DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

THREE-MONTH PERIODS ENDED JUNE 30, 2018 AND 2017

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The following management discussion and analysis ("MD&A") of Diamond Estates Wines & Spirits Inc. ("Diamond" or "the Company") provides a review of corporate developments, results of operations and financial position for the three-month period ended June 30, 2018 ("Q1 2019") compared with the corresponding period ended June 30, 2017 ("Q1 2018"). This discussion is prepared as of August 29, 2019 and should be read in conjunction with the (i) unaudited interim condensed financial statements and accompanying notes of Diamond for Q1 2019 and (ii) both the audited consolidated financial statements and MD&A for the fiscal years ended March 31, 2018 and March 31, 2017. All note references are made in reference to these consolidated financial statements. Additional information regarding Diamond is available on Diamond's SEDAR profile at www.sedar.com. The results reported in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars, unless otherwise indicated, which is the Company's functional currency.

FORWARD-LOOKING STATEMENTS

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

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COMPANY OVERVIEW

Diamond Estates Wines and Spirits Inc. is a producer of high quality wines and a sales agent for over 120 beverage alcohol brands across Canada. The Company operates three wineries, two in Ontario and one in British Columbia, that produce predominantly VQA wines under such well-known brand names as 20 Bees, EastDell, Lakeview Cellars, Dan Aykroyd, Fresh, McMichael Collection, Benchmark, Seasons and Backyard Vineyards. Through its wholly-owned subsidiary, Kirkwood Diamond Canada Partnership ("KDC"), the Company is the sales agent for many leading international brands in all regions of the country as well as being a distributor in the western provinces. These recognizable brands include Josh wines from California, Fat Bastard wines from France, Kaiken wines from Argentina, Marston's beers from England, Hpnotiq Liqueur from France, Anciano wines from Spain, Francois Lurton wines from France and Argentina, Waterloo Brewing and Amsterdam Brewery, both from Canada, Landshark Lager from the USA, Blue Nun wines from Germany, Malfy Gin from Italy, Edinburgh Gin from Scotland, Barcelo Rum from Dominican Republic and Evan Williams Bourbon from the USA.

The Company's mission is to build lasting, mutually beneficial relationships with channel partners, growers, suppliers and employees. To meet this goal, the Company is undertaking significant investments in winemaking, brand marketing, sales programming, performance management and back office infrastructure, including information systems which will support growth in an efficient, profitable manner. Based on its analysis of the market, the Company believes that the long-term growth prospects for the domestic and import beverage alcohol markets in Canada are positive. Diamond is also a significant participant in the export market, with a particular focus on China, where demand for Canadian wines is growing.

The Company is committed to delivering these results through its distribution network focused on the provincial liquor boards, licensed restaurants and bars, grocery chains, Diamond's three retail locations and export channels. The Company has a total workforce of approximately 118 full-time employees, including 49 engaged in the selling and marketing of its brands, 28 in the manufacturing and distribution of its brands, 20 involved in the retailing of its domestic products through its retail facilities and 21 in accounting and administration, including the senior officers. The Company also uses a number of independent representatives that are compensated by commissions to sell its products in the licensee channel.

Q1 2019 Highlights

- On June 28, 2018 the Company acquired Backyard Vineyards Corp. ("BYV" or "Backyard"), a winery in British Columbia, for a purchase price of $2.8 million, funded by $0.75 million in cash, $1.5 million in common shares and the assumption of $0.55 million in debt. The transaction transforms Diamond Estates into a national producer of VQA wines and positions the Company to build a new winery in British Columbia's acclaimed Okanagan Valley;

- Revenue was $8.0 million, a decline of 16.9% from $9.6 million in Q1 2018, driven by lower wine sales to the export market and LCBO channel, in addition to the loss of a supplier in the agency division;

- Gross margin was $3.7 million, a decline of 16.1% from $4.4 million in Q1 2018, primarily driven by the revenue reduction in the quarter;

- EBITDA was $0.8 million, compared to $1.4 million in Q1 2018;

- Net income was $0.1 million, compared to $0.9 million in Q1 2018;

- Cash flow from operating activities, before changes in non-cash working capital items, was $0.5 million, compared to $1.2 million in Q1 2018;

- Working capital was $14.6 million as at June 30, 2018, an increase of approximately $0.9 million from $13.6 million as at March 31, 2018;

- The Company's new store has exceeded management's high expectations by generating a 65.7% revenue increase compared with the previous year and has significantly enhanced the winery's profile in the Niagara region;

- Diamond Estates set an industry first in Canada with the launch of a single-serve, 200 ml polyethylene terephthalate (PET) bottle for four of its products. The lightweight, shatterproof, environmentally friendly bottle reduces the Company's carbon footprint and allows wine lovers to enjoy the Company's products at venues where glass bottles are prohibited; and

- The winery has continued to enjoy success, receiving 16 awards across four prestigious competitions during Q1 2019, including Gold, Double Gold and Best Dessert Wine of the Year at the All Canadian Wine Championships.

QUARTERLY PERFORMANCE (UNAUDITED)

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

	Jun-2018 Q1 2019	Mar-2018 Q4 2018	Dec-2017 Q3 2018	Sep-2017 Q2 2018	Jun-2017 Q1 2018	Mar-2017 Q4 2017	Dec-2016 Q3 2017	Sep-2016 Q2 2017
	$	$	$	$	$	$	$	$
Balance sheet								
Working capital surplus	14,557,047	13,649,842	16,962,914	12,878,449	3,566,738	8,405,028	10,891,386	4,459,859
Bank indebtedness (total)	-	-	-	-	9,633,395	5,312,135	3,968,458	9,711,878
Term debt and finance leases	20,633,556	19,870,206	22,014,838	18,024,476	8,208,220	8,397,214	8,377,352	9,899,747
Total equity	17,907,342	16,254,600	17,596,514	17,073,197	16,928,201	20,426,142	21,366,906	13,255,420
Income statement								
Revenue	8,005,329	5,379,083	10,350,258	8,909,281	9,632,299	6,060,573	8,814,451	10,264,535
Gross margin	3,679,119	2,268,204	4,745,427	3,785,536	4,384,242	2,305,241	3,362,038	4,329,533
EBITDA	790,465	(753,214)	1,015,126	781,325	1,449,304	(495,849)	590,197	1,407,895
Adjusted EBITDA	740,610	(449,022)	1,851,476	877,712	1,449,304	(199,198)	731,570	1,407,895
Net income (loss)	100,358	(1,362,867)	504,374	1,268	884,402	(971,482)	8,788	781,224
Basic income (loss) per share	0.00	(0.01)	0.00	0.00	0.01	(0.01)	0.00	0.01
Diluted income (loss) per share	0.00	(0.01)	0.00	0.00	0.01	(0.01)	0.00	0.01

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

RESULTS OF OPERATIONS

	Q1 2019	Q1 2018
Revenue	**$ 8,005,329**	$ 9,632,299
Cost of sales	**4,326,210**	5,248,056
Gross margin	**3,679,119**	4,384,243
Gross margin (% of revenue)	***46.0***	*45.5*
Selling, general and administration expenses	**2,888,654**	2,934,939
Selling, general and administration expenses (% of revenue)	***36.1***	*30.5*
EBITDA	**790,465**	1,449,304
ADJUSTED EBITDA	**740,610**	**1,449,304**
Interest	**324,701**	217,062
Depreciation and amortization	**329,522**	331,063
Income from operations	**136,242**	901,179
Share based compensation	**35,884**	16,777
Net income and comprehensive income	**$ 100,358**	$ 884,402
Portion attributable to:		
Shareholders	**$ 100,358**	$ 865,507
Non-controlling interest	**-**	18,895
	$ 100,358	$ 884,402

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

Net income for the first quarter of fiscal 2019 declined to $0.1 million from $0.9 million in the prior year period. Revenue for the quarter was $8.0 million, a decrease of 16.9% from $9.6 million in the first quarter of fiscal 2018. The winery division accounted for $0.8 million of the decrease, half of which was due to lower than forecast growth through the Company's Chinese distributor, which experienced delayed store openings in China. As a result, the distributor has reduced their purchases while they work through excess inventory, primarily icewine product. The other half of the decrease in winery sales relates to the LCBO, as the re-introduction of temporarily de-listed product as a result of the previously disclosed short crop strategy has taken longer than anticipated. General warehouse listings at the LCBO for the affected products were re-introduced late in the fourth quarter of fiscal 2018 and the Company has been working to re-establish store-level distribution. This has been slow to achieve, largely due to continued competitive pressure on distribution, a lack of available programming in the first quarter of fiscal 2019 and the seasonality of the category. The Company has revectored its distribution strategy and is now seeing solid distribution gains at the store level as these programs gain traction. The Company anticipates that by the end of the second quarter of fiscal 2019, it will return to a level of distribution that is consistent with that prior to the voluntary de-lists that went into effect in late fiscal 2017. Partially offsetting the decline in the LCBO channel was the continued strength in the seventy new grocery licenses, where Diamond continues to maintain a strong position achieving a market share of approximately 13.2%. Compared to the prior year period, grocery channel shipments were up 32.5% representing an additional $0.1 million in sales. This positions the Company and its brands well in the current Ontario retail environment as the new Ontario government is expected to continue the expansion of beer and wine in grocery stores.

The Company's new flagship retail store in Niagara saw significant growth in sales, which increased by $0.1 million, or 65.7%, over the prior year period as awareness has grown since the store opened on May 17, 2017. Offsetting this increase was a decline in sales at the Toronto winery, which decreased by $36 thousand, or 30.0% from the prior period. The Company is implementing plans to stimulate sales at this location in the short term while concurrently developing a long term strategy for this winery, involving relocation and expansion. During the quarter, Diamond also executed the early termination of its lease of the DeSousa winery in Beamsville, at no additional cost to the Company. The closure of this winery is not expected to have a material impact on the Company's results going forward.

Revenue in the agency division declined by $0.8 million in the first quarter of fiscal 2019 to $3.3 million compared to $4.2 million in the prior year period. This decrease was mainly the result of the previously disclosed loss of a supplier during fiscal 2018 that the Company represented as its national distributor, and which generated $0.8 million of revenue in the first quarter of fiscal 2018. First quarter revenue in fiscal year 2019 included severance of $0.2 million and a sale of inventory of $0.1 million, at cost, related to another supplier that concluded its agency relationship with the Company during the quarter. When normalized for the above noted items, the division's revenue was down by $0.4 million, or 10.9%, compared to the prior year period, which related to a general decline in sales across the Company's portfolio. The Company attributes this decline, in part, to some turnover in its sales team that has been addressed.

Gross margin in the winery division was $2.1 million in the first quarter of fiscal 2019, down 21.1% from the comparable period in fiscal 2018. Gross margin as a percentage of revenue in the winery division decreased to 45.9% in the first quarter of fiscal 2019 compared to 49.8% in Q1 of fiscal 2018. The decline was largely driven by the decreased volume of icewine sold compared to the prior year period in the LCBO and export channels as icewine has a higher margin than table wine.

Gross margin in the agency division was $1.5 million in the first quarter of fiscal 2019, down 7.9% from the comparable period in fiscal 2018. Gross margin as a percentage of revenue in the agency division increased to 46.0% for the first quarter, as compared to 39.9% in the fiscal 2018 period. The increase in gross margin in the first quarter is due in part to the aforementioned non-recurring severance revenue as well as a shift in the proportion of sales under commission-based agreements versus buy-sell arrangements, stemming from the loss of the supplier that the Company represented as its national distributor. The Company also took a provision on certain excess inventory in the first quarter of fiscal 2019 totalling $0.2 million, primarily related to the termination of a supplier that was no longer a good fit within the agency's portfolio.

Total operating expenses were $2.9 million in the first quarter of fiscal 2019, down slightly by 1.6% from the prior year period. A small 2.6% period-over-period increase in employee compensation and benefits resulted from the creation of two new senior roles to support growth, being a Vice-President, People and Culture as well as a General Manager, Allied and Specialty Brands. In addition, inflationary pressure drove increases in wages and benefits costs over the prior year period. These factors offset the savings from the workforce reduction that was implemented in the third quarter of fiscal 2018.

General and Administrative expenses in the first quarter of 2019 included $49 thousand in costs related to the acquisition of Backyard Vineyards *(see note 5 in the Q1 2019 financial statements)*. In the same quarter, advertising and promotion expenses included the one-time recovery of Quebec sales tax paid in prior periods in the amount of $49 thousand, following the successful retroactive application for registration with Revenu Quebec. Delivery and warehousing expenses in the first quarter of 2019 included the one-time recovery of $49 thousand in excess billings from prior periods from one of the Company's third-party warehouse providers in the western region.

Interest expense was $0.3 million in the first quarter of fiscal 2019 and $0.2 million in the first quarter of 2018, representing a year-over-year increase of 49.6% from the prior year period. This increase was primarily the result of a $78 thousand adjustment for stamping fees on bankers' acceptances that had been incorrectly recorded in prior periods. The remaining difference was largely attributable to higher loan balances during the first quarter of fiscal 2018 compared with the prior year period as the company utilized its revolving loan facility in part to finance the expansion of the Niagara on the Lake winery facility.

LIQUIDITY AND CAPITAL RESOURCES

	June 30, 2018	March 31, 2018
Accounts receivable	**$ 4,947,506**	$ 2,795,576
Inventory	**17,087,618**	17,037,104
Prepaid expenses	**469,254**	539,834
Other	**8,695**	-
Total current assets	**22,513,073**	20,372,514
Property, plant and equipment	**20,303,793**	18,630,299
Intangible assets	**3,226,846**	3,192,152
Goodwill	**280,333**	-
Total assets	**$ 46,324,045**	$ 42,194,965
Accounts payable and accrued liabilities and other	**$ 6,756,359**	$ 6,070,159
Note payable	**550,000**	-
Current portion of long term debt and finance leases	**649,667**	652,513
Total current liabilities	**7,956,026**	6,722,672
Term loans payable, net of current portion	**19,710,674**	18,895,188
Finance leases, net of current portion	**273,215**	322,505
Deferred income taxes	**476,788**	-
Total liabilities	**28,416,703**	25,940,365
Shareholders' equity	**17,907,342**	16,254,600
	$ 46,324,045	$ 42,194,965

The Company's consolidated financial position has changed significantly as at June 30, 2018 compared to March 31, 2018, primarily due to the acquisition of Backyard Vineyards Corp. ("BYV"), a winery in Langley, British Columbia, on June 28, 2018 *(see note 5 to the Q1 2019 financial statements)*.

The increase in accounts receivable of $2.2 million is attributable to the seasonality of the business, as revenues for the fourth quarter of fiscal 2018 were significantly lower than in the first quarter of fiscal 2019, as is typical.

Inventory balances increased by $0.1 million from March 31, 2018 to $17.1 million as at June 30, 2018. This change in inventory is attributable to several factors including the draw down of bulk wine of approximately $1.1 million as it is bottled into finished goods inventory. This draw down of bulk wine was offset by the acquisition of BYV, which included bulk wine valued at $0.5 million. Finished goods inventory in the winery division increased by $0.7 million, which was the result of winery inventory decreasing by $0.1 million in the quarter, offset by the $0.8 million in finished goods acquired on the purchase of BYV. The agency division inventory at June 30, 2018 was similar to the balance as at March 31, 2018. This is reflective of the increase in inventory to replenish stock levels of certain products, offset by an increase in the provision related to excess inventory items.

Prepaid expenses decreased by $0.1 million from the balance at March 31, 2018. This decrease was the result of the amortization of prepaid amounts into expense for insurance premiums, financing fees and other expenses.

Property, plant and equipment as at June 30, 2018 was $20.3 million, up from $18.6 million at March 31, 2018. This increase is the largely the result of the acquisition of BYV, which included capital assets valued at $1.5 million. Further, the acquisition of new stainless-steel tanks at the winery in Niagara on the Lake totalled $0.4 million and will allow the Company to further increase its grape purchases for the upcoming harvest in support of anticipated future growth in demand for its products. Also, company wide upgrades to computer hardware totalled $0.1 million which were necessary as the company upgraded all employees to current technology. These increases were offset by a total of $0.3 million in depreciation taken for the quarter.

Intangible assets increased to $3.2 million at June 30, 2018 driven by the acquisition of BYV, which included customer lists and trademarks acquired that have been valued at a total of $0.1 million. This increase was mostly offset by the amortization of intangibles for the first quarter of fiscal 2019.

The Company recognized Goodwill amounting to approximately $0.3 million on its purchase of BYV, reflecting the excess of the purchase price over the net assets acquired on purchase *(see note 5 to the Q1 Fiscal 2019 financial statements).*

Accounts payable and accrued liabilities increased by $0.7 million from March 31, 2018 to $6.8 million, largely as a result of the increased payables in the agency division related to inventory purchases of $0.8 million, a decrease to the winery payables of $0.2 million and the addition of $0.1 million in payables on the acquisition of BYV.

Working capital increased by $0.9 million to $14.6 million as at June 30, 2018 compared to $13.6 million as at March 31, 2018 as a result of the changes to current assets and liabilities as described above.

As a result of the acquisition of Backyard Vineyards, a liability for deferred income taxes has been recognized in the amount of $0.5 million. This liability represents the estimate of taxes to be payable in future periods as a result of the difference between the fair value and tax value of inventories and property plant and equipment on the date of purchase and the identifiable intangible assets recognized on acquisition. It is anticipated that the Company will be able to negate the impact of the deferred tax liability through the use of tax loss carry forward balances in its main operating entity *(see note 18 to the fiscal 2018 financial statements).*

The Company's debt to equity ratio decreased slightly to 1.21:1 as at June 30, 2018 from 1.22:1 as at March 31, 2018, where debt is defined as total liabilities less other current liabilities and equity is defined as shareholders' equity. This is a result of the increase in bank debt and assumption of the note payable from the acquisition of BYV during Q1 2019, offset by the increase to share capital resulting form the acquisition of BYV and the exercise of stock options.

CAPITALIZATION

The Company has common shares and other equity instruments outstanding at each reporting date as follows:

	June 30, 2018	March 31, 2018	Change in period
Common shares	145,411,746	140,373,841	5,037,905
Deferred share units	1,362,833	1,563,238	(200,405)
Stock Options	6,850,000	7,175,000	(325,000)
Total equity instruments	153,624,579	149,112,079	4,512,500

The changes to the Company's overall capitalization during Q1 2019 were as follows:

(a) On April 3, 2018, on the retirement of a member of the Board of Directors, 200,405 DSUs were settled in common shares of the Company;

(b) On April 10, 2018, the Company issued 150,000 common shares on the exercise of options;

(c) On June 28, 2018, the Company issued 4,687,500 common shares valued at $0.32 per share in settlement of $1,500,000 of the purchase consideration paid to acquire Backyard Vineyards Corp. *(see note 5 to the Q1 2019 interim condensed consolidated financial statements)*;

(d) During the first quarter of fiscal 2019, a total of 175,000 options, initially granted on November 24, 2014, expired unexercised on the departure of two executives of the Company.

STRATEGIC OUTLOOK AND DIRECTION

Diamond is committed to building enduring, high quality beverage alcohol brands that celebrate life and achievement in a socially responsible manner. The Company believes in the development of leading brands that recognize the consumer's interest in wine, beer, ready-to-drink beverages and spirits, addressing their desire to explore the many exciting offerings that the Company has available. Vertically integrated, Diamond combines a modern and efficient production facility for Niagara wines with a national marketing agency for its broad portfolio of leading international wines and spirits. The Company is well positioned to add to its throughput of wine production and leverage its national sales force to drive growth from existing brands and support new brands secured by the agency without material change to its cost structure.

The Canadian beverage alcohol market continues to grow strongly, outpacing most consumer categories. Statistics Canada recently reported[1] that in the year ended March 31, 2017 ("2017"), $22.5 billion worth of alcoholic beverages was sold in Canada, up 2.3% from the previous year ended March 31, 2016 ("2016"). The total volume of alcohol sold increased 0.1% to 3,074 million litres in 2017. Canadian wine sales increased 1.8% in 2017 (2016 – 2.2%) to 505 million litres, up from 496 million litres in 2016. This volume is equivalent to 24.5 bottles of wine sold per person over the legal drinking age in Canada (1 bottle = 750 ml, 12% alcohol content). The growth in volume of Canadian wine (+3.7%) outpaced that of imported wine (+0.5%). The value of wine sold increased 3.1% to $7.2 billion in 2017 from $7.0 billion in 2016. Spirits sales increased 3.2% to $5.3 billion in 2017 from $5.1 billion in 2016. By volume, the increase was 2.4% to 168.0 million litres, or 7.3 bottles of spirits sold per person over the legal drinking age in Canada (1 bottle = 750 ml, 40% alcohol content) in 2017 from 164.6 million litres in 2016. Similarly, beer sales increased by 0.7% to $9.1 billion in 2017. Volume sales were 2.3 billion litres, or 221.5 bottles of beer sold per person over the legal drinking age in Canada (1 bottle = 341 ml, 5% alcohol content). The market share for wine (in dollar volume) was 32.0% in 2017, up from 31.6% in 2016. Beer represented 40.6% in 2017 (2016 – 41.5%) and spirits sales represented 23.4% in 2017 (2016 – 23.1%). The remaining market share is made up of Ciders, Coolers and Other Refreshment Beverages (CCORB), which sold 167 million litres in 2017, up from 155 million litres in 2016.

Ontario wineries have a 42% share[2] of the total market of all wine sold in Ontario, but that figure falls to 10% when including only Vintner Quality Alliance ("VQA") wine. In most other international wine regions, the domestic share is consistently above 70%[2]. There are significant opportunities to grow the sales and market share of Ontario wine given increasing wine consumption, continuous quality improvements and competitive pricing[2]. Diamond will continue to focus on further developing its existing brands of VQA certified wines that include Lakeview Cellars, EastDell, Seasons, 20 Bees, Dan Aykroyd and Fresh. This continued focus will include additional investment in marketing, promotion and advertising to ensure top of mind awareness and preference for the Company's brands.

Recent provincial government announcements in New Brunswick, Saskatchewan, British Columbia and Ontario involving the sale of alcohol in grocery stores represents a significant change in the government policies of the past. Although each province is choosing different policy directions, the opening up of market channels is a positive development for Diamond, particularly in the Province of Ontario, which represents a significant proportion of sales. Demand for imported wine in China continues to grow strongly. China imported 746 million litres (or US$2.8 billion) of wine in 2017[3], an increase of 17% in volume and 18% in value over 2016[3]. Canadian wine producers are in the very early stages of capitalizing on this opportunity. Canadian wine exports to China totaled 1.3 million litres in 2016, up 6% from the prior year, according to Statistics Canada. International Wine and Spirit Research (ISWR) reported that China is on pace to become the world's second largest wine consuming country by 2020, surpassing the United Kingdom and France and trailing only the United States.

Within its portfolio of international brands, the Company's emphasis in its agency division will be on building awareness, sales and profit for its existing customer base, while continuing to identify new brand entrants that the Company can represent in the Canadian market. These new brand entrants will include international wines and spirits from a variety of global regions with a specific focus on brands that currently do not have distribution within the Canadian marketplace or are dissatisfied with their current distribution arrangements.

1 https://www150.statcan.gc.ca/n1/daily-quotidien/180510/dq180510a-eng.htm

2 /https://wgao.ca/ontario-wine-industry/

3 https://www.thedrinksbusiness.com/2018/01/chinas-top-10-wine-importing-countries-in-2017/

RISK FACTORS

BUSINESS RISKS

The following risk factors should be carefully considered in evaluating the Company and the industry it operates in. The risks presented below may not be all of the risks that Diamond may face. It is believed that these are the factors that could cause actual results to be different from expected and historical results. New risks may emerge and management may not be able to predict all of them, or be able to predict how they may cause actual results to be different from those contained in any forward-looking statements.

ADDITIONAL FINANCING

Diamond will require additional financing in order to make further investments or take advantage of future opportunities. The ability of Diamond to arrange such financing in the future will depend in part upon prevailing capital market conditions, as well as upon the business success of Diamond. There can be no assurance that Diamond will be successful in its efforts to arrange additional financing on terms satisfactory to Diamond. If additional financing is raised by the issuance of shares or other forms of convertible securities from treasury, control of Diamond may change and shareholders may suffer additional dilution. If adequate funds are not available, or are not available on acceptable terms, Diamond may not be able to take advantage of opportunities, or otherwise respond to competitive pressures and remain in business.

PROFITABILITY

There is no assurance that Diamond will earn profits in the future, or that profitability will be sustained. There is no assurance that future revenues will be sufficient to generate the funds required to continue Diamond's business development and marketing activities. If Diamond does not have sufficient capital to fund its operations, it may be required to reduce its sales and marketing efforts or forego certain business opportunities.

DEPENDENCE ON MANAGEMENT AND KEY PERSONNEL

Diamond will depend on the business and technical expertise of its management team and there is little possibility that this dependence will decrease in the near term. Diamond's success will depend in large measure on certain key personnel. The loss of the services of such key personnel may have a material adverse effect on Diamond's business, financial condition, results of operations and prospects. The contributions of the existing management team to the immediate and near term operations of Diamond are likely to be of central importance. In addition, the competition for qualified personnel in the industry is competitive and there can be no assurance that Diamond will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Diamond.

GOVERNMENT REGULATION OF LIQUOR INDUSTRY

Diamond will operate in the highly regulated retail liquor industry in the Province of Ontario and throughout Canada. The Alcohol and Gaming Commission of Ontario (the "AGCO"), the Liquor Control Board of Ontario (the "LCBO") and similar Liquor Boards throughout Canada, may issue decisions, enact rules, new legislation or regulations or may make changes to existing legislation or regulations, all of which can impact the operation of Diamond both favourably and unfavourably. There is no assurance that new legislation or regulations or changes to existing legislation or regulations or decisions of any regulatory bodies in the retail liquor industry in Canada will not adversely affect the operations, profitability, or distributable cash of Diamond.

SIGNIFICANT COMPETITION

The alcoholic beverage industry in Canada is intensely competitive, consisting of many large and small Canadian corporations and international corporations with some possessing extensive experience and financial resources.

MANAGEMENT OF GROWTH

Diamond may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of Diamond to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of Diamond to deal with this growth may have a material adverse effect on Diamond's business, financial condition, results of operations and prospects.

ISSUANCE OF DEBT

From time to time, Diamond may enter into transactions to acquire assets or the shares of other organizations or seek to obtain additional working capital. These transactions may be financed in whole or in part with debt, which may increase Diamond's debt levels above industry standards for companies of similar size. Depending on future plans, Diamond may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms to Diamond. The level of Diamond's indebtedness, from time to time, could impair its ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

LABOUR COSTS AND SHORTAGES AND LABOUR RELATIONS

The success of Diamond's business depends on a large number of both hourly and salaried employees. Changes in the general conditions of the employment market could affect the ability of Diamond to hire or retain staff at current wage levels. The occurrence of either of these events could have an adverse effect on Diamond's results of operations. Diamond does not currently have unionized staff but no assurance can be made that some or all of the employees of Diamond will not unionize in the future. If successful, such an occurrence could increase labour costs and thereby have an adverse effect on Diamond's results of operations.

AGRICULTURAL RISK

The production and sale of wine is dependent upon a consistent supply of high-quality grapes available at reasonable prices. Should some or all of the wineries that Diamond works with be unable to produce the quality of grapes necessary to produce wine, such a shortfall in product could adversely affect the operations, profitability, and/or distributable cash of Diamond.

Diamond expects to continue to increase its share of the premium wine business in Canada, principally through the sale of VQA wines, and as a result is more dependent on the quality and supply of domestically grown premium quality grapes. If any of Diamond's vineyards experience certain weather variations, natural disasters, pestilence, other severe environmental problems or other occurrences, Diamond may not be able to secure a sufficient supply of grapes and there could be a decrease in the production of certain products from those regions and/or an increase in costs. In the past, where there was a significant reduction in domestically sourced grapes, the Government of Ontario, in conjunction with the Wine Council of Ontario and the Ontario Grape Growers Marketing Board, agreed to temporarily increase the blending of imported wines, which enables Diamond to continue to supply wines to the market. There is no certainty that such intervention will be available to the same extent in the future, if at all. The inability to secure premium quality grapes could impair the ability of Diamond to supply wines to its customers.

FOREIGN EXCHANGE

Foreign exchange risk exists on the purchases of all agency brand inventories purchased in foreign currencies for British Columbia and Alberta, which are predominately in Euros and Australian dollars. Diamond currently does not enter into foreign exchange contracts.

ENERGY COSTS

Diamond could experience an increase in energy costs which could result in higher transportation, freight and other operating costs. Diamond's future operating expenses and margins will be dependent on its ability to manage the impact of cost increases. Diamond cannot guarantee that it will be able to pass along increased energy costs to its customers through increased prices.

TAXATION

Canada imposes excise and other taxes on beverage alcohol products in varying amounts which have been subject to change. Significant increases in excise and other taxes on beverage alcohol products could materially and adversely affect Diamond's financial condition or results of operations. In addition, federal and provincial governmental agencies extensively regulate the beverage alcohol products industry concerning such matters as licensing, trade practices, permitted and required labelling, advertising and relations with consumers and retailers. Certain federal and provincial regulations also require warning labels and signage. New or revised regulations or increased licensing fees, requirements or taxes could also have a material adverse effect on Diamond's financial condition or results of operations.

TRADEMARKS

Diamond considers its trademarks, particularly certain brand names and product packaging, advertising and promotion design and artwork to be of significant importance to its business and ascribes a significant value to these intangible assets. Diamond will rely on trademark laws and other arrangements to protect its proprietary rights. There can be no assurance that the steps taken by Diamond to protect its intellectual property rights will preclude competitors from developing confusingly similar brand names or promotional materials. Diamond believes that its proprietary rights do not infringe upon the proprietary rights of third parties, but there can be no assurance in this regard.

IMPORTANCE OF INVENTORY, WAREHOUSE AND DISTRIBUTION SYSTEMS

Diamond's inventory, warehouse and distribution systems are critical components of its operations. Diamond's ability to maintain and upgrade the capabilities of these systems is important to its future performance. If Diamond is unable to maintain the inventory, warehouse and distribution systems or fails to adequately upgrade these systems, Diamond's operations could be adversely affected with the further material adverse effect being on financial results of operations.

WHOLESALE COST INCREASES

Wholesale costs are dependent on a number of factors, including inflation and fuel prices. Any attempt to pass on an increase in wholesale costs to consumers through product price increases could have a material adverse effect on Diamond's sales while a failure to effectively pass any such increases on to consumers could have a material adverse effect on Diamond's result of operations.

DISTRIBUTION BUSINESS

Diamond's business model includes a number of wine and alcohol brands that are represented on an agency basis. There is a risk that such agency brands are sold to an entity that has a pre-existing distribution agency relationship with a provider other than Diamond, and Diamond's revenues and profitability could suffer as result. Furthermore, Diamond's distribution business depends on the ability to retain its current brands as well as attracting additional brands in the future, and a failure to do so could negatively impact revenues and profitability of Diamond.

CREDIT RISK

Credit risk arises from credit exposure to customers through outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the Company's financial assets. The objective of managing counter-party credit risk is to prevent losses in financial assets. The Company assesses the credit quality of its counter-parties, taking into account their financial position, past experience and other factors. As the large majority of the Company's accounts receivable balances are collectable from government-controlled liquor boards, management believes the Company's credit risk relating to accounts receivable is at an acceptably low level.

EXPOSURE TO INTEREST RATE FLUCTUATIONS

The Company has a high level of floating rate debt. Interest rate risk exists as an increase in interest rates would increase the Company's overall financing costs and have a material impact on Diamond's financial position over the long term.

ENVIRONMENTAL COMPLIANCE

Environmental liabilities may potentially arise when companies are in the business of manufacturing products and, thus, required to handle potentially hazardous materials. As an owner and lessor of property, the Company is subject to various federal and provincial laws relating to environmental matters. Such laws provide that the Company could be held liable for the cost of removal and remediation of hazardous substances on its properties. Management is of the opinion that the risk of environmental liabilities is considered minimal.

PACKAGING

The Company purchases glass, bag in box and other components used in the bottling and packaging of wine. The largest component in the packaging of wine is glass, of which there are few domestic or international suppliers. Diamond sources glass from various distributors and manufacturers both domestically and internationally to insure an adequate supply. As there is currently only one commercial supplier of glass in Canada, any interruption in supply could have an adverse impact on the Company's ability to supply its markets.

INDUSTRY CONSOLIDATION

In recent years, the global beverage alcohol industry has experienced a significant amount of consolidation. Industry consolidation can have varying degrees of impact and, in some cases, may even create exceptional opportunities. Either way, management believes that the Company is well positioned to deal with this or other changes to the competitive landscape in Canada.

RISKS RELATED TO COMMON SHARE INVESTMENTS

PRICE VOLATILITY OF PUBLICLY TRADED SECURITIES

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price. There can be no assurance that continuing fluctuations in price will not occur. It may be anticipated that any quoted market for Diamond's shares will be subject to market trends generally, notwithstanding any potential success of Diamond in creating revenues, cash flows or earnings. The value of Diamond's shares will be affected by such volatility. A public trading market in the Common Shares having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of common shares at any given time, which presence is dependent on the individual decisions of investors over which Diamond has no control. There can be no assurance that an active trading market in securities of Diamond will be established and sustained. The market price for Diamond's securities could be subject to wide fluctuations, which could have an adverse effect on the market price of Diamond. The stock market has, from time to time, experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance, net asset values or prospects of particular companies. If an active public market for Diamond's shares does not develop, the liquidity of a shareholder's investment may be limited and the share price may decline.

DILUTION

Diamond may make future acquisitions or enter into financings or other transactions involving the issuance of securities of Diamond which may be dilutive to the existing shareholders.

DIVIDENDS

Diamond has not paid any dividends on its outstanding common shares. Any payments of dividends on the common shares of Diamond will be dependent upon the financial requirements to finance future growth, the financial condition of Diamond and other factors which Diamond's board of directors may consider appropriate in the circumstance. It is unlikely that Diamond will pay dividends in the immediate or foreseeable future.

FINANCIAL MARKET TURMOIL

Global financial market and economic conditions can pose a significant threat to economic growth in almost all sectors and economies, causing a decline in consumer and business confidence, a reduction in credit availability and a dampening in business and household spending.

NON-IFRS FINANCIAL MEASURES

Management uses net income and comprehensive income as presented in the unaudited interim condensed consolidated statements of net income and comprehensive income as well as "EBITDA" and "Adjusted EBITDA" as a measure to assess performance of the Company. EBITDA and "Adjusted EBITDA" are other financial measures and are reconciled to net income and comprehensive income below under "Results of Operations".

EBITDA and Adjusted EBITDA are supplemental financial measure to further assist readers in assessing the Company's ability to generate income from operations before taking into account the Company's financing decisions, depreciation of property, plant and equipment and amortization of intangible assets. EBITDA comprises gross margin less operating costs before financial expenses, depreciation and amortization, non-cash expenses such as share-based compensation, one-time and other unusual items, and income tax. Adjusted EBITDA comprises EBITDA before non-recurring expenses such as severance, restructuring costs, one-time financing charges, acquisition costs and other non-recurring adjustments. Gross margin is defined as gross profit excluding depreciation on property, plant and equipment used in production. Operating expenses exclude interest, depreciation on property, plant and equipment used in selling and administration, and amortization of intangible assets.

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

The Company calculates EBITDA and Adjusted EBITDA as follows:

	Q1 2019 $	Q1 2018 $
Net income	100,358	884,402
add: Interest on bank indebtedness	324,701	217,062
Depreciation on property, plant and equipment used in production	163,965	166,111
Depreciation on property, plant and equipment used in selling and administration	80,251	79,081
Amortization on intangible assets	85,306	85,871
Share-based compensation	35,884	16,777
EBITDA	790,465	1,449,304
Acquisition costs	48,950	-
Warehousing cost recovery	(49,506)	-
QST Recovery	(49,299)	-
Adjusted EBITDA	740,610	1,449,304

USES OF ESTIMATES AND JUDGEMENTS

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

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

FAIR VALUE OF GRAPES AT THE POINT OF HARVEST

Where possible, the fair value of grapes at the point of harvest is determined by reference to local market prices for grapes of a similar quality and the same varietal. For grapes for which local market prices are not readily available, the average price of similar grapes is used. The fair value of grapes is included in the cost of bulk wine inventory.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment represent a significant proportion of the asset base of the Company as they amount to 43.8% of total assets as at June 30, 2018 (March 31, 2018 - 44.2%). Therefore, estimates and assumptions made to determine their carrying value and related depreciation are critical to the Company's financial position and performance.

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

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

GROSS VERSUS NET PRESENTATION

When deciding the most appropriate basis for presenting revenue or costs of revenue, both the legal form and substance of the agreement between the Company and its business partners are reviewed to determine each party's respective role in the transaction. Where the Company's role in a transaction is that of principal, revenue is recognized on a gross basis. This requires revenue to comprise the gross value of the transaction billed to the customer, after trade discounts, with any related expenditure charged as an operating cost. Where the Company's role in a transaction is that of an agent, revenue is recognized on a net basis with revenue representing the margin earned.

USEFUL LIFE OF INTANGIBLE ASSETS

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

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, 2017 and March 31, 2016.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

IFRS 9: "Financial Instruments: Classification and Measurement of Financial Assets and Financial Liabilities" was issued by the IASB in July, 2014 and replaced 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 new standard was adopted effective April 1, 2018 and the adoption did not have a significant impact on the consolidated financial statements

IFRS 15: "Revenue from Contracts with Customers" was issued by the IASB in May, 2014 and supercedes IAS 18 "Revenue" and IAS 11 "Construction Contracts". The standard details a revised model for the recognition of revenue from contracts with customers. The standard is effective for first interim periods within annual periods beginning on or after January 1, 2018. The Company has adopted the accounting standard effective April 1, 2018, using a full retrospective approach and the adoption did not have a significant impact on the consolidated financial statements.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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 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.