DIAMOND ESTATES WINES & SPIRITS INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

(Unaudited - Prepared by Management)

(These unaudited interim condensed consolidated financial statements, prepared by management, have not been reviewed by the company's external auditors)

DIAMOND ESTATES WINES & SPIRITS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2016 AND MARCH 31, 2016
(Unaudited - Prepared by Management)

	December 31 2016	March 31 2016
ASSETS		
Current:		
Accounts receivable	**$ 4,858,671**	$ 4,031,973
Inventories	**16,373,464**	16,891,492
Biological assets	**17,480**	-
Prepaid expenses	**151,197**	151,735
	21,400,812	21,075,200
Long term:		
Property, plant and equipment	**14,386,791**	14,127,405
Intangible assets	**3,594,409**	3,831,904
	$ 39,382,012	$ 39,034,509
LIABILITIES		
Current:		
Bank indebtedness (Note 6)	**$ 3,968,458**	$ 10,217,851
Accounts payable and accrued liabilities	**5,444,311**	6,239,376
Deposits received	**-**	46,526
Loan payable - non-controlling interest	**224,985**	299,967
Current portion of term loans payable (Note 7)	**736,256**	10,386,559
Current portion of finance leases (Note 8)	**135,416**	-
	10,509,426	27,190,279
Long term:		
Term loans payable (Note 7)	**7,156,698**	-
Finance leases (Note 8)	**348,982**	-
	18,015,106	27,190,279
SHAREHOLDERS' EQUITY		
Common shares	**16,614,063**	8,522,378
Contributed surplus	**1,012,193**	937,413
Accumulated deficit	**(385,930)**	(1,711,121)
Non-controlling interest	**4,126,580**	4,095,560
	21,366,906	11,844,230
	$ 39,382,012	$ 39,034,509

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

Approved on behalf of the Board:

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

DIAMOND ESTATES WINES & SPIRITS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015
(Unaudited - Prepared by Management)

	Three month period ended December 31 2016	**Nine month period ended December 31 2016**	Three month period ended December 31 2015 Restated (Note 3)	Nine month period ended December 31 2015 Restated (Note 3)
Revenue	**$ 8,814,451**	**$ 28,228,105**	$ 7,856,521	$ 23,071,432
Cost of sales				
Change in inventories of finished goods and raw materials consumed	**5,060,470**	**15,531,086**	4,538,614	12,494,161
Freight in and other	**314,545**	**838,894**	300,890	630,797
Depreciation of property, plant and equipment used in production	**184,287**	**543,482**	207,857	578,773
	5,559,302	**16,913,462**	5,047,361	13,703,731
Gross profit	**3,255,149**	**11,314,643**	2,809,160	9,367,701
Expenses				
Employee compensation and benefits	**1,419,377**	**4,448,841**	1,344,106	4,230,607
General and administrative	**753,761**	**2,312,625**	622,685	2,049,011
Delivery and warehousing	**314,486**	**923,345**	172,091	737,267
Interest	**253,033**	**817,042**	291,056	898,193
Advertising and promotion	**374,305**	**859,684**	231,074	540,024
Loss (gain) on foreign exchange	**(12,690)**	**16,171**	6,434	36,346
Amortization of intangible assets	**87,334**	**258,437**	83,453	245,194
Depreciation of property, plant and equipment used in selling and administration	**51,199**	**102,967**	27,729	77,151
Share based compensation	**11,016**	**74,780**	106,761	189,365
Unrealized gain on derivative financial instruments (Note 12(c))	**(5,460)**	**(5,460)**	-	-
	3,246,361	**9,808,432**	2,885,389	9,003,158
Net income (loss) and comprehensive income (loss)	**$ 8,788**	**$ 1,506,211**	$ (76,229)	$ 364,543
Net income (loss) and comprehensive income (loss) attributable to:				
Shareholders	**$ (33,566)**	**$ 1,325,191**	$ (208,545)	$ 50,119
Non-controlling interest	**42,354**	**181,020**	132,316	314,424
	$ 8,788	**$ 1,506,211**	$ (76,229)	$ 364,543
Basic income (loss) per share (Note 9(b)))	**$ 0.000**	**$ 0.013**	$ (0.002)	$ 0.001
Diluted income (loss) per share (Note 9(b))	**$ 0.000**	**$ 0.009**	$ (0.002)	$ 0.000

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

DIAMOND ESTATES WINES & SPIRITS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
PERIOD FROM APRIL 1, 2015 TO DECEMBER 31, 2016
(Unaudited - Prepared by Management)

	Common shares		Contributed	Accumulated	Shareholders'	Non-controlling	Total
	Shares	Amount	surplus	deficit	equity	interest	
As at April 1, 2015 (Restated (Note 3))	**73,403,749**	**$ 39,578,798**	**$ 731,272**	**$ (34,108,334)**	**$ 6,201,736**	**$ 4,091,403**	**$ 10,293,139**
Proceeds on issuance of common shares	26,733,288	3,207,995	-	-	3,207,995	-	3,207,995
Share issuance costs	-	(160,383)	-	-	(160,383)	-	(160,383)
Net income and comprehensive income	-	-	-	50,119	50,119	314,424	364,543
Share based compensation	-	-	189,365	-	189,365	-	189,365
Reduction of stated capital and deficit	-	(34,104,032)	-	34,104,032	-	-	-
As at December 31, 2015 (Restated (Note 3))	**100,137,037**	**8,522,378**	**920,637**	**45,817**	**9,488,832**	**4,405,827**	**13,894,659**
Net loss and comprehensive loss	-	-	-	(1,756,938)	(1,756,938)	(352,767)	(2,109,705)
Share based compensation	-	-	16,776	-	16,776	-	16,776
Property, plant and equipment contributed by non-controlling interest	-	-	-	-	-	42,500	42,500
As at March 31, 2016	**100,137,037**	**8,522,378**	**937,413**	**(1,711,121)**	**7,748,670**	**4,095,560**	**11,844,230**
Proceeds on issuance of common shares (Note 9(a))	40,000,000	8,800,000	-	-	8,800,000	-	8,800,000
Share issuance costs (Note 9(a))	-	(708,315)	-	-	(708,315)	-	(708,315)
Net income and comprehensive income	-	-	-	1,325,191	1,325,191	181,020	1,506,211
Share based compensation	-	-	74,780	-	74,780	-	74,780
Draw from KDC by non-controlling interest	-	-	-	-	-	(150,000)	(150,000)
As at December 31, 2016	**140,137,037**	**$ 16,614,063**	**$ 1,012,193**	**$ (385,930)**	**$ 17,240,326**	**$ 4,126,580**	**$ 21,366,906**

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

DIAMOND ESTATES WINES & SPIRITS INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015
(Unaudited - Prepared by Management)

	2016	2015 Restated (Note 3)
Operating activities		
Net income	**$ 1,506,211**	$ 364,543
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	**646,449**	655,924
Amortization of intangible assets	**258,437**	245,194
Share based compensation	**74,780**	189,365
Loss on disposal of property, plant and equipment	**3,502**	-
Interest expense	**817,402**	898,193
Interest paid	**(868,033)**	(868,193)
Unrealized gain on derivative financial instruments	**(5,460)**	-
	2,433,288	1,485,026
Change in non-cash working capital items		
Accounts receivable	**(829,210)**	(1,738,311)
Inventories	**518,028**	789,021
Biological assets	**(17,480)**	(20,349)
Prepaid expenses	**538**	118,572
Accounts payable and accrued liabilities	**(736,463)**	71,724
Deposits received	**(46,526)**	(27,955)
	1,322,175	677,728
Investing activities		
Purchase of property, plant and equipment	**(438,930)**	(189,486)
Purchase of intangible assets	**(20,942)**	(13,921)
Proceeds from disposition of property, plant and equipment	**20,570**	-
	(439,302)	(203,407)
Financing activities		
Bank indebtedness	**(6,249,392)**	(1,738,882)
Repayment of loan payable - non-controlling interest	**(74,982)**	(522,860)
Repayment on term loans payable	**(2,493,605)**	(1,260,191)
Repayment of finance leases	**(6,579)**	-
Net proceeds from issuance of common shares	**8,091,685**	3,047,612
Draw from KDC by non-controlling interest	**(150,000)**	-
	(882,873)	(474,321)
Change in cash	**-**	-
Cash, beginning of period	**-**	-
Cash, end of period	**$ -**	$ -
Non-cash transactions:		
Property, plant and equipment acquired under finance leases (Note 8)	**$ 490,977**	$ -

The accompanying notes form an integral part of these unaudited interim condensed 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 operation and consolidation of wineries, wine, spirit, and beer distribution agencies, and sales and brand development. The address of the Company's registered office and principal place of business is 1067 Niagara Stone Road, Niagara-On-The-Lake, Ontario, L0S 1J0. The operations and principal place of business of Kirkwood Diamond Canada Partnership ("KDC") are located at 1155 North Service Road West, Oakville, Ontario, L6M 3E3.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" as issued by the IASB, and accordingly do not include all the information required for full annual financial statements by IFRS. They have been prepared using the same accounting policies that were described in note 2 to the Company's annual consolidated financial statements for the year ended March 31, 2016 which were prepared in accordance with IFRS as issued by the IASB.

The note disclosures for these unaudited interim condensed consolidated financial statements only present material changes to the disclosures found in the Company's audited consolidated financial statements for the years ended March 31, 2016 and 2015, as follows:

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.

Financial instruments and 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 (loss) and comprehensive income (loss).

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The unaudited interim condensed consolidated financial statements have not been reviewed by the Company's external auditors. They were authorized for issuance by the Board of Directors on February 16, 2017.

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

3. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS AND RESTATEMENT

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

During May 2014 the IASB issued amendments to IAS 16 – Property, Plant, and Equipment and IAS 41 – Agriculture, which requires bearer plants to be classified as property, plant, and equipment and accounted for under IAS 16. The amended standards are effective for annual periods beginning on or after January 1, 2016.

The Company controls bearer plants consisting of grape vines and has elected to apply these amendments effective April 1, 2015, which is prior to the mandatory effective date. The earliest comparative period presented in the financial statements after adopting the amended standards began on April 1, 2014. The Company has elected to measure bearer plants using their fair value on that date as their deemed cost.

The following tables summarize the impact of adopting amended IAS 16 – Property, Plant, and Equipment and IAS 41 – Agriculture on the unaudited interim condensed consolidated statements of net income and comprehensive income and cash flows for the nine month period ended December 31, 2015. The impact of adopting these standards on the consolidated statements of financial position has previously been reported upon in the audited consolidated financial statements for the year ended March 31, 2016.

3. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS AND RESTATEMENT, CONTINUED

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

Impact on consolidated statements of net income (loss) and comprehensive income (loss)	Three month period ended December 31, 2015 (as reported) $	Impact of IAS 16 and IAS 41 changes $	Three month period ended December 31, 2015 (as restated) $	Nine month period ended December 31, 2015 (as reported) $	Impact of IAS 16 and IAS 41 changes $	Nine month period ended December 31, 2015 (as restated) $
Depreciation of property, plant and equipment	234,510	1,076	235,586	652,696	3,228	655,924
Net income (loss) and comprehensive income (loss)	(75,153)	(1,076)	(76,229)	367,771	(3,228)	364,543
Net income (loss) per share:						
Basic	(0.002)	0.000	(0.002)	0.001	0.000	0.001
Diluted	(0.002)	0.000	(0.002)	0.000	0.000	0.000

Impact on consolidated statements of cash flows (ii)	Nine month period ended December 31, 2015 (as reported) $	Impact of IAS 16 and IAS 41 changes $	Nine month period ended December 31, 2015 (as restated) $
Net income (loss) for period	367,771	(3,228)	364,543
Depreciation of property, plant and equipment	652,696	3,228	655,924
Cash flow from operating activities	677,728	-	677,728

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

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

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

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

(b) **Early adoption of IAS 1:**

The Company has chosen to early adopt the provisions of IAS 1 to assist users in better understanding the Company's financial performance, namely through the use of sub-totals (in the statement of net income and comprehensive income) to present cost of goods sold and gross profit calculations. The comparative numbers have been reclassified to conform to the presentation adopted in the current year with no impact to previously reported equity, net income and comprehensive income or cash flows.

(c) **Restatement of comparative balances**

The comparative financial statements and notes thereto for the nine month period ended December 31, 2015 have been restated to reflect a correction in classification of certain costs relating to revenue recognition. The Company has reviewed its financial statement presentation of various costs, including customer incentive programs (such as Air Miles), discount programs and product returns, previously included in advertising and promotion and excise taxes included in change in inventories of finished goods and warehousing and receiving. Following this review, management has determined that these costs are better presented as deductions from revenue.

The impact of the restatement of the statements of net income (loss) and comprehensive income (loss) for the nine month period ended December 31, 2015 is a reduction of $1,354,267 in revenues and offsetting reductions of $1,133,593 in advertising and promotion, $166,138 in change in inventories of finished goods and raw materials consumed and $54,536 in delivery and warehousing. There was no impact to previously reported equity, net income (loss) and comprehensive income (loss) or cash flows.

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

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

(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.

(b) **IFRS 15: "Revenue from Contracts with Customers"** provides new requirements for recognizing revenue. The new standard's core principle is for a company to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. IFRS 15 also included a cohesive set of disclosure requirements that would result in an entity providing comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The new standard provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple element arrangements. The IASB has decided to propose to defer the effective date to January 1, 2018 from the previously expected effective date of January 1, 2017.

(c) **IFRS 16 "Leases"** was issued in January 2016 and will ultimately replace IAS 17, "Leases". IFRS 16 specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lessees accounting model, requiring lessees to recognize assets and liability for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard is effective for annual periods beginning on or after January 1, 2019 and must be applied retrospectively.

(d) **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. Earlier application is permitted.

The Company has not early adopted any of these standards, but management is currently assessing the impact of their application in the unaudited interim condensed consolidated financial statements and intends to adopt these standards at their effective dates.

5. SEASONALITY

Revenue is subject to seasonal variation in demand from its customers for beverage alcohol products. For example, export sales are clustered in the spring and fall when climate conditions are optimal for intermodal transportation. The fourth quarter is traditionally the lowest for revenue in all major sales channels due to softness in demand during the winter months.

6. BANK INDEBTEDNESS

On September 19, 2016, the Company signed a new credit agreement with Meridian Credit Union ("MCU"), its primary lender, to replace the previous agreements dated March 31, 2016, January 12, 2015 and amended on March 25, 2015. In addition, on April 7, 2016, KDC entered into a credit agreement with CIBC to provide a dedicated working capital facility for the Partnership *(see note 6(c))*.

(a) *Updated Meridian Credit Union agreement*

On September 19, 2016, the Company entered into an updated credit agreement with MCU reflecting the following significant changes from the prior agreement dated March 31, 2016:

(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
(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

All other major components, including operating line limit, term loan amounts, interest rates, due dates and security remained unchanged.

(b) *Covenant measurement: breach and subsequent compliance*

As at March 31, 2016, the Company was not in compliance with the covenant relating to minimum effective net worth. This covenant breach required the non-current portion of the MCU term loans of $9,264,045 as at March 31, 2016 to be classified as a current liability under IFRS *(see note 7)*. As of July 19, 2016, MCU had indicated in writing that it was prepared to waive the default, subject to no further defaults occurring and the expectation that the covenant in default would be met at the next stipulated reporting period, being June 30, 2016. The Company has been in compliance with the terms of this financial covenant as at each of June 30, 2016, September 30, 2016 and December 31, 2016.

6. **BANK INDEBTEDNESS, CONTINUED**

(c) ***Kirkwood Diamond Canada credit facility: Meridian Credit Union***

On April 7, 2016, KDC entered into a new credit agreement with Canadian Imperial Bank of Commerce ("CIBC") *(see note 6(d))*. The transaction closed on June 2, 2016 when existing obligations to MCU were repaid in full.

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

The CIBC credit agreement includes the following major components: (i) various CAD and USD credit facilities to a maximum of CAD $4,500,000, (ii) conventional margining on accounts receivable and 70% of eligible inventory value (to a maximum of $2,250,000) (iii) bears interest at the CAD prime rate plus 1.25% and/or USD base rate plus 1.25%, and (iv) secured by (a) a first-priority security in all present and future property of KDC and (b) assignments and postponements of claim from the corporate partners.

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

7. **TERM LOANS PAYABLE**

As more fully described in note 6(a), the Company has various term loans with MCU under its new credit agreement dated September 19, 2016, the terms and conditions of which with respect to the term loans are virtually unchanged from the previous credit agreement dated March 31, 2016. As at December 31, 2016, the amounts outstanding were as follows:

	December 31 2016	March 31 2016
Meridian Credit Union term loans:		
Non-revolving loan #1	**$ 6,765,419**	$ 8,563,784
Non-revolving loan #2	**1,127,535**	1,370,684
Non-revolving loan #3	**-**	452,091
	7,892,954	10,386,559
Less: current portion	**(736,256)**	(1,122,514)
Remaining portion classified as current due to covenant breach (Note 6(b))	**-**	(9,264,045)
	$ 7,156,698	$ -

Term loans payable were paid down on December 20, 2016 out of the proceeds of the private placement described in note 9(a) as follows:

(a) 10% of the original principal of non-revolving loan #1 in the amount of $1,300,000
(b) 10% of the original principal of non-revolving loan #2 in the amount of $150,000
(c) the entire then-remaining principal of non-revolving loan #3 in the amount of $222,290

8. FINANCE LEASES

In August 2016, the Company executed a Master Lease Agreement ("MLA") with an equipment finance and leasing company to acquire automotive equipment. The leases are primarily for a 48 month period, expiring at various times up November 2020 and provide for the transfer of ownership of the automotive equipment at the end of the respective lease term at a pre-determined price. 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 3.33%.

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 December 31, 2016.

	Minimum lease payments	Present value of minimum lease payments
Not later than one year	**$ 149,216**	$ 135,416
Later than one year and up to lease expiry	**365,672**	348,982
	514,888	484,398
Less: interest	**(30,490)**	-
Total obligations under finance leases	**484,398**	484,398
Less: current portion	**(135,416)**	(135,416)
	$ 348,982	$ 348,982

Vehicles acquired under finance leases during the three and nine month periods ended December 31, 2016 totalled $65,833 and $490,977 respectively (three and nine month periods ended December 31, 2015 - $Nil and $Nil respectively). Interest expense on the finance leases for the three and nine month periods ended December 31, 2016 was $1,963 and $2,271 respectively (three and nine month periods ended December 31, 2015 - $Nil and $Nil respectively).

9. 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 unaudited interim condensed consolidated statements of changes in shareholders' equity for the period from April 1, 2015 to December 31, 2016. Details of major changes in each component during that period are as follows:

9. SHARE CAPITAL AND OTHER EQUITY INSTRUMENTS, CONTINUED

(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 $708,315, for net proceeds of $8,091,685. The proceeds are to be used to expand the principal wine production facility, add cooperage (barrel storage), warehouse and bottling space, and for general corporate purposes including reduction of debt *(see note 7)*.

(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 the three and nine month periods ended December 31, 2016 were 104,919,646 and 101,737,037 respectively (three and nine month periods ended December 31, 2015 - 100,137,037 and 97,317,890 respectively).

As at December 31, 2016, the following potentially dilutive equity instruments were all outstanding: (1) Nil warrants (2015 - 288,220), (2) 6,682,400 options (2015 - 6,682,400), and (3) 1,124,882 deferred share units (2015 - 180,867). The fully diluted number of common shares outstanding for the nine month periods ended December 31, 2016 and 2015 were 147,944,319 and 107,288,524 respectively.

10. 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 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 deferred share units ("DSUs") to non-executive directors under the Company's deferred share unit plan (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.

11. **SEGMENTED INFORMATION**

Business segments

The Company operates in two business segments, namely (i) sales of manufactured wines and (ii) agency sales. The following table presents selected financial information associated with each of these segments for the nine month periods ended December 31, 2016 and 2015:

	Nine month period ended December 31, 2016		
	Agency	**Manufactured wines**	**Consolidated**
	$	**$**	$
Gross revenue	**13,642,986**	**15,028,931**	**28,671,917**
Inter-segment revenue	**(443,812)**	**-**	**(443,812)**
Net revenue	**13,199,174**	**15,028,931**	**28,228,105**
Gross profit	**5,460,500**	**5,854,143**	**11,314,643**
Interest on bank indebtedness	**111,414**	**705,628**	**817,042**
Depreciation and amortization	**308,858**	**596,028**	**904,886**
Additions of property, plant and equipment and intangible assets	**284,896**	**665,953**	**950,849**
Intangible assets	**2,824,865**	**769,544**	**3,594,409**
Total assets	**11,322,290**	**28,059,723**	**39,382,012**
Total liabilities	**6,185,627**	**11,829,479**	**18,015,106**

	Nine month period ended December 31, 2015		
	Agency	**Manufactured wines**	**Consolidated**
	$	**$**	$
Gross revenue	12,676,264	10,878,496	23,554,760
Inter-segment revenue	(483,328)	-	(483,328)
Net revenue	12,192,936	10,878,496	23,071,432
Gross profit	5,508,844	3,858,857	9,367,701
Interest on bank indebtedness	130,587	767,606	898,193
Depreciation and amortization	279,588	621,530	901,118
Additions of property, plant and equipment and intangible assets	-	203,407	203,407
	Statement of financial position balances as at March 31, 2016		
Intangible assets	3,069,155	762,749	3,831,904
Total assets	10,382,852	28,643,685	39,034,509
Total liabilities	5,562,396	21,619,911	27,190,279

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

11. SEGMENTED INFORMATION, CONTINUED

Geographic information

	2016	2015
Revenue		
Canada	**$ 22,427,967**	$ 20,090,762
China and other	**5,800,138**	2,980,670
	$ 28,228,105	$ 23,071,432

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

12. FINANCIAL INSTRUMENTS AND RISK FACTORS

(a) **Fair value of financial instruments**

The fair values of accounts receivable, bank indebtedness, accounts payable and accrued liabilities, 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.

(b) **Fair value of derivative financial instruments**

The fair value of the foreign exchange forward contracts is determined based on the difference between the contract rate and the forward rate at the date of valuation and is included in accounts receivable in the interim condensed consolidated statements of financial position.

(c) **Unrealized gain on derivative financial instruments**

The unrealized gain on derivative financial instruments, namely foreign exchange forward contacts, for the three and nine month periods ended December 31, 2016 was $Nil and $Nil respectively (three and nine month periods ended December 31, 2015 - $Nil and $Nil respectively).

(d) **Fair value hierarchy**

The fair value of the foreign exchange forward contracts liability has been measured using Level 2 inputs in the fair value hierarchy, namely significant observable inputs from other than quoted prices.

12. FINANCIAL INSTRUMENTS AND RISK FACTORS, CONTINUED

(e) Foreign exchange forward contracts and currency risk

The Company decided to implement a foreign currency hedging program to reduce its exposure to significant US dollar fluctuations as they relate to commitments to source products in US dollars. The Company's strategy is to hedge approximately 70% of its monthly USD requirements two months prior to the purchase obligation arising. As at December 31, 2016, the Company had expandable foreign exchange forward contracts (expiring in each of February, 2017 and March, 2017) to acquire (i) USD $200,000 per month on a USD put/CAD call basis at a rate of CAD $1.3285, or (ii) USD $150,000 per month on a USD call/CAD put basis at a rate of CAD $1.3285. After considering the offsetting impact of these forward contracts, a 1% increase or dec1ease to the exchange rate of the US dollar would impact the Company's net earnings by approximately $3,000 (2015 - $Nil).

13. COMPARATIVE FIGURES

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