. Commitments and Contingencies

(a) Under various lease agreements with varying terms, the Company leases a number of vehicles and pieces of equipment. The leases do not satisfy the conditions of finance leases and therefore have been treated as operating leases. Lease payments are recognized as an expense when paid. Total operating lease expense recognized in the current year was $39,022 (2013 - $70,499). Future remaining minimum lease payments as at March 31, 2014 are as follows:

2015	$ 12,578
2016	11,436
2017	11,436
	$ 35,450

(b) Under various lease agreements with varying terms, the Company leases its offices in Halifax and Toronto and its retail store in Toronto. Future remaining minimum lease payments as at March 31, 2014 are as follows:

2015	$ 123,433
2016	43,800
2017	25,137
2018	25,660
	$ 218,030

(c) The Company is involved in potential litigation matters arising out of the ordinary course and conduct of its business. The likelihood of contingent liabilities resulting from these matters is not determinable and related potential losses cannot be reasonably estimated. No loss provision has been recorded as a result.

26. Subsequent Event

On June 4, 2014, a grant of 500,000 options was made to the Company's new CFO. The options are exercisable at $0.25 per option with a term of five years (expiring June 4, 2019). The options vest as to 25% immediately and 25% per year annually for the next three years on the anniversary date of the grant.

27. Comparative Figures

The consolidated financial statements have been reclassified, where applicable, to conform to the presentation adopted in the current year. The changes do not affect prior year earnings.