DIAMOND ESTATES WINES & SPIRITS INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED JUNE 30, 2024 AND 2023

(Stated in Canadian dollars)

(Unaudited - Prepared by Management)

These unaudited interim condensed consolidated financial statements, prepared by management, have not been reviewed by the Company's external auditor.

DIAMOND ESTATES WINES & SPIRITS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT JUNE 30, 2024 AND MARCH 31, 2024
(Stated in Canadian dollars)
(Unaudited - Prepared by Management)

	June 30 2024	March 31 2024
ASSETS		
Current:		
Accounts receivable (Note 4)	**$ 6,132,724**	$ 4,814,940
Inventories (Note 5)	**17,416,315**	18,317,266
Biological assets	**111,257**	-
Prepaid expenses	**1,058,974**	904,557
Assets held for sale (Note 6)	**4,131,000**	4,663,957
Mortgage receivable (Note 7)	**500,000**	-
Current portion of finance lease receivable (Note 8)	**55,968**	-
	29,406,238	28,700,720
Long term:		
Mortgage receivable (Note 7)	**-**	500,000
Finance lease receivable	**222,451**	-
Property, plant and equipment	**17,962,392**	18,158,973
Right-of-use assets	**835,589**	1,360,981
Intangible assets	**3,780,686**	3,872,361
	$ 52,207,356	$ 52,593,035
LIABILITIES		
Current:		
Accounts payable and accrued liabilities (Note 9)	**$ 7,232,420**	$ 6,507,814
Current portion of term loans payable (Note 10)	**17,512,433**	16,564,622
Current portion of lease liabilities	**332,427**	366,508
Debentures payable (Note 11)	**4,745,451**	4,651,537
Derivative liability (Note 11)	**1,828,581**	1,881,227
Liabilities held for sale (Note 6)	**1,040,580**	1,123,672
	32,691,892	31,095,380
Long term:		
Lease liabilities	**563,118**	601,224
	33,255,010	31,696,604
SHAREHOLDERS' EQUITY		
Common shares (Note 12)	**49,813,853**	49,813,853
Contributed surplus	**3,892,695**	3,819,001
Accumulated deficit	**(34,754,202)**	(32,736,423)
	18,952,346	20,896,431
	$ 52,207,356	$ 52,593,035

Going concern (Note 2(c))

Subsequent events (Note 18)

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 AND COMPREHENSIVE LOSS
THREE MONTHS ENDED JUNE 30, 2024 AND 2023
(Stated in Canadian dollars, except per share amounts)
(Unaudited - Prepared by Management)

	2024	2023
Revenue (Note 13)		
	$ 6,171,781	$ 7,911,196
Cost of sales		
Change in inventories of finished goods and raw materials consumed	**3,409,494**	5,002,080
Depreciation of property, plant and equipment and right-of-use assets used in production	**168,937**	161,700
	3,578,431	5,163,780
Gross profit	**2,593,350**	2,747,416
Expenses		
Employee compensation and benefits	**1,440,625**	1,862,650
General and administrative	**981,506**	1,083,448
Advertising and promotion	**370,414**	503,973
Interest and accretion	**583,946**	957,063
Delivery and warehousing	**365,626**	384,407
Financing fees	**33,235**	9,408
Share based compensation (Note 12(e))	**73,694**	83,747
Depreciation of property, plant and equipment and right-of-use assets used in selling and administration	**69,907**	177,350
Amortization of intangible assets	**95,750**	98,804
	4,014,703	5,160,850
Loss before undernoted items	**(1,421,353)**	(2,413,434)
Impairment provision - property, plant and equipment	**(410,000)**	-
Change in fair value of derivative liability (Note 11(f))	**52,646**	(82,681)
Restructuring charge	**(40,832)**	-
Loss on de-recognition of right-of-use asset (Note 8)	**(198,240)**	-
Gain on sale of right-of-use assets	**-**	32,036
Net loss and comprehensive loss	**$ (2,017,779)**	$ (2,464,079)
Basic and diluted loss per share (Note 12(f))	**$ (0.04)**	$ (0.09)

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
FROM APRIL 1, 2023 TO JUNE 30, 2024
(Stated in Canadian dollars)
(Unaudited - Prepared by Management)

	Note	Common shares Shares	Common shares Amount	Contributed surplus	Accumulated deficit	Total
As at April 1, 2023		**27,875,978**	**$40,848,245**	**$ 3,525,577**	**$ (22,084,029)**	**$22,289,793**
Net loss and comprehensive loss		-	-	-	(2,464,079)	(2,464,079)
Share based compensation		-	-	83,747	-	83,747
As at June 30, 2023		**27,875,978**	**40,848,245**	**3,609,324**	**(24,548,108)**	**19,909,461**
Net loss and comprehensive loss		-	-	-	(8,188,315)	(8,188,315)
Share based compensation		-	-	258,440	-	258,440
Issuance of shares		20,000,000	9,000,000	-	-	9,000,000
Share issue costs		-	(83,155)	-	-	(83,155)
Shares issued in settlement of DSUs		182,140	48,763	(48,763)	-	-
As at March 31, 2024		**48,058,118**	**49,813,853**	**3,819,001**	**(32,736,423)**	**20,896,431**
Net loss and comprehensive loss		-	-	-	(2,017,779)	(2,017,779)
Share based compensation		-	-	73,694	-	73,694
As at June 30, 2024		**48,058,118**	**$49,813,853**	**$ 3,892,695**	**$ (34,754,202)**	**$18,952,346**

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
THREE MONTHS ENDED JUNE 30, 2024 AND 2023
(Stated in Canadian dollars)
(Unaudited - Prepared by Management)

	2024	2023
Operating activities		
Net loss and comprehensive loss	**$ (2,017,779)**	$ (2,464,079)
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment and right-of-use assets	**238,843**	338,925
Amortization of intangible assets	**95,750**	98,804
Loss on de-recognition of ROU asset	**198,240**	-
Gain on disposition of right-of-use assets	**-**	(32,036)
Amortization of deferred financing costs	**33,235**	-
Change in fair value of derivative liability	**(52,646)**	82,681
Interest accretion on debentures payable	**93,914**	213,829
Share based compensation	**73,694**	83,747
Impairment provision - property, plant and equipment	**410,000**	-
Fair value purchase price accounting adjustment on EWG inventory	**65,737**	29,931
Interest expense	**396,118**	743,234
Interest paid	**(274,353)**	(621,469)
	(739,247)	(1,526,433)
Change in non-cash working capital items		
Accounts receivable	**(1,317,977)**	(547,617)
Inventories	**976,300**	1,530,291
Biological assets	**(111,257)**	(184,785)
Prepaid expenses	**(155,214)**	(219,541)
Accounts payable and accrued liabilities	**545,268**	1,063,584
	(802,127)	115,499
Investing activities		
Purchase of property, plant and equipment and intangible assets	**(25,084)**	(14,963)
Payments received under finance lease	**10,343**	-
	(14,741)	(14,963)
Financing activities		
Loan payable - related party	**-**	750,000
Net draws against (repayments of) revolving term loans	**1,049,576**	(461,043)
Repayment on non-revolving term loans	**(135,000)**	(306,847)
Repayment of lease liabilities	**(97,708)**	(82,646)
	816,868	(100,536)
Change in cash	**-**	-
Cash, beginning of period	**-**	-
Cash, end of period	**$ -**	$ -
Non-cash transactions (Note 14)		

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

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.

2. BASIS OF PRESENTATION AND GOING CONCERN

(a) Statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 “Interim Financial Reporting” as issued by the International Accounting Standards Board ("IASB"), and accordingly do not include all the information required for full annual financial statements by International Financial Reporting Standards ("IFRS"). They have been prepared using the same accounting policies that were described in note 3 to the Company’s annual consolidated financial statements for the year ended March 31, 2024 which were prepared in accordance with IFRS as issued by the IASB, except as detailed below:

(i) Right-of-use assets (as a lessor)

When the Company acts as a lessor, it determines and classifies each lease as a finance lease or operating lease at the lease commencement date under the provisions of IFRS 16. When a lease transfers to the lessee substantially all the risk and rewards of ownership incidental to the ownership of the underlying asset, the lease is classified as a finance lease; otherwise, the lease is classified as an operating lease. When the Company is an intermediate lessor, it determines at lease inception date whether the sub-lease is a finance lease or an operating lease based on whether the contract transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the sub-lease is a finance lease; if not, then it is an operating lease.

(ii) Derecognition of right-of-use asset

When the intermediate lessor enters into the sub-lease:

- It derecognizes the right-of-use asset relating to the head lease that it transfers to the sub-lessee, and recognizes the net investment in the sub-lease
- Recognizes any difference between the right-of-use asset and the net investment in the sub-lease in profit or loss

2. **BASIS OF PRESENTATION AND GOING CONCERN, CONTINUED**

(iii) Finance lease receivable

At the commencement date of a finance lease, the Company recognizes a finance lease receivable at the amount of its net investment in the lease, which is measured at the present value of lease payments to be made over the lease term.

In calculating the present value of lease payments, the Company uses the interest rate implicit in the lease, or in the case of a sub-lease if the rate is not readily determinable, the discount rate used for the head lease. After the commencement date, the amount of the finance lease receivable is increased to reflect the accretion of interest and reduced for the lease payments received. In addition, the finance lease receivable is derecognized and impairment is measured in accordance with the expected credit loss (ECL) model pursuant to IFRS 9, Financial Instruments.

Board of Director approval

These 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 August 22, 2024.

(b) **Basis of presentation**

The unaudited interim condensed consolidated financial statements are prepared on a going concern basis under the historical cost convention. Unless otherwise stated, the unaudited interim condensed consolidated financial statements are presented in Canadian dollars. That is the Company's functional and presentation currency as (i) the Company is based in Canada, (ii) the majority of its operating costs are denominated in Canadian dollars, and (iii) all its financing is obtained in Canadian dollars.

(c) **Going concern**

The accompanying unaudited interim condensed consolidated financial statements have been prepared using IFRS (as issued by the IASB) applicable to a going concern.

Net loss and comprehensive loss for the three months ended June 30, 2024 was $2,017,779 (June 30, 2023 - $2,464,079). Additionally, the Company reported negative cash flow from operations (before changes in non-cash working capital) of $739,247 for the three months ended June 30, 2024 (June 30, 2023 - $1,526,433). As at June 30, 2024, the Company had an accumulated deficit of $34,754,202 (March 31, 2024 - $32,736,423) and a working capital deficiency of $3,285,654 (March 31, 2024 - $2,394,660).

2. BASIS OF PRESENTATION AND GOING CONCERN, CONTINUED

On November 14, 2023, the Company entered into a second amendment (the “Amendment”) to its Second Amended and Restated Credit Agreement (the “SARCA”) with Bank of Montreal (“BMO”), whereby the lender consented to waiving the requirements of the fixed-charge coverage ratio ("FCCR) covenant to the first quarter of fiscal 2025 *(see note 10(a))*. Based on the results for the three months ended June 30, 2024, the Company estimates that it will be in breach of its quarterly fixed charge covenant under the terms of its current credit agreement for which the Company has yet to receive a waiver. As of June 30, 2024, the Company has debt repayment requirements of approximately $25.6 million within the next twelve months, including all its non-revolving term loans due by May 31, 2024 *(see note 18(e))*, the current portion of its lease liabilities, the principal amount of the debentures payable plus accrued interest due by November 9, 2024 *(see note 11)*, as well as annual seasonal grape purchase commitments in the fall of 2024. These circumstances lend significant doubt as to the ability of the Company to continue as a going concern and, accordingly, the appropriateness ultimately of the use of accounting principles applicable to the going concern assumption.

In response to the recurring operating losses, negative cash flows from operating activities, and loss of a significant supplier, the Company is taking a number of actions to enhance its financial flexibility, to meet its obligations and to fund its ongoing business operations. This has been evidenced by the November, 2023 private placement for net cash proceeds of $8.2 million, the July, 2025 private placement for proceeds of $2.3 million, the debenture financing of $.9 million arranged in November, 2022 and its subsequent rollover *(see note 11)*, the sale of Queenston Mile Vineyard ("QMV") in February, 2024 for net proceeds of $3.3 million and the other assets held for sale *(see note 6),* the agreement with Renaissance and execution of the put option *(see note 18(d))*, the updated credit agreement with BMO *(see note 10(a))*, and significant progress on its debt reduction initiatives *(see note 18(e))*. To ensure the Company maintains an adequate level of liquidity, including compliance with debt covenants, the Company continues to maintain a strategic review process that engages in actions designed to reduce the cost structure, improve productivity and enhance future cash flow.

The Company’s ability to meet the covenant measurements under the terms of its credit agreements with its lenders is still dependent upon continued improvement in profitable commercial operations, divestiture of non-strategic assets, continued funding support from BMO and shareholders, and new equity and debt placements. However, there can be no assurance that management will be successful in this regard. These unaudited interim condensed consolidated financial statements do not include any adjustments to the carrying value of assets or liabilities, to the recoverable amounts or the reported expenses and unaudited interim condensed consolidated statement of financial position classifications that would be necessary if the going concern assumption were inappropriate, and these adjustments could be material.

3. RECENT ACCOUNTING PRONOUNCEMENTS

Recently adopted accounting pronouncements

IAS 1 "Presentation of Financial Statements"
This standard has been amended to clarify the classification of liabilities as current or non-current depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. The amendment also clarifies the meaning of settlement of a liability. The standard has also been amended to specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Instead, the amendments require a company to disclose information about these covenants in the notes to the financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. The adoption of the amendment did not have a significant impact on the unaudited interim condensed consolidated financial statements.

Recently issued accounting pronouncements

IFRS 18 "Presentation and Disclosure in Financial Statements"

In April 2024, IFRS 18 was issued to achieve comparability of the financial performance of similar entities. The standard, which replaces IAS 1, impacts the presentation of primary financial statements and notes, including the statement of earnings where companies will be required to present separate categories of income and expense for operating, investing, and financing activities with prescribed subtotals for each new category. The standard will also require management-defined performance measures to be explained and included in a separate note within the consolidated financial statements. The standard is effective for annual reporting periods beginning on or after January 1, 2027, including interim financial statements, and requires retrospective application. The Company has not yet assessed the impact of the amendment on the unaudited interim condensed consolidated financial statements.

IFRS 9 and IFRS 7, Amendments to the Classification and Measurement of Financial Instruments

In May 2024, both IFRS 9 and IFRS 7 were amended to clarify that a financial liability is derecognized on the 'settlement date' and introduce an accounting policy choice to derecognize financial liabilities settled using an electronic payment system before the settlement date. Other clarifications include the classification of financial assets with environmental, social, and governance linked features via additional guidance on the assessment of contingent features. Clarifications have been made to non-recourse loans and contractually linked instruments. Additional disclosures are introduced for financial instruments with contingent features and equity instruments classified at fair value through other comprehensive income. The amendments are effective for annual periods starting on or after January 1, 2026. Early adoption is permitted, with an option to early adopt the amendments for contingent features only. The Company has not yet assessed the impact of the amendment on the unaudited interim condensed consolidated financial statements.

(Stated in Canadian dollars, except per share amounts)

4. ACCOUNTS RECEIVABLE

	June 30 2024	March 31 2024
Trade receivables	**$ 2,911,564**	$ 2,382,922
Accrued receivables	**3,221,160**	2,432,018
	$ 6,132,724	$ 4,814,940

The Company has an allowance for doubtful accounts as at June 30, 2024 of $229,231 (March 31, 2024 - $263,237). Accrued accounts receivable include $2,874,144 (March 31, 2024 - $2,179,559) receivable from the Ontario government under the VQA Wine Support Program *(see note 13)*. The amount receivable as of March 31, 2024 was received in full in July, 2024.

5. INVENTORIES

	June 30 2024	March 31 2024
Bulk wine	**$ 9,406,699**	$ 10,212,411
Bottled wine and spirits	**7,286,531**	7,343,157
Bottling supplies and packaging	**723,084**	761,698
	$ 17,416,315	$ 18,317,266

The Company has a provision for inventory obsolescence as at June 30, 2024 of $281,613 (March 31, 2024 - $244,113). During the three months ended June 30, 2024, the Company has not yet received funding under the Wine Sector Support Program for harvest 2023 (year ended March 31, 2024 - $933,796), which is recorded as a reduction to the cost of bulk inventory and will be released to cost of goods sold as it is sold.

(Stated in Canadian dollars, except per share amounts)

6. ASSETS HELD FOR SALE

As at June 30, 2024, the Company has classified certain winery division properties and related operating assets and liabilities detailed below totalling $3,090,420 as assets held for sale. Management is pursuing an active program to locate a buyer and intends to sell these assets within one year of the reporting date.

Assets are carried at the lower of fair value less costs of disposal and carrying amount. Based on a management estimate, an impairment provision of $410,000 has been recognized as at June 30, 2024 relating to the property, plant and equipment.

	June 30 2024	March 31 2024
Assets held for sale		
Accounts receivable	**$ 29,293**	29,100
Inventory	**2,205,754**	2,329,701
Prepaid expenses	**41,037**	40,240
Property, plant and equipment	**726,672**	1,136,672
Right-of-use assets	**896,984**	896,984
Intangible assets	**231,260**	231,260
	4,131,000	4,663,957
Liabilities held for sale		
Accounts payable and accrued liabilities	**136,181**	193,752
Lease liability (Note 11)	**904,399**	929,920
	1,040,580	1,123,672
Net assets held for sale	**$ 3,090,420**	3,540,285

7. MORTGAGE RECEIVABLE

As part of the consideration payable on the sale of Queenston Mile Vineyard that closed in February, 2024, the Company entered into a vendor take-back in the amount of $500,000. The receivable is secured by a mortgage on the subject property, which ranks behind first and second mortgages valued at $3,250,000. It bears interest at the BMO prime rate plus 3%, with interest payable monthly, and is due in full by April 30, 2025.

8. FINANCE LEASE RECEIVABLE

On June 1, 2024, the Company entered into a sub-lease for its office premises in Oakville, Ontario. The sub-lease covers the period from June 1, 2024 to January 31, 2028, the same remaining lease period as for the head lease. Management has concluded that the sub-lease qualifies as a finance lease after considering the indicators for a finance lease under IFRS 16. As a result, the Company has derecognized the right-of-use asset relating to the head lease and recognized the net investment in the sub-lease. The difference between the carrying value of the right-of-use asset at May 31, 2024 of $487,000 and the net investment in the sub-lease of $288,760 of $198,240 was recognized as a loss on derecognition of an ROU asset in profit and loss.

(Stated in Canadian dollars, except per share amounts)

8. FINANCE LEASE RECEIVABLE, CONTINUED

The following table shows the continuity in the finance lease receivable during the three months ended June 30, 2024:

Opening balance - April 1, 2024	$ -
Sublease arrangements classified as finance leases	288,760
Finance income earned	1,348
Repayments of finance lease receivable	(11,691)
Gross finance lease receivable	278,417
Less: current portion	(55,968)
Closing balance - June 30, 2024	$ 222,449

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30 2024	March 31 2024
Trade accounts payable	**$ 4,529,243**	$ 4,005,357
Accrued liabilities	**2,606,308**	2,404,944
Government remittances payable	**96,863**	97,513
	$ 7,232,420	$ 6,507,814

10. TERM LOANS PAYABLE

As at June 30, 2024, the balances outstanding on the Company's term loans were as follows:

	June 30 2024	March 31 2024
BMO term loans:		
Revolving term loan	**$ 10,775,139**	$ 9,725,563
Non-revolving term loan	**6,837,000**	6,972,000
	17,612,139	16,697,563
Deferred financing costs	**(99,706)**	(132,941)
	17,512,433	16,564,622
Current portion of term loans (Note 10(a)(v))	**(17,512,433)**	(16,564,622)
	$ -	$ -

10. TERM LOANS PAYABLE, CONTINUED

(a) On November 14, 2023, the Company entered into a second amendment (the "Amendment") to its Second Amended and Restated Credit Agreement (the "SARCA") with Bank of Montreal ("BMO"). The notable terms of the Amendment are as follows:

(i) **Maturity date**: extension of the maturity date to January 2, 2025.

(ii) **Credit limits**: as a result of the repayment of obligations with the use of proceeds from the Financing, credit limits have decreased as follows:
- on the revolving term loan from $14.4 million to $11.4 million, and
- the non-revolving term loan from $10.753 million to $8.763 million, reducing to $Nil by May 31, 2024 *(see note 18(c))*

(iii) **Proceeds from recent financing**: the proceeds from the November, 2023 financing of approximately $9.0 million was entirely applied to reduce (in certain amounts) the BCAP term loan by $1.3 million, the non-revolving term loan $1.7 million and the remainder was applied to the revolving term loan.

(iv) **Revolving term loan**: any excess of the revolving term loan over the borrowing base has to be cured within 10 business days of such occurrence with a shareholder contribution of equity, including common shares, convertible debentures, or other equity-type funding

(v) **Non-revolving term loan:** any proceeds from assets held for resale, mainly the Backyard Vineyards property and its related operations, will be applied against the non-revolving term loan. (The net proceeds of $3.3 million from the Queenston Mile property sale that closed in February, 2024 were applied to pay down the non-revolving term loan). Any remaining balance of the non-revolving term loan is to be settled as of May 31, 2024 *(see note 18(c))*.

(vi) **Lassonde debt:** accounts payable to Lassonde Industries Inc. ("Lassonde"), the Company's largest shareholder, incurred through ordinary course business transactions, cannot exceed $1 million.

(vii) **Borrowing margins**: calculation of borrowing margins will use a new formula based on net orderly liquidation values, starting with a fixed margin of $2.5 million (subject to meeting certain appraisal conditions).

(viii) **Covenant waiver:** The Amendment also provides a waiver of the Company's fixed charges ratios to the first quarter of fiscal 2025. Based on the results for the three months ended June 30, 2024, the Company estimates that it will be in breach of its quarterly fixed charge covenant under the terms of its current credit agreement for which the Company has yet to receive a waiver.

10. TERM LOANS PAYABLE, CONTINUED

(b) As a result of the second amendment to the SARCA, the overall major terms of the BMO credit facilities now consist of the following:

(i) **Interest rates:** Under the current amendment, the interest rate on each component of the facility as follows:

- prime plus 2.40% under the revolving term facility;
- prime plus 2.65% under the non-revolving term facility; and
- prime plus 2.65% under the BCAP Facility.

(ii) **Repayment:** The repayment terms remained unchanged (i) the non-revolving term loan is repayable in 80 quarterly principal payments of 1.25% of the drawn amount, or $135,000. The non-revolving term loan is to be reduced to $Nil by May 31, 2024 *(see note 18(c))* out of the net proceeds of expected asset sales and shareholder equity contributions as required. The BCAP facility was fully paid off as of November 14, 2023 out the proceeds of the November, 2023 financing.

(iii) **Covenants:** The Amendment is subject to compliance to the following additional covenants:

- the leverage ratio shall not be less than or equal to 2.00 to 1 for every calendar month and fiscal quarter
- the Company will not permit its forecasted or actual liquidity (as defined under the SARCA) to be less than $Nil.

The adjusted SARCA is still subject to the following major covenants:

- leverage ratio at less than or equal to 2.15 to 1; and
- fixed charges coverage ratio at greater than or equal to 1.25 to 1.

(iv) **Other terms:** All other terms of the SARCA, as amended, remain in full force and effect.

(c) The SARCA includes a master lease finance line facility under the BMO Equipment Leasing Group and as at June 30, 2024, there was a balance of $181,989 drawn on this facility (March 31, 2024 - $214,802) and is included in lease liabilities.

11. DEBENTURES PAYABLE

(a) On November 9, 2022, the Company completed a non-brokered private placement of $4,884,000 of 10.0% unsecured convertible debentures of the Company, the net proceeds of which were used for general working capital and investment purposes. Certain insiders of the Company, including Lassonde and a related company controlled by its chairman, subscribed for $3.35 million of the total placement.

(b) The major terms of the debentures were as follows:

(i) The debentures bear interest from the date of issue at 10.0% per annum, calculated monthly, in arrears. The interest accrues on the principal outstanding under the debentures until such principal is repaid or converted. The debentures mature one year from their date of issuance, being November 2, 2023, unless the holder requests to accelerate the maturity date in the event the Company completes an equity financing within the next 12 months.

(ii) The debentures are convertible at the holder's option into common shares of the Company from the date of issuance until the maturity date at a conversion price of $0.80. If repayment of the debentures on the maturity date would constitute non-compliance by the Company under its senior borrowing obligations, the holder has the option to convert at the conversion price, or to roll the obligations over into new one-year debentures, on similar terms to be negotiated, subject to TSXV approval.

(iii) Upon any event of default, the principal amount and all accrued but unpaid interest of the debenture shall become immediately payable, together with a penalty fee equal to 1% of the obligations), and the holder shall also thereupon have the option, but not the obligation, of (a) receiving common shares in accordance with the conversion terms of the debenture or (b) remaining a holder.

(iv) All securities issued in connection with the placement are subject to a four-month hold period expiring four months and one day from their date of issuance.

(c) The convertible debentures have been accounted for as a compound financial instrument under IAS 32 - Financial Instruments and have both a liability and an embedded derivative component. The convertible debentures were initially recognized with a fair value of $4,884,000 less transaction costs of $77,949 less the fair value of the embedded derivative of $775,591. After recording interest accretion on the debenture payable of $328,782, the carrying value of the debenture as at March 31, 2023 was $4,359,242. Further interest accretion of $524,758 was recorded to fully accrete the debenture up to its face value of $4,884,000 by maturity on November 9, 2023.

11. **DEBENTURES PAYABLE, CONTINUED**

(d) On November 9, 2023, all of the remaining and outstanding debentures payable were rolled over into new one-year convertible debentures with similar terms and market interest rate, and a conversion price based on the then current trading price of $0.30 per common share. The convertible debentures were initially recognized with a fair value of $4,557,681 less estimated transaction costs of $50,000. After recording interest accretion on the debenture payable of $143,856, the carrying value of the debenture as at March 31, 2024 was $4,651,537. The difference between the face value of the convertible debentures of $4,884,000 (that matured on November 9, 2023) and the fair value of the rolled-over convertible debentures of $4,557,681 of $326,319 was recognized as income during the year ended March 31, 2024.

After recording interest accretion on the debenture payable of $93,914 for the three months ended June 30, 2024, the carrying value of the debenture as at June 30, 2024 was $4,745,451

(e) Interest payable on the convertible debentures in the amount of $121,765 was accrued for the three months ended June 30, 2024 (year ended March 31, 2024 - $480,372). Interest payable accrued on both the original and renewed convertible debentures as of June 30, 2024 totals $801,512 (March 31, 2024 - $679,747)

(f) The derivative was separated as a FVTPL instrument and is re-measured at each reporting period with subsequent changes in fair value recorded in the consolidated statements of net loss and comprehensive loss. With the rollover of the debentures on November 9, 2023 at their new terms, a new derivative liability was recognized on that date with a fair value of $2,013,672. The fair value of that embedded derivative as at March 31, 2024 was $1,881,227. That represented a change in fair value over fiscal 2024 of $1,290,900 compared to the fair value as at March 31, 2024 of $590,327, with the change being recognized as an expense during the year ended March 31, 2024.

The fair value of that embedded derivative as at June 30, 2024 was $1,828,581, a decrease of $52,646 recognized as income during the three months ended June 30, 2024.

(g) Based on the scenarios described below and their associated probabilities, the Company calculated the fair value of the convertible debentures and associated embedded derivative under each scenario and then weighted the values by the corresponding probabilities: (i) the Company will not be compliant under the terms of the BMO credit agreement starting June 30, 2024, but a qualified refinancing to take out BMO will take place as of December 31, 2024, (ii) the Company will not be compliant under the terms of the BMO credit agreement starting June 30, 2024, and a qualified refinancing to take out BMO will not take place as of December 31, 2024, such that BMO credit agreement is considered to be terminated on December 31, 2024, or (iii) the Company will not be compliant under the terms of the BMO credit agreement starting June 30, 2024, a qualified refinancing to take out BMO will not take place, and the BMO Credit Agreement needs to be re-negotiated

(Stated in Canadian dollars, except per share amounts)

11. DEBENTURES PAYABLE, CONTINUED

(h) A continuity schedule of the convertible debentures and derivative liabilities is provided below:

	Convertible debentures (Nov-2022)	Convertible debentures (Nov-2023)	Derivative liability (Nov-2022)	Derivative liability (Nov-2023)	Total
Balance, March 31, 2023	$ -	$ -	-	-	**$ -**
Face value of debentures on issuance	4,884,000	-	-	-	**4,884,000**
Fair value of derivative on issuance	(775,591)	-	775,591	-	**-**
Transaction costs	(77,949)	-	-	-	**(77,949)**
Carrying values on issuance	4,030,460	-	775,591	-	**4,806,051**
Accretion	328,782	-	-	-	**328,782**
Change in fair value	-	-	(185,264)	-	**(185,264)**
Balance, March 31, 2023	**4,359,242**	**-**	**590,327**	**-**	**4,949,569**
Accretion	524,758	-	-	-	**524,758**
Rollover	(4,884,000)	4,884,000	-	-	**-**
Gain on modification of new debenture	**-**	(326,319)	-	-	**(326,319)**
Transaction costs	**-**	(50,000)	-	-	**(50,000)**
Change in fair value of Nov-22 derivative liability	**-**	-	(590,327)	-	**(590,327)**
Fair value of Nov-23 derivative on issuance	**-**	-	-	2,013,672	**2,013,672**
Carrying values after rollover	**-**	4,507,681	-	2,013,672	**6,521,353**
Accretion	**-**	143,856	-	-	**143,856**
Change in fair value	**-**	-	-	(132,445)	**(132,445)**
Balance, March 31, 2024	**-**	**4,651,537**	**-**	**1,881,227**	**6,532,764**
Accretion	**-**	93,914	-	-	**93,914**
Change in fair value	**-**	-	-	(52,646)	**(52,646)**
	-	-	-	-	**-**
Balance, June 30, 2024	**$ -**	**$ 4,745,451**	**-**	**1,828,581**	**$ 6,574,032**

12. SHARE CAPITAL

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, 2023 to June 30, 2024. Details of major changes in share capital during the current reporting period are as follows:

(a) Common shares

The Company did not issue any common shares during the three months ended June 30, 2024.

(b) Stock options

During the three months ended June 30, 2024, there were no option grants, exercises, terminations or expiries.

(c) Deferred share units

In May, 2024, the Company issued an aggregate of 232,894 DSUs in settlement of $44,250 of previously accrued deferred directors compensation.

(d) Warrants

During the three months ended June 30, 2024, no common share purchase warrants were issued, exercised or expired.

(e) Share based compensation

Total share based compensation recognized for the three months ended June 30, 2024 was $73,694 (three months ended June 30, 2023 - $83,747) based on accrual of previously granted options expected to vest in the reporting period and the issuance of DSUs as described above.

(f) Loss per share

Basic loss per share is computed using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three months ended June 30, 2024 was 48,058,118 (three months ended June 30, 2023 - 27,875,978).

As at June 30, 2024, the following potentially dilutive equity instruments were outstanding: (i) 1,200,000 options (March 31, 2024 - 1,200,000), (ii) 1,411,432 deferred share units (March 31, 2024 - 1,178,538), (iii) 5,269,465 common share purchase warrants (March 31, 2024 - 5,269,465), (iv) debentures convertible into 6,105,000 common shares (March 31, 2024 - 6,105,000). The fully diluted number of common shares outstanding as at June 30, 2024 was 62,044,015 (March 31, 2024 - 61,811,121).

(Stated in Canadian dollars, except per share amounts)

13. GOVERNMENT GRANTS

Wine Sector Support Program

In June 2022, Agriculture Canada announced the Wine Sector Support Program to provide non-repayable grants to licensed Canadian wineries based on the production of bulk wine fermented in Canada from domestic and/or imported grapes. During the three months ended June 30, 2024, the Company did not receive any funding , but estimates that it will receive funds in the third quarter for harvest 2023 (year ended March 31, 2024 - $933,796) under this program. This funding is recorded as a reduction to the cost of bulk inventory and will be released to cost of goods sold as it is sold *(see note 5)*.

VQA Wine Support Program

Included within revenue for the three months ended June 30, 2024is product revenue of $5,477,196 (three months ended June 30, 2023 - $7,911,196) and other revenue from the VQA Wine Support Program of $694,585 (three months ended June 30, 2023 - $Nil) *(see note 4)*. The objective of the program is to provide grants to help wineries invest in growing their VQA wine business and promote investment in growing the VQA and the domestic wine industry in Canada. Funds received under this program are earned in the ordinary course of business based on sales to the LCBO and the Company's determination of product eligibility.

14. NON-CASH TRANSACTIONS

	June 30 2024 $	June 30 2023 $
Right-of-use assets acquired under lease liabilities	**100,686**	100,686
Proceeds from disposition of right-of-use assets applied against lease liabilities	**171,880**	61,461
Right-of-use asset derecognized upon Oakville office sub-lease	**(487,000)**	-
Net investment in Oakville office sub-let recognized as finance lease receivable	**288,760**	-

15. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to provide a return for owners and ensure sufficient resources are available to meet day-to-day operations. Capital is considered to consist entirely of total equity, convertible debentures and bank indebtedness. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company or in the light of changes in economic conditions and the risk characteristics of the underlying assets. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company is subject to externally imposed capital requirements related to its term loans *(see note 10)* and there has been no change in the overall capital risk management strategy during the year.

(Stated in Canadian dollars, except per share amounts)

16. **SEGMENTED INFORMATION**

Business segments

The Company operates in two business segments, namely (i) distribution and sales of products represented in Canada under agency agreements with third parties, and (ii) sales of manufactured wines. The following table presents selected financial information associated with each of these segments for the year ended June 30, 2024 and 2023:

	Three months ended June 30, 2024		
	Agency $	Manufactured wines $	Consolidated $
Manufactured wines	-	4,865,310	4,865,310
Third-party wines and spirits	990,579	-	990,579
Commission and other	551,898	-	551,898
Gross revenue	1,542,477	4,865,310	6,407,787
Inter-segment revenue	(236,006)	-	(236,006)
Net revenue	1,306,471	4,865,310	6,171,781
Gross profit	439,246	2,154,105	2,593,350
Interest and accretion	6,932	577,014	583,946
Depreciation and amortization	101,392	233,202	334,594
Additions of property, plant and equipment and intangible assets	-	25,084	25,084

	Statement of financial position balances as at June 30, 2024		
Intangible assets	402,665	3,378,021	3,780,686
Total assets	3,553,642	48,653,714	52,207,356
Total liabilities	1,626,888	31,628,122	33,255,010

(Stated in Canadian dollars, except per share amounts)

16. SEGMENTED INFORMATION, CONTINUED

	Three months ended June 30, 2023		
	Agency $	Manufactured wines $	Consolidated $
Manufactured wines	-	4,505,016	4,505,016
Third-party wines and spirits	2,489,492	-	2,489,492
Commission and other	1,149,004	-	1,149,004
Gross revenue	3,638,496	4,505,016	8,143,512
Inter-segment revenue	(232,316)	-	(232,316)
Net revenue	3,406,180	4,505,016	7,911,196
Gross profit	1,272,351	1,475,065	2,747,416
Interest	11,904	945,159	957,063
Depreciation and amortization	132,014	305,840	437,854
Additions of property, plant and equipment and intangible assets	-	14,963	14,963
	Statement of financial position balances as at March 31, 2024		
Intangible assets	483,195	3,389,166	3,872,361
Total assets	4,238,702	48,354,333	52,593,035
Total liabilities	1,669,937	30,026,667	31,696,604

Geographic information

	2024	2023
Revenue		
Canada	**$ 5,969,486**	$ 7,827,455
China and other	**202,295**	83,741
	$ 6,171,781	$ 7,911,196

17. FINANCIAL INSTRUMENTS AND RISK FACTORS

(a) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company is exposed to interest rate risk primarily through its floating interest rate bank indebtedness, credit facilities and lease liabilities. Assuming that other variables remain constant, a 1% change in the prime lending rate as at June 30, 2024 would impact annual interest expense and net income by $175,000 (2023 - $257,000).

17. FINANCIAL INSTRUMENTS AND RISK FACTORS, CONTINUED

(b) Liquidity risk

Liquidity risk is the risk arising from the Company not being able to meet its obligations as they come due. The Company manages its liquidity needs by carefully monitoring scheduled debt servicing payments for its financial liabilities as well as forecasting cash inflows and outflows due in day-to-day business. The data used for analyzing these cash flows is consistent with that used in the contractual maturity presented in bank indebtedness and term loans payable *(see note 10).*

Total current liabilities as at June 30, 2024 of $32,691,892 (March 31, 2023 - $31,095,380), which includes accounts payable and accrued liabilities, loan payable - related party, current portion of term loans payable and lease liabilities, debentures payable, derivative liability and liabilities held for sale, are considered current and are due within 12 months of the end of the reporting period.

The following table outlines the Company's estimated contractual undiscounted obligations as at June 30, 2024. The Company analyzes contractual obligations for financial liabilities in conjunction with other commitments in managing liquidity risk. Contractual obligations include term loans payable, lease liabilities, debentures payable and contracts for the purchase of grapes, packaging and other raw materials.

	<1 year	2-3 years	4-5 years	>5 years	Total
			$ (000's)		
Accounts payable and accrued liabilities and liabilities held for sale	8,273	-	-	-	8,273
Term loans payable	17,512	-	-	-	17,512
Lease liabilities	413	360	208	-	981
Debentures (and accrued interest) payable	5,685	-	-	-	5,685
Purchase contracts for grapes, packaging and other raw materials	2,000	2,000	-	-	4,000
Total contractual obligations	33,883	2,360	208	-	36,451

18. SUBSEQUENT EVENTS

(a) Private placement

On July 17, 2024, the Company closed a fully subscribed non-brokered private placement through the issuance of 11,466,065 common shares at an issue price of $0.20 per common share. The aggregate gross proceeds of $2,293,213 were used for general working capital purposes. Lassonde and a company related to it subscribed for 9,000,000 of the total common shares issued.

18. SUBSEQUENT EVENTS, CONTINUED

(b) Deferred share units

In August, 2024, the Company issued an aggregate of 163,888 DSUs in settlement of $44,250 of previously accrued deferred directors compensation.

(c) VQA proceeds

In July, 2024, the Company received the $2,124,000 of VQA Wine Support Program accrued as at March 31, 2024 *(see note 4)*.

(d) Agreement with Renaissance Wine Merchants

On November 1, 2023, the Company has entered into a business collaboration agreement between its commercial division, Trajectory Beverage Partners ("TBP"), and Renaissance Wine Merchants Ltd. ("Renaissance") to augment each parties' capabilities in Western Canada (the "Territory"). Pursuant to this agreement, the Renaissance management team will combine the sales forces of both parties and lead a bolstered team in close partnership with TBP's national supplier activities. The agreement commenced November 13, 2023 and will continue for an initial six-month period, renewing automatically for subsequent six month terms unless cancelled in accordance with its terms. On June 6, 2024, in accordance with the terms of the agreement, TBP gave written notice to exercise a put-option. As of the reporting date, the Company has received $1,511,882 and expects to receive an additional $823,000. The Company continues to work collaboratively with Renaissance and continues with its discussions around a potential merger.

(e) BMO non-revolving loan repayment

Under the terms of its amended BMO credit agreement, the Company was required to have repaid all of its non-revolving term loan by May 31, 2024 *(see note 10(a)(v))*. As of the date of release of these unaudited interim condensed consolidated financial statements, the balance of $6,837,000 outstanding as of June 30, 2024 has been reduced by the scheduled monthly principal payments of $135,000, the VQA Wine Support Program of $2,124,000 *(see note 18(c)),* $1,511,882 from the exercise of the put option agreement with Renaissance *(see note 18(d))*, and $84,000 from the sale of bulk wine. The Company expects to apply the proceeds of the assets currently held for sale *(see note 6),* and the remainder of the expected proceeds from the exercise of the TBP put option with Renaissance against this indebtedness. However, there is uncertainty relating to the amount and timing of the actual funds that will ultimately be received.

19. 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.