DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016

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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 six month periods ended September 30, 2017 ("Q2 2018" and "YTD 2018", respectively) compared with the corresponding periods ended September 30, 2016 ("Q2 2017" and "YTD 2017", respectively). This discussion is prepared as of November 14, 2017 and should be read in conjunction with the (i) unaudited interim condensed consolidated financial statements and accompanying notes of Diamond for Q2 2018 and Q2 2017 and (ii) both the audited consolidated financial statements and MD&A for the fiscal years ended March 31, 2017 and March 31, 2016. 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".

NON-IFRS FINANCIAL MEASURE

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" as a measure to assess performance of the Company. EBITDA is another financial measure and is reconciled to net income and comprehensive income below under "Results of Operations".

EBITDA is a 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. 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.

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 Fat Bastard wines from France, Kaiken wines from Argentina, Charles Wells beers from England, Hpnotiq Liqueur from France, Anciano wines from Spain, Francois Lurton wines from France and Argentina, Brick Brewing from Canada, Blue Nun wines from Germany, coolers and spirits from Independent Distillers in New Zealand, Evan Williams Bourbon from USA and Iceberg Vodka from Canada.

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 robust.

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 105 full-time employees, including 51 engaged in the selling and marketing of its brands, 24 in the manufacturing and distribution of its brands, 10 involved in the retailing of its domestic products through our retail facilities and 20 in accounting and administration, including the Executive. The Company also uses a number of independent representatives that are compensated by commissions to sell its product in the licensee channel.

Q2 2018 Highlights

- Revenue was $8.9 million, a decrease of 13.2% from $10.3 million in Q2 2017, due to the Company's strategic response to poor grape harvests in 2014 and 2015, as well as supply chain challenges in the agency division;

- Gross margin was $3.9 million, a decline of 11.6% from $4.4 million in Q2 2017. However, gross margin as a percentage of revenue increased to 43.8% from 43.0% in Q2 2017, reflecting the focus on supporting the high priority distribution channels and customers;

- EBITDA declined 44.6% to $0.8 million, compared to $1.4 million in Q2 2017, reflecting operating challenges during the quarter;

- Cash flow from operating activities, before changes in non-cash working capital items, declined 16.0% to $1.8 million in YTD 2018, compared to $2.1 million in YTD 2017;

- Net income was slightly positive, compared to $0.8 million in Q2 2017;

- Working capital was $13.1 million as at September 30, 2017, an increase of $4.7 million from $8.4 million as at March 31, 2017;

- On September 29, 2017, the Company entered into a new credit facilities agreement with Bank of Montreal, resulting in annualized interest savings of approximately $0.1 million;

- The winery won prestigious awards including Gold for Best Dessert Wine at the 2017 Intervin Wine Awards and several other awards at the National Wine Awards; and

- The 2017 harvest is projected to be a record harvest for Diamond Estates well in excess of 3,100 tonnes representing an increase of 18% versus last year.

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".

	Sep-2017 Q2 2018 $	Jun-2017 Q1 2018 $	Mar-2017 Q4 2017 $	Dec-2016 Q3 2017 $	Sep-2016 Q2 2017 $	Jun-2016 Q1 2017 $	Mar-2016 Q4 2016 $	Dec-2015 Q3 2016 $
Balance sheet								
Working capital surplus (deficiency)	12,878,449	3,566,738	8,405,028	10,891,386	4,459,859	3,813,331	(6,115,079)	4,596,716
Bank indebtedness (total)	-	9,633,395	5,312,135	3,968,458	9,711,878	11,482,181	10,217,851	8,838,028
Term debt and finance leases	18,024,476	8,208,220	8,397,214	8,377,352	9,899,747	10,113,287	10,386,559	10,655,417
Total equity	17,073,197	16,928,201	20,426,142	21,366,906	13,255,420	12,569,465	11,844,230	13,898,966
Income statement								
Revenue	8,909,281	9,632,299	6,060,573	8,814,451	10,264,535	9,149,120	6,122,684	7,856,521
Gross margin	3,902,069	4,456,048	2,363,565	3,439,436	4,412,224	4,006,465	1,896,265	3,017,018
EBITDA	781,325	1,449,304	(495,849)	590,197	1,407,895	1,299,367	(839,497)	640,627
Net income (loss)	1,268	884,402	(971,482)	8,788	781,224	716,202	(2,109,709)	(76,434)
Basic income (loss) per share	0.00	0.01	(0.01)	0.00	0.01	0.01	(0.02)	0.00
Diluted income (loss) per share	0.00	0.01	(0.01)	0.00	0.01	0.01	(0.02)	0.00

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

RESULTS OF OPERATIONS

	Q2 2018	YTD 2018	Q2 2017	YTD 2017
Revenue	**$ 8,909,281**	**$ 18,541,580**	$ 10,264,535	$ 19,413,655
Cost of sales	**5,007,212**	**10,183,463**	5,852,311	10,994,966
Gross margin	**3,902,069**	**8,358,117**	4,412,224	8,418,689
Gross margin (% of revenue)	***43.8***	***45.1***	*43.0*	*43.4*
Operating expenses	**3,120,744**	**6,127,488**	3,000,827	5,707,923
Operating expenses (% of revenue)	***35.0***	***33.0***	*29.2*	*29.4*
EBITDA	**781,325**	**2,230,629**	1,411,397	2,710,766
Interest	**248,692**	**465,754**	277,143	564,008
Depreciation and amortization	**387,637**	**718,700**	294,798	582,066
Income from operations	**144,996**	**1,046,175**	839,456	1,564,692
Share based compensation	**143,728**	**160,505**	54,730	63,764
Loss on disposition of property, plant and equipment	**-**	**-**	3,502	3,502
Net income and comprehensive income	**$ 1,268**	**$ 885,670**	$ 781,224	$ 1,497,426
Portion attributable to:				
Shareholders	**$ 1,268**	**$ 866,775**	$ 751,896	$ 1,358,760
Non-controlling interest	**-**	**18,895**	29,328	138,666
	$ 1,268	**$ 885,670**	$ 781,224	$ 1,497,426

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

Financial results were below expectations in both the winery and agency divisions in the second quarter of fiscal 2018. At the winery, the impact of the strategy to slow demand and protect listings and inventory as a result of an industry wide short supply of wine from poor harvests in 2014 and 2015 was greater than expected. Additionally, the agency business has underperformed relative to expectations for growth. Each of these challenges are currently being addressed and corrected by management, who are confident that the measures that have been implemented will lead to sustained improvements in financial performance.

Revenue in the second quarter of fiscal 2018 was $8.9 million, a decline of 13.2% from $10.3 million in the second quarter of fiscal 2017. Gross margin fell 11.6% to $3.9 million in the second quarter, compared to $4.4 million in the year-ago period. Gross margin as a percentage of revenue increased to 43.8% from 43.0% in the prior year period, partly due to a reduction in promotional activities taken within the LCBO channel undertaken by the winery division.

EBITDA in the second quarter of fiscal 2018 was approximately $0.8 million, a decline of 44.6% from $1.4 million in the year-ago quarter. Net income was slightly positive in the second quarter, down from $0.8 million in the prior year period. The operating challenges in the second quarter of fiscal 2018 also impacted financial results for the first six months of fiscal 2018. Revenue was $18.5 million, down 4.5% from $19.4 million in the first half of fiscal 2017. Gross margin was $8.4 million, down only slightly by 0.7% from the prior year period. Gross margin as a percentage of revenue increased to 45.1% in the first six months of fiscal 2018, compared to 43.4% in the comparable period in fiscal 2017. That partially offset the impact of the decline in revenue.

EBITDA declined 17.7% to $2.2 million in the first six months of fiscal 2018, compared to $2.7 million in the comparable period last year. Net income declined 40.9% to $0.9 million in the year-to-date period, compared to $1.5 million in the same period in fiscal 2017.

In the winery division, total revenue was $5.0 million in the second quarter of fiscal 2018 and $10.4 million year to date. Those totals were down 17.2% and 4.7%, respectively, from the corresponding prior-year periods. However, export revenue of $2.5 million in the second quarter, and $5.1 million year to date, was up 8.1% and 13.6%, respectively, from the comparable periods in fiscal 2017.

The decline in revenue in both the three and six-month periods in fiscal 2018 was due to a short-crop strategy implemented by the Company in response to poor grape harvests in 2014 and 2015. In the winters of both 2014 and 2015, extremely cold weather across the Niagara region caused damage to vines which reduced harvests, leading to a short supply of certain varietals of wine. In response, the Company undertook a detailed review of its sales strategy in order to allocate inventory to the most profitable brands and channels to maximize profitability.

The Company elected to prioritize supply to the new grocery channel to ensure it established a strong market share in a channel expected to become increasingly important in the coming years. Additionally, the Company decided to prioritize export sales to maintain its strong competitive advantage in this channel. Consequently, to ensure sufficient grape inventory levels to meet these important objectives, the Company elected to curtail new customer acquisition and temporarily de-list products in the licensee and LCBO channels. Promotional programming in the LCBO was also significantly reduced in order to slow down the sales velocity of certain products. The Company elected to temporarily de-list a total of ten stock-keeping units from the LCBO channel, and sales to the LCBO channel consequently declined 33.1% in the second quarter of fiscal 2018 compared to the prior year. In addition, the Company sold substantially less bulk wine to other wineries and food processors in order to protect its supply for priority customers. These initiatives were viewed as necessary given the uncertainty surrounding the poor harvests. While management anticipated a short-term impact from these initiatives, that impact was more significant than expected.

After taking these actions, the Company is confident that the supply situation will improve and that it can provide sufficient supply to its sales channels in the future. The 2016 and 2017 harvests were significantly stronger than the prior two years, and these wines will begin to reach maturity in late 2017 and early 2018. The Company has consequently re-introduced many of its de-listed products into the LCBO channel and expanded LCBO programming activity commencing in the third quarter of fiscal 2018 (October, November & December, 2017).

Revenue in the agency division totaled $3.9 million in the second quarter of fiscal 2018, and $8.1 million year to date. Those totals are down 7.5% and 4.2%, respectively, compared to $4.3 million and $8.5 million in the prior-year periods. Second quarter revenue in the agency division was weaker than expected in fiscal 2018. The business underperformed due to a combination of factors that are largely related to the supply chain management by third parties. These included some products being out of stock due to shipping delays by foreign-based suppliers and a third-party logistics partner located in Western Canada delaying some orders fulfillment from September to October.

The Company is disappointed with the performance of the agency division and has begun taking substantive corrective action. On October 2, 2017, the Company appointed Christopher Terrio, a seasoned executive in the beverage alcohol sector, as President of the division. On November 6, 2017, measures were taken to reduce the workforce by 7.6% and realign responsibilities within the division. The Company is also investing in information systems and technology, implementing a performance management framework and catalyzing new approaches to business development in order to support long-term growth objectives in this business. Taken together, the Company is confident these corrective actions will lead to improved financial performance. Year-to-date revenue in the agency division was essentially unchanged in fiscal 2018 after excluding non-recurring severance payments of approximately $0.4 million that the agency received in fiscal 2017.

Gross margin in the winery division was $2.3 million in the second quarter of fiscal 2018, and $5.0 million in the first six months of fiscal 2018, down 11.6% and up 5.5%, respectively, from the comparable periods in fiscal 2017. Gross margin as a percentage of revenue in the winery division increased to 46.7% in the second quarter (48.3% year to date) compared to 43.7% (43.6% year to date) in fiscal 2017. The improvement was largely driven by the Company's activities in the LCBO channel, in which it curtailed programming activities, implemented price increases on certain products and discontinued some lower margin products.

Gross margin in the agency division was $1.6 million in the second quarter of fiscal 2018, and $3.4 million in the first six months of fiscal 2018, down 11.5 and 8.1%, respectively, from the comparable periods in fiscal 2017. Gross margin as a percentage of revenue in the agency division declined to 40.2% (40.9% year to date), compared to 42.0% (43.0% year to date) in fiscal 2017. The decline in gross margin is primarily due to provisions taken in the second quarter of fiscal 2018 to clear out excess inventory and destroy obsolete product in Western Canadian markets, as well as supplier severance payment received by the agency during the first half of fiscal 2017. Excluding this nonrecurring severance revenue, gross margin in the second quarter and year-to-date periods in fiscal 2018 increased by 3.7% and 1.3%, respectively, from the prior year periods. These differences reflect actions taken to improve margins through pricing initiatives, cost control and product mix, partially offset by margin reductions taken to clear out excess inventory.

Total operating expenses were $3.1 million in the second quarter of fiscal 2018, up 4.0% compared to the prior year. Operating expenses for the first six months of fiscal 2018 were $6.1 million, up 7.3% year-over-year. Employee compensation and benefits expenses declined in fiscal 2018 relative to the year-ago periods, largely due to severance payments made in fiscal 2017.

Advertising and promotion expenses increased in fiscal 2018 due to spending on instore tasting programs in the grocery channel, advertising and promotions related to the opening of the new retail store at the winery, and brand awareness campaigns for the winery brands. The agency division also increased promotional activity in the Western provinces during the same period in support of the brands that it represents. Delivery and warehousing expenses decreased in the second quarter of 2018 relative to the prior year, but increased in the first six months of fiscal 2018 relative to fiscal 2017. The trend reversal is driven by declining storage charges as the company has focused on reducing agency inventory balances.

General and administrative expenses were $0.7 million in the second quarter of fiscal 2018, up 6.2% from the prior year period. Year-to-date G&A expenses in fiscal 2018 were $1.5 million, an increase of 8.9% from the comparable period in fiscal 2017. Increases in the two periods were primarily related to legal fees associated with the acquisition of the non-controlling interest in the agency division, and the migration to a new managed service provider for information technology as the Company prepares to upgrade its infrastructure.

Interest expense was $0.2 million in the second quarter of fiscal 2018 and $0.5 million year to date, representing decreases of 10.3% and 17.4%, respectively, from the fiscal 2017 periods. This largely reflects the lower borrowing base following the equity offering completed in December 2016. The Company anticipates interest expense to decline further with the transition to the new credit facility on September 29, 2017 with Bank of Montreal at lower interest rates. The lower cost of borrowing will be offset in part by the assumption of additional term debt to fund the first phase of an expansion at the winery. The expansion was substantially completed in September 2017.

LIQUIDITY AND CAPITAL RESOURCES

	September 30, 2017	March 31, 2017
Accounts receivable	**$ 6,118,303**	$ 3,583,926
Inventory	**13,624,980**	16,587,546
Prepaid expenses	**422,934**	321,313
Other	**24,124**	-
Total current assets	**20,190,341**	20,492,785
Property, plant and equipment	**18,352,534**	15,974,405
Intangible assets	**3,363,383**	3,509,447
Total assets	**$ 41,906,258**	$ 39,976,637
Bank indebtedness	**$ -**	$ 5,312,135
Accounts payable and accrued liabilities and other	**6,808,585**	5,225,846
Unearned revenue and deposits received	**-**	390,730
Current portion of long term debt and finance leases	**503,307**	934,476
Loan payable - non-controlling interest	**-**	224,570
Total current liabilities	**7,311,892**	12,087,757
Term loans payable, net of current portion	**17,099,441**	6,969,961
Finance leases, net of current portion	**421,728**	492,777
Total liabilities	**24,833,061**	19,550,495
Shareholders' equity	**17,073,197**	16,655,794
Non-controlling interest	**-**	3,770,348
	$ 41,906,258	$ 39,976,637

The Company's consolidated financial position has changed significantly as at September 30, 2017 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 11 to the Q2 2018 interim consolidated 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 6 & 7 to the Q2 2018 interim consolidated 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 increase in accounts receivable of $2.5 million is attributable to the seasonality of the business in which revenue for Q4 2017 is significantly lower than in other quarters as shipments to export customers are curtailed during the winter months and the LCBO reduces its purchases. $1.4 million of the increase directly relates to sales to export customers in Q2 2018.

Inventory balances declined by $3.0 million from March 31, 2017 to $13.6 million as at September 30, 2017. Of this decline, $2.7 million was in the winery division reflecting the draw down of bulk wine leading up to the annual harvest. The balance of $0.3 million was in the agency division and is reflective of the Company's continued efforts to eliminate excess stock and improve inventory turns.

Prepaid expenses increased by $0.1 million from the balance at March 31, 2017. This increase was the result of spending on advertising and promotional activities including billboard space and social media marketing campaigns paid for during Q2 2017 that run to the end of the calendar year.

Property, plant and equipment as of September 30, 2017 was $18.4 million, up from $16.0 million at March 31, 2017. This increase is a result of the expansion of the building at the winery and acquisition of new stainless steel tanks to add bulk wine storage that will allow the Company to purchase more grapes in 2017 and future harvests to support anticipated growth in demand for its products.

Working capital increased by $4.5 million to $12.9 million as at September 30, 2017 compared to $8.4 million as at March 31, 2017, almost entirely due to the purchase of the non-controlling interest in KDC for $4.4 million on May 5, 2017 (*see note 11 to the Q2 2018 interim consolidated financial statements*), offset by the conversion of the prior MCU operating line that was due on demand to a 3 year revolving term facility with BMO (*see notes 6 & 7 to the Q2 2018 interim consolidated financial statements*). For the same reason, total current bank indebtedness decreased by $5.3 million to $Nil as at September 30, 2017. The Company is in compliance with all debt covenants as at September 30, 2017.

The Company's debt to equity ratio increased to 1.06:1 as at September 30, 2017 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 the Q1 2018 and the additional funds borrowed from BMO in Q2 2018, which are being used to fund the expansion of the winery production facility.

CAPITALIZATION

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

	September 30, 2017	March 31, 2017	Change in period
Common shares	140,248,840	140,248,840	-
Deferred share units	1,563,238	1,124,882	438,356
Stock Options	6,150,000	6,150,000	-
Total equity instruments	147,962,078	147,523,722	438,356

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. There were no other changes to the Company's overall capitalization in YTD 2018 period.

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, 2016 ("2016"), $22.1 billion worth of alcoholic beverages was sold in Canada, up 3.5% from the previous year ended March 31, 2015 ("2015"). The volume of alcohol sold increased 2.2% to 3,102 million litres in 2016, compare to a 1.5% increase in 2015. Canadian wine sales increased 3.3% in 2016 (2015 – 4.1%) to 496 million litres, up from 480.5 million litres in 2015. The value of wine sold increased 4.1% to $7 billion in 2016 from $6.74 billion in 2015. This is equivalent to 16.5 litres per capita in 2016, up from 16.1 litres per capita in 2015. Spirits sales increased 3.6% to $5.1 billion in 2016 from $4.9 billion in 2015. By volume, the increase was 2.9% to 164.6 million litres (or 5.45 litres per capita) in 2016 from 160 million litres (or 5.4 litres per capita) in 2015. Similarly, beer sales increased by 2.3% to $9.2 billion in 2016 from $9.0 billion in 2015. Volume sales were 2.3 billion litres (or 76.0 litres per capita) in 2016 compared to 2.2 billion litres (or 75.6 litres per capita) in 2015. The market share for wine (in dollar volume) was 31.64% in 2016, up from 31.40% in 2015. Beer represented 41.5% in 2016 (2015 – 42.0%) and spirits sales represented 23.1% in 2016 (2015 – 23.1%). The remaining market share is made up of Ciders, Coolers and Other Refreshment Beverages (CCORB), which sold 155 million litres in 2016, up from 138 million litres in 2015.

Ontario wineries have a 31.3% share[2] of the total market by volume in Ontario, but that figure falls to 6.1% when including only Vintner Quality Alliance ("VQA") wine. In most other international wine regions, the domestic share is consistently above 70%[3]. There are significant opportunities to grow the sales and market share of Ontario wines, in particular VQA wines, given increasing consumption, expanding points of distribution, competitive pricing and continuous quality improvements as the industry matures[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 638 million litres (or US$2.4 billion) of bottled wine in 2016, according to customs data, an increase of 15% in volume and 16% in value over 2015[4]. 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 http://www.statcan.gc.ca/daily-quotidien/170502/dq170502a-eng.htm

2 /LCBO Ontario Wine Quarterly Scorecard Report – Period 13 2016-17

3 http://wgao.ca/ontariowineindustry

4 http://www.decanterchina.com/en/news/2016-china-wine-import-figures-round-up-australia-grows-by-40

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.

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 September 30, 2017 (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 unaudited interim condensed consolidated financial statements, the IASB has issued the following new or revised standards which are not yet effective:

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

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

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