

# **DIAMOND ESTATES WINES & SPIRITS INC.**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**YEARS ENDED MARCH 31, 2017 AND 2016**

# **DIAMOND ESTATES WINES & SPIRITS INC.**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **YEARS ENDED MARCH 31, 2017 AND 2016**

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 fiscal years ended March 31, 2017 ("FY2017") and March 31, 2016 ("FY2016"). This discussion is prepared as of June 20, 2017 in order to agree to the date of the auditor's report on the consolidated financial statements. It should be read in conjunction with the audited consolidated financial statements 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](http://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 (loss) and comprehensive income (loss) as presented in the consolidated statements of net income (loss) and comprehensive income (loss) as well as "EBITDA" as a measure to assess performance of the Company. EBITDA is another financial measure and is reconciled to net income (loss) and comprehensive income (loss) below under "Results of Operations".

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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 excludes 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.

#### 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 Estates, Lakeview Cellars, Dois Amigos, Dan Aykroyd, Fresh, McMichael Collection, Benchmark and Seasons. Through its Partnership, Kirkwood Diamond Canada ("KDC"), the Company is the sales agent for top selling 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, Flor de Cana rum from Nicaragua 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 that will support growth in an efficient, profitable manner. Based on its analysis of the market, the Company believes in the long-term growth prospects for the domestic and import beverage alcohol markets in Canada.

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 100 full-time employees, including 47 engaged in the selling and marketing of its brands, 23 in the manufacturing and distribution of its brands, 9 involved in the retailing of its domestic products through our retail facilities and 21 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.

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**FY2017 Highlights**

- Revenue was \$34.3 million, an increase of 17.5% from \$29.2 million in FY2016, driven by strong growth in export sales in the winery division;
- Gross margin increased to 41.5% of revenue, compared to 40.6% in FY2016, due to increased export revenues and a reduction in promotional activity in the LCBO channel in the winery division, partially offset by a decline in gross margin in the agency division, reflecting a decision to clear out excess inventory;
- EBITDA rose 84.9% to \$2.8 million, compared to \$1.5 million in FY2016, as the winery benefited from increased operating leverage attributable to increased sales volume;
- Cash flow from operating activities, before changes in non-cash working capital items, increased significantly to \$1.8 million, up from \$0.3 million in FY2016, reflecting the increased operating leverage;
- Net income of approximately \$0.5 million versus a loss of \$1.7 million in FY2016;
- Since March 31, 2016, the Company's working capital has increased to \$8.4 million from \$3.2 million (excluding debt then-classified temporarily as current) and its debt to equity ratio improved substantially to 0.68:1 from 1.76:1;
- On December 20, 2016, the Company completed a private placement offering of 40 million common shares at a price of \$0.22 per share for total gross proceeds of \$8.8 million; and
- Following the Province of Ontario's issuance of the first tranche of 70 licenses to permit wine sales in the grocery channel, 69 of the 70 stores that were awarded licences are now operational and Diamond Estates' VQA products are now available all of those locations

**Subsequent Events**

- On April 6, 2017, the Company announced an agreement to acquire the 49.99% interest in its agency business, Kirkwood Diamond Canada ("KDC") owned by its joint venture partner, Kirkwood Brands Ltd. The Company agreed to pay \$4.4 million to complete the acquisition. On May 5, 2017, the Company completed the transaction, increasing its interest in the agency business to 100%;
- In May 2017, the Company broke ground on the first phase of its expansion project at its winery in Niagara-on-the-Lake, ON, which will add 1.6 million litres of cooperage. This expansion will enable the Company to improve the effective utilization of its tanks, generating improved operating leverage as sales scale up to use this capacity; and
- On May 17, 2017, the Company opened its new Lakeview Cellars retail store at its winery in Niagara-on-the-Lake. This new facility is expected to drive significantly higher on-site sales.

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**SELECT FINANCIAL INFORMATION**

	2017	2016	2015
	\$	\$	\$
Revenue	<b>34,288,679</b>	29,194,116	24,296,115
Net income (loss) and comprehensive income (loss)	<b>534,732</b>	(1,745,162)	(1,710,255)
Basic income (loss) per share	<b>0.01</b>	(0.02)	(0.02)
Diluted income (loss) per share	<b>0.01</b>	(0.02)	(0.02)
Total assets	<b>39,976,637</b>	39,034,509	40,940,990
Term loans payable	<b>7,711,508</b>	10,386,559	11,915,608

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

# DIAMOND ESTATES WINES & SPIRITS INC.

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### 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-2017	Dec-2016	Sep-2016	Jun-2016	Mar-2016	Dec-2015	Sep-2015	Jun-2015
	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance sheet</b>								
Working capital surplus (deficiency)	8,405,028	10,891,386	4,459,859	3,813,331	(6,115,079)	4,596,716	4,650,888	4,293,032
Bank indebtedness (total)	5,312,135	3,968,458	9,711,878	11,482,181	10,217,851	8,838,028	9,580,031	9,624,679
Term debt and finance leases	8,397,214	8,377,352	9,899,747	10,113,287	10,386,559	10,655,417	10,918,203	11,175,371
Total equity	20,426,142	21,366,906	13,255,420	12,569,465	11,844,230	13,898,966	13,868,639	13,449,556
<b>Income statement</b>								
Revenue	6,060,573	8,814,451	10,264,535	9,149,120	6,122,684	7,856,521	7,987,895	7,227,016
Gross margin	2,363,565	3,439,436	4,412,224	4,006,465	1,896,265	3,017,018	3,647,707	3,281,750
EBITDA	(495,849)	590,197	1,407,895	1,330,514	(839,497)	640,627	986,139	744,700
Net income (loss)	(971,482)	8,788	781,224	716,202	(2,109,709)	(76,434)	381,742	59,239
Basic income (loss) per share	(0.01)	0.00	0.01	0.01	(0.02)	0.00	0.00	0.00
Diluted income (loss) per share	(0.01)	0.00	0.01	0.01	(0.02)	0.00	0.00	0.00

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

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**RESULTS OF OPERATIONS**

	FY2017	FY2016
<b>Revenue</b>	\$ 34,288,679	\$ 29,194,116
Cost of sales	<u>20,066,989</u>	<u>17,351,376</u>
<b>Gross margin</b>	14,221,690	11,842,740
<i>Gross margin (% of revenue)</i>	41.5	40.6
Operating expenses	11,388,933	10,310,771
<i>Operating expenses (% of revenue)</i>	<u>33.2</u>	<u>35.3</u>
<b>EBITDA</b>	2,832,757	1,531,969
Interest	977,813	1,198,094
Depreciation and amortization	<u>1,232,897</u>	<u>1,219,923</u>
<b>Income from operations</b>	622,047	(886,048)
Share based compensation	83,813	206,141
Loss on disposition of property, plant and equipment	3,502	652,973
<b>Net income (loss) and comprehensive income (loss)</b>	<u>\$ 534,732</u>	<u>\$ (1,745,162)</u>
Portion attributable to:		
Shareholders	\$ 709,944	\$ (1,706,819)
Non-controlling interest	<u>(175,212)</u>	<u>(38,343)</u>
	<u>\$ 534,732</u>	<u>\$ (1,745,162)</u>

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

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*Year over year*

Revenue for FY2017 was \$34,288,679 versus \$29,194,116 in FY2016, an increase of 17.5% led by strong growth in export sales in the winery division. Gross margin was up 20.1% to \$14,221,690 in FY2017 from \$11,842,740 in FY2016. As a percentage of revenue, gross margin increased to 41.5% in FY2017 from 40.6% in FY2016 as the proportion of revenue derived from the winery division jumped to 51.6% in FY2017 from 46.0% in FY2016, with a similar increase in that division's gross margin to 42.7% from 38.1%. This was partially offset by a decline in gross margin in the agency division caused principally by an atypical provision to clear out excess inventory. Operating expenses fell to 33.2% of revenue in YTD 2017 from 35.3% in YTD 2016 as the winery benefitted from enhanced operating leverage attributable to the increase in sales volume. Accordingly, EBITDA jumped 84.9% to \$2,832,757 in FY2017 from \$1,531,969 in FY2016. The Company generated significantly higher net income in FY2017 of \$534,732, an increase of \$2,279,894 from a net loss of \$1,745,162 in FY2016. Cash flow from operating activities, before changes in non-cash working capital items, increased substantially from \$347,975 in FY2016 to \$1,840,844 in FY2017, reflecting the improvement in net income.

Total revenue in the winery division grew \$4,259,668 to \$17,702,621 in FY2017 from \$13,442,953 in FY2016, a year over year increase of 31.7%. Export revenue increased 86.7% to \$6,010,640 in FY2017 from \$3,219,158 in FY2016 as the Company surpassed the \$5,600,000 in export orders that were previously announced on March 31, 2016. Revenue grew in all other winery sales channels by \$1,468,186 or 14.4% to \$11,691,981 from \$10,223,795 in FY2017. Those channels include sales at the Company's tasting and retail stores, commercial licensee customers, the government controlled retail stores in Ontario (LCBO), grocery stores and to VIA Rail Canada. The Company attributes new packaging and marketing campaigns to support its core brands as a key factor in driving stronger performance in all channels.

FY2017 revenue in the agency division grew to \$16,586,058 versus \$15,751,163 in FY2016, a year over year increase of \$834,895, or 5.3%. The increase is the result of growth in all regions of prominent global brands that the Company represents. Distribution revenue grew in FY2017 to 73.1% of agency revenue from 72.8% in FY2016. Revenue in FY2017 includes \$375,000 in severance received in lieu of notice related to a regionally represented supplier that separated from the Company on June 1, 2016. A certain amount of movement between agents of suppliers is common in the industry and to be expected.

Gross margin in the winery division was \$7,555,348 in FY2017 as compared to \$5,125,282 in FY2016, a period over period increases of 47.4%. Gross margin in the winery division (as a percentage of winery revenue) was 42.7% in FY2017 compared to 38.1% in FY2016. Approximately half of the increase was driven by a reduction in promotional spending in the LCBO channel as the Company shifts its focus towards brand building initiatives. The remainder of the increase was primarily related to the increase in export revenue.

Gross margin in the agency division was \$6,666,343 in FY2017 compared to \$6,717,459 in FY2016, a period over period decrease of 0.8%. Gross margin in the agency division (as a percentage of agency revenue) was 40.2% in FY2017 compared to 42.6% in FY2016. The primary cause of the decrease relates to an atypical provision of \$289,082 taken to clear out excess inventory, which will result in lower carrying costs moving forward. Excluding the provision, gross margin in FY2017 was \$6,955,425, an increase of \$237,966 over FY2016. The normalized gross margin as a percentage of revenue was 41.9% in FY2017, a decrease of 0.7% from FY2016, primarily due to product mix.

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Operating expenses, which exclude interest, depreciation on property, plant and equipment used in selling and administration, and amortization of intangible assets, were \$11,388,933 in FY2017 compared to \$10,310,771 in FY2016, a year over year increase of 10.5%. Employee compensation and benefits in FY2017 totalled \$5,915,827, compared to \$5,520,019 in FY2016, a year over year increase of 7.2%. The year over year increase primarily relates to the implementation of a profit sharing program in the winery division and provisions to cover the separation of three employees whose roles were eliminated.

Advertising and promotion expense in FY2017 was \$1,339,538 compared to \$914,347 in FY2016, an increase of 46.5%. \$198,268 of the increase relates to the agency division, where the Company invested in supplier relationships by funding targeted promotional activity to support growth in key markets. The remaining increase of \$226,923 was in the winery division and related to brand awareness initiatives that included the use of external agencies to support the Fresh, 20 Bees and EastDell brands as well as the release of the new McMichael Collection during the year.

Delivery and warehousing expenses increased 19.1% to \$1,199,676 for FY2017 from \$1,007,167 in FY2016. The majority of the increase (83.7%) is in the agency division, which was carrying an average 29.0% higher inventory balance than in the previous year for the first three quarters of FY2017. That, coupled with new surcharges on storage of inventory more than six months old, drove an increase of \$128,297 in warehousing costs over the prior year. While some of the increase in inventory balances is associated with the growth of the business, the Company is undertaking several initiatives to manage inventory turns closer to industry norms. That includes the atypical provision of \$289,082 in Q4 2017 to clear out older inventory that will reduce carrying costs in FY2018.

General and administrative expenses increased 5.6% in FY2017 to \$2,905,013 from \$2,749,763 in FY2016. The primary drivers of the increase were higher commissions paid to sales representatives on licensee sales and legal fees associated with a wrongful dismissal legal claim by a former employee.

Interest expense decreased 18.4% in FY2017 to \$977,813 compared to \$1,198,094 in FY2016. This reflects the declining principal balances of term and revolving debt as well as the migration to a lower cost credit facility with CIBC for the agency division in Q1 2017. Accelerated principal payments were made in December 2016 that extinguished non-revolving term loan #3 that bore interest at 12% and paid down principal on non-revolving term loan #1 by \$1,300,000 and non-revolving term loan #2 by \$150,000.

Depreciation and amortization expense increased slightly in FY2017 to \$1,232,897, compared to \$1,219,923 in FY2016. This was the result of the inclusion of 26 vehicles primarily acquired for sales representatives in Q3 and Q4 2017 under a financing arrangement with Element Financial Corporation.

Share-based compensation expense was \$83,813 in FY2017 compared to \$206,141 in FY2016, a decrease of \$122,328, predominantly reflecting the shift in the timing of awarding deferred share units (DSUs) to directors.

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**Three month period ended March 31, 2017 ("Q4 2017") only**

Revenue in Q4 2017 totalled \$6,060,573, down slightly compared to \$6,122,684 for Q4 F2016. The agency division accounted for a decrease of \$171,344, which was partially offset by an increase of \$109,233 in the winery division. The fourth quarter is traditionally the weakest quarter, due to lower consumption patterns and cold temperatures that prevent shipping overseas in any significant quantities, thus revenue was in line with expectations.

Gross margin was \$2,363,565 in Q4 2017, up from \$1,896,265 in Q4 2016. Gross margin as a percentage of sales grew to 39.0% in Q4 2017 from 31.0% in Q4 2016. Gross margin in the agency division was \$1,205,842 in Q4 2017, relatively flat to the \$1,208,614 in Q4 2016, however, when normalized to exclude the atypical \$289,028 inventory provision, it increased significantly to \$1,494,924 in Q4 2017. Gross margin in the winery division increased to \$1,157,723 in Q4 2017 from \$687,561 in Q4 2016 resulting from increased export sales and sales to VIA Rail during the quarter. Also, in Q4 2016, write-offs of excess and obsolete packaging inventory totalling \$111,973 resulted in a lower winery margin for that period. The Q4 2016 gross margin increases to \$799,534 when normalized for the inventory provision that was taken.

Operating expenses in Q4 2017 were \$2,837,232, up \$118,259 from \$2,718,973 in Q4 2016. Employee compensation and benefits increased to \$1,466,987 in Q4 2017 from \$1,289,412 in Q4 2016 which was largely the result of additional growth in roles to support sales, marketing and finance, the implementation of a profit sharing program and higher costs for health benefits.

Advertising and promotion expenses were \$390,045 in Q4 2017, up \$108,288 from \$281,757 in Q4 2016. Of this increase, \$67,261 was in the agency division and the remainder was in the winery division to support brand awareness and promotion initiatives.

General and administrative expenses were \$686,662 in Q4 2017, down \$103,610 from \$790,272 in Q4 2016. This was largely the result decreases across several categories of expenses, the largest of which was bad debt expense with the implementation of new credit and collections practices.

Losses on foreign exchange amounted to \$12,708 in Q4 2017 versus \$83,130 in Q4 2016. This was the result of a more stable Canadian dollar during the period, as compared to the sharper decline experienced during the latter half of fiscal 2016.

Interest expense decreased to \$160,772 in Q4 2017 from \$299,902 in Q4 2016 as the proceeds of the Company's December 2016 equity raise were used to pay down the MCU term debt and reduce revolving credit balances significantly.

Depreciation of property, plant and equipment for Q4 2017 was \$240,682, an increase of \$11,313 over Q4 2016 which was mainly the result of depreciation of newly acquired vehicles under capital lease, partially offset by lower depreciation on production equipment resulting from the declining balance of the asset base.

A write-off totalling \$652,973 was taken in Q4 2016, primarily related to architectural and engineering design costs incurred in prior years for the principal wine production facility and retail outlet in Niagara on the Lake. Management determined that these plans would no longer be of use when new plans were finalized for a multi-phased expansion that will better support growth through stepped increments. There were no dispositions of assets in Q4 2017.

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**LIQUIDITY AND CAPITAL RESOURCES**

	March 31, 2017	March 31, 2016
Accounts receivable	\$ 3,583,926	\$ 4,031,973
Inventory	16,587,546	16,891,492
Other	321,313	151,735
	<hr/>	<hr/>
Total current assets	20,492,785	21,075,200
Property, plant and equipment	15,974,405	14,127,405
Intangible assets	3,509,447	3,831,904
	<hr/>	<hr/>
Total assets	<b>\$ 39,976,637</b>	<b>\$ 39,034,509</b>
Bank indebtedness	\$ 5,312,135	\$ 10,217,851
Accounts payable and accrued liabilities and other	5,616,576	6,285,902
Current portion of long term debt and finance leases	934,476	10,386,559
Loan payable - non-controlling interest	224,570	299,967
	<hr/>	<hr/>
Total current liabilities	12,087,757	27,190,279
Term loans payable, net of current portion	6,969,961	-
Finance leases, net of current portion	492,777	-
	<hr/>	<hr/>
Total liabilities	19,550,495	27,190,279
Shareholders' equity	16,655,794	7,748,670
Non-controlling interest	3,770,348	4,095,560
	<hr/>	<hr/>
	<b>\$ 39,976,637</b>	<b>\$ 39,034,509</b>

The Company's consolidated financial position has improved significantly as at March 31, 2017 from that as at March 31, 2016, largely from operations that are now profitable and a private placement that closed on December 20, 2016 (the "Private Placement"). The Company completed a brokered private placement of 40,000,000 common shares at an issuance price of \$0.22 per common share for gross proceeds of \$8,800,000, less issuance costs of \$708,994, for net proceeds of \$8,091,006. The proceeds are to be used to expand the principal wine production facility, add cooperage (barrel storage), warehouse and bottling space and for general corporate purposes including reduction of debt (*see note 13 to the March 31, 2017 financial statements*) and the purchase of the remaining 49.99% interest in KDC. (*see note 24 to the March 31, 2017 financial statements*)

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The decrease in accounts receivable of \$448,047 is due to the net effect of a decrease in receivables in the agency business of \$770,053 as the Company placed more attention on working with its suppliers to reduce aged receivables through more frequent netting against accounts payable and settlement. The decline in agency receivables was offset by an increase in winery receivables of \$322,006. On June 29, 2016, the Company secured insurance from Export Development Bank of Canada for up to \$675,000 of balances outstanding from its largest export customer. FY2017 inventory balances declined by \$303,946 from FY2016, which was primarily the result of an atypical provision taken to clear certain slow-moving agency stock.

Working capital increased by \$14,520,107 to \$8,405,028 as at March 31, 2017 compared to a deficiency of \$6,115,079 as at March 31, 2016, almost entirely due to the non-current portion of the MCU term debt of \$9,264,045 being classified as current in accordance with IFRS as at March 31, 2016. The company is in compliance with all debt covenants as at March 31, 2017. Normalizing that debt reclassification resulted in a working capital increase of \$5,256,062.

Total bank indebtedness decreased by \$4,905,716 to \$5,312,135 as at March 31, 2017 compared to \$10,217,851 as at March 31, 2016. This was the result of the remainder of the net proceeds of the Private Placement being applied against the Company's MCU credit facility, after lump-sum principal payments of \$1,672,290 were made to pay down the MCU term loans. During FY2017, total principal payments of \$2,675,051 (FY2016 - \$1,529,049) have been made against term loans (*see notes 9 and 13 to the March 31, 2017 financial statements for further details on the MCU credit facilities*).

The Company's debt to equity ratio improved to 0.68:1 as at March 31, 2017 from 1.76:1 as at March 31, 2016, where debt is defined as total liabilities less other current liabilities and equity is defined as shareholders' equity plus non-controlling interest.

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

- (a) a Letter of Credit sub-facility, included under the umbrella of the \$10,000,000 operating line, at a stand-by rate of 1.25% per annum for issued letters of credit
- (b) Margining limits were amended to include:
  - 90% of acceptable EDC insured balances under 90 days up to \$500,000
  - an increase in acceptable inventory to a maximum of \$9,000,000, increased from \$8,500,000
  - within the increased inventory cap, the limit on raw materials inventory increased to \$500,000 from \$300,000
- (c) Maintain a debt service ratio (to be measured annually) of 1.10|1.00 for fiscal 2017 only, still remaining at 1.25|1.00 for fiscal 2018 and thereafter
- (d) Maintain a debt service ratio (to be measured on a trailing four quarter basis, starting effective the end of Q3 2017) of 1.10|1.00 for fiscal 2017 only, still remaining at 1.25|1.00 for fiscal 2018 and thereafter

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

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On April 7, 2016, KDC entered into a new credit agreement with CIBC (*see note 9(f) to the March 31, 2017 financial statements*). The transaction closed on June 2, 2016 and existing obligations to MCU were repaid in full. The CIBC credit agreement includes the following major components: (i) various CAD and USD credit facilities to a maximum of CAD \$4,500,000, (ii) conventional margining on accounts receivable and 70% of eligible inventory value (to a maximum of \$2,250,000) (iii) bears interest at the CAD prime rate plus 1.25% and/or USD base rate plus 1.25%, and (iv) secured by (a) a first-priority security in all present and future property of KDC and (b) assignments and postponements of claim from the corporate partners.

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

**Related party transactions**

During FY2017 and FY2016, 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:

	<b>FY2017</b>	FY2016
	<b>\$</b>	\$
Salary	<b>749,200</b>	723,200
Director fees	<b>85,625</b>	85,231
Share based compensation under stock option plan and DSU plan	<b>83,813</b>	206,141
Interest on loan payable - non-controlling interest	<b>14,108</b>	14,100
Interest on shareholder loan	-	40,000
Winery lease payments	<b>100,000</b>	115,731
Grape purchases	<b>118,178</b>	115,406
Vineyard maintenance	<b>114,471</b>	44,053

Accounts payable and accrued liabilities as at March 31, 2017 includes \$266,245 (2016 - \$305,531) with respect to balances owing to related parties for the transactions disclosed above.

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**CAPITALIZATION**

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

	March 31, 2017	March 31, 2016	Change in year
Common shares	140,248,841	100,137,037	40,111,804
Deferred share units	1,124,882	819,133	305,749
Stock options	6,150,000	6,682,400	(532,400)
Total equity instruments	<u>147,523,723</u>	<u>107,638,570</u>	<u>39,885,153</u>

The changes to the Company's overall capitalization during FY2017 were as follows:

- (a) Issuance on December 20, 2016 of 40,000,000 common shares under the Private Placement (see Liquidity and Capital Resources) (*see also note 14(a) to the March 31, 2017 financial statements*)
- (b) Issuance on July 27, 2016 of an aggregate of 305,749 deferred share units ("DSUs") to non-executive directors under the Company's deferred share unit plan (the "DSU Plan") in settlement of \$41,063 of deferred directors' compensation. The DSUs are to be settled in common shares of the Company ("Common Shares") when the director retires from all positions with the Company.

**STRATEGIC OUTLOOK AND DIRECTION**

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

The Canadian beverage alcohol market continues to grow strongly, outpacing most consumer categories. Statistics Canada recently reported<sup>1</sup> 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 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.

# DIAMOND ESTATES WINES & SPIRITS INC.

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Ontario wineries have a 31.3% share<sup>2</sup> of the total market by volume in the province, 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%<sup>3</sup>. There are significant opportunities to grow the sales and market share of Ontario wines given increasing consumption, expanding points of distribution, competitive pricing and continuous quality improvements as the industry matures<sup>2</sup>. 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<sup>4</sup>. 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 within the Canadian market. These new brand entrants will include international wines and spirits from a variety of regions globally 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>

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**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.

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#### ***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.

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***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.

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#### ***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.

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***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 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 40.0% of total assets as at March 31, 2017 (March 31, 2016 - 36.2%). Therefore, estimates and assumptions made to determine their carrying value and related depreciation are critical to the Company's financial position and performance.

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

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

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#### ***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.

#### ***USEFUL LIFE 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.

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- (b) **IFRS 15: "Revenue from Contracts with Customers"** was issued by the IASB in May, 2014 and will supercede IAS 18 "Revenue" and IAS 11 "Construction Contracts". The standard details a revised model for the recognition of revenue from contracts with customers. In April 2016, the IASB has amended IFRS 15 to clarify the guidance on identifying performance obligations, licences of intellectual property and principal versus agent. The amendments also provide additional practical expedients on transition. The standard is effective for first interim periods within annual periods beginning on or after January 1, 2018. The Company is currently in the process of evaluating the potential impact this new guidance will have on the Company's consolidated financial statements. The Company has not completed this evaluation and therefore, cannot conclude whether the guidance will have a significant impact on the consolidated financial statements at this time. However, based on preliminary work completed, the Company is considering the implications the new standard may have on its agency wine businesses, presentation of certain customer related trade spending, as well as the timing of recognition of certain promotional discounts, which are areas that could potentially be impacted by the adoption of the new guidance.
- (c) **IFRS 16 "Leases"** was issued by the IASB in January 2016 and will ultimately replace IAS 17, "Leases" and related interpretations. The new standard will be effective for fiscal years beginning on or after January 1, 2019, with early adoption permitted provided the Company has adopted IFRS 15, Revenue from Contracts with Customers. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all leases contracts, and record it on the statement of financial position, except with respect to lease contracts that meet limited exception criteria. Given that the Company has significant contractual obligations in the form of operating leases under IAS 17, there will be a material increase to both assets and liabilities on adoption of IFRS 16, and material changes to the timing of recognition of expenses associated with the lease arrangements. The Company is analyzing the new standard to determine the impact of adopting this standard.
- (d) **IAS 7 "Statement of Cash Flow"** has been revised to incorporate amendments issued by the IASB in January 2016. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017. The adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.
- (e) **IAS 12 "Income Taxes"** was amended by the IASB in January, 2016 to clarify the requirements for recognizing deferred tax assets on unrealized losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. The amendments are effective for annual periods beginning on or after January 1, 2017. The adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.

There were no new accounting pronouncements adopted during the year.