DIAMOND ESTATES WINES & SPIRITS INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

(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.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT JUNE 30, 2017 AND MARCH 31, 2017
(Unaudited - Prepared by Management)

	June 30 2017	March 31 2017
ASSETS		
Current:		
Accounts receivable	**$ 5,179,570**	$ 3,583,926
Inventories	**14,837,931**	16,587,546
Biological assets	**12,062**	-
Prepaid expenses	**356,384**	321,313
	20,385,947	20,492,785
Long term:		
Property, plant and equipment	**17,160,248**	15,974,405
Intangible assets	**3,450,454**	3,509,447
	$ 40,996,649	$ 39,976,637
LIABILITIES		
Current:		
Bank indebtedness (Note 6)	**$ 9,633,395**	$ 5,312,135
Accounts payable and accrued liabilities	**6,226,833**	5,225,846
Unearned revenue and deposits received	**-**	390,730
Loan payable - non-controlling interest	**-**	224,570
Current portion of term loans payable (Note 7)	**755,735**	741,547
Current portion of finance leases (Note 8)	**203,246**	192,929
	16,819,209	12,087,757
Long term:		
Term loans payable (Note 7)	**6,772,886**	6,969,961
Finance leases (Note 8)	**476,353**	492,777
	24,068,448	19,550,495
SHAREHOLDERS' EQUITY		
Common shares (Note 9)	**16,635,745**	16,635,745
Contributed surplus	**428,126**	1,021,226
Accumulated deficit	**(135,670)**	(1,001,177)
Non-controlling interest (Note 11)	**-**	3,770,348
	16,928,201	20,426,142
	$ 40,996,649	$ 39,976,637

Commitments and contingencies

Subsequent event

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 AND COMPREHENSIVE INCOME
THREE MONTH PERIODS ENDED JUNE 30, 2017 AND 2016
(Unaudited - Prepared by Management)

	June 30 2017	June 30 2016
Revenue	$ 9,632,299	$ 9,149,120
Cost of sales		
Change in inventories of finished goods and raw materials consumed	4,918,829	4,862,665
Freight in and other	257,422	279,990
Depreciation of property, plant and equipment used in production	166,111	178,931
	5,342,362	5,321,586
Gross profit	4,289,937	3,827,534
Expenses		
Employee compensation and benefits	1,596,241	1,486,150
General and administrative	762,106	712,593
Advertising and promotion	359,632	257,217
Delivery and warehousing	309,888	279,558
Interest	217,062	286,864
Gain on foreign exchange	(21,123)	(28,420)
Amortization of intangible assets	85,871	83,528
Depreciation of property, plant and equipment used in selling and administration	79,081	24,809
Share based compensation	16,777	9,033
	3,405,535	3,111,332
Net income and comprehensive income	$ 884,402	$ 716,202
Net income and comprehensive income attributable to:		
Shareholders	$ 865,507	$ 606,864
Non-controlling interest	18,895	109,338
	$ 884,402	$ 716,202
Basic income per share (Note 9(b))	$ 0.01	$ 0.01
Diluted income per share (Note 9(b))	$ 0.01	$ 0.01

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, 2016 TO JUNE 30, 2017
(Unaudited - Prepared by Management)

	Note	Common shares Shares	Common shares Amount	Contributed surplus	Accumulated deficit	Shareholders' equity	Non-controlling interest	Total
As at April 1, 2016		**100,137,036**	**$ 8,522,378**	**$ 937,413**	**$ (1,711,121)**	**$ 7,748,670**	**$ 4,095,560**	**$ 11,844,230**
Net income and comprehensive income		-	-	-	606,864	606,864	109,338	716,202
Share based compensation		-	-	9,033	-	9,033	-	9,033
As at June 30, 2016		**100,137,036**	**8,522,378**	**946,446**	**(1,104,257)**	**8,364,567**	**4,204,898**	**12,569,465**
Proceeds on issuance of common shares	**9(a)**	40,000,000	8,800,000	-	-	8,800,000	-	8,800,000
Share issuance costs	**9(a)**	-	(708,994)	-	-	(708,994)	-	(708,994)
Exercise of options		111,804	22,361	-	-	22,361	-	22,361
Net income and comprehensive income		-	-	-	103,080	103,080	(284,550)	(181,470)
Share based compensation		-	-	74,780	-	74,780	-	74,780
Draw from KDC by non-controlling interest		-	-	-	-	-	(150,000)	(150,000)
As at March 31, 2017		**140,248,840**	**16,635,745**	**1,021,226**	**(1,001,177)**	**16,655,794**	**3,770,348**	**20,426,142**
Net income and comprehensive income		-	-	-	865,507	865,507	18,895	884,402
Share based compensation		-	-	16,777	-	16,777	-	16,777
Purchase of non-controlling interest		-	-	(609,877)	-	(609,877)	(3,789,243)	(4,399,120)
As at June 30, 2017		**140,248,840**	**$ 16,635,745**	**$ 428,126**	**$ (135,670)**	**$ 16,928,201**	**$ -**	**$ 16,928,201**

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
THREE MONTH PERIODS ENDED JUNE 30, 2017 AND 2016
(Unaudited - Prepared by Management)

	June 30 2017	June 30 2016
Operating activities		
Net income	**$ 884,402**	$ 716,202
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	**262,690**	203,740
Amortization of intangible assets	**85,871**	83,528
Share based compensation	**16,777**	9,033
Interest expense	**217,062**	318,011
Interest paid	**(217,062)**	(328,586)
	1,249,740	1,001,928
Change in non-cash working capital items		
Accounts receivable	**(1,595,644)**	(1,935,208)
Inventories	**1,749,615**	607,017
Biological assets	**(12,062)**	(8,740)
Prepaid expenses	**(35,071)**	(28,811)
Accounts payable and accrued liabilities	**1,000,987**	(34,663)
Unearned revenue and deposits received	**(390,730)**	(46,526)
	1,966,835	(445,003)
Investing activities		
Acquisition of non-controlling interest in related party (Note 11)	**(4,399,120)**	-
Purchase of property, plant and equipment	**(1,405,199)**	(54,597)
Purchase of intangible assets	**(26,878)**	-
	(5,831,197)	(54,597)
Financing activities		
Bank indebtedness	**4,321,260**	1,264,330
Repayment of loan payable - non-controlling interest	**(224,570)**	(1,086)
Repayment on term loans payable	**(182,887)**	(273,272)
Repayment of finance leases	**(49,441)**	-
	3,864,362	989,972
Change in cash	**-**	490,372
Cash, beginning of year	**-**	-
Cash, end of year	**$ -**	$ 490,372
Non-cash transactions:		
Property, plant and equipment acquired under finance leases (Note 8)	**$ 43,334**	$ -

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 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

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, 2017 which were prepared in accordance with IFRS as issued by the IASB.

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 August 22, 2017.

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

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The note disclosures for these unaudited interim condensed financial statements only present material changes to the disclosures found in the Company's audited consolidated financial statements for the years ended March 31, 2017 and 2016, as follows:

(a) Basis of consolidation

These unaudited interim condensed 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 11)*	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 unaudited interim condensed consolidated financial statements. All intercompany balances, income and expenses, and unrealized gains and losses resulting from intercompany transactions are eliminated in full.

(b) 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 capital assets 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 better reflect the recognition of the benefits derived from ownership of the assets being depreciated in each period. The increase in depreciation for the three month period ending June 30, 2016 as a result of these changes totalled $5,498.

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

♦	Buildings	40 years straight-line
♦	Machinery and equipment	5 to 40 years straight-line
♦	Leasehold improvements	5 years straight-line
♦	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

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 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. 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.

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.

(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.

(d) **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 adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.

5. SEASONALITY

Revenue is subject to seasonal variation in demand from its customers for beverage alcohol products. 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

The Company has two operating facilities to support working capital requirements. Meridian Credit Union ("MCU"), provides the facilities for the winery division *(see note 6(a))*, and Canadian Imperial Bank of Commerce ("CIBC") provides a dedicated working capital facility for KDC *(see note 6(e))*.

As at June 30, 2017, amounts draw against these operating facilities were as follows:

	June 30 2017	March 31 2017
MCU Operating Line (Note 6(b))	**$ 7,788,654**	$ 2,764,099
CIBC Operating Line (Note 6(e))	**1,844,742**	2,548,036
	$ 9,633,395	$ 5,312,135

(a) ***Meridian Credit Union agreement***

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

(b) ***Credit facilities***

(i) Operating line of $10,000,000, due on demand, bearing interest at prime plus 2.50%, interest payable monthly. A Letter of Credit sub-facility, included under the umbrella of the operating line, at a stand-by rate of 1.25% per annum for issued letters of credit. As at June 30, 2017 and March 31, 2017, a letter of credit in the amount of $24,641 had been issued.

(ii) Credit facilities also include the term loans payable to MCU (see note 7):

(c) ***Security***

The above credit facilities are secured by general security agreements, a collateral mortgage for $15,000,000 registered in the name of Diamond Estates Wines & Spirits Ltd. over its property and buildings, assignment of fire and liability insurance over both properties and buildings, and corporate guarantees and postponements of claim in favour of MCU by each of Diamond Estates Wines & Spirits Inc. and De Sousa Wines Toronto Inc., each of which is supported by respective general security agreements.

6. BANK INDEBTEDNESS, CONTINUED

(d) *Financial covenants*

The credit facilities are subject to the following financial covenants:

(i) Achieve a minimum effective net worth of not less than $7,500,000 commencing the fiscal year ended March 31, 2016, which is defined as: shareholders' equity plus loans from shareholders postponed to MCU less loans to shareholders and related parties and less 50% of pre-1993 winery licenses and 100% of other intangible assets;
(ii) To maintain a debt to effective net worth of 3.25|1.00 to be measured as at March 31, 2017 (2016 - 3.50|1.00) (where total debt is defined as the sum of current liabilities plus long term liabilities, less any postponed amounts);
(iii) Maintain a DSR of not less than 1.10|1.0 for the fiscal year ended March 31, 2017 and 1.25|1.00, measured on an annual basis commencing with the fiscal year ended March 31, 2018 and annually thereafter; the DSR is defined as the ratio of consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") less 50% of KDC EBITDA to the sum of interest expense plus the current portion of long term debt and capital leases; and
(iv) Maintain a trailing four quarter DSR (as defined above) of not less than 1.10|1.0 for the fiscal year ended March 31, 2017 and 1.25|1.00 commencing with the fiscal year ended March 31, 2018 and annually thereafter.

As at June 30, 2017 and March 31, 2017 the Company was in compliance with the above noted covenants.

(e) *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. As at June 30, 2017 and March 31, 2017, a Letter of Credit in the amount of $50,000 was outstanding.

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.

As at June 30, 2017 and March 31, 2017, KDC was in compliance with the above noted covenants.

7. TERM LOANS PAYABLE

As more fully described in note 6(a), the Company has various term loans with MCU under its credit agreement dated September 19, 2016. As at June 30, 2017, the amounts outstanding were as follows:

	June 30 2017	March 31 2017
Meridian Credit Union term loans:		
Non-revolving loan #1	**$ 6,457,509**	$ 6,612,003
Non-revolving loan #2	**1,071,113**	1,099,505
	7,528,622	7,711,508
Current portion	**(755,735)**	(741,547)
	$ 6,772,887	$ 6,969,961

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

(a) Remaining term of 1 years, 6 months, due by December 31, 2018
(b) Amortized over a period of 12 years
(c) Bears interest at fixed rate of 5.40%
(d) Repayable in blended monthly payments of principal and interest of $80,940

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

(a) Remaining term of 1 years, 7 months, due by 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

8. 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 June 30, 2017.

	Minimum lease payments	Present value of minimum lease payments
Not later than one year	**$ 224,609**	$ 203,246
Later than one year and up to lease expiry	**497,591**	476,354
	722,200	679,600
Less: interest	**(42,600)**	-
Total obligations under finance leases	**679,600**	679,600
Less: current portion	**(203,246)**	(203,246)
	$ 476,354	$ 476,354

Estimated principal repayments are as follows:

Year ending March 31, 2018	**$ 152,435**
Year ending March 31, 2019	**198,226**
Year ending March 31, 2020	**193,238**
Year ending March 31, 2021	**135,701**
	$ 679,600

Vehicles acquired under finance leases during the three month period ended June 30, 2017 totalled $43,334 (2016 - $Nil). Interest expense on the finance leases for the three month period ended June 30, 2017 was $6,059 (2016 - $Nil).

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, 2016 to June 30, 2017. 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 the three month period ended June 30, 2017 was 140,248,840 (2016 - 100,137,036).

As at June 30, 2017, the following potentially dilutive equity instruments were all outstanding: (1) 6,150,000 options (2016 - 6,682,400), and (2) 1,124,882 deferred share units (2016 - 819,133). The fully diluted number of common shares outstanding for the three month period ended June 30, 2017 was 147,523,722 (2016 - 107,638,570).

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 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.

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. 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 Interim Condensed Consolidated Statement of Changes in Shareholders' Equity.

12. 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 three months ended June 30, 2017 and 2016:

	Three month period ended June 30, 2017		
	Agency	**Manufactured wines**	**Consolidated**
	$	**$**	$
Gross revenue	**4,320,412**	**5,441,893**	**9,762,305**
Inter-segment revenue	**(130,006)**	**-**	**(130,006)**
Net revenue	**4,190,406**	**5,441,893**	**9,632,299**
Gross profit	**1,742,992**	**2,546,945**	**4,289,937**
Interest on bank indebtedness	**32,261**	**184,801**	**217,062**
Depreciation and amortization	**106,615**	**224,448**	**331,063**
Additions of property, plant and equipment and intangible assets	**43,334**	**1,432,077**	**1,475,411**
	Statement of financial position balances as at June 30, 2017		
Intangible assets	**2,662,905**	**787,549**	**3,450,454**
Total assets	**9,824,890**	**31,171,759**	**40,996,649**
Total liabilities	**4,859,019**	**19,209,429**	**24,068,448**

	Three month period ended June 30, 2016		
	Agency	**Manufactured wines**	**Consolidated**
	$	**$**	$
Gross revenue	4,374,361	4,921,631	9,295,992
Inter-segment revenue	(146,872)	-	(146,872)
Net revenue	4,227,489	4,921,631	9,149,120
Gross profit	1,860,038	1,967,496	3,827,534
Interest on bank indebtedness	43,078	243,786	286,864
Depreciation and amortization	95,118	192,150	287,268
Additions of property, plant and equipment and intangible assets	53,970	228,454	282,424
	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.

12. SEGMENTED INFORMATION, CONTINUED

Geographic information

	2017	2016
Revenue		
Canada	**$ 6,998,563**	$ 7,008,443
China and other	**2,633,736**	2,140,677
	$ 9,632,299	$ 9,149,120

13. 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 month period ended June 30, 2017 was $7,605 (three month period ended June 30, 2016 - $Nil).

(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.

13. FINANCIAL INSTRUMENTS AND RISK FACTORS, CONTINUED

(e) Foreign exchange forward contracts and currency risk

The Company uses a hedging program to reduce its exposure to significant fluctuations as they relate to commitments to source products in foreign currencies. The Company's strategy is to hedge approximately 70% of its annual requirements an minimum of two months prior to the purchase obligation arising. As at June 30, 2017, the Company had foreign exchange forward contracts (expiring in each of August, 2017, September, 2017 and October, 2017) to acquire (i) USD $75,000 at a rate of CAD $1.3034, (ii) USD $150,000 at a rate of CAD $1.3034 and (iii) USD $100,000 at a rate of CAD $1.3034. After considering the offsetting impact of these forward contracts, a 1% increase or decrease to the exchange rate of the US dollar would impact the Company's net earnings by approximately $3,000 (June 30, 2016 - $Nil).

14. COMPARATIVE FIGURES

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