

**DIAMOND ESTATES WINES & SPIRITS INC.**  
**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**  
**(Unaudited - Prepared by Management)**

(These unaudited interim condensed consolidated financial statements, prepared by management,  
have not been reviewed by the company's external auditors)

**DIAMOND ESTATES WINES & SPIRITS INC.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS AT SEPTEMBER 30, 2018 AND MARCH 31, 2018**  
**(Unaudited - Prepared by Management)**

|                                                | September 30<br>2018 | March 31<br>2018     |
|------------------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                                  |                      |                      |
| <b>Current:</b>                                |                      |                      |
| Accounts receivable                            | \$ 6,033,087         | \$ 2,795,576         |
| Inventories                                    | 17,493,100           | 17,037,104           |
| Biological assets                              | 17,390               | -                    |
| Prepaid expenses                               | 428,826              | 539,834              |
|                                                | <u>23,972,403</u>    | <u>20,372,514</u>    |
| <b>Long term:</b>                              |                      |                      |
| Property, plant and equipment                  | 20,298,262           | 18,630,299           |
| Intangible assets (Note 5)                     | 3,139,788            | 3,192,152            |
| Goodwill (Note 5)                              | 280,333              | -                    |
|                                                | <u>\$ 47,690,786</u> | <u>\$ 42,194,965</u> |
| <b>LIABILITIES</b>                             |                      |                      |
| <b>Current:</b>                                |                      |                      |
| Accounts payable and accrued liabilities       | \$ 7,628,234         | \$ 6,070,159         |
| Note payable (Note 7)                          | 550,000              | -                    |
| Current portion of term loans payable (Note 8) | 453,248              | 454,287              |
| Current portion of finance leases (Note 9)     | 193,238              | 198,226              |
|                                                | <u>8,824,720</u>     | <u>6,722,672</u>     |
| <b>Long term:</b>                              |                      |                      |
| Term loans payable (Note 8)                    | 20,124,034           | 18,895,188           |
| Finance leases (Note 9)                        | 212,773              | 322,505              |
| Deferred income taxes (Note 5)                 | 421,183              | -                    |
|                                                | <u>29,582,710</u>    | <u>25,940,365</u>    |
| <b>SHAREHOLDERS' EQUITY</b>                    |                      |                      |
| Common shares (Notes 10 & 11)                  | 19,055,082           | 16,657,513           |
| Contributed surplus                            | 375,079              | 589,982              |
| Accumulated deficit                            | (1,322,085)          | (992,895)            |
|                                                | <u>18,108,076</u>    | <u>16,254,600</u>    |
|                                                | <u>\$ 47,690,786</u> | <u>\$ 42,194,965</u> |

*The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements*

**Approved on behalf of the Board:**

"David Beutel" Director

"Keith Harris" Director

**DIAMOND ESTATES WINES & SPIRITS INC.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF**  
**NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME**  
**THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**  
**(Unaudited - Prepared by Management)**

|                                                                                  | Three month<br>period ended<br>September 30<br>2018 | Six month<br>period ended<br>September 30<br>2018 | Three month<br>period ended<br>September 30<br>2017 | Six month<br>period ended<br>September 30<br>2017 |
|----------------------------------------------------------------------------------|-----------------------------------------------------|---------------------------------------------------|-----------------------------------------------------|---------------------------------------------------|
| <b>Revenue</b>                                                                   | <b>\$ 8,168,951</b>                                 | <b>\$ 16,174,280</b>                              | <b>\$ 8,909,281</b>                                 | <b>\$ 18,541,580</b>                              |
| <b>Cost of sales</b>                                                             |                                                     |                                                   |                                                     |                                                   |
| Change in inventories of finished goods and raw materials consumed               | 4,155,440                                           | 8,309,863                                         | 4,827,781                                           | 9,752,816                                         |
| Freight in and other                                                             | 283,014                                             | 454,744                                           | 295,964                                             | 618,984                                           |
| Depreciation of property, plant and equipment used in production                 | 237,784                                             | 401,748                                           | 218,721                                             | 384,832                                           |
|                                                                                  | <u>4,676,238</u>                                    | <u>9,166,355</u>                                  | <u>5,342,466</u>                                    | <u>10,756,632</u>                                 |
| <b>Gross profit</b>                                                              | <b>3,492,713</b>                                    | <b>7,007,925</b>                                  | <b>3,566,815</b>                                    | <b>7,784,948</b>                                  |
| <b>Expenses</b>                                                                  |                                                     |                                                   |                                                     |                                                   |
| Employee compensation and benefits                                               | 1,876,140                                           | 3,515,349                                         | 1,542,193                                           | 3,138,434                                         |
| General and administrative                                                       | 878,500                                             | 1,614,174                                         | 712,887                                             | 1,452,254                                         |
| Advertising and promotion                                                        | 427,834                                             | 772,717                                           | 451,303                                             | 810,935                                           |
| Delivery and warehousing                                                         | 208,189                                             | 354,697                                           | 200,191                                             | 438,276                                           |
| Interest on bank indebtedness                                                    | 266,060                                             | 590,762                                           | 248,692                                             | 465,754                                           |
| Financing costs                                                                  | 22,688                                              | 45,377                                            | 97,637                                              | 99,252                                            |
| Amortization of intangible assets                                                | 87,058                                              | 172,364                                           | 87,071                                              | 172,942                                           |
| Depreciation of property, plant and equipment used in selling and administration | 106,115                                             | 186,114                                           | 81,845                                              | 160,926                                           |
| Share based compensation                                                         | 105,282                                             | 141,166                                           | 143,728                                             | 160,505                                           |
|                                                                                  | <u>3,977,866</u>                                    | <u>7,392,720</u>                                  | <u>3,565,547</u>                                    | <u>6,899,278</u>                                  |
| (Loss) income before income taxes                                                | (485,153)                                           | (384,795)                                         | 1,268                                               | 885,670                                           |
| Income taxes (recovery) (Note 13)                                                | <u>(55,605)</u>                                     | <u>(55,605)</u>                                   | <u>-</u>                                            | <u>-</u>                                          |
| <b>Net (loss) income and comprehensive (loss) income</b>                         | <b>\$ (429,548)</b>                                 | <b>\$ (329,190)</b>                               | <b>\$ 1,268</b>                                     | <b>\$ 885,670</b>                                 |
| <b>Net (loss) income and comprehensive (loss) income attributable to:</b>        |                                                     |                                                   |                                                     |                                                   |
| Shareholders                                                                     | \$ (429,548)                                        | \$ (329,190)                                      | \$ 1,268                                            | \$ 866,775                                        |
| Non-controlling interest                                                         | -                                                   | -                                                 | -                                                   | 18,895                                            |
|                                                                                  | <u>\$ (429,548)</u>                                 | <u>\$ (329,190)</u>                               | <u>\$ 1,268</u>                                     | <u>\$ 885,670</u>                                 |
| <b>Basic (loss) income per share (Note 10(a))</b>                                | <b>\$ 0.00</b>                                      | <b>\$ 0.00</b>                                    | <b>\$ 0.00</b>                                      | <b>\$ 0.01</b>                                    |
| <b>Diluted (loss) income per share (Note 10(a))</b>                              | <b>\$ 0.00</b>                                      | <b>\$ 0.00</b>                                    | <b>\$ 0.00</b>                                      | <b>\$ 0.01</b>                                    |

*The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements*

**DIAMOND ESTATES WINES & SPIRITS INC.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**PERIOD FROM APRIL 1, 2017 TO SEPTEMBER 30, 2018**  
**(Unaudited - Prepared by Management)**

|                                                                | Note  | Common shares<br>Shares | Common shares<br>Amount | Contributed<br>surplus | Accumulated<br>deficit | Shareholders'<br>equity | Non-controlling<br>interest | Total                |
|----------------------------------------------------------------|-------|-------------------------|-------------------------|------------------------|------------------------|-------------------------|-----------------------------|----------------------|
| <b>As at April 1, 2017</b>                                     |       | <b>140,248,841</b>      | <b>\$ 16,635,745</b>    | <b>\$ 1,021,226</b>    | <b>\$ (1,001,177)</b>  | <b>\$ 16,655,794</b>    | <b>\$ 3,770,348</b>         | <b>\$ 20,426,142</b> |
| Net income and comprehensive income                            |       | -                       | -                       | -                      | 866,775                | 866,775                 | 18,895                      | 885,670              |
| Share based compensation                                       |       | -                       | -                       | 160,505                | -                      | 160,505                 | -                           | 160,505              |
| Purchase of non-controlling interest                           |       | -                       | -                       | (609,877)              | -                      | (609,877)               | (3,789,243)                 | (4,399,120)          |
| <b>As at September 30, 2017</b>                                |       | <b>140,248,841</b>      | <b>16,635,745</b>       | <b>571,854</b>         | <b>(134,402)</b>       | <b>17,073,197</b>       | <b>-</b>                    | <b>17,073,197</b>    |
| Net loss and comprehensive loss                                |       | -                       | -                       | -                      | (858,493)              | (858,493)               | -                           | (858,493)            |
| Exercise of options                                            |       | 125,000                 | 21,768                  | (8,018)                | -                      | 13,750                  | -                           | 13,750               |
| Share based compensation                                       |       | -                       | -                       | 26,146                 | -                      | 26,146                  | -                           | 26,146               |
| <b>As at March 31, 2018</b>                                    |       | <b>140,373,841</b>      | <b>16,657,513</b>       | <b>589,982</b>         | <b>(992,895)</b>       | <b>16,254,600</b>       | <b>-</b>                    | <b>16,254,600</b>    |
| Net loss and comprehensive loss                                |       | -                       | -                       | -                      | (329,190)              | (329,190)               | -                           | (329,190)            |
| Exercise of options                                            | 10(c) | 2,650,000               | 863,439                 | (321,939)              | -                      | 541,500                 | -                           | 541,500              |
| Settlement of DSUs                                             | 10(d) | 200,405                 | 34,130                  | (34,130)               | -                      | -                       | -                           | -                    |
| Share based compensation                                       |       | -                       | -                       | 141,166                | -                      | 141,166                 | -                           | 141,166              |
| Common shares issued on acquisition of Backyard Vineyards Inc. | 5     | 4,687,500               | 1,500,000               | -                      | -                      | 1,500,000               | -                           | 1,500,000            |
| <b>As at September 30, 2018</b>                                |       | <b>147,911,746</b>      | <b>\$ 19,055,082</b>    | <b>\$ 375,079</b>      | <b>\$ (1,322,085)</b>  | <b>\$ 18,108,076</b>    | <b>\$ -</b>                 | <b>\$ 18,108,076</b> |

*The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements*

**DIAMOND ESTATES WINES & SPIRITS INC.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**SIX MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**  
**(Unaudited - Prepared by Management)**

|                                                                               | September 30<br>2018 | September 30<br>2017 |
|-------------------------------------------------------------------------------|----------------------|----------------------|
| <b>Operating activities</b>                                                   |                      |                      |
| Net (loss) income                                                             | \$ (329,190)         | \$ 885,670           |
| Add (deduct) items not affecting cash                                         |                      |                      |
| Depreciation of property, plant and equipment                                 | 587,862              | 545,758              |
| Amortization of intangible assets                                             | 172,364              | 172,942              |
| Share based compensation                                                      | 141,166              | 160,504              |
| Amortization of deferred finance fees                                         | 22,600               | -                    |
| Recovery of deferred income taxes                                             | (55,605)             | -                    |
| Interest expense                                                              | 590,762              | 465,754              |
| Interest paid                                                                 | (511,591)            | (461,316)            |
|                                                                               | <u>618,368</u>       | <u>1,769,312</u>     |
| <b>Change in non-cash working capital items</b>                               |                      |                      |
| Accounts receivable                                                           | (3,202,242)          | (2,534,377)          |
| Inventories                                                                   | 843,378              | 2,975,131            |
| Biological assets                                                             | (17,390)             | (24,124)             |
| Prepaid expenses                                                              | 147,758              | (101,620)            |
| Accounts payable and accrued liabilities                                      | 1,346,767            | 1,578,301            |
| Unearned revenue and deposits received                                        | -                    | (390,730)            |
|                                                                               | <u>(263,361)</u>     | <u>3,271,893</u>     |
| <b>Investing activities</b>                                                   |                      |                      |
| Acquisition of non-controlling interest (Note 12)                             | -                    | (4,399,120)          |
| Acquisition of Backyard Vineyards Corp., net of cash acquired (Note 5)        | (609,386)            | -                    |
| Purchase of property, plant and equipment                                     | (759,240)            | (2,893,118)          |
| Purchase of intangible assets                                                 | -                    | (26,878)             |
|                                                                               | <u>(1,368,626)</u>   | <u>(7,319,116)</u>   |
| <b>Financing activities</b>                                                   |                      |                      |
| Bank indebtedness                                                             | -                    | (5,312,135)          |
| Repayment of loan payable - non-controlling interest                          | -                    | (224,570)            |
| Proceeds on issuance of term loans payable                                    | -                    | 18,690,257           |
| Payment of financing costs on issuance of term loans payable                  | -                    | (231,632)            |
| Repayment of finance leases                                                   | (114,720)            | (104,082)            |
| Net drawings (repayments) on revolving term loans and operating lines payable | 1,455,207            | (8,770,615)          |
| Repayment on non-revolving term loans payable                                 | (250,000)            | -                    |
| Proceeds on exercise of options                                               | 541,500              | -                    |
|                                                                               | <u>1,631,987</u>     | <u>4,047,223</u>     |
| <b>Change in cash</b>                                                         | -                    | -                    |
| Cash, beginning of period                                                     | -                    | -                    |
| <b>Cash, end of period</b>                                                    | <u>\$ -</u>          | <u>\$ -</u>          |

**Non-cash transactions: (Note 14)**

*The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements*

**DIAMOND ESTATES WINES & SPIRITS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**  
**(Unaudited - Prepared by Management)**

1. **NATURE OF OPERATIONS**

Diamond Estates Wines & Spirits Inc. ("Diamond" or the "Company") is a public company listed on the TSX-V whose shares trade under the symbol "DWS.V". Its principal business activities include the production, marketing and sale of wine, and through its agency division, operating as Trajectory Beverage Partners (TBP), distribution and marketing activities for various beverage alcohol brands that it represents in Canada. The address of the Company's registered office and principal place of business is 1067 Niagara Stone Road, Niagara-On-The-Lake, Ontario, L0S 1J0. The operations and principal place of business of TBP are located at 100-435 North Service Road West, Oakville, Ontario, L6M 4X8.

2. **SIGNIFICANT ACCOUNTING POLICIES**

(a) **Basis of presentation and statement of compliance**

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" as issued by the IASB, and accordingly do not include all the information required for full annual financial statements by IFRS. They have been prepared using the same accounting policies that were described in note 2 to the Company's annual consolidated financial statements for the year ended March 31, 2018 which were prepared in accordance with IFRS as issued by the IASB, except for the accounting policies listed below in note 2(b) and note 2(c).

The unaudited interim condensed consolidated financial statements have not been reviewed by the Company's external auditors. They were authorized for issuance by the Board of Directors on November 21, 2018.

(b) **Basis of consolidation**

These unaudited interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries:

|   |                                                              |      |
|---|--------------------------------------------------------------|------|
| ◆ | Diamond Estates Wines & Spirits Ltd.                         | 100% |
| ◆ | De Sousa Wines Toronto Inc.                                  | 100% |
| ◆ | Backyard Vineyards Corp. ( <i>See note 5</i> )               | 100% |
| ◆ | Kirkwood Diamond Canada (partnership) ( <i>See note 12</i> ) | 100% |

A subsidiary is an entity controlled by the Company. Control exists when the Company has power over an investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. The financial statements of a subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are changed when necessary to align them with the policies applied by the Company in these unaudited interim condensed consolidated financial statements. All intercompany balances, income and expenses, and unrealized gains and losses resulting from intercompany transactions are eliminated in full.

**DIAMOND ESTATES WINES & SPIRITS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**  
**(Unaudited - Prepared by Management)**

2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(c) **Business combinations**

Business combinations are accounted for using the acquisition method, whereby acquired assets and liabilities are recorded at fair value as of the date of acquisition with the excess of the purchase consideration over such fair value being recorded as goodwill.

If the fair value of the net assets acquired exceeds the purchase consideration, the difference is recognized immediately as a gain on acquisition in the consolidated statement of net income and comprehensive income.

Acquisition costs are expensed during the period in which they are incurred and are included in general and administrative expenses.

The Company measures the identifiable assets acquired and liabilities assumed at their fair values on the date of acquisition. This requires estimates and judgments to be made, which are inherently subjective. As such, the amounts assigned to individual identifiable assets and liabilities, including the fair value of inventories, long-lived assets, the recognition and measurement of any unrecorded intangible assets and the determination of goodwill or the gain on acquisition are impacted. Due to the nature of these estimates, the purchase price allocation impacts the Company's reported assets and liabilities and future net earnings due to the impact on future cost of goods sold, amortization and impairment tests.

3. **RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS**

- (a) **IFRS 9: "Financial Instruments: Classification and Measurement of Financial Assets and Financial Liabilities"** was issued by the IASB in July, 2014 and replaced IAS 39 "Financial Instruments: Recognition and Measurement". In addition, IFRS 7 "Financial Instruments: Disclosures" was amended to include additional disclosure requirements on transition to IFRS 9. The mandatory effective date of applying these standards is for annual periods beginning on or after January 1, 2018. The standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used. The standard requires that for financial liabilities measured at fair value, any changes in an entity's own credit risk are generally to be presented in other comprehensive income instead of net earnings. A new hedge accounting model is included in the standard, as well as increased disclosure requirements about risk management activities for entities that apply hedge accounting. The new standard was adopted effective April 1, 2018 and the adoption did not have a significant impact on the consolidated financial statements.
- (b) **IFRS 15: "Revenue from Contracts with Customers"** was issued by the IASB in May, 2014 and supercedes IAS 18 "Revenue" and IAS 11 "Construction Contracts". The standard details a revised model for the recognition of revenue from contracts with customers. The standard is effective for first interim periods within annual periods beginning on or after January 1, 2018. The Company has adopted the accounting standard effective April 1, 2018, using a full retrospective approach and the adoption did not have a significant impact on the consolidated financial statements.

**DIAMOND ESTATES WINES & SPIRITS INC.**  
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**(Unaudited - Prepared by Management)**

4. **NEW AND REVISED IFRS STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

As at the date of authorization of these unaudited interim condensed consolidated financial statements, the IASB has issued the following new or revised standards:

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

**DIAMOND ESTATES WINES & SPIRITS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**  
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5. **ACQUISITION**

On June 28, 2018, the Company acquired 100% of the common shares of Backyard Vineyards Corp. ("Backyard") for total consideration of \$2,800,000, of which \$750,000 was funded in cash, \$1,500,000 was funded by the issuance of 4,687,500 common shares and \$550,000 was funded by the assumption of a note payable (*see note 7*). Backyard generates annual sales of approximately \$2,000,000 and employs approximately 12 people. The results of operations from June 29, 2018 onward have been included in these interim condensed consolidated financial statements and this acquisition has been accounted for as a business combination.

The following table summarizes the amounts paid or payable at the purchase date and the preliminary allocation of the purchase price to the identifiable assets acquired and liabilities assumed based on management's estimate of the fair values at the date of acquisition.

|                                          | <b>Backyard<br/>Vineyards<br/>Corp.</b> |
|------------------------------------------|-----------------------------------------|
| <b>Assets acquired:</b>                  |                                         |
| Cash                                     | \$ 140,614                              |
| Accounts receivable                      | 35,269                                  |
| Inventories                              | 1,325,959                               |
| Prepays and deposits                     | 36,750                                  |
|                                          | <u>1,538,592</u>                        |
| Property, plant and equipment            | 1,470,000                               |
| Intangible assets - customer list        | 70,000                                  |
| Intangible assets - brand                | 50,000                                  |
| Goodwill                                 | 280,333                                 |
|                                          | <u>3,408,925</u>                        |
| <b>Liabilities assumed:</b>              |                                         |
| Accounts payable and accrued liabilities | 132,137                                 |
| Deferred income taxes                    | 476,788                                 |
|                                          | <u>608,925</u>                          |
| <b>Net assets acquired</b>               | <b><u>\$ 2,800,000</u></b>              |

6. **SEASONALITY**

Revenue is subject to seasonal variation in demand from its customers for beverage alcohol products. The fourth quarter is traditionally the lowest for revenue in all major sales channels due to softness in demand during the winter months.

**DIAMOND ESTATES WINES & SPIRITS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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7. **NOTE PAYABLE**

The note payable is due to Azura Management (Kelowna) Corp., bears interest at 5% and is due June 28, 2019.

8. **TERM LOANS PAYABLE**

As at September 30, 2018, the balances outstanding on the Company's term loans were as follows:

|                               | <b>September 30<br/>2018</b> | <b>March 31<br/>2018</b> |
|-------------------------------|------------------------------|--------------------------|
| BMO term loans:               |                              |                          |
| Revolving operating term loan | \$ 11,050,884                | \$ 9,595,677             |
| Non-revolving term loan       | 9,625,000                    | 9,875,000                |
|                               | <b>20,675,884</b>            | 19,470,677               |
| Financing costs               | <b>(98,602)</b>              | (121,202)                |
|                               | <b>20,577,282</b>            | 19,349,475               |
| Current portion               | <b>(453,248)</b>             | (454,287)                |
|                               | <b>\$ 20,124,034</b>         | \$ 18,895,188            |

The BMO credit agreement executed on September 29, 2017 is guaranteed by a general security agreement covering the assets of the Company and its subsidiaries and is subject to the following facilities and terms:

The revolving operating term loan is for working capital and general corporate requirements and is subject to the following terms:

- (a) Revolving credit facility of up to \$13,000,000, subject to specified borrowing base margining limitations
- (b) Monthly interest only payments at CAD prime rate +1.00%
- (c) Due on September 26, 2020
- (d) Standby fee of 0.50% on available unused revolving term credit to be paid on the last day of each quarter

The non-revolving term loan is for the purpose of refinancing the previous term debt and funding scheduled fiscal 2018 capital expenditures. The loan is subject to the following terms:

- (a) Initial principal of \$10,000,000, amortized over a period of 20 years
- (b) Monthly interest only payments at CAD prime rate +1.25%
- (c) Quarterly principal payments of \$125,000

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**THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**  
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8. **TERM LOANS PAYABLE, CONTINUED**

The BMO credit agreement includes the following sub-facilities:

- (a) Letter of credit sub-facility included under the umbrella of the \$13,000,000 revolving term loan, up to a maximum of \$1,000,000 at a rate of CAD prime +2.50% having a term of up to 1 year. As at September 30, 2018 there was a letter of credit in the amount of \$24,641 was outstanding with BMO (March 31, 2018 - \$24,641).
- (b) Bankers' acceptance sub-facility included under the umbrella of the revolving and non-revolving term loans, with a minimum draw of \$1,000,000, terms of 28 to 182 days at rates of CAD prime +2.50% to CAD prime +2.75%. As September 30, 2018 a bankers' acceptance was in place on the non-revolving term loan to fix the interest rate at 1.85% for the period from September 4, 2018 to October 1, 2018. As at March 31, 2018 a bankers' acceptance was in place on the non-revolving term loan to fix the interest rate at 1.58% for the period from March 1, 2018 to April 2, 2018.
- (c) Treasury risk management facility of up to \$1,500,000 to facilitate hedging of interest rate risk and foreign exchange risk at market rates as determined by the lender. As at September 30, 2018 and March 31, 2018 there were no amounts outstanding on this facility.

The Company also has available a delayed draw term loan of \$2,500,000 to finance future capital expenditures at a rate of CAD prime +1.25%, repayable in quarterly principal instalments commencing at the end of the fiscal quarter in which the initial draw takes place. A standby fee in the amount of 0.55% to be payable quarterly is due on the undrawn portion of this loan. There was no balance drawn on this facility as at September 30, 2018 and March 31, 2018.

A master lease finance line facility of \$2,500,000 is available to the Company to finance equipment under the BMO Equipment Leasing Group and shall reduce monthly in accordance with agreed upon terms based on market rates at the time of each advance. There was no balance drawn on this facility as at September 30, 2018 and March 31, 2018.

The BMO credit agreement is subject to the following major financial covenants:

- (a) Minimum fixed charge coverage ratio of 1.25 | 1
- (b) Maximum ratio of total liabilities to tangible net worth of 2.00 | 1
- (c) Annual capital expenditures are not to exceed \$5,000,000 in fiscal 2018 and \$1,500,000 in subsequent years without prior bank approval

The Company repaid the balances on its previous MCU term loans in full on September 29, 2017 with the proceeds from the BMO loans.

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9. **FINANCE LEASES**

On August 2, 2016, the Company executed a Master Lease Agreement (“MLA”) with Element Fleet Management Inc. for the acquisition, management and disposal of automobiles to support sales and marketing functions. The leases are primarily for a 48 month period, expiring at various times up to March 2021 and provide for the transfer of the risks and rewards of ownership of the automotive equipment to the Company. Accordingly, each lease has been classified as a finance lease and a corresponding asset and lease obligation has been recognized in the financial statements. The effective interest rates implicit in each lease are currently at 4.55%.

The following is a schedule of future minimum annual lease payments for vehicles under finance leases together with the balance of the obligations as at September 30, 2018.

|                                                | <b>Minimum<br/>lease<br/>payments</b> | <b>Present value<br/>of minimum<br/>lease payments</b> |
|------------------------------------------------|---------------------------------------|--------------------------------------------------------|
| Not later than one year                        | <b>\$ 204,837</b>                     | \$ 193,238                                             |
| Later than one year and up to lease expiry     | <b>218,189</b>                        | 212,773                                                |
|                                                | <b>423,026</b>                        | 406,011                                                |
| Less: interest                                 | <b>(17,015)</b>                       | -                                                      |
| Total obligations under finance leases         | <b>406,011</b>                        | 406,011                                                |
| Less: current portion                          | <b>(193,238)</b>                      | (193,238)                                              |
|                                                | <b>\$ 212,773</b>                     | \$ 212,773                                             |
| Estimated principal repayments are as follows: |                                       |                                                        |
| Year ending March 31, 2019                     |                                       | <b>\$ 84,487</b>                                       |
| Year ending March 31, 2020                     |                                       | <b>193,238</b>                                         |
| Year ending March 31, 2021                     |                                       | <b>128,286</b>                                         |
|                                                |                                       | <b>\$ 406,011</b>                                      |

Vehicles acquired under finance leases during the three and six month periods ended September 30, 2018 totalled \$Nil (three and six month periods ended September 30, 2017 - \$Nil and \$43,334 respectively). Interest expense on the finance leases for the three and six month periods ended September 30, 2018 was \$5,854 and \$11,399 respectively. (2017 - \$5,683 and \$11,742 respectively).

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10. **SHARE CAPITAL AND OTHER EQUITY INSTRUMENTS**

**Authorized**

Unlimited      Common shares, no par value

Continuity schedules for each component of the Company's share capital and other equity instruments are disclosed in the unaudited interim condensed consolidated statements of changes in shareholders' equity for the period from April 1, 2017 to September 30, 2018. Details of major changes in each component during that period are as follows:

(a) **Income per share**

Basic income per share is computed using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the six month period ended September 30, 2018 was 143,243,502 (2017 - 140,248,841).

As at September 30, 2018, the following potentially dilutive equity instruments were all outstanding: (1) 4,525,000 options (2017 - 6,150,000), and (2) 1,622,000 deferred share units (2017 - 1,563,238). The fully diluted number of common shares outstanding for the six month period ended September 30, 2018 was 154,058,746 (2017 - 147,962,078).

(b) **Issuance of common shares**

On June 28, 2018, the Company issued 4,687,500 common shares valued at \$0.32 per share in settlement of \$1,500,000 of the purchase consideration paid to acquire Backyard Vineyards Corp. (see note 5).

(c) **Exercise of options**

(i) On April 10, 2018, 150,000 of the stock options originally granted on November 24, 2014 were exercised at the purchase price of \$0.11 for total proceeds of \$16,500.

(ii) On September 21, 2018, 500,000 of the stock options originally granted on September 24, 2013 were exercised at the purchase price of \$0.25 and 2,000,000 of the stock options originally granted on September 24, 2013 were exercised at the purchase price of \$0.20 per share for total proceeds of \$525,000.

(d) **Settlement of Deferred Share Units**

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

(e) **Expiry of options**

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

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**11. DEFERRED SHARE UNITS ("DSUs")**

On June 21, 2016, the Board of Directors approved an increase in the maximum number of common shares reserved for issuance under the Company's DSU plan (the "DSU Plan") from 1,000,000 to 2,000,000, which is approximately 1.4% of the then issued and outstanding common shares. The DSU Plan provides that the maximum number of DSUs issuable to insiders (as that term is defined by the Exchange) pursuant to the DSU Plan, together with any common shares issuable pursuant to any other security-based compensation arrangement of the Company, will not exceed 10% of the total number of outstanding common shares.

On July 27, 2016, the Company issued an aggregate of 305,749 DSUs to non-executive directors under the DSU plan in settlement of \$41,063 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.

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.

On August 31, 2018, the Company issued an aggregate of 259,167 DSUs to non-executive directors under the DSU Plan in settlement of \$77,750 of deferred directors' compensation.

To date, a total of 1,822,405 DSUs have been issued, of which 1,622,000 remain outstanding, after the settlement of 200,405 DSUs into common shares of the company on retirement of a member of the Board of Directors on April 3, 2018. The DSUs are to be settled in common shares of the Company when the director retires from all positions with the Company.

**12. KIRKWOOD DIAMOND CANADA PARTNERSHIP AND NON-CONTROLLING INTEREST**

On May 5, 2017, the Company closed on the previously announced acquisition of the 49.99% interest in Kirkwood Diamond Canada (KDC), its agency business, that was owned by its partner. As such, the Company now owns 100% of KDC and has rebranded it under the operating name Trajectory Beverage Partners.

The purchase price of \$4,399,120 was allocated by eliminating the non-controlling interest balance of \$3,789,243, with the remaining \$609,887 being recorded as a reduction to contributed surplus as detailed in the Consolidated Statement of Changes in Shareholders' Equity.

**13. INCOME TAXES**

The recovery of income taxes of \$55,605 relates entirely to recognition of a deferred tax benefit from the acquisition of Backyard Vineyards Corp.

**14. NON-CASH TRANSACTIONS**

|                                                                         | <b>September 30<br/>2018</b> | <b>September 30<br/>2017</b> |
|-------------------------------------------------------------------------|------------------------------|------------------------------|
| Property, plant and equipment acquired under<br>finance leases (Note 9) | \$ -                         | \$ 43,334                    |
| Issuance of note payable in exchange for shares (Note 5)                | <b>550,000</b>               | -                            |
| Issuance of common shares in exchange for shares (Note 5)               | <b>1,500,000</b>             | -                            |

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15. **SEGMENTED INFORMATION**

**Business segments**

The Company operates in two business segments, namely (i) sales of manufactured wines and (ii) distribution and sales of products represented in Canada under agency agreements with third parties. The following table presents selected financial information associated with each of these segments for the six months ended September 30, 2018 and 2017:

|                                                                  | <u>September 30, 2018</u> |                  |                   |
|------------------------------------------------------------------|---------------------------|------------------|-------------------|
|                                                                  | Agency                    | Manufactured     | Consolidated      |
|                                                                  | \$                        | wines            | \$                |
| Gross revenue                                                    | 6,934,227                 | 9,478,192        | 16,412,419        |
| Inter-segment revenue                                            | <u>(238,139)</u>          | <u>-</u>         | <u>(238,139)</u>  |
| Net revenue                                                      | <u>6,696,088</u>          | <u>9,478,192</u> | <u>16,174,280</u> |
| Gross profit                                                     | 3,216,655                 | 3,791,270        | 7,007,925         |
| Interest on bank indebtedness                                    | 53,369                    | 537,393          | 590,762           |
| Depreciation and amortization                                    | 228,983                   | 531,243          | 760,226           |
| Additions of property, plant and equipment and intangible assets | 237,397                   | 521,843          | 759,240           |

**Statement of financial position balances as at  
September 30, 2018**

|                   |           |            |            |
|-------------------|-----------|------------|------------|
| Intangible assets | 880,733   | 2,259,055  | 3,139,788  |
| Goodwill          | -         | 280,333    | 280,333    |
| Total assets      | 8,259,042 | 39,431,744 | 47,690,786 |
| Total liabilities | 3,553,052 | 26,029,658 | 29,582,710 |

|                                                                  | <u>September 30, 2017</u> |                   |                   |
|------------------------------------------------------------------|---------------------------|-------------------|-------------------|
|                                                                  | Agency                    | Manufactured      | Consolidated      |
|                                                                  | \$                        | wines             | \$                |
| Gross revenue                                                    | 8,368,573                 | 10,408,754        | 18,777,327        |
| Inter-segment revenue                                            | <u>(235,747)</u>          | <u>-</u>          | <u>(235,747)</u>  |
| Net revenue                                                      | <u>8,132,826</u>          | <u>10,408,754</u> | <u>18,541,580</u> |
| Gross profit                                                     | 3,139,387                 | 4,645,561         | 7,784,948         |
| Interest on bank indebtedness                                    | 54,740                    | 411,014           | 465,754           |
| Depreciation and amortization                                    | 222,056                   | 496,644           | 718,700           |
| Additions of property, plant and equipment and intangible assets | 50,878                    | 2,912,452         | 2,963,330         |

**Statement of financial position balances as at  
March 31, 2018**

|                   |           |            |            |
|-------------------|-----------|------------|------------|
| Intangible assets | 2,420,115 | 772,037    | 3,192,152  |
| Total assets      | 7,538,034 | 34,656,931 | 42,194,965 |
| Total liabilities | 2,794,625 | 23,145,740 | 25,940,365 |

Transactions between segments are measured at the exchange amount, which approximates fair value. All of the Company's assets are located in Canada.

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15. **SEGMENTED INFORMATION, CONTINUED**

**Geographic information**

|                 | <u>2018</u>          | <u>2017</u>          |
|-----------------|----------------------|----------------------|
| <b>Revenue</b>  |                      |                      |
| Canada          | \$ 12,282,785        | \$ 13,415,404        |
| China and other | <u>3,891,495</u>     | <u>5,126,176</u>     |
|                 | <u>\$ 16,174,280</u> | <u>\$ 18,541,580</u> |

16. **FINANCIAL INSTRUMENTS AND RISK FACTORS**

(a) **Fair value of derivative financial instruments**

The fair value of the foreign exchange forward contracts is determined based on the difference between the contract rate and the forward rate at the date of valuation and is included in accounts receivable in the interim condensed consolidated statements of financial position.

(b) **Unrealized (loss) gain on derivative financial instruments**

The unrealized (loss) gain on derivative financial instruments, namely foreign exchange forward contracts, for the three and six month periods ended September 30, 2018 was \$Nil and \$Nil respectively (three and six month periods ended September 30, 2017 - (\$5,540) and \$2,065 respectively).

(c) **Fair value hierarchy**

The fair value of the foreign exchange forward contracts liability has been measured using Level 2 inputs in the fair value hierarchy, namely significant observable inputs from other than quoted prices.

(d) **Foreign exchange forward contracts and currency risk**

The Company uses a hedging program to reduce its exposure to significant fluctuations as they relate to commitments to source products in foreign currencies. The Company's strategy is to hedge approximately 70% of its annual requirements a minimum of two months prior to the purchase obligation arising. As at September 30, 2018, the Company had no foreign exchange forward contracts outstanding. On forward exchange contracts outstanding as at September 30, 2017, a 1% increase or decrease to the exchange rate of the US dollar would impact the Company's net earnings by approximately \$1,000.

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17. **SUBSEQUENT EVENT**

Subsequent to the end of the second quarter, on October 1, 2018 the Company issued stock options to its directors and key members of the management team. A total of 6,850,000 stock options were issued with an exercise price of \$0.28 per share.

18. **COMPARATIVE FIGURES**

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