DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

YEARS ENDED MARCH 31, 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 and twelve month periods ended March 31, 2018 ("FY2018") compared with the corresponding periods ended March 31, 2017 ("FY2017"). This discussion is prepared as of June 26, 2018 and should be read in conjunction with the audited consolidated financial statements 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, 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".

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 two wineries in the Niagara region of Ontario and one in Toronto, producing VQA and blended wines under such well-known brand names as 20 Bees, EastDell, Lakeview Cellars, Dan Aykroyd, Fresh, McMichael Collection, Benchmark and Seasons. 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 USA, Blue Nun wines from Germany, coolers and spirits from Independent Distillers in New Zealand and Evan Williams Bourbon from 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 97 full-time employees, including 45 engaged in the selling and marketing of its brands, 23 in the manufacturing and distribution of its brands, 8 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.

Fiscal 2018 Highlights

- Revenue of $34.3 million was consistent with fiscal 2017, with a strong increase in export sales offsetting fewer sales of bulk wine and an early year decline in domestic sales driven by the implementation of a short-crop strategy to ensure sufficient supply for the new grocery channel and the export sales;

- Gross margin of $15.2 million represented a 9.0% increase from $13.9 million in fiscal 2017; gross margin percentage in fiscal 2018 was 44.3% compared with 40.6% in the prior year, the result of improved product mix and reduced programming in the LCBO, as well as an increase in commission-based sales in the agency division;

- EBITDA of $2.5 million was below the fiscal 2017 level of $2.8 million, due to restructuring charges, severance expenses and financing charges totalling $1.3 million;

- Adjusted EBITDA of $3.7 million represents an increase of 13.0% over fiscal 2017, reflecting a margin equal to 10.9% of revenue;

- Acquired full ownership of its agency business, Kirkwood Diamond Canada ("KDC"), previously a joint venture with Kirkwood Brands Ltd.;

- Opened its retail store, Lakeview Wine Co., at its production facility in Niagara-on-the-Lake, Ontario;

- Completed an expansion at its main winery production facility, adding the first of several stepped increases in wine storage, bringing total capacity to 5.3 million litres, up from 4.7 million;

- Welcomed Bank of Montreal as the Company's new senior lender and commercial banker with $30 million in expandable credit facilities;

- The 2017 autumn harvest was a record, with the winery processing approximately 2,880 tonnes of grapes for its own brands, representing an increase of 16.3% versus last year; and

- The winery continues to win accolades, earning 55 awards across four prestigious competitions, including best dessert wine at the InterVin Wine Awards and best ice wine at the Finger Lakes International Wine Championships.

SELECT FINANCIAL INFORMATION

	2018	2017	2016
	$	$	$
Revenue	**34,270,921**	34,288,679	29,194,116
Net income (loss) and comprehensive income (loss)	**27,177**	534,732	(1,745,162)
Basic income (loss) per share	**0.00**	0.01	(0.02)
Diluted income (loss) per share	**0.00**	0.01	(0.02)
Total assets	**42,194,965**	39,976,637	39,034,509
Term loans payable	**19,349,475**	7,711,508	10,386,559

See discussion of financial results under "Results of Operations" and "Liquidity and Capital Resources"

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".

	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 $	Jun-2016 Q1 2017 $
Balance sheet								
Working capital surplus	13,649,842	16,962,914	12,878,449	3,566,738	8,405,028	10,891,386	4,459,859	3,813,331
Bank indebtedness (total)	-	-	-	9,633,395	5,312,135	3,968,458	9,711,878	11,482,181
Term debt and finance leases	19,870,206	22,014,838	18,024,476	9,633,395	8,397,214	8,377,352	9,899,747	10,113,287
Total equity	16,254,600	17,596,514	17,073,197	16,928,201	20,426,142	21,366,906	13,255,420	12,569,465
Income statement								
Revenue	5,379,083	10,350,258	8,909,281	9,632,299	6,060,573	8,814,451	10,264,535	9,149,120
Gross margin	2,268,204	4,745,427	3,785,536	4,384,242	2,305,241	3,362,038	4,329,533	3,938,504
EBITDA	(753,214)	1,015,126	781,325	1,449,304	(495,849)	590,197	1,407,895	1,330,514
Adjusted EBITDA	(449,022)	1,851,476	877,712	1,449,304	(199,198)	731,570	1,407,895	1,360,918
Net (loss) income	(1,362,867)	504,374	1,268	884,402	(971,482)	8,788	781,224	716,202
Basic (loss) income per share	(0.01)	0.00	0.00	0.01	(0.01)	0.00	0.01	0.01
Diluted (loss) income per share	(0.01)	0.00	0.00	0.01	(0.01)	0.00	0.01	(0.02)

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

RESULTS OF OPERATIONS

	FY2018	FY2017
Revenue	**$ 34,270,921**	$ 34,288,679
Cost of sales	**19,087,512**	20,353,363
Gross margin	**15,183,409**	13,935,316
Gross margin (% of revenue)	***44.3***	*40.6*
Selling, general and administration expenses	**12,690,868**	11,106,061
Selling, general and administration expenses (% of revenue)	***37.0***	*32.4*
EBITDA	**2,492,541**	2,829,255
ADJUSTED EBITDA	**3,729,470**	**3,301,185**
Interest	**858,251**	977,813
Depreciation and amortization	**1,420,462**	1,232,897
Income from operations	**213,828**	618,545
Share based compensation	**186,651**	83,813
Net income and comprehensive income	**$ 27,177**	$ 534,732
Portion attributable to:		
Shareholders	**$ 8,282**	$ 709,944
Non-controlling interest	**18,895**	(175,212)
	$ 27,177	$ 534,732

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

Financial results for fiscal 2018 declined to a slightly positive net income from $0.5 million of net income in the prior year. At the winery, export growth mostly offset a decline in the Ontario retail, LCBO and licensee channels where the company implemented a short-crop strategy earlier in the year to slow sales as a result of an industry wide short-supply of wine, stemming from weak harvests in 2014 and 2015 due to successive, extreme cold winters that damaged some vine stock. The agency division, which is currently undergoing a turnaround under new leadership, experienced growth over the prior year in sales of brands that the division represents as a commission sales agent, which more than offset a decline in sales of brands represented through resale arrangements.

Revenue in the fourth quarter of fiscal 2018 was $5.4 million, a decrease of 11.2% from $6.1 million in the fourth quarter of fiscal 2017. This was the result of increased sales to the LCBO in the fourth quarter of 2018 being offset by a decline in short-term contract and sales of bulk wine in the fourth quarter of 2017. Gross margin was down only slightly at $2.3 million in the fourth quarter of 2018 compared to the year ago period due. Gross margin as a percentage of revenue increased to 42.2% in the fourth quarter of 2018, versus 38.0% in the prior year period, due to fewer low margin bulk wine sales in in the winery division and an inventory provision of $0.3 million taken in the agency division in the fourth quarter of 2017 for excess and obsolete stock.

EBITDA in the fourth quarter of fiscal 2018 was $(0.8) compared with $(0.5) million in the fourth quarter of 2017. Net loss increased to $1.4 million in the fourth quarter, from a loss of $1.0 million in the year-ago quarter.

Revenue for the year was relatively flat, at $34.3 million, consistent with the prior year period. Gross margin for the year was $15.2 million, up substantially by 9.0% from the prior year period. Gross margin as a percentage of revenue increased to 44.3% in fiscal 2018, compared to 40.6% in fiscal 2017.

EBITDA declined 11.9% to $2.5 million in fiscal 2018, compared to $2.8 million last year. Net income for fiscal 2018 was slightly positive, compared to $0.5 million in fiscal 2017. When normalized for non-recurring restructuring costs, severance costs included in employee compensation and benefits, one-time financing costs, and an atypical inventory provision taken in the fourth quarter of fiscal 2017, adjusted EBITDA was $3.7 million for fiscal 2018 versus $3.3 million in the prior year representing an increase of 13.0%, and a margin of 10.9% of revenue.

In the winery division, total revenue was $1.9 million in the fourth quarter of fiscal 2018 and $17.3 million for the year. Those totals were down 29.3% and 2.1%, respectively, from the corresponding prior year periods. The fourth quarter decline reflected a $0.3 million decrease from temporary contract sales in the fourth quarter of 2017 and a $0.4 million decrease in bulk wine sales. For the full year 2018, a $1.1 million decline in the retail, licensee and LCBO channels, which was the result of the short-crop strategy, and a $0.8 million decline in contract sales were offset by a $1.8 million increase in export sales. The short-crop strategy was primarily due to a conscientious effort made to allocate sufficient product to support the export and grocery channels during a period in which the Company had limited supply as a result of below average harvests in fiscal 2014 and 2015. With the record harvest in 2017, management has the confidence in supply that it began to reintroduce several products in the LCBO that had been temporarily de-listed and has increased programming in that channel to stimulate demand. These actions have resulted in improved sales velocity in this channel in the fourth quarter of fiscal 2018.

Revenue in the agency division totaled $3.5 million in the fourth quarter of fiscal 2018, and $16.9 million for the full year. Those totals are up 3.0% and 2.1%, respectively, compared to $3.4 million and $16.6 million in the prior year periods. Fourth quarter revenue in fiscal 2018 included a sale of inventory in the amount of $0.5 million related to a supplier that terminated its agency relationship with the company in the third quarter of fiscal 2018. The increase in full-year revenue was primarily attributable to higher commission sales that reflect growth in the Ontario market. Management is confident that the new leadership in the agency division will lead to improved financial performance in this division in fiscal 2019.

Gross margin in the winery division was $0.9 million in the fourth quarter of fiscal 2018, and $8.1 million in fiscal 2018, down 25.7% and up 7.9%, respectively, from the comparable periods in fiscal 2017. Gross margin as a percentage of revenue in the winery division increased to 45.5% in the fourth quarter (47.0% for the year) compared to 43.3% (42.7% for the year) in fiscal 2017. The improvement was largely driven by a decrease in low margin bulk wine sales, higher export sales and decreased spending on programming with the LCBO, which is presented net of sales.

Gross margin in the agency division was $1.4 million in the fourth quarter of fiscal 2018, and $7.0 million in fiscal 2018, up 22.7% and 10.3%, respectively, from the comparable periods in fiscal 2017. Gross margin as a percentage of revenue in the agency division increased to 40.4% (41.5% for the year), compared to 33.9% (38.5% for the year) in fiscal 2017. The increase in gross margin in the fourth quarter primarily reflected an inventory write-down in the previous year, while the full year benefited from an increase in commission-based sales.

Total operating expenses were $3.0 million in the fourth quarter of fiscal 2018, up 8.9% compared to the prior year period. The increase primarily reflected severance expenses for an executive in the agency division in addition to new hires in support of business growth, partly offset by a reduction in advertising and promotion. Operating expenses for fiscal 2018 were $12.7 million, up 14.3% year over year. When normalized for non-recurring costs including severance, restructuring costs and one-time financing charges, operating expenses for the fourth quarter of fiscal 2018 were $2.7 million, down 1.8% from the prior year period. On an annual basis, normalized operating expenses for fiscal 2018 were $11.5 million, up 4.9% from the prior year. Employee compensation and benefits expenses increased by 26.1% to $1.8 million in the fourth quarter of fiscal 2018 and 8.8% to $6.4 million in the year relative to the prior year periods, reflecting severance as well as inflation in both wages and benefits costs in order to attract and retain a skilled workforce in a competitive environment.

Advertising and promotion expenses increased $0.2 million in fiscal 2018, primarily reflecting an increase in advertising for the Company's wine brands through social media, billboards and print advertising, partially offset by a decrease in promotional spending in the agency division.

General and administrative expenses were $0.7 million in the fourth quarter of fiscal 2018, up 7.9% from the prior year period. Full year G&A expenses in fiscal 2018 were $3.0 million, an increase of 7.9% from the comparable period in fiscal 2017. Increases were primarily related to investments in information technology as the Company is in the process of upgrading its infrastructure and systems, including the migration to Office 365 in the fourth quarter of fiscal 2018 and the sourcing of a new Enterprise Resource Planning (ERP) system that it intends to implement in fiscal 2019. In addition, there were legal fees associated with the acquisition of the non-controlling interest in the agency division in the first quarter of fiscal 2018.

Restructuring charges amounted to $0.8 million in fiscal 2018, and are related to the elimination of 8 sales and marketing positions in a workforce reduction as well as a charge for the early retirement of the former President of the agency division.

Interest expense was $0.2 million in the fourth quarter of fiscal 2018 and $0.9 million for the year representing an increase of 14.1% and a decrease of 12.2%, respectively, from the fiscal 2017 periods. The fourth quarter amount reflected higher loan balances during the fourth quarter of fiscal 2018 compared with the prior year period, partially offset by the lower rate of interest associated with the new credit facility with Bank of Montreal. The full year decrease reflects the lower borrowing base following the equity offering completed in December 2016 which was offset in part by the assumption of additional term debt to fund the first phase of the expansion at the winery during fiscal 2018.

LIQUIDITY AND CAPITAL RESOURCES

	March 31, 2018	March 31, 2017
Accounts receivable	**$ 2,795,576**	$ 3,583,926
Inventory	**17,037,104**	16,587,546
Prepaid expenses	**539,834**	321,313
Total current assets	**20,372,514**	20,492,785
Property, plant and equipment	**18,630,299**	15,974,405
Intangible assets	**3,192,152**	3,509,447
Total assets	**$ 42,194,965**	$ 39,976,637
Bank indebtedness	**$ -**	$ 5,312,135
Accounts payable and accrued liabilities and other	**6,070,159**	5,225,846
Unearned revenue and deposits received	**-**	390,730
Current portion of long term debt and finance leases	**652,513**	934,476
Loan payable - non-controlling interest	**-**	224,570
Total current liabilities	**6,722,672**	12,087,757
Term loans payable, net of current portion	**18,895,188**	6,969,961
Finance leases, net of current portion	**322,505**	492,777
Total liabilities	**25,940,365**	19,550,495
Shareholders' equity	**16,254,600**	16,655,794
Non-controlling interest	**-**	3,770,348
	$ 42,194,965	$ 39,976,637

The Company's consolidated financial position has changed significantly as at March 31, 2018 from that as at March 31, 2017. This is due to the acquisition of the non-controlling interest in KDC for a purchase price of $4.4 million (*see note 17 to the March 31, 2018 financial statements*) and the new financing agreement with BMO that was executed on September 29, 2017 to replace the Company's previous agreements with Meridian Credit Union ("MCU") and Canadian Imperial Bank of Commerce ("CIBC") (*see notes 9 & 12 to the March 31, 2018 financial statements*).

The new BMO agreement provides a revolving term loan in place of the previous on-demand revolving facilities. As such, the revolving facility is now reflected in long-term liabilities on the Company's balance sheet, significantly increasing working capital.

The decrease in accounts receivable of $0.8 million is attributable to the additional receivables in the winery division for bulk wine and one-time contract sales totalling $0.4 million at the end of fiscal 2017. The remaining difference of $0.4 million is due to the reduction of receivables in the agency division related to the termination of suppliers and the Company's efforts to improve the collection cycle.

Inventory balances increased by $0.4 million from March 31, 2017 to $17.0 million as at March 31, 2018. This change in inventory is attributable to several factors including an increase in bulk wine of approximately $2.0 million due to the record annual harvest during the third quarter of fiscal 2018. This increase was offset by a reduction in finished goods inventory in the winery division of approximately $0.2 million. The agency division also had a decrease in inventory of $1.4 million reflective of the Company's continued efforts to eliminate excess stock and the termination of a supplier that the Company represented as its national distributor.

Prepaid expenses increased by $0.2 million from the balance at March 31, 2017. This increase was the result of the payment of financing fees related to the revolving term loan that are being amortized over the three-year term of the loan. Also, the company prepaid insurance premiums on policy renewal combined with a shift in policy term to align with the Company's fiscal year end, which resulted in a lengthened term for the current premium period.

Accounts payable and accrued liabilities increased by $0.8 million from March 31, 2017 to $6.1 largely as a result of the accrued restructuring and termination costs amounting to approximately $0.8 million that will be paid out over the next two fiscal years.

Property, plant and equipment as of March 31, 2018 was $18.6 million, up from $16.0 million at March 31, 2017. This increase is mainly a result of the expansion of the building at the winery and acquisition of new stainless steel tanks to add bulk wine storage that allowed the Company to purchase more grapes in the 2017 harvest and provides the space to add additional tanks as needed to support anticipated future growth in demand for its products.

Working capital increased by $5.2 million to $13.6 million as at March 31, 2018 compared to $8.4 million as at March 31, 2017, primarily due to the purchase of the non-controlling interest in KDC for $4.4 million on May 5, 2017 (*see note 17 to the March 31, 2018 financial statements*), offset by the conversion of the prior MCU operating line that was due on demand to a three-year revolving term facility with BMO (*9 & 12 to the March 31, 2018 financial statements*). For the same reason, total current bank indebtedness decreased by $5.3 million to $Nil as at March 31, 2018. The remainder of the difference is due to the changes in other working capital items as more fully described above. The Company is in compliance with all debt covenants as at March 31, 2018.

The Company's debt to equity ratio increased to 1.22:1 as at March 31, 2018 from 0.68:1 as at March 31, 2017, where debt is defined as total liabilities less other current liabilities and equity is defined as shareholders' equity plus non-controlling interest. This is the result of the elimination of the non-controlling interest and increase in bank debt resulting from the acquisition of full ownership of KDC during Q1 2018 and the additional funds borrowed to fund the expansion of the winery production facility.

Related party transactions

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

	FY2018	FY2017
	$	$
Salary	**976,575**	749,200
Director fees	**78,500**	85,625
Share based compensation under stock option plan and DSU plan	**186,651**	83,813
Winery lease payments	**100,000**	100,000
Grape purchases	**115,282**	118,178
Vineyard maintenance	**105,391**	114,471

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

CAPITALIZATION

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

	March 31, 2018	**March 31, 2017**	**Change in period**
Common shares	140,373,841	140,248,841	125,000
Deferred share units	1,563,238	1,124,882	438,356
Stock Options	7,175,000	6,150,000	1,025,000
Total equity instruments	149,112,079	147,523,723	1,588,356

The changes to the Company's overall capitalization during FY2018 were as follows:

(a) On August 29, 2017, the Company issued an aggregate of 438,356 DSUs to non-executive directors under the DSU Plan in settlement of $128,000 of deferred directors' compensation. The DSUs are to be settled in common shares of the Company when the director retires from all positions with the Company;
(b) On December 18, 2017 the Company issued 125,000 common shares on the exercise of options;
(c) On December 31, 2017 100,000 outstanding stock options expired on the retirement of a director of the Company;
(d) On January 15, 2018 the Company granted 750,000 options to key management personnel. The options are exercisable at $0.29 per option with a term of five years (expiring January 15, 2023) and vest evenly on each anniversary date over 5 years;
(e) On February 27, 2018 the Company granted 500,000 options to key management personnel. The options are exercisable at $0.27 per option with a term of five years (expiring February 26, 2023) and vest evenly on each anniversary date over 5 years.

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 insure top of mind awareness and preference for the Company's brands.

Recent provincial government announcements in New Brunswick, Saskatchewan, BC 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 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 and inventory write-downs. 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 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:

		Q42018 $	FY2018 $	Q42017 $	FY2017 $
Net (loss) income		(1,362,867)	27,177	(971,482)	534,732
add:	Interest on bank indebtedness	183,072	858,251	138,589	977,813
	Depreciation on property, plant and equipment used in production	232,667	745,117	181,508	724,990
	Depreciation on property, plant and equipment used in selling and administration	87,217	331,172	59,174	162,141
	Amortization on intangible assets	85,743	344,173	87,329	345,766
	Share-based compensation	20,954	186,651	9,033	83,813
	Loss on disposal of capital assets	-	-	-	3,502
EBITDA		(753,214)	2,492,541	(495,849)	2,832,757
add:	Severance included in employee compensation and benefits	328,364	328,364	-	-
	Financing costs	-	96,387	7,569	45,784
	Restructuring charges	(24,172)	812,178	-	133,562
	Inventory provision	-	-	289,082	289,082
Adjusted EBITDA		(449,022)	3,729,470	(199,198)	3,301,185

USES OF ESTIMATES AND JUDGEMENTS

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

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, 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 44.2% of total assets as at March 31, 2018 (March 31, 2017 - 40.0%). 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 ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

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

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