DIAMOND ESTATES WINES & SPIRITS INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2018 AND 2017

June 26, 2018

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. and its subsidiaries, which comprise the consolidated statements of financial position as at March 31, 2018 and March 31, 2017 and the consolidated statements of net income and comprehensive income, consolidated statements of cash flows and consolidated statements of changes in shareholders' equity for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

PricewaterhouseCoopers LLP
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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Diamond Estates Wines & Spirits Inc. and its subsidiaries as at March 31, 2018 and March 31, 2017 and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

DIAMOND ESTATES WINES & SPIRITS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT MARCH 31, 2018 AND MARCH 31, 2017

	2018	2017
ASSETS		
Current:		
Accounts receivable (Note 5)	**$ 2,795,576**	$ 3,583,926
Inventories (Note 6)	**17,037,104**	16,587,546
Prepaid expenses	**539,834**	321,313
	20,372,514	20,492,785
Long term:		
Property, plant and equipment (Note 7)	**18,630,299**	15,974,405
Intangible assets (Note 8)	**3,192,152**	3,509,447
	$ 42,194,965	$ 39,976,637
LIABILITIES		
Current:		
Bank indebtedness (Note 9)	**$ -**	$ 5,312,135
Accounts payable and accrued liabilities (Note 10)	**6,070,159**	5,225,846
Unearned revenue and deposits received	**-**	390,730
Loan payable - non-controlling interest (Note 11)	**-**	224,570
Current portion of term loans payable (Note 12)	**454,287**	741,547
Current portion of finance leases (Note 13)	**198,226**	192,929
	6,722,672	12,087,757
Long term:		
Term loans payable (Note 12)	**18,895,188**	6,969,961
Finance leases (Note 13)	**322,505**	492,777
	25,940,365	19,550,495
SHAREHOLDERS' EQUITY		
Common shares (Notes 14, 15 & 16)	**16,657,513**	16,635,745
Contributed surplus	**589,982**	1,021,226
Accumulated deficit	**(992,895)**	(1,001,177)
Non-controlling interest (Note 17)	**-**	3,770,348
	16,254,600	20,426,142
	$ 42,194,965	$ 39,976,637

Commitments and contingencies (Note 20)

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

Approved on behalf of the Board:

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

DIAMOND ESTATES WINES & SPIRITS INC.
CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME
YEARS ENDED MARCH 31, 2018 AND 2017

	2018	2017
Revenue	$ 34,270,921	$ 34,288,679
Cost of sales		
Change in inventories of finished goods and raw materials consumed	17,801,714	19,034,276
Freight in and other	1,285,798	1,319,087
Depreciation of property, plant and equipment used in production (Note 7)	745,117	724,990
	19,832,629	21,078,353
Gross profit	14,438,292	13,210,326
Expenses		
Employee compensation and benefits	6,433,759	5,915,827
General and administrative	2,971,720	2,754,546
Advertising and promotion	1,518,332	1,339,538
Delivery and warehousing	812,502	913,302
Interest on bank indebtedness	858,251	977,813
Financing costs	142,377	45,784
Restructuring charges	812,178	133,562
Amortization of intangible assets (Note 8)	344,173	345,766
Depreciation of property, plant and equipment used in selling and administration (Note 7)	331,172	162,141
Share based compensation (Note 15(f))	186,651	83,813
Loss on disposition of property, plant and equipment	-	3,502
	14,411,115	12,675,594
Net income and comprehensive income	$ 27,177	$ 534,732
Net income and comprehensive income (loss) attributable to:		
Shareholders	$ 8,282	$ 709,944
Non-controlling interest	18,895	(175,212)
	$ 27,177	$ 534,732
Basic income per share (Note 14(b))	$ 0.00	$ 0.01
Diluted income per share (Note 14(b))	$ 0.00	$ 0.01

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, 2018 AND 2017

	Note	Common shares Shares	Common shares Amount	Contributed surplus	Retained earnings (accumulated deficit)	Shareholders' equity	Non-controlling interest	Total
As at April 1, 2016		**100,137,037**	**$ 8,522,378**	**$ 937,413**	**$ (1,711,121)**	**$ 7,748,670**	**$ 4,095,560**	**$ 11,844,230**
Proceeds on issuance of common shares	**14(a)**	40,000,000	8,800,000	-	-	8,800,000	-	8,800,000
Share issuance costs	**14(a)**	-	(708,994)	-	-	(708,994)	-	(708,994)
Exercise of options	**15(e)**	111,804	22,361	-	-	22,361	-	22,361
Net income and comprehensive income		-	-	-	709,944	709,944	(175,212)	534,732
Share based compensation	**15(f)**	-	-	83,813	-	83,813	-	83,813
Draw from KDC by non-controlling interest		-	-	-	-	-	(150,000)	(150,000)
As at March 31, 2017		**140,248,841**	**16,635,745**	**1,021,226**	**(1,001,177)**	**16,655,794**	**3,770,348**	**20,426,142**
Exercise of options	**15(a)**	125,000	21,768	(8,018)	-	13,750	-	13,750
Net income and comprehensive income		-	-	-	8,282	8,282	18,895	27,177
Share based compensation	**15(f) & 16**	-	-	186,651	-	186,651	-	186,651
Acquisition of non-controlling interest	**17**	-	-	(609,877)	-	(609,877)	(3,789,243)	(4,399,120)
As at March 31, 2018		**140,373,841**	**$ 16,657,513**	**$ 589,982**	**$ (992,895)**	**$ 16,254,600**	**$ -**	**$ 16,254,600**

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, 2018 AND 2017

	2018	2017
Operating activities		
Net income	**$ 27,177**	$ 534,732
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	**1,076,289**	887,131
Amortization of intangible assets	**344,173**	345,766
Share based compensation	**186,651**	83,813
Loss on disposal of property, plant and equipment	**-**	3,502
Interest expense	**858,251**	977,813
Interest paid	**(858,251)**	(991,913)
	1,634,290	1,840,844
Change in non-cash working capital items		
Accounts receivable	**788,350**	448,047
Inventories	**(373,268)**	303,946
Prepaid expenses	**(218,521)**	(169,578)
Accounts payable and accrued liabilities	**844,313**	(999,430)
Unearned revenue and deposits received	**(390,730)**	344,204
	2,284,434	1,768,033
Investing activities		
Acquisition of non-controlling interest (Note 17)	**(4,399,120)**	-
Purchase of property, plant and equipment	**(3,765,139)**	(2,009,404)
Purchase of intangible assets	**(26,878)**	(23,309)
Proceeds from disposition of property, plant and equipment	**-**	20,570
	(8,191,137)	(2,012,143)
Financing activities		
Bank indebtedness	**(5,312,135)**	(4,905,716)
Repayment of loan payable - non-controlling interest	**(224,570)**	(75,397)
Proceeds on issuance of non-revolving term loan payable	**10,000,000**	-
Proceeds on issuance of revolving term loan payable	**8,690,257**	-
Payment of financing costs on issuance of term loans payable	**(262,312)**	-
Net drawings on revolving term loans and operating lines payable	**1,046,530**	-
Repayment on non-revolving BMO term loan payable	**(125,000)**	(2,675,051)
Repayment of MCU long-term loans payable	**(7,711,508)**	-
Repayment of finance leases	**(208,309)**	(63,093)
Net proceeds from issuance of common shares	**-**	8,091,006
Proceeds on exercise of options (Note 15(a))	**13,750**	22,361
Draw from KDC by non-controlling interest	**-**	(150,000)
	5,906,703	244,110
Change in cash	**-**	-
Cash, beginning of period	**-**	-
Cash, end of period	**$ -**	$ -
Non-cash transactions:		
Property, plant and equipment acquired under finance leases (Notes 7 & 13)	**$ 43,334**	$ 748,799

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

1. Nature of Operations

Diamond Estates Wines & Spirits Inc. ("Diamond" or the "Company") is a public company listed on the TSX-V whose shares trade under the symbol "DWS.V". Its principal business activities include the production, marketing and sale of wine, and through its agency division, Kirkwood Diamond Canada Partnership ("KDC"), distribution and marketing activities for various beverage alcohol brands that it represents in Canada. The address of the Company's registered office and principal place of business is 1067 Niagara Stone Road, Niagara-On-The-Lake, Ontario, L0S 1J0. The operations and principal place of business of KDC are located at 1155 North Service Road West, Oakville, Ontario, L6M 3E3.

2. Significant Accounting Policies

(a) Basis of presentation and statement of compliance

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). They were authorized for issuance by the Board of Directors on June 26, 2018.

The currency of presentation for these consolidated financial statements is the Canadian dollar, which is also the functional currency of the Company.

(b) Basis of consolidation

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

♦	Diamond Estates Wines & Spirits Ltd.	100%
♦	De Sousa Wines Toronto Inc.	100%
♦	Kirkwood Diamond Canada (partnership) *(See note 17)*	100%

A subsidiary is an entity controlled by the Company. Control exists when the Company has power over an investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. The financial statements of a subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are changed when necessary to align them with the policies applied by the Company in these 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, unearned revenue and deposits received, term loans payable, finance leases and loan payable - non-controlling interest.

2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(c) **Financial instruments, continued**

(i) Measurement of financial instruments

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

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

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

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

Accounts receivable have been classified as loans and receivables. The remaining financial instruments have been classified as other financial liabilities.

The fair values of accounts receivable, bank indebtedness, accounts payable and accrued liabilities, unearned revenue and deposits received and loan payable - non-controlling interest approximate their fair values due to the short-term or demand nature of these balances. The fair values of the respective term loans and finance leases approximate their carrying values as the contracted lending rates approximate the rates currently available for similar borrowing arrangements.

(ii) Impairment of financial assets

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

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

2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(c) **Financial instruments, continued**

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

(iii) Hedge accounting

The Company has chosen not to apply hedge accounting to any of its derivative financial instruments. As a result of this policy choice, these derivative instruments are recorded initially and subsequently at fair value and the change in fair value is recorded directly in the consolidated statement of net income and comprehensive income. There were no such derivative instruments outstanding at March 31, 2018 and 2017.

(d) **Inventory**

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(e) **Property, plant and equipment**

Effective April 1, 2017, as the result of a review of depreciation methods and estimated useful lives of property, plant and equipment, the Company has changed the method of depreciation for its property, plant and equipment in the winery division to the straight-line method and revised the useful lives of certain property, plant and equipment, from a range of 5 to 25 years to a range of 5 to 40 years. The changes were made on a prospective basis to better reflect the recognition of the benefits derived from ownership of the assets being depreciated in each period. The resulting increase in depreciation for year ended March 31, 2018 was $87,079.

The new rates at which winery property, plant and equipment are depreciated are as follows:

♦ Buildings	40 years straight-line
♦ Machinery and equipment	5 to 40 years straight-line
♦ Leasehold improvements	Straight-line over term of lease
♦ Computer equipment	5 years straight-line
♦ Vehicles	5 years straight-line
♦ Vehicles under capital lease	Straight-line over term of lease
♦ Vines	20 years straight-line

(f) **Biological assets**

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

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

Gains or losses arising from a change in fair value less costs to sell are included in the consolidated statements of income and comprehensive income in the 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	-	1 - 5	years
♦	Distribution rights	-	11	years
♦	Trademarks	-	5	years
♦	Website	-	5	years

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

Indefinite lived intangible assets are not subject to amortization and are assessed annually for impairment using the method described in note 2(h). The pre-1993 winery licenses have an indefinite life because the expected usage, period of control and other factors do not limit their life.

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

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

All individual assets or CGUs are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, with the exception of indefinite lived intangibles which are tested for impairment annually in accordance with IAS 36.

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

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

Management has determined, using the above-noted valuation methods, that there is no impairment of intangible assets at March 31, 2018 and 2017.

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(i) **Finance leases**

Assets held under finance leases are initially recognized at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly into profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the policy on borrowing costs. Contingent rents are recognized as expenses in the periods in which they are incurred. For sale and finance leaseback transactions, any gain or loss on the sale is deferred and amortized over the lease term. Finance leased assets are reported under the relevant asset categories, with recognition of a corresponding financial liability. They are depreciated on a declining balance basis of that relevant asset category.

(j) **Unearned revenue and deposits received**

Payments received from customers in advance of shipments are initially recorded in unearned revenue and deposits received. Revenue is recognized on actual shipment to the customer.

(k) **Income taxes**

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(k) **Income taxes, continued**

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

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

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

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

(l) **Provisions and contingencies**

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

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

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(m) **Income per share**

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

Diluted income per share amounts are calculated by dividing the consolidated net income 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 income per share amounts are not presented if their inclusion would be anti-dilutive.

(n) **Share based compensation**

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

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

(o) **Deferred share units (DSUs)**

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

(p) **Foreign currency translation**

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

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(q) **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 and licensee retail stores, 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 and estate wineries are recorded when the product is purchased. Commission income is recognized when products are sold.

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

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

(r) **Uses of estimates and judgements**

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, include, but are not limited to, the following:

(i) **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.

(ii) **Property, plant and equipment**

Property, plant and equipment represent a significant proportion of the asset base of the Company as they amount to 44.2% (2017 - 40.0%) of total assets. Therefore, estimates and assumptions made to determine their carrying value and related depreciation are critical to the Company's financial position and performance.

2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(r) **Uses of estimates and judgements, continued**

IFRS requires management to test for impairment of property, plant and equipment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate.

The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. The useful lives and residual values of the Company's assets are determined by management at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their life.

(iii) **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.

(iv) **Useful life of intangible assets**

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

(v) **Impairment of intangible assets**

Testing intangible assets for impairment involves estimating the recoverable amount of the CGUs to which intangible assets are allocated. This requires making assumptions about future cash flows, growth rates, market conditions and discount rates, which are inherently uncertain. Actual amounts may vary from these assumptions and cause significant adjustments. Management has concluded that a 10% change in any key assumption in the impairment test of intangible assets would not result in an impairment of intangible assets as at March 31, 2018 and March 31, 2017.

3. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

(a) **IAS 7 "Statement of Cash Flow"** has been revised to incorporate amendments issued by the IASB in January 2016. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017. The new requirements were adopted effective April 1, 2017 and the adoption of these amendments did not have a significant impact on the consolidated financial statements.

(b) **IAS 12 "Income Taxes"** was amended by the IASB in January, 2016 to clarify the requirements for recognizing deferred tax assets on unrealized losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. The amendments are effective for annual periods beginning on or after January 1, 2017. The new requirements were adopted effective April 1, 2017 and the adoption of these amendments did not have a significant impact on the consolidated financial statements.

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

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

(a) **IFRS 9: "Financial Instruments: Classification and Measurement of Financial Assets and Financial Liabilities"** was issued by the IASB in July, 2014 and will replace IAS 39 "Financial Instruments: Recognition and Measurement". In addition, IFRS 7 "Financial Instruments: Disclosures" was amended to include additional disclosure requirements on transition to IFRS 9. The mandatory effective date of applying these standards is for annual periods beginning on or after January 1, 2018. The standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used. The standard requires that for financial liabilities measured at fair value, any changes in an entity's own credit risk are generally to be presented in other comprehensive income instead of net earnings. A new hedge accounting model is included in the standard, as well as increased disclosure requirements about risk management activities for entities that apply hedge accounting. The Company is currently evaluating the potential impact of this standard; however, it is not expected to have a significant impact on the consolidated financial statements. The Company will adopt the accounting standard on April 1, 2018.

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

(b) **IFRS 15: "Revenue from Contracts with Customers"** was issued by the IASB in May, 2014 and will supercede IAS 18 "Revenue" and IAS 11 "Construction Contracts". The standard details a revised model for the recognition of revenue from contracts with customers. In April 2016, the IASB has amended IFRS 15 to clarify the guidance on identifying performance obligations, licences of intellectual property and principal versus agent. The amendments also provide additional practical expedients on transition. The standard is effective for first interim periods within annual periods beginning on or after January 1, 2018. The Company is currently in the process of evaluating the potential impact this new guidance will have on the Company's consolidated financial statements. The Company has not completed this evaluation and therefore, cannot conclude whether the guidance will have a significant impact on the consolidated financial statements at this time. However, based on preliminary work completed, the Company is considering the implications the new standard may have on its agency wine businesses, presentation of certain customer related trade spending, as well as the timing of recognition of certain promotional discounts, which are areas that could potentially be impacted by the adoption of the new guidance. The Company will adopt the accounting standard on April 1, 2018, using a full retrospective approach.

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

5. ACCOUNTS RECEIVABLE

	2018	2017
Trade receivables	**$ 2,739,352**	$ 3,489,725
Accrued receivables	**56,224**	13,969
Government remittances recoverable	**-**	80,232
	$ 2,795,576	$ 3,583,926

On June 29, 2016, the Company obtained export insurance coverage from Export Development Canada on sales to a significant export customer to a maximum of $675,000 at any one time.

6. INVENTORIES

	2018	2017
Bulk wine	**$ 10,424,250**	$ 8,334,917
Bottled wine and spirits	**6,048,984**	7,724,908
Bottling supplies and packaging	**563,870**	527,721
	$ 17,037,104	$ 16,587,546

The Company had a net $56,132 recovery of inventory written down in the prior year included in the consolidated statements of net income and comprehensive income for the year ended March 31, 2018 (2017 - $440,935 expense).

Biological assets consist of grapes prior to harvest that are controlled by the Company. The Company owns land in Ontario to grow grapes in order to secure a supply of quality grapes for the making of wine. As at March 31, 2018, the Company held grape vines planted on 34 acres (2017 - 34 acres), 22 acres of which were held through the operating lease of the De Sousa Beamsville winery property. During the year ended March 31, 2018, the Company harvested 152 tons of grapes (2017 - 155 tons) valued at $176,292 (2017 - $169,684).

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

	2018	2017
Carrying value, beginning of year	**$ -**	$ -
Net increase in fair value less costs to sell due to biological transformation	**176,292**	169,684
Transferred to inventory on harvest	**(176,292)**	(169,684)
Carrying value, end of year	**$ -**	$ -

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

7. **PROPERTY, PLANT AND EQUIPMENT**

	Land	Buildings	Machinery, equipment and vines	Leasehold improvements	Equipment	Vehicles	Computer equipment	Vehicles: capital lease	Total
Cost									
As at April 1, 2016	**$ 1,129,814**	**$ 12,086,636**	**$ 8,953,079**	**$ 62,700**	**$ 102,512**	**$ 90,220**	**$ 336,644**	**$ -**	**$ 22,761,605**
Additions	5,020	1,226,768	750,756	-	-	-	26,860	748,799	2,758,203
Disposals	-	-	-	-	-	(60,430)	-	-	(60,430)
As at March 31, 2017	**1,134,834**	**13,313,404**	**9,703,835**	**62,700**	**102,512**	**29,790**	**363,504**	**748,799**	**25,459,378**
Additions	598	2,920,226	789,000	-	-	-	55,315	43,334	3,808,473
As at March 31, 2018	**$ 1,135,432**	**$ 16,233,630**	**$10,492,835**	**$ 62,700**	**$ 102,512**	**$ 29,790**	**$ 418,819**	**$ 792,133**	**$ 29,267,851**
Accumulated depreciation									
As at April 1, 2016	**$ -**	**$ 3,174,315**	**$ 4,978,454**	**$ 31,280**	**$ 75,984**	**$ 56,521**	**$ 317,646**	**$ -**	**$ 8,634,200**
Depreciation	-	357,159	430,591	10,283	3,099	2,889	18,870	64,240	887,131
Disposals	-	-	-	-	-	(36,358)	-	-	(36,358)
As at March 31, 2017	**-**	**3,531,474**	**5,409,045**	**41,563**	**79,083**	**23,052**	**336,516**	**64,240**	**9,484,973**
Depreciation	-	351,374	563,519	1,828	21,009	6,738	12,257	195,854	1,152,579
As at March 31, 2018	**$ -**	**$ 3,882,848**	**$ 5,972,564**	**$ 43,391**	**$ 100,092**	**$ 29,790**	**$ 348,773**	**$ 260,094**	**$ 10,637,552**
Net book value									
As at March 31, 2017	**$ 1,134,834**	**$ 9,781,930**	**$ 4,294,790**	**$ 21,137**	**$ 23,429**	**$ 6,738**	**$ 26,988**	**$ 684,559**	**$ 15,974,405**
As at March 31, 2018	**$ 1,135,432**	**$ 12,350,782**	**$ 4,520,271**	**$ 19,309**	**$ 2,420**	**$ -**	**$ 70,046**	**$ 532,039**	**$ 18,630,299**

Additions to property, plant and equipment in the prior year included costs related to the new retail store building of $995,885, costs related to the winery facility expansion of $203,921, deposits on tanks of $629,436 and deposits on equipment for the new retail store of $16,544 on which no depreciation had been taken as the assets were not yet in use at the fiscal 2017 year end. These assets were all in use and being amortized during fiscal 2018.

8. **INTANGIBLE ASSETS**

	Pre-1993 winery licenses	Distribution rights	Trademarks	Computer software	Website	Total
Cost						
As at April 1, 2016	$ 750,000	$ 8,819,763	$ 52,358	$ 162,346	$ -	$ 9,784,467
Additions	-	-	-	23,309	-	23,309
As at March 31, 2017	750,000	8,819,763	52,358	185,655	-	9,807,776
Additions	-	-	-	11,543	15,335	26,878
As at March 31, 2018	$ 750,000	$ 8,819,763	$ 52,358	$ 197,198	$ 15,335	$ 9,834,654
Accumulated amortization						
As at April 1, 2016	$ -	$ 5,759,608	$ 46,911	$ 146,044	$ -	$ 5,952,563
Amortization	-	322,120	1,089	22,557	-	345,766
As at March 31, 2017	-	6,081,728	48,000	168,601	-	6,298,329
Amortization	-	322,120	871	18,626	2,556	344,173
As at March 31, 2018	$ -	$ 6,403,848	$ 48,871	$ 187,227	$ 2,556	$ 6,642,502
Net book value						
As at March 31, 2017	$ 750,000	$ 2,738,035	$ 4,358	$ 17,054	$ -	$ 3,509,447
As at March 31, 2018	$ 750,000	$ 2,415,915	$ 3,487	$ 9,971	$ 12,779	$ 3,192,152

8. INTANGIBLE ASSETS, CONTINUED

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

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

	2018	2017
Pre-tax discount rate	**14%**	14%
Period of projected cash flows	**5 years**	5 years
Growth rate beyond period of projected cash flows	**2%**	2%

The Company uses past experience and current expectations about future performance in projecting cash flows, which are based on financial budgets for five years. For the period after five years, the Company projects cash flows using an assumed growth rate, which is based on expectations about long-term economic growth in Canada and any known industry specific factors that may influence long-term growth in the Canadian wine industry. The discount rate is estimated by referring to external sources of information about the cost of capital and the leverage of companies that operate in a similar industry to the Company and that are of similar size. The rate determined is then adjusted to a pre-tax basis. A 10% change in the assumptions used would not result in an impairment.

(b) Distribution rights represent exclusive rights to act as an agent and/or distributor in certain provinces for various beverage alcohol products. These agency relationships are for either a fixed, renewable or unlimited term, subject to termination clauses in the agreements. Under these clauses, and under common law, the Company would be entitled to compensation, typically equal to one months' commission earnings for each year of representation, in the event that a contract is terminated. The distribution rights acquired as part of the KDC acquisition (see note 17) were valued at fiscal 2014 gross margin, normalized for variable selling costs and client relationships retained. The Company estimated that these distribution rights had an original useful life of 17 years, and that the acquisition cost would be amortized on a straight-line basis over their estimated remaining life as of October 1, 2014, the commencement date of the partnership, of 11 years.

9. **BANK INDEBTEDNESS**

As more fully described in note 12, the Company executed a new credit agreement with Bank of Montreal ("BMO"), its new primary lender, on September 29, 2017. This agreement replaces its previous agreement with Meridian Credit Union ("MCU") and the previous KDC agreement with Canadian Imperial Bank of Commerce ("CIBC").

As at March 31, 2018, amounts drawn against these operating facilities were as follows:

	2018	2017
MCU Operating Line	**$ -**	$ 2,764,099
CIBC Operating Line	**-**	2,548,036
	$ -	$ 5,312,135

(a) ***MCU agreement***

The prior credit agreement with MCU dated September 19, 2016 specifies the following major overall terms:

(i) a Letter of Credit sub-facility, included under the umbrella of the $10,000,000 operating line, at a stand-by rate of 1.25% per annum for issued letters of credit. As at March 31, 2018 no letters of credit were outstanding with MCU (2017 - $24,641)
(ii) Margining limits were amended to include:
- 90% of acceptable EDC insured balances under 90 days
- increase in acceptable inventory to a maximum of $9,000,000, increased from $8,500,000
- within the increased inventory cap, the limit on raw materials inventory increased to $500,000 from $300,000.
(iii) Maintain a debt service ratio (to be measured annually) of 1.10|1.00 for fiscal 2017 only, still remaining at 1.25|1.00 for fiscal 2018 and thereafter.
(iv) Maintain a debt service ratio (to be measured on a trailing four quarter basis, starting effective the end of Q3 in fiscal 2017) of 1.10|1.00 for fiscal 2017 only, still remaining at 1.25|1.00 for fiscal 2018 and thereafter.

As at March 31, 2017 the Company was in compliance with the above noted covenants.

(b) ***Kirkwood Diamond Canada credit facility: Canadian Imperial Bank of Commerce***

The prior CIBC credit agreement included the following major components:

(i) Various CAD and USD credit facilities to a maximum of CAD $4,500,000
(ii) Interest at the CAD prime rate plus 1.25% and/or USD base rate plus 1.25%
(iii) secured by a first-priority security in all present and future property of KDC and assignments and postponements of claim from the corporate partners
(iv) As at March 31, 2018, no letters of credit were outstanding (March 31, 2017 - $50,000)

9. Bank Indebtedness, continued

The financial covenants included were: (i) ratio of total liabilities less postponed debt to effective tangible net worth is not to exceed 3.00|1.00 at any time, tested quarterly, and (ii) fixed charge coverage ratio ("FCCR") of not less than 1.10|1.00 at any time, tested quarterly, calculated on a trailing twelve month basis. The FCCR is defined as the ratio of EBITDA (defined as earnings before interest, income taxes, depreciation and amortization) to the sum of debt service requirements, capital withdrawals, advances to affiliates and unfunded capital expenditures.

As at March 31, 2017, KDC was in compliance with the above noted covenants.

10. Accounts Payable And Accrued Liabilities

	2018	2017
Trade accounts payable	**$ 4,028,977**	$ 4,115,963
Accrued liabilities	**2,041,182**	1,109,883
	$ 6,070,159	$ 5,225,846

11. Loan Payable - Non-Controlling Interest

The amount due to The Kirkwood Group in the prior year was related to the purchase of inventory as more fully described in note 17 and funding of operations during the merger and integration of the two agency businesses. The loan, payable to The Kirkwood Group Ltd., a company that was related to a corporate partner of KDC by common control, was unsecured, interest-bearing at 5% per annum and repayable on demand. Interest expense provided for on this loan during the year ended March 31, 2018 totalled $4,212 (2017 - $14,100).

	2018	2017
Loan payable - non-controlling interest	**$ -**	$ 224,570

On May 5, 2017, coincident with the Company's purchase of the remaining 49.99% interest in KDC that was previously owned by its partner (see note 17), this loan payable was repaid in full.

12. Term Loans Payable

As at March 31, 2018, the balances outstanding on the Company's term loans were as follows:

	March 31 2018	March 31 2017
BMO term loans:		
Revolving operating term loan	**$ 9,595,677**	$ -
Non-revolving term loan	**9,875,000**	-
MCU term loans:		
Non-revolving loan #1	**-**	6,612,003
Non-revolving loan #2	**-**	1,099,505
	19,470,677	7,711,508
Financing costs	**(121,202)**	-
	19,349,475	7,711,508
Current portion	**(454,287)**	(741,547)
	$ 18,895,188	$ 6,969,961

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

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

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

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

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

12. TERM LOANS PAYABLE, CONTINUED

The BMO credit agreement includes the following sub-facilities:

(a) Letter of credit sub-facility included under the umbrella of the $13,000,000 revolving term loan, up to a maximum of $1,000,000 at a rate of CAD prime +2.50% having a term of up to 1 year. As at March 31, 2018 there was a letter of credit in the amount of $24,641 was outstanding with BMO (March 31, 2017 - $Nil).
(b) Bankers' acceptance sub-facility included under the umbrella of the revolving and non-revolving term loans, with a minimum draw of $1,000,000, terms of 28 to 182 days at rates of CAD prime +2.50% to CAD prime +2.75%. As at March 31, 2018 a bankers' acceptance was in place on the non-revolving term loan to fix the interest rate at 1.58% for the period from March 1, 2018 to April 2, 2018. There were no bankers' acceptances outstanding at March 31, 2017.
(c) Treasury risk management facility of up to $1,500,000 to facilitate hedging of interest rate risk and foreign exchange risk at market rates as determined by the lender. As at March 31, 2018 there were no amounts outstanding on this facility.

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

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

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

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

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

The major terms of MCU non-revolving loan #1 were as follows:

(a) Due December 31, 2018
(b) Amortized over a period of 12 years
(c) Interest at fixed rate of 5.40%
(d) Repayable in blended monthly payments of principal and interest of $80,940

The major terms of MCU non-revolving loan #2 were as follows:

(a) Due February 5, 2019
(b) Amortized over a period of 10 years
(c) Bears interest at a fixed rate of 4.99%
(d) Repayable in blended monthly payments of principal and interest of $14,035

13. FINANCE LEASES

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

The following is a schedule of future minimum annual lease payments for vehicles under finance leases together with the balance of the obligations as at March 31, 2018.

	Minimum lease payments	Present value of minimum lease payments
Not later than one year	**$ 213,139**	$ 198,226
Later than one year and up to lease expiry	**332,917**	322,505
	546,056	520,731
Less: interest	**(25,325)**	-
Total obligations under finance leases	**520,731**	520,731
Less: current portion	**(198,226)**	(198,226)
	$ 322,505	$ 322,505

Estimated principal repayments are as follows:

Year ending March 31, 2019	**$ 198,226**
Year ending March 31, 2020	**193,238**
Year ending March 31, 2021	**129,267**
	$ 520,731

Vehicles acquired under finance leases during the year ended March 31, 2018 totalled $43,334 (2017 - $748,799). Interest expense on the finance leases for the year ended March 31, 2018 was $22,653 (2017 - $6,716).

14. SHARE CAPITAL AND OTHER EQUITY INSTRUMENTS

Authorized
Unlimited Common shares, no par value

Continuity schedules for each component of the Company's share capital and other equity instruments are disclosed in the consolidated statements of changes in shareholders' equity for the period from April 1, 2016 to March 31, 2018. Details of major changes in each component during that period are as follows:

(a) **Private placement**

On December 20, 2016, the Company completed a brokered private placement of 40,000,000 common shares at an issuance price of $0.22 per common share for gross proceeds of $8,800,000, less issuance costs of $708,994, for net proceeds of $8,091,006.

(b) **Income per share**

Basic income per share is computed using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for year ended March 31, 2018 was 140,282,745 respectively (2017 - 111,215,026).

As at March 31, 2018, the following potentially dilutive equity instruments were all outstanding: (1) 7,175,000 options (2017 - 6,150,000), and (2) 1,563,238 deferred share units (2017 - 1,124,882). The fully diluted number of common shares outstanding for the year March 31, 2018 was 149,112,079 (2017 - 147,523,723).

15. **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, 2018 and 2017 was as follows:

	2018		2017	
	Options	**Weighted -average exercise price ($)**	Options	Weighted-average exercise price ($)
Outstanding, beginning of year	**6,150,000**	**0.17**	6,682,400	0.17
Options exercised *(see notes 15(a) and (e))*	**(125,000)**	**0.11**	(111,804)	0.20
Expiry of options *(see notes 15(b) and (e))*	**(100,000)**	**-**	(420,596)	-
Granted to key management *(see notes 15(c) and (d))*	**1,250,000**	**0.28**	-	-
Outstanding, end of year	**7,175,000**	**0.19**	6,150,000	0.17

As at March 31, 2018, the issued and outstanding options to acquire common shares of the Company are as follows:

	Number of options				
Grant date	**Granted**	**Exercisable**	**Exercise price ($)**	**Remaining life**	**Expiry date**
September 24, 2013	2,000,000	2,000,000	0.20	0.49	September 23, 2018
September 24, 2013	500,000	500,000	0.25	0.49	September 23, 2018
June 5, 2014	500,000	375,000	0.25	1.18	June 5, 2019
November 10, 2014	1,400,000	1,120,000	0.12	1.62	November 9, 2019
November 10, 2014	600,000	480,000	0.12	1.62	November 9, 2019
November 24, 2014	925,000	555,000	0.11	1.62	November 23, 2019
January 15, 2018	750,000	-	0.29	4.79	January 14, 2023
February 27, 2018	500,000	-	0.27	4.91	February 26, 2023
	7,175,000	5,030,000	0.17	1.78	

15. **STOCK OPTIONS, CONTINUED**

The details of the changes in the options during the reporting period are as follows:

(a) **Exercise of options:**

On December 18, 2017, 125,000 of the stock options originally granted on November 24, 2014 were exercised at the purchase price of $0.11 per share for total proceeds of $13,750.

(b) **Expiry of options:**

On December 31, 2017, 100,000 of the stock options originally granted on September 24, 2013 expired unexercised, on the retirement of a member of the Board of Directors.

(c) **January 15, 2018 grant to key management personnel:**

(i) The Board of Directors approved the grant of 750,000 options to key management personnel. The options are exercisable at $0.29 per option with a term of five years (expiring January 15, 2023) and vest evenly on each anniversary date over 5 years.

(ii) The fair value of these options was calculated with the Black-Scholes option pricing model. Using the assumptions of: (1) risk free interest rate of 1.77%, (2) expected volatility of 100%, (3) expected life of 5 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was $0.20.

(d) **February 27, 2018 grant to key management personnel:**

(i) The Board of Directors approved the grant of 500,000 options to key management personnel. The options are exercisable at $0.27 per option with a term of five years (expiring February 26, 2023) and vest evenly on each anniversary date over 5 years.

(ii) The fair value of these options was calculated with the Black-Scholes option pricing model. Using the assumptions of: (1) risk free interest rate of 2.01%, (2) expected volatility of 100%, (3) expected life of 5 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was $0.20.

(e) **WKN options:**

In connection with the reverse takeover of Whiteknight Acquisitions II Ltd ("WKN") on September 24, 2013, the Company assumed 532,400 options granted to former officers and directors of WKN at an exercise price of $0.20. The options vested immediately and retained their original expiry date of March 7, 2017. On February 28, 2017, 111,804 of these options were exercised for gross proceeds of $22,361, and the remainder of 420,596 expired unexercised.

(f) **Share based compensation:**

Total share based compensation recognized for the year ended March 31, 2018 of $186,651 (2017 - $83,813) based on accrual of previously granted options expected to vest in the reporting period and the issuance of DSUs as described in note 16.

16. DEFERRED SHARE UNITS ("DSUs")

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

On July 27, 2016, the Company issued an aggregate of 305,749 DSUs to non-executive directors under the DSU plan in settlement of $41,063 of deferred directors' compensation. To date, a total of 1,124,882 DSUs have been issued. The DSUs are to be settled in common shares of the Company when the director retires from all positions with the Company.

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

To date, a total of 1,563,238 DSUs have been issued. The DSUs are to be settled in common shares of the Company when the director retires from all positions with the Company.

17. KIRKWOOD DIAMOND CANADA PARTNERSHIP AND NON-CONTROLLING INTEREST

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

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

Prior to the above noted acquisition of the 49.99% interest in KDC formerly held by the Company's partner, the Company had a 50.01% interest in KDC and a tie-breaking vote on the Executive Committee of the partnership, effectively giving it strategic and directional control over the operations of KDC. Accordingly, KDC's financial results were consolidated into the Company's financial statements.

18. INCOME TAXES

(a) **Income rate reconciliation**

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

	2018	2017
Net income before recovery of income taxes	**$ 27,177**	$ 534,732
Expected income tax recovery	**26.50%**	26.50%
Expected income tax recovery	**$ 7,202**	$ 141,700
Decrease (increase) resulting from:		
Non-controlling interest and other	**-**	189,700
Non-deductible expenses	**60,451**	34,860
Change in tax benefits not recognized	**(67,653)**	(366,260)
Recovery of income taxes	**$ -**	$ -

(b) **Deferred tax**

The following table summarizes the components of deferred tax:

	2018	2017
Deferred tax asset		
Non-capital losses carried forward	**$ 1,999,988**	$ 1,732,048
Deferred financing costs	**15,145**	-
Reserves	**63,852**	-
Deferred tax liabilities		
Property, plant and equipment	**(1,758,407)**	(1,730,588)
Intangible assets	**(320,578)**	(1,460)
Net deferred tax liabilities	**$ -**	$ -

(c) **Unrecognized deferred tax assets**

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

	2018	2017
	$	$
Non-capital losses carried forward	**13,266,430**	16,425,735
Capital losses carried forward	**397,388**	397,388
Share issuance costs	**577,719**	1,034,420
Reserves	**396,491**	-
Intangible assets	**1,638,906**	-

18. INCOME TAXES, CONTINUED

The non-capital loss carry forwards expire as noted in the table below. The net capital loss carry forwards may be carried forward indefinitely, but can only be used to reduce capital gains. Share issue and financing costs will be fully amortized in 2023. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

2028	$ 1,564,997
2029	632,792
2030	8,635,937
2031	3,750,634
2032	2,007,278
2033	629,291
2034	1,713,379
2035	1,387,850
2036	331,652
2037	129,120
2038	30,626
	$ 20,813,556

19. KEY MANAGEMENT COMPENSATION, RELATED PARTY TRANSACTIONS AND BALANCES

During the years ended March 31, 2018 and 2017, the Company had the following related party transactions, including (i) compensation of key management personnel and directors, and (ii) transactions with entities related to or controlled by directors, as follows:

	2018	2017
Salary	**$ 976,575**	$ 749,200
Director fees	**78,500**	85,625
Share based compensation under stock option plan *(see note 15 (f))* and DSU Plan *(see note 16)*	**186,651**	83,813
Interest on loan payable - non-controlling interest *(see note 11)*	**4,212**	14,108
Winery lease payments	**100,000**	100,000
Vineyard maintenance	**105,391**	114,471
Grape purchases	**115,282**	118,178

Accounts payable and accrued liabilities as at March 31, 2018 includes $379,627 (March 31, 2017 - $266,245) with respect to balances owing to related parties for the transactions disclosed above.

20. **COMMITMENTS AND CONTINGENCIES**

(a) Under various lease agreements with varying terms, the Company leases certain vehicles and pieces of equipment. The leases do not satisfy the conditions of finance leases and therefore have been treated as operating leases. Lease payments are recognized as an expense when paid. Total operating lease expense recognized in the current year was $5,707 (2017 - $12,506). Future remaining minimum lease payments as at March 31, 2018 are $Nil for fiscal 2019.

(b) Under various lease agreements with varying terms, the Company leases its offices in Halifax and Oakville, Ontario and its retail store in Toronto. Future remaining minimum lease payments as at March 31, 2018 are as follows:

2019	$ 215,153
2020	282,865
2021	244,069
2022	240,258
2023	243,505
Subsequent years	1,497,620
	$ 2,723,470

(c) Contractual commitments to purchase property, plant and equipment were $583,688 as at March 31, 2018 (2017 -$3,968,684) related to the expansion of the winery production facility. These costs will be spread out over the next two fiscal years.

(d) From time to time, the Company is involved in potential litigation matters arising out of the ordinary course and conduct of its business.

On June 24, 2014, the Company was served with a statement of claim by a former management employee for wrongful termination. The Company filed a statement of defense and with the advice of counsel, filed a motion for summary judgement. The motion was denied by a Judge, who advised the parties to seek mediation. Mediation was not successful and the case is proceeding towards trial. A provision for loss has been recorded based on the opinion of the Company's counsel should it lose at trial. The Company does not expect the outcome to have a material impact on the consolidated financial statements.

21. SEGMENTED INFORMATION

Business segments

The Company operates in two business segments, namely (i) sales of manufactured wines and (ii) distribution and sales of products represented in Canada under agency agreements with third parties. The following table presents selected financial information associated with each of these segments for the years ended March 31, 2018 and 2017:

	March 31, 2018		
	Agency	**Manufactured wines**	**Consolidated**
	$	**$**	$
Gross revenue	**17,365,179**	**17,333,002**	**34,698,181**
Inter-segment revenue	**(427,260)**	**-**	**(427,260)**
Net revenue	**16,937,919**	**17,333,002**	**34,270,921**
Gross profit	**7,034,119**	**7,404,173**	**14,438,292**
Interest on bank indebtedness	**98,871**	**759,380**	**858,251**
Depreciation and amortization	**448,467**	**971,995**	**1,420,462**
Additions of property, plant and equipment and intangible assets	**66,433**	**3,768,918**	**3,835,351**
	Statement of financial position balances as at March 31, 2018		
Intangible assets	**2,420,115**	**772,037**	**3,192,152**
Total assets	**7,538,034**	**34,656,931**	**42,194,965**
Total liabilities	**2,794,625**	**23,145,740**	**25,940,365**

	March 31, 2017		
	Agency	**Manufactured wines**	**Consolidated**
	$	**$**	$
Gross revenue	17,116,770	17,702,621	34,819,391
Inter-segment revenue	(530,712)	-	(530,712)
Net revenue	16,586,058	17,702,621	34,288,679
Gross profit	6,379,968	6,830,358	13,210,326
Interest on bank indebtedness	138,611	839,202	977,813
Depreciation and amortization	374,773	858,124	1,232,897
Additions of property, plant and equipment and intangible assets	479,265	2,302,247	2,781,512
	Statement of financial position balances as at March 31, 2017		
Intangible assets	2,743,435	766,012	3,509,447
Total assets	9,451,497	30,525,140	39,976,637
Total liabilities	4,942,006	14,608,489	19,550,495

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

21. **SEGMENTED INFORMATION, CONTINUED**

Geographic information

	2018	2017
Revenue		
Canada	**$ 26,483,659**	$ 28,278,039
China and other	**7,787,262**	6,010,640
	$ 34,270,921	$ 34,288,679

22. **FINANCIAL INSTRUMENTS AND RISK FACTORS**

Risk management

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

(a) **Classification of financial instruments**

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

			2018		**2017**	
Assets/liabilities	**Category**	**Measurement**	**Carrying amount $**	**Fair value $**	**Carrying amount** $	**Fair value** $
Accounts receivable	Loans and receivables	Amortized cost	**2,795,576**	**2,795,576**	3,583,926	3,583,926
Bank indebtedness	Other liabilities	Amortized cost	**-**	**-**	5,312,135	5,312,135
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	**6,070,159**	**6,070,159**	5,225,846	5,225,846
Unearned revenue and deposits received	Other liabilities	Amortized cost	**-**	**-**	390,730	390,730
Loan payable - non-controlling interest	Other liabilities	Amortized cost	**-**	**-**	224,570	224,570
Term notes payable	Other liabilities	Amortized cost	**19,349,475**	**19,349,475**	7,711,508	7,711,508
Finance leases	Other liabilities	Amortized cost	**520,731**	**520,731**	492,777	492,777

(b) **Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company is exposed to interest rate risk primarily through its floating interest rate bank indebtedness and credit facilities (Notes 9 & 12). Assuming that other variables remain constant, a 1% change in the prime lending rate as at March 31, 2018 would impact interest expense and net income by $199,000 (2017 - $53,000).

22. FINANCIAL INSTRUMENTS AND RISK FACTORS, CONTINUED

(c) Credit risk

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

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

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

	2018	2017
Current	**$ 1,650,904**	$ 2,245,557
30 days past due	**486,966**	845,789
60 days past due	**226,523**	129,420
90 days past due	**153,694**	134,656
120 days past due	**451,046**	349,973
Amount provided for	**(173,557)**	(121,469)
	$ 2,795,576	$ 3,583,926

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. As detailed in note 5, the Company has now obtained credit insurance from Export Development Canada on sales to a significant export customer to a maximum of $675,000 at any one time. Based on the historical information and the credit quality of accounts receivable, management has assessed credit risk as low. It is reasonably possible that the actual amount of loss, if any, incurred on trade receivables will differ from management's estimate.

22. FINANCIAL INSTRUMENTS AND RISK FACTORS, CONTINUED

(d) Foreign currency risk

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

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

	2018	2017
Accounts receivable		
New Zealand dollars (NZD)	**-**	7,148
US dollars (USD)	**21,899**	36,006
Euros (EUR)	**27,829**	83,316
Australian dollars (AUD)	**532**	1,028
British pounds (GBP)	**10,206**	17,740
Accounts payable		
US dollars (USD)	**190,576**	216,257
Euros (EUR)	**5,486**	89,819

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, 2018 would affect net income and comprehensive income by approximately $20,000 (2017 - $21,000).

(e) Liquidity risk

Liquidity risk is the risk arising from the Company not being able to meet its obligations as they come due. The Company manages its liquidity needs by carefully monitoring scheduled debt servicing payments for its financial liabilities as well as forecasting cash inflows and outflows due in day-to-day business. The data used for analyzing these cash flows is consistent with that used in the contractual maturity presented in bank indebtedness (see note 9).

Total current liabilities as at March 31, 2018 of $6,722,672 (2017 - $12,087,757), which includes bank indebtedness, accounts payable and accrued liabilities, unearned revenue and deposits received, loan payable - non-controlling interest, current portion of term loans payable and finance leases, are considered current and are due within 12 months of the end of the reporting period.

As at March 31, 2018, the Company had a working capital surplus of $13,649,842 (2017 - $8,405,028). The completion of two private placements since April, 2015 for net proceeds of $8,091,006 (see note 14(a)) has significantly improved the Company's liquidity.

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

(f) **Concentration risk**

Concentration risk is the risk arising from a dependence on one customer or supplier for a significant portion of sales or purchases. The risk of a significant customer having financial difficulties would have a negative impact on the Company. During the year ended March 31, 2018, sales to four customers, including the Liquor Control Board of Ontario ("LCBO") comprised 60.6% (2017 - 52.5%) of total revenue. As at March 31, 2018, these four customers represented 29.3% of accounts receivable (2017 - 22.0%).

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

23. **CAPITAL DISCLOSURES**

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

The Company is subject to externally imposed capital requirements related to its bank indebtedness and term loans *(Notes 9 and 12)* and there has been no change in the overall capital risk management strategy during the year.

24. **COMPARATIVE FIGURES**

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