

DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

YEARS ENDED MARCH 31, 2019 AND 2018

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The following management discussion and analysis ("MD&A") of Diamond Estates Wines & Spirits Inc. ("Diamond" or "the Company") provides a review of corporate developments, results of operations and financial position for the three and twelve month periods ended March 31, 2019 ("Q4 2019" and "FY 2019", respectively) compared with the corresponding periods ended March 31, 2018 ("Q4 2018" and "FY 2018", respectively). This discussion is prepared as of July 29, 2019 and should be read in conjunction with the audited consolidated financial statements and accompanying notes of Diamond for the fiscal years ended March 31, 2019 and March 31, 2018. All note references are made in reference to these consolidated financial statements. Additional information regarding Diamond is available on Diamond's SEDAR profile at www.sedar.com. The results reported in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in the Company's functional currency, Canadian dollars, unless otherwise indicated.

FORWARD-LOOKING STATEMENTS

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

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COMPANY OVERVIEW

Diamond Estates Wines and Spirits Inc. is a producer of high-quality wines and a sales agent for over 120 beverage alcohol brands across Canada. The Company operates three wineries, two in Ontario and one in British Columbia, that produce predominantly VQA wines under such well known brand names as 20 Bees, EastDell, Lakeview Cellars, Dan Aykroyd, Fresh, McMichael Collection, Seasons, Serenity and Backyard Vineyards ("BYV"). Effective January 1, 2019, the Company transferred operations of its agency business, previously operating as Kirkwood Diamond Canada Partnership ("KDC"), to Trajectory Beverage Partners ("TBP"), a wholly owned subsidiary. Through TBP, the Company is the sales agent for many leading international brands in all regions of the country as well as being a distributor in the western provinces. These recognizable brands include Josh wines from California, Fat Bastard and Andre Lurton wines from France, Kaiken wines from Argentina, Anciano wines from Spain, Blue Nun wines from Germany, Francois Lurton wines from France and Argentina, Waterloo Brewing and Amsterdam Brewery, both from Canada, Landshark Lager from the USA, Marston's beers from England, Social Lite vodka sodas from Canada, Edinburgh Gin from Scotland, Ian MacLeod and Glengoyne scotches from Scotland, Barcelo Rum from the Dominican Republic and Tequila Rose Liqueur from McCormick Distilling in the USA.

The Company's mission is to build lasting, mutually beneficial relationships with channel partners, growers, suppliers and employees. To meet this goal, the Company is undertaking significant investments in winemaking, brand marketing, sales programming, performance management and back office infrastructure, including information systems which will support growth in an efficient, profitable manner. Based on its analysis of the market, the Company believes that the long-term growth prospects for the domestic and import beverage alcohol markets in Canada are positive. . The Company continues to be a significant participant in the export market expanding its focus beyond China, where acceptance of Canadian wine remains strong, to include the UK, Vietnam, Japan, Mexico and Russian markets. Canadian wines and particularly ice wines enjoy a premium product positioning with consumers in these countries.

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 115 full-time employees, including 46 engaged in the selling and marketing of its brands, 29 in the manufacturing and distribution of its brands, 17 involved in the retailing of its domestic products through its retail facilities and 23 in accounting and administration, including the senior officers. The Company also uses several independent representatives that are compensated by commissions to sell its products in the licensee channel.

FY 2019 Summary

- Revenue was \$28.1 million, compared to \$34.3 million in FY 2018, with the decline resulting from the previously disclosed softness in export sales and the loss of two large agency suppliers in FY 2018, partially offset by the contribution from the recently acquired Backyard Vineyards, momentum in the grocery channel, and growth of suppliers in the agency division;
- Gross margin was \$12.2 million, or 43.5% of revenue, compared to \$15.2 million, or 44.3% of revenue in FY 2018, with lower winery export revenues and fair value adjustments to inventory on the acquisition of BYV driving the decline;

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- EBITDA was negative \$0.5 million, compared to \$2.5 million for FY 2018 due to lower top-line revenue and resulting lower gross margin contribution, as well as continued increased investment in distribution, promotional programming and senior level roles;
- The acquisition of Backyard Vineyards was completed in June 2018 which transformed Diamond Estates into a national producer of VQA wines and allows the Company to introduce existing brands into British Columbia and Alberta, Canada's third and fourth largest wine markets respectively;
- Diamond Estates continues to out-perform competitors in the grocery channel with case sales increasing 40.5% year-over-year and market share reaching 15.8% for the most recent quarter. Diamond brands represent four of the top five selling products by volume in the channel;
- The annual Ontario harvest was completed during Q3 2019, yielding 2,100 tonnes of grapes of excellent quality. Current inventories of bulk wine will be sufficient to meet sales forecasts as well as any increases anticipated via the expansion of wine in other sales channels;
- The Company initiated a new export sales strategy with a focus on diversifying the export customer base which has resulted in new distributors and orders from the United Kingdom, Russia, and Europe. Additionally, new distributors have been qualified for China, Hong Kong and Mexico;
- The Company completed re-branding of Kirkwood Diamond Canada, the sales agency division, to Trajectory Beverage Partners ("TBP");
- The Company continues to receive accolades for its wines, winning 29 awards during FY 2019, including the prestigious Double Gold & Best Dessert Wine at the 2018 All Canadian Wine Championships for its Lakeview Cellars 2016 Vidal Icewine, Best Icewine for its EastDell 2016 Cabernet Franc Icewine at the 2018 Finger Lakes International Wine Competition, and a Gold Medal for its Backyard Vineyards 2017 Riesling at the San Francisco International Wine Competition; and
- Subsequent to year end, the Company has entered into a strategic relationship with Lassonde Industries Inc. ("Lassonde") (LAS.A-TSX), a North American leader in the development, manufacture and sale of a wide range of beverages. As part of a private placement, Lassonde will purchase 36.9 million Diamond Estates common shares at a price of \$0.19 per common share, resulting in gross proceeds of \$7 million.

SELECT FINANCIAL INFORMATION

	FY 2019	FY 2018	FY 2017
	\$	\$	\$
Revenue	28,123,103	34,270,921	34,288,679
Net (loss) income and comprehensive (loss) income	(3,271,245)	27,177	534,732
Basic (loss) income per share	(0.02)	0.00	0.01
Diluted (loss) income per share	(0.02)	0.00	0.01
Total assets	45,735,180	42,194,965	39,976,637
Term loans payable	21,989,134	19,349,475	7,711,508

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

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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-2019	Dec-2018	Sep-2018	Jun-2018	Mar-2018	Dec-2017	Sep-2017	Jun-2017
	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
	\$	\$	\$	\$	\$	\$	\$	\$
Balance sheet								
Working capital surplus	14,887,530	17,039,151	15,147,683	14,557,047	13,649,842	16,962,914	12,878,449	3,566,738
Bank indebtedness (total)	-	-	-	-	-	-	-	9,633,395
Term debt and finance leases	23,141,616	23,554,598	20,983,293	20,633,556	19,870,206	22,014,838	18,024,476	8,208,220
Total equity	15,640,254	17,605,714	18,408,185	18,207,451	16,254,600	17,596,514	17,073,197	16,928,201
Income statement								
Revenue	4,536,520	7,412,303	8,168,951	8,005,329	5,379,083	10,350,258	8,909,281	9,632,299
Gross margin	1,797,361	3,024,156	3,729,894	3,679,176	2,268,204	4,745,427	3,785,536	4,384,242
EBITDA	(1,390,145)	(230,565)	316,894	790,465	(753,214)	1,015,126	781,325	1,449,304
Adjusted EBITDA	(1,093,555)	(150,219)	517,233	740,610	(449,022)	1,851,476	877,712	1,449,304
Net (loss) income	(2,160,553)	(1,081,611)	(429,548)	400,467	(1,362,867)	504,374	1,268	884,402
Basic (loss) income per share	(0.01)	(0.01)	0.00	0.00	(0.01)	0.00	0.00	0.01
Diluted (loss) income per share	(0.01)	(0.01)	0.00	0.00	(0.01)	0.00	0.00	0.01

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

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RESULTS OF OPERATIONS

	FY 2019	FY 2018
Revenue	\$ 28,123,103	\$ 34,270,921
Cost of sales	<u>15,892,516</u>	<u>19,087,512</u>
Gross margin	12,230,587	15,183,409
<i>Gross margin (% of revenue)</i>	43.5	44.3
Selling, general and administration expenses	12,743,938	12,690,868
<i>Selling, general and administration expenses (% of revenue)</i>	<u>45.3</u>	<u>37.0</u>
EBITDA	(513,351)	2,492,541
Adjusted EBITDA (see page 20)	14,069	3,570,073
Interest	1,164,394	858,251
Depreciation and amortization	1,409,556	1,420,462
Income tax recovery	<u>(65,346)</u>	<u>-</u>
Income from operations	(3,021,955)	213,828
Share based compensation	549,399	186,651
Other income	<u>(300,109)</u>	<u>-</u>
Net income and comprehensive income	<u>\$ (3,271,245)</u>	<u>\$ 27,177</u>
Portion attributable to:		
Shareholders	<u>\$ (3,271,245)</u>	<u>\$ 27,177</u>
	<u>\$ (3,271,245)</u>	<u>\$ 27,177</u>

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

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The Company reported a net loss for Q4 2019 of \$2.1 million, compared to a net loss of \$1.4 million in Q4 2018. For FY 2019, the Company reported a net loss of \$3.3 million, a decline of \$3.3 million from a slightly positive net income in FY 2018.

Revenue for Q4 2019 was \$4.5 million, a decline of \$0.8 million, or 15.7% from \$5.4 million in Q4 2018. Winery division revenue of \$1.9 million in Q4 2019 was similar to Q4 2018. The addition of BYV accounted for \$0.3 million of revenue in Q4 2019, which did not exist in the year-ago period. This was offset by lower sales to the LCBO resulting in part from timing relating to the Easter long weekend. Easter Sunday fell on April 21 in 2019 and April 1 in 2018. Accordingly, there were Easter-related sales to the LCBO in Q4 2018 which were not repeated in Q4 2019. Within the LCBO channel, the Company continued to see growth in grocery, where case volumes in Q4 2019 increased 34% from Q4 2018 and 40.5% for FY 2019. Diamond brands represented four of the five top sellers by volume in the channel. Agency division revenue for Q4 2019 was \$2.6 million, a decline of \$0.9 million, or 24.3%, from \$3.5 million in Q4 2018. This decline was a result of previously disclosed supplier losses, as those suppliers contributed \$1.1 million of revenue in Q4 2018 and increased promotional spending of \$0.1 million that is accounted for as a reduction of revenue under the requirements of IFRS. The decline was offset by organic sales growth of \$0.4 million in other key supplier brands in the agency portfolio compared to the year-ago period.

Revenue for FY 2019 was \$28.1 million, a decline of \$6.1 million, or 17.9% from \$34.3 million in FY 2018. The winery division accounted for \$2.3 million of the decline, driven by a decrease in export revenue of \$2.7 million, a decrease in the LCBO channel of \$0.5 million and a \$0.2 million decrease in revenue related to the closure of the Beamsville winery property during Q1 2019. This decline was partially offset by revenue from BYV of approximately \$1.1 million earned during FY 2019, along with modest increases in the retail onsite and licensee channels. The agency division accounted for \$3.8 million of the decline, which was a result of the previously disclosed loss of suppliers that the Company represented as national distributor. The revenue shortfall attributed to these suppliers totalled \$4.4 million as compared to FY 2018, with a further decline in revenues from severance and the sell-off of inventories related to severed suppliers of \$0.5 million. The decline was partially offset by \$1.1 million of organic sales growth in certain other key agency portfolio brands as well as the addition of new agency suppliers during FY 2019.

Gross margin for Q4 2019 was \$1.8 million, a decline of \$0.5 million, or 20.8%, from \$2.3 million in Q4 2018. Gross margin in the winery division was \$0.7 million in Q4 2019, a decline of \$0.1 million, or 15.3%, from \$0.9 million in Q4 2018. Gross margin as a percentage of revenue in the winery division was 38.4% in Q4 2019, compared to 45.5% in Q4 2018. This decline was the result of the sale of \$0.1 million in bulk wine at cost and the impact of the fair value adjustments related to the acquisition of BYV, which reduced the reported margin on BYV sales. Gross margin in the agency division was \$1.1 million in Q4 2019, a decline of \$0.3 million, or 24.1%, from \$1.4 million in Q4 2018. Gross margin as a percentage of revenue in the agency division was 40.5% for Q4 2019, compared to 40.4% in Q4 2018. The decline in gross margin dollars is attributable to lower sales.

Gross margin for FY 2019 was \$12.2 million, a decline of \$3.0 million, or 19.4%, from \$15.2 million in FY 2018. Gross margin as a percentage of revenue was 43.5% for FY 2019, down slightly from 44.3% in FY 2018. Gross margin in the winery division was 42.8% for FY 2019, compared to 47.0% in FY 2018. This decline was the result of lower high-margin export sales in FY 2019, higher bulk wine sales, and an increase to cost of sales of \$0.3 million associated with the purchase accounting fair value adjustments to inventory on acquisition of BYV. Gross margin in the agency division for FY 2019 was 44.3%, up from 41.5% in FY 2018, reflecting an increased proportion of commission revenues relative to buy-sell arrangements year-over-year.

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Total selling, general and administrative expenses were \$3.2 million in Q4 2019, an increase of \$0.2 million, or 5.5%, from \$3.0 million in Q4 2018. The increase in Q4 2019 relates to increased occupancy costs resulting from relocation of the agency business to its new office space in September 2018, increases in advertising and promotional spending as well as the costs to operate the recently acquired BYV winery in British Columbia.

Total selling, general and administrative expense for FY 2019 were \$12.7 million, similar to FY 2018. The prior-year total included \$0.8 million in restructuring costs associated with a workforce reduction in the Company's agency division during Q3 2018. When normalized for this amount, selling, general and administrative expenses increased by \$0.9 million, or 7.3%, in FY 2019 compared to FY 2018. In addition, FY 2019 selling, general and administrative expenses reflect increased employee compensation and benefits due to the hiring of senior level positions to support corporate strategy and growth, post-closing costs related to the acquisition of BYV in Q2 2019 (*see note 5 to the 2019 financial statements*), consulting fees relating to the selection of a new ERP system and increased costs related to the change in IT managed services and software subscriptions.

Interest expense was \$0.3 million in Q4 2019, an increase of \$0.1 million, or 58.7%, from \$0.2 million in Q4 2018. For FY 2019, interest expense was \$1.2 million, compared to \$0.9 million in FY 2018, an increase of \$0.3 million, or 35.7%. These increases reflect the larger balances drawn on the revolving line of credit as the Company completed the expansion of its winery production facility, acquired BYV and purchased a significant amount of grapes during the harvest period. Additionally, floating interest rate increases on debt and finance leases have also contributed to the increased interest expense.

Share-based compensation increased to \$0.2 million in Q4 2019 due to the amortization of the costs associated with the 8,100,000 options that were issued during the third and fourth quarters of FY 2019. Similarly, FY 2019 share-based compensation expense was \$0.5 million, up from \$0.2 in FY 2018 due to the aforementioned options issuances.

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LIQUIDITY AND CAPITAL RESOURCES

	March 31, 2019	March 31, 2018
Accounts receivable	\$ 2,906,154	\$ 2,795,576
Inventory	19,462,687	17,037,104
Prepaid expenses	<u>232,592</u>	<u>539,834</u>
Total current assets	22,601,433	20,372,514
Property, plant and equipment	19,978,606	18,630,299
Intangible assets	<u>3,155,141</u>	<u>3,192,152</u>
Total assets	<u>\$ 45,735,180</u>	<u>\$ 42,194,965</u>
Accounts payable and accrued liabilities and other	\$ 6,403,310	\$ 6,070,159
Note payable	550,000	-
Current portion of term loans payable and finance leases	<u>760,593</u>	<u>652,513</u>
Total current liabilities	7,713,903	6,722,672
Term loans payable, net of current portion	21,536,947	18,895,188
Finance leases, net of current portion	<u>844,076</u>	<u>322,505</u>
Total liabilities	30,094,926	25,940,365
Shareholders' equity	<u>15,640,254</u>	<u>16,254,600</u>
	<u>\$ 45,735,180</u>	<u>\$ 42,194,965</u>

The Company's consolidated financial position has changed significantly from March 31, 2018 to March 31, 2019, primarily due to the acquisition of BYV, a winery in Langley, British Columbia, on June 28, 2018 (*see note 5 to the 2019 financial statements*) and the sale leaseback agreement with Bank of Montreal ("BMO") for certain winery equipment (*see note 8 to the 2019 financial statements*).

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The accounts receivable balance of \$2.9 million as at March 31, 2019 increased by \$0.1 million compared to March 31, 2018. This increase was largely due to the acquisition of BYV, which had accounts receivable totalling \$0.1 million as at March 31, 2019.

Inventory balances of \$19.5 million as at March 31, 2019, increased by \$2.4 million from \$17.0 million as at March 31, 2018. The winery division accounted for the increase in inventories, primarily due to the acquisition of BYV, which had inventory balances totalling \$1.8 million as at March 31, 2019. In addition, there was an increase in deferred winery overhead due to the expansion of the Ontario winery that was completed during Q1 2019. Agency division inventory of \$2.5 million as at March 31, 2019 was consistent with the balance as at March 31, 2018.

Prepaid expenses of \$0.2 million as at March 31, 2019 declined by \$0.3 million from \$0.5 million as at March 31, 2018 due to the amortization of prepaid amounts into expense for insurance premiums, financing fees and other expenses. The prior-year balance also included a larger amount of prepaid insurance due to a change in the policy term and timing of payments.

Property, plant and equipment of \$20.0 million as at March 31, 2019 increased by \$1.4 million from \$18.6 million as at March 31, 2018. This increase is a result of the previously mentioned additions in the first half of FY 2019, including the BYV acquisition, expansion of the production facility at the Niagara winery location and build out of the new agency business head office.

Intangible assets were \$3.2 million as at March 31, 2019 similar to \$3.2 million as at March 31, 2018. Amortization of intangibles totalling \$0.3 million for FY 2019 was mostly offset by the intangibles acquired on the purchase of BYV, which included customer lists and trademarks valued at \$0.3 million.

Accounts payable and accrued liabilities of \$6.4 million as at March 31, 2019 increased by \$0.3 million from \$6.1 million as at March 31, 2018. Winery division payables were \$3.1 million, a decrease of \$0.5 million from \$3.6 million as at March 31, 2018, which included larger amounts owing for fourth quarter ice wine grape purchases, payables related to the winery expansion, and higher payables for raw materials. In the agency division, payables totalled \$3.3 million as at March 31, 2019, an increase of \$0.8 million from \$2.5 million as at March 31, 2018. This increase was partially due to the extending of payment terms with several suppliers, as well as increased inventory purchases towards the end of the quarter to support Q1 2020 promotions and the timing associated with Easter occurring later in April 2019 as compared to 2018.

Liabilities related to assets under finance lease of \$1.2 million as at March 31, 2019, increased by \$0.7 million from \$0.5 million as at March 31, 2018. This increase is primarily related to the sale and leaseback of winery equipment in a transaction with BMO that occurred on November 26, 2018 (*see note 8 to the 2019 financial statements*) as the intent of the operating line facility is to manage day-to-day working capital needs.

Working capital of \$14.9 million as at March 31, 2019 increased by \$1.3 million from \$13.6 million as at March 31, 2018. This increase was primarily the result of the \$2.4 million increase to inventory, which was partially offset by the \$0.3 million increase in accounts payable, the assumption of the \$0.6 million note payable associated with the acquisition of BYV, and the changes in other current assets and liabilities as described above.

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The Company's debt to equity ratio increased to 1.51:1 as at March 31, 2019 from 1.22:1 as at March 31, 2018, where debt is defined as total liabilities less other current liabilities and equity is defined as shareholders' equity. This is a result of the increase in bank debt and assumption of the note payable from the acquisition of BYV during Q1 2019, partially offset by the increase to share capital resulting from the acquisition of BYV and the exercise of stock options.

Related party transactions

During FY 2019 and FY 2018, 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:

	FY 2019	FY 2018
	\$	\$
Salary	1,151,480	976,575
Director fees	80,250	78,500
Share based compensation under stock option plan and DSU plan	549,399	186,651
Winery lease payments	100,000	100,000
Grape purchases	110,089	115,282
Vineyard maintenance	-	105,391

Accounts payable and accrued liabilities as at March 31, 2019 includes \$481,184 (2018 - \$379,627) with respect to balances owing to related parties for the transactions disclosed above.

CAPITALIZATION

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

	March 31, 2019	March 31, 2018	Change in period
Common shares	148,511,746	140,373,841	8,137,905
Deferred share units	1,622,000	1,563,238	58,762
Stock options	11,850,000	7,175,000	4,675,000
Total equity instruments	<u>161,983,746</u>	<u>149,112,079</u>	<u>12,871,667</u>

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

- (a) On April 3, 2018, on the retirement of a member of the Board of Directors, 200,405 DSUs were settled in common shares of the Company;
- (b) On April 10, 2018, the Company issued 150,000 common shares on the exercise of options;
- (c) On June 28, 2018, the Company issued 4,687,500 common shares valued at \$0.32 per share in settlement of \$1,500,000 of the purchase consideration paid to acquire BYV (see note 5 to the 2019 financial statements);

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- (d) During Q1 2019, a total of 175,000 options, initially granted on November 24, 2014, expired unexercised on the departure of two executives of the Company;
- (e) On August 31, 2018, the Company issued an aggregate of 259,167 DSU's to non-executive directors under the DSU plan in settlement of \$77,750 of deferred directors' compensation;
- (f) On September 21, 2018, 500,000 stock options originally granted on September 24, 2013 were exercised at the purchase price of \$0.25 per share and 2,000,000 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;
- (g) On October 1, 2018, the Company issued stock options to its directors and key members of the management team. A total of 7,100,000 stock options were issued with an exercise price of \$0.28 per share;
- (h) On November 1, 2018, 350,000 of the stock options originally granted on November 24, 2014 were exercised at the purchase price of \$0.11 per share for total proceeds of \$38,500;
- (i) On November 24, 2018, 250,000 of the stock options originally granted on November 24, 2014 were exercised at the purchase price of \$0.11 per share for total proceeds of \$27,500; and
- (j) On January 23, 2019, the Company issued a total of 1,000,000 stock options to a key member of the management team with an exercise price of \$0.20 per share.

SUBSEQUENT EVENTS

On July 29, 2019, the Company completed a brokered private placement with Lassonde Industries Inc. ("Lassonde") to issue 36.9 million common shares at \$0.19 per share for gross proceeds of \$7.011 million. The issuance of the common shares has led to Lassonde taking a 19.9% ownership in the Company and Lassonde will have the right to designate two of the seven members of the Board of Directors.

On July 29, 2019, the terms of certain financial covenants with BMO were amended. The fixed charge coverage ratio was amended to include the net proceeds of the Lassonde brokered private placement as equivalent to earnings before interest, depreciation and amortization for a 12 month period ending October 2020.

STRATEGIC OUTLOOK AND DIRECTION

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

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The Canadian beverage alcohol market continues to grow strongly, outpacing most consumer categories. Statistics Canada recently reported¹ that in the 12 months ended March 31, 2018 ("2018"), \$23.2 billion worth of alcoholic beverages was sold in Canada, up 3.1% from the previous 12 months ended March 31, 2017 ("2017"). The total volume of alcohol sold increased 0.8% to 3,098 million litres in 2018. Wine sales in Canada increased 4.9% in 2018 (2017 – 1.9%) to 531 million litres, up from 505 million litres in 2017; within this Canadian wine rose 5.5% (2017 – 6.9%) while import wines grew 4.2% (2017 – 1.4%). This volume is equivalent to 25.6 (2017 – 24.5) bottles of wine sold per person over the legal drinking age in Canada (1 bottle = 750 ml, 12% alcohol content). The value of wine sold increased 4.6% to \$7.5 billion in 2018 from \$7.2 billion in 2017. Spirits sales increased 4.4% to \$5.5 billion in 2018 from \$5.3 billion in 2017. By volume, the increase was 2.0% to 171.9 million litres, or 7.4 bottles of spirits sold per person over the legal drinking age in Canada (1 bottle = 750 ml, 40% alcohol content) in 2017 from 168.5 million litres in 2017. Similarly, beer sales increased by 0.8% to \$9.2 billion in 2018. Volume sales were 2.2 billion litres, or 220.4 (2017 – 221.5) bottles of beer sold per person over the legal drinking age in Canada (1 bottle = 341 ml, 5% alcohol content). The market share for wine (in dollar volume) was 32.4% in 2018, up from 32.0% in 2017. Beer represented 39.7% in 2018 (2017 – 40.6%) and spirits sales represented 23.7% in 2018 (2017 – 23.4%). The remaining market share is made up of Ciders, Coolers and Other Refreshment Beverages ("CCORB"), which sold 181 million litres in 2018, up from 167 million litres in 2017.

Ontario wineries have a 44% share² of the total market of all wine sold in Ontario, but that figure falls to 11% when including only Vintner Quality Alliance ("VQA") wine. In most other international wine regions, the domestic share is consistently above 70%². There are significant opportunities to grow the sales and market share of Ontario wine given increasing wine consumption, continuous quality improvements and competitive pricing². Diamond will continue to focus on further developing its existing brands of VQA certified wines that include Lakeview Cellars, EastDell, Seasons, 20 Bees, Dan Aykroyd and Fresh. This continued focus will include additional investment in marketing, promotion and advertising to ensure top-of-mind awareness and preference for the Company's brands.

Recent provincial government announcements in New Brunswick, Saskatchewan, British Columbia and Ontario involving the sale of alcohol in grocery stores represents a significant change from 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 is also very strong. China imported 687.5 million litres (or US\$2.85 billion) of wine in calendar 2018³. While Chinese import volumes were lower compared to calendar 2017, due in part to trade tensions, the total dollar value of imports increased³. Canadian wine producers are in the very early stages of capitalizing on this opportunity. Canadian wine exports to China totaled 1.4 million litres in calendar 2017, up 9% from the prior year⁴, and 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.

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

1 <https://www150.statcan.gc.ca/n1/daily-quotidien/190423/dq190423a-eng.htm>

2 <https://wgaoc.ca/ontario-wine-industry/>

3 <https://www.thedrinksbusiness.com/2019/02/chinas-top-10-wine-importing-countries-in-2018>

4 <http://www.canadianvintners.com/industry-statistics/>

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.

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GOVERNMENT REGULATION OF LIQUOR INDUSTRY

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

SIGNIFICANT COMPETITION

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

MANAGEMENT OF GROWTH

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

ISSUANCE OF DEBT

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

LABOUR COSTS AND SHORTAGES AND LABOUR RELATIONS

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

AGRICULTURAL RISK

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

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

FOREIGN EXCHANGE

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

ENERGY COSTS

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

TAXATION

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

TRADEMARKS

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

IMPORTANCE OF INVENTORY, WAREHOUSE AND DISTRIBUTION SYSTEMS

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

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WHOLESALE COST INCREASES

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

DISTRIBUTION BUSINESS

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

CREDIT RISK

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

EXPOSURE TO INTEREST RATE FLUCTUATIONS

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

ENVIRONMENTAL COMPLIANCE

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

PACKAGING

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

INDUSTRY CONSOLIDATION

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

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RISKS RELATED TO COMMON SHARE INVESTMENTS

PRICE VOLATILITY OF PUBLICLY TRADED SECURITIES

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

DILUTION

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

DIVIDENDS

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

FINANCIAL MARKET TURMOIL

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

NON-IFRS FINANCIAL MEASURES

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

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

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

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The Company calculates EBITDA and Adjusted EBITDA as follows:

	FY 2019 \$	FY 2018 \$
Net (loss) income	(3,271,245)	27,177
Add: Interest on long-term debt	1,164,394	858,251
Depreciation on property, plant and equipment used in production	716,633	745,117
Depreciation on property, plant and equipment used in selling and administration	352,393	331,172
Amortization on intangible assets	340,530	344,173
Share-based compensation	549,399	186,651
Other income	(300,109)	-
Income tax recovery	<u>(65,346)</u>	<u>-</u>
EBITDA	(513,351)	2,492,541
Acquisition costs	70,617	-
Cost of goods sold adjustments for fair value of BYV inventories sold	260,824	-
Warehousing cost recovery	(49,506)	49,506
QST recovery	(49,299)	49,299
Severance and related costs included in employee compensation and benefits and professional fees	201,078	-
Financing costs	93,706	142,377
Restructuring charges and related costs	<u>-</u>	<u>836,350</u>
Adjusted EBITDA	<u>14,069</u>	<u>3,570,073</u>

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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 43.7% of total assets as at March 31, 2019 (March 31, 2018 - 44.2%). Therefore, estimates and assumptions made to determine their carrying value and related depreciation are critical to the Company's financial position and performance.

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

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

GROSS VERSUS NET PRESENTATION

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

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USEFUL LIFE OF INTANGIBLE ASSETS

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

IMPAIRMENT OF INTANGIBLE ASSETS

Testing intangible assets for impairment involves estimating the recoverable amount of the CGUs to which intangible assets are allocated. This requires making assumptions about future cash flows, growth rates, market conditions and discount rates, which are inherently uncertain. Actual amounts may vary from these assumptions and cause significant adjustments. Management has concluded that a 10% change in any key assumption in the impairment test of intangible assets would not result in an impairment of intangible assets as at March 31, 2017 and March 31, 2016.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

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

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

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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 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 expects to adopt IFRS 16 using the modified retrospective transition method and currently expects to apply the following practical expedients: (i) grandfather the assessment of which transactions are leases; (ii) recognition exemption of short-term leases; and (iii) recognition exemption leases of low value items. The Company will recognize right-of-use assets and finance lease obligation liabilities for its leased premises on the consolidated statement of financial position upon adoption, effective April 1, 2019.