DIAMOND ESTATES WINES & SPIRITS INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED JUNE 30, 2023 AND 2022

(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, 2023 AND MARCH 31, 2023
(Stated in Canadian dollars)
(Unaudited - Prepared by Management)

	June 30 2023	March 31 2023
ASSETS		
Current:		
Accounts receivable (Note 5)	**$ 3,670,064**	$ 3,159,280
Inventories (Note 6)	**21,289,455**	26,289,426
Biological assets	**184,785**	-
Prepaid expenses	**501,708**	341,667
Assets held for sale (Note 7)	**10,736,020**	-
	36,382,032	29,790,373
Long term:		
Property, plant and equipment	**18,804,470**	25,141,085
Right-of-use assets	**1,635,008**	2,554,677
Intangible assets	**4,187,976**	4,483,318
	$ 61,009,486	$ 61,969,453
LIABILITIES		
Current:		
Accounts payable and accrued liabilities (Note 8)	**$ 7,491,982**	$ 6,708,787
Loan payable - related party (Note 9)	**750,000**	-
Current portion of term loans payable (Note 10)	**24,890,230**	25,658,120
Current portion of lease liabilities	**342,530**	456,930
Debentures payable (Note 11(c))	**4,573,071**	4,359,242
Derivative liability (Note 11(d))	**673,008**	590,327
Liabilities held for sale (Note 7)	**1,406,679**	-
	40,127,500	37,773,406
Long term:		
Lease liabilities	**972,525**	1,906,254
	41,100,025	39,679,660
SHAREHOLDERS' EQUITY		
Common shares (Note 12)	**40,848,245**	40,848,245
Contributed surplus	**3,609,324**	3,525,577
Accumulated deficit	**(24,548,108)**	(22,084,029)
	19,909,461	22,289,793
	$ 61,009,486	$ 61,969,453

Going concern (Note 2(c))

Subsequent events (Note 19)

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, 2023 AND 2022
(Stated in Canadian dollars, except per share amounts)
(Unaudited - Prepared by Management)

	2023	2022
Revenue	**$ 7,911,196**	$ 7,480,778
Cost of sales		
Change in inventories of finished goods and raw materials consumed	**5,002,080**	4,468,573
Depreciation of property, plant and equipment and right-of-use assets used in production	**161,700**	43,033
	5,163,780	4,511,606
Gross profit	**2,747,416**	2,969,172
Expenses		
Employee compensation and benefits	**1,862,650**	1,814,662
General and administrative	**1,083,448**	1,094,882
Advertising and promotion	**503,973**	740,399
Interest and accretion	**957,063**	294,189
Delivery and warehousing	**384,407**	284,182
Financing fees	**9,408**	26,655
Share based compensation (Note 12(e))	**83,747**	111,960
Depreciation of property, plant and equipment and right-of-use assets used in selling and administration	**177,350**	172,476
Amortization of intangible assets	**98,804**	98,015
	5,160,850	4,637,420
Loss before undernoted items	**(2,413,434)**	(1,668,248)
Change in fair value of derivative liability (Note 11(d))	**(82,681)**	-
Gain on disposition of right-of-use assets	**32,036**	54,376
Net loss and comprehensive loss	**$ (2,464,079)**	$ (1,613,872)
Basic and diluted loss per share (Note 12(f))	**$ (0.09)**	$ (0.06)

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

DIAMOND ESTATES WINES & SPIRITS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
PERIOD FROM APRIL 1, 2022 TO JUNE 30, 2023
(Stated in Canadian dollars)
(Unaudited - Prepared by Management)

	Note	Common shares Shares	Common shares Amount	Contributed surplus	Accumulated deficit	Total
As at April 1, 2022		**27,875,978**	**$40,848,245**	**$ 3,023,396**	**$ (13,558,374)**	**$30,313,267**
Net loss and comprehensive loss		-	-	-	(1,613,872)	(1,613,872)
Share based compensation		-	-	111,960	-	111,960
As at June 30, 2022		**27,875,978**	**40,848,245**	**3,135,356**	**(15,172,246)**	**28,811,355**
Net loss and comprehensive loss		-	-	-	(6,911,783)	(6,911,783)
Share based compensation		-	-	390,221	-	390,221
As at March 31, 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**

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, 2023 AND 2022
(Stated in Canadian dollars)
(Unaudited - Prepared by Management)

	2023	2022
Operating activities		
Net loss and comprehensive loss	**$ (2,464,079)**	$ (1,613,872)
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment and right-of-use assets	**338,925**	217,865
Amortization of intangible assets	**98,804**	98,015
Gain on disposition of right-of-use assets	**(32,036)**	(54,376)
Change in fair value of derivative liability	**82,681**	-
Interest accretion on debentures payable	**213,829**	-
Share based compensation	**83,747**	111,960
Wine Sector Support Grant proceeds released from inventory	**(154,266)**	-
Recognition of fair value purchase price accounting adjustment on EWG inventory	**29,931**	220,000
Interest expense	**957,063**	278,751
Interest paid	**(835,298)**	(286,549)
	(1,680,699)	(1,028,206)
Change in non-cash working capital items		
Accounts receivable	**(547,617)**	748,209
Inventories	**1,684,557**	368,947
Biological assets	**(184,785)**	(124,515)
Prepaid expenses	**(219,541)**	(116,647)
Accounts payable and accrued liabilities	**1,063,584**	(845,954)
	115,499	(998,166)
Investing activities		
Purchase of property, plant and equipment and intangible assets	**(14,963)**	(54,277)
Proceeds from sale of right-of-use assets	**-**	54,376
	(14,963)	99
Financing activities		
Loan payable - related party	**750,000**	-
Repayment of lease liabilities	**(82,646)**	(111,616)
Net draws against (repayments of) revolving term loans	**(461,043)**	1,426,530
Repayment on non-revolving term loans	**(306,847)**	(316,847)
	(100,536)	998,067
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. The operations and principal place of business of TBP are located at 100-435 North Service Road West, Oakville, Ontario, L6M 4X8.

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, 2023 which were prepared in accordance with IFRS as issued by the IASB.

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 28, 2023.

(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 through Canadian dollar private placements.

2. BASIS OF PRESENTATION AND GOING CONCERN, CONTINUED

(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, 2023 was $2,464,079 (2022 - $1,613,872). Additionally, the Company reported negative cash flow from operations (before changes in non-cash working capital) of $1,680,699 for the three months ended June 30, 2023 (2022 - $1,028,206). As at June 30, 2023, the Company had an accumulated deficit of $24,548,108 (March 31, 2023 - $22,084,029) and a working capital deficiency of $3,745,468 (March 31, 2023 - $7,983,033).

The operations and net loss for rolling twelve-month period ended September 30, 2022 had resulted in the Company being in breach of its quarterly fixed charge covenant under the terms of its then current credit agreement with Bank of Montreal ("BMO"), its primary lender. However, on October 24, 2022, the Company entered into an amendment for which the Company received a waiver on its fixed charge coverage ratio ("FCCR") covenant until March 31, 2023 *(see note 10(a))*. On May 31, 2023, BMO consented in writing to waive the Company's requirement to comply with the FCCR covenant for the rolling twelve month period ended June 30, 2023. The Company has debt repayment requirements of approximately $31.5 million over the next twelve months, including all its bank indebtedness that matures on January 2, 2024 (*(see note 10)*, the loan payable - related party, the current portion of its lease liabilities and the principal amount of the debentures payable plus accrued interest due by November 2, 2023 *(see note 11)*, as well as annual seasonal grape purchase commitments in the fall of 2023. 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 and negative cash flows from operating activities, the Company is taking a number of actions to enhance its financial flexibility, to meet its obligations and to fund its ongoing business operations, as evidenced by the restructured credit agreement *(see note 10(a))*, the debenture financing arranged in November, 2022 *(see note 11)*, the assets held for sale *(see note 8)*, the related party loan received in May, 2023 *(see note 9)* and the August, 2023 financing *(see note 19)*. 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.

2. BASIS OF PRESENTATION AND GOING CONCERN, CONTINUED

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. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENT

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. This amendment is effective for annual periods beginning on or after January 1, 2024. 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 Company has not yet assessed the impact of the amendment on the unaudited interim condensed consolidated financial statements.

4. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENT

IAS 12 "Income Taxes"

This standard has been amended to require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company has not yet assessed the impact of the amendments on the consolidated financial statements.

(Stated in Canadian dollars, except per share amounts)

5. ACCOUNTS RECEIVABLE

	June 30 2023	March 31 2023
Trade receivables	**$ 3,605,800**	$ 3,114,405
Accrued receivables	**64,264**	44,877
	$ 3,670,064	$ 3,159,280

The Company has an allowance for doubtful accounts as at June 30, 2023 of $114,250 (March 31, 2023 - $121,638).

6. INVENTORIES

	June 30 2023	March 31 2023
Bulk wine	**$ 10,182,273**	$ 14,238,786
Bottled wine and spirits	**10,357,610**	11,082,446
Bottling supplies and packaging	**749,572**	968,194
	$ 21,289,455	$ 26,289,426

The Company has a provision for inventory obsolescence as at June 30, 2023 of $92,454 (March 31, 2023 - $45,954). Of the $1,033,216 Wine Sector Support Program grant received in January, 2023 that was recorded as a reduction to the cost of bulk inventory *(see note 13)*, a total of $154,266 was released to cost of goods sold during the three months ended June 30, 2023 as it was sold.

(Stated in Canadian dollars, except per share amounts)

7. ASSETS HELD FOR SALE

As at June 30, 2023, the Company has classified certain winery division properties and related operating assets detailed below totalling $9,329,341 as assets held for sale. Management intends to sell these assets within one year of the reporting date. They have commenced an active process to sell these assets, but no agreements of purchase and sale have been entered into as of the date of release of these unaudited interim condensed consolidated financial statements. Assets are carried at the lower of fair value less costs of disposal and carrying amount. As the estimated fair value exceeds the carrying amount as at June 30, 2023, no impairment provision has been recognized.

Assets held for sale	
Accounts receivable	**$ 36,832**
Inventory	**3,464,124**
Prepaid expenses	**59,498**
Property, plant and equipment	**6,082,044**
Right-of-use assets	**896,984**
Intangible assets	**196,538**
	10,736,020
Liabilities held for sale	
Accounts payable and accrued liabilities	**402,151**
Lease liability	**1,004,528**
	1,406,679
Net assets held for resale	**$ 9,329,341**

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30 2023	March 31 2023
Trade accounts payable	**$ 5,385,344**	$ 4,479,415
Accrued liabilities	**2,020,815**	2,127,721
Government remittances payable	**85,823**	101,651
	$ 7,491,982	$ 6,708,787

9. LOAN PAYABLE - RELATED PARTY

In May, 2023, the Company received a loan in the principal amount of $750,000 from a related party, the proceeds of which were used for general working capital purposes. The loan is unsecured, subordinated to the Company's senior lender, bears interest at prime plus 1 %, and is repayable within 120 business days of being advanced.

(Stated in Canadian dollars, except per share amounts)

10. TERM LOANS PAYABLE

As at June 30, 2023, the balances outstanding on the Company's term loans were as follows:

	June 30 2023	March 31 2023
BMO term loans:		
Revolving term loan	**$ 13,535,162**	$ 13,996,205
Non-revolving term loan	**9,808,000**	9,943,000
BCAP non- revolving term loan	**1,547,068**	1,718,915
	24,890,230	25,658,120
Current portion of term loans	**(24,890,230)**	(25,658,120)
	$ -	$ -

(a) On October 24, 2022, the Company entered into an amendment to its Second Amended and Restated Credit Agreement ("SARCA") with Bank of Montreal ("BMO"), the major terms of which are outlined below:

(i) **Credit limits:** The credit limits remained unchanged (i) the revolving term loan of $14.4 million with an accordion feature to fund future growth, and (ii) the non-revolving term loan of $10.8 million.

(ii) **Maturity dates:** The maturity dates remained unchanged with the revolving and non-revolving facilities having a two-year term expiring as at January 2, 2024, including the Business Credit Availability Program ("BCAP") facility, such that all indebtedness has been classified as current as of June 30, 2023 *(see note 2(c))*.

(iii) **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.

(iv) **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, and (ii) the BCAP loan is repayable in monthly principal payments of $57,292.

10. **TERM LOANS PAYABLE, CONTINUED**

(v) **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.

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

(b) For each of the rolling twelve-month periods ended March 31, 2022, June 30, 2022 and September 30, 2022, the Company was in breach of its fixed charge covenant ratio, for which the Company had not received a waiver by quarter-end. However, on October 24, 2022, the Company entered into an amended SARCA (s*ee note 10(a))* for which the Company received a waiver on its fixed charge covenant until March 31, 2023. On May 31, 2023, BMO consented in writing to waive the Company's requirement to comply with the fixed charge coverage ratio "(FCCR") covenant for the rolling twelve-month period ended June 30, 2023. The Company was in compliance with its other covenants as at June 30, 2023 and 2022.

(c) The SARCA includes the following sub-facilities:

(i) Letter of credit sub-facility included under the umbrella of the $13,000,000 revolving term loan, up to a maximum of $1,000,000 at a rate of CAD prime +2.50% having a term of up to 1 year. As at June 30, 2023, there were letters of credit in the amount of $50,000 outstanding with BMO (March 31, 2023 - $50,000);

(ii) Bankers' acceptance ("BA") sub-facility included under the umbrella of the revolving and non-revolving term loans, with a minimum draw of $1,000,000, terms of 28 to 182 days, fees charged at rates 2.50% to 2.75% per annum on the face amount of the BA plus interest at the BA rate;

(iii) Treasury risk management facility of up to $1,500,000 to facilitate hedging of interest rate risk and foreign exchange risk at market rates as determined by the lender. There are no amounts currently outstanding on this facility; and

(iv) A master lease finance line facility of $2,500,000 is available to the Company to finance equipment under the BMO Equipment Leasing Group and shall reduce monthly in accordance with agreed upon terms based on market rates at the time of each advance. As at June 30, 2023, there was a balance of $310,892 drawn on this facility (March 31, 2023 - $433,553), and is included in lease liabilities.

11. DEBENTURES PAYABLE

(a) On November 2, 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. After recording further interest accretion on the debenture payable for the three months ended June 30, 2023 of $213,829, the carrying value of the debenture as at June 30, 2023 was $4,573,071.

Interest payable on the debentures in the amount of $121,765 was accrued for the three months ended June 30, 2023. A total of $321,140 in interest payable has been accrued and included in accounts payable and accrued liabilities at June 30, 2023.

11. DEBENTURES PAYABLE, CONTINUED

(d) 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. The fair value of the embedded derivative as at June 30, 2023 of $673,008 has increased by $82,681 compared to the fair value as at March 31, 2023 of $590,327, with the change being recognized as an expense during the three months ended June 30, 2023.

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, 2022 to June 30, 2023. 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, 2023.

(b) **Stock options**

During the three months ended June 30, 2023, there were no option grants, exercises or terminations. Subsequent to period-end, a total of 50,000 options expired unexercised on the departure of members of management.

(c) **Deferred share units**

In May, 2023, the Company issued an aggregate of 285,980 DSUs in settlement of $100,093 of previously accrued deferred directors compensation. In July, 2023, the Company issued a further 98,177 DSUs valued at $47,125.

(d) **Warrants**

During the three months ended June 30, 2023, 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, 2023 was $83,747 (2022 - $111,960) based on accrual of previously granted options expected to vest in the reporting period and the issuance of DSUs as described above.

(Stated in Canadian dollars, except per share amounts)

12. SHARE CAPITAL, CONTINUED

(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, 2023 was 27,875,978 (2022 - 27,875,978).

As at June 30, 2023, the following potentially dilutive equity instruments were outstanding: (i) 1,735,000 options (March 31, 2023 - 1,735,000, (ii) 814,758 deferred share units (March 31, 2023 - 528,778), (iii) 5,555,905 common share purchase warrants (March 31, 2023 - 5,555,905), (iv) debentures convertible into 6,105,000 common shares (March 31, 2023 - 6,105,000). The fully diluted number of common shares outstanding as at June 30, 2023 was 42,086,641 (March 31, 2023 - 41,800,661).

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. In January 2023, the Company received $1,540,172 under this program. The grant has been accounted for as compensation for inventory production costs that the Company incurred to produce bulk wine in the prior year, and it will be recognized in the consolidated statements of net loss and comprehensive loss as a reduction in the cost of goods sold in the period the eligible wine is sold. During the year ended March 31, 2023, $506,956 of the grant was recognized as a credit to cost of goods sold and $1,033,216 was recorded as a reduction to the cost of inventory which will be released to cost of goods sold as it is sold. During the three months ended June 30, 2023, a total of $154,266 was released from inventory to cost of goods sold.

14. NON-CASH TRANSACTIONS

	2023	2022
	$	$
Right-of-use assets acquired under lease liabilities	**100,686**	62,339
Proceeds from disposition of right-of-use assets applied against lease liabilities	**61,641**	12,639

(Stated in Canadian dollars, except per share amounts)

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 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.

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 three months ended June 30, 2023 and 2022:

	Three months ended June 30, 2023		
	Agency $	Manufactured wines $	Consolidated $
Manufactured wines	-	4,505,016	4,505,016
Third-party wines and spirits	2,505,249	-	2,505,249
Commission and other	1,149,004	-	1,149,004
Gross revenue	3,654,253	4,505,016	8,159,269
Inter-segment revenue	(232,316)	(15,757)	(248,073)
Net revenue	3,421,937	4,489,259	7,911,196
Gross profit	1,303,935	1,443,481	2,747,416
Interest and accretion	11,904	945,159	957,063
Depreciation and amortization	132,013	305,841	437,854
Additions of property, plant and equipment and intangible assets	-	14,963	14,963
	Statement of financial position balances as at June 30, 2023		
Intangible assets	724,785	3,856,267	4,187,976
Total assets	6,224,221	54,785,265	61,009,486
Total liabilities	2,068,552	39,031,473	41,100,025

(Stated in Canadian dollars, except per share amounts)

16. SEGMENTED INFORMATION, CONTINUED

	Three months ended June 30, 2022		
	Agency $	Manufactured wines $	Consolidated $
Manufactured wines	-	4,135,237	4,135,237
Third-party wines and spirits	2,396,587	-	2,396,587
Commission and other	1,149,667	-	1,149,667
Gross revenue	3,546,254	4,135,237	7,681,491
Inter-segment revenue	(200,713)	-	(200,713)
Net revenue	3,345,541	4,135,237	7,480,778
Gross profit	1,304,118	1,665,054	2,969,172
Interest	13,466	280,723	294,189
Depreciation and amortization	145,551	167,973	313,524
Additions of property, plant and equipment and intangible assets	-	54,277	54,277
	Statement of financial position balances as at March 31, 2023		
Intangible assets	805,315	3,678,003	4,483,318
Total assets	5,785,124	56,184,329	61,969,453
Total liabilities	4,538,449	35,141,211	39,679,660

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

Geographic information	2023	2022
Revenue		
Canada	**$ 7,827,455**	$ 7,388,011
China and other	**83,741**	92,767
	$ 7,911,196	$ 7,480,778

17. 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.

18. 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, 2023 would impact annual interest expense and net income by $249,000 (year ended March 31, 2023 - $257,000).

(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, 2023 of $40,127,500 (March 31, 2023 - $37,773,406), 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, 2023. 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 $ (000's)	>5 years	Total
Accounts payable and accrued liabilities	7,894	-	-	-	7,894
Term loans payable	24,890	-	-	-	24,890
Lease liabilities	471	783	523	601	2,378
Debentures (and accrued interest) payable	5,372	-	-	-	5,372
Purchase contracts for grapes, packaging and other raw materials	3,654	3,654	-	-	7,308
Total contractual obligations	42,281	4,437	523	601	47,842

19. SUBSEQUENT EVENTS

(a) Financing

On August 16, 2023, the Company entered into a non-binding term sheet (the "Financing") which would consist of the issuance of 20 million common shares to the related company described in note 9 at an issuance price per share of $0.45. The related party would subscribe for the shares by paying approximately $8.25 million in cash, and converting the $750,000 principal amount (plus interest) owing under the advance agreement between the Company and Lassonde and the related party dated May 30, 2023 *(see note 9)*. The Company intends to use the net proceeds of the Financing to reduce long-term debt and for general working capital and transactional expenses.

Concurrently or immediately following the Financing, the related party may elect to convert up to all of the $3.35 million aggregate principal amount of 10.0% unsecured convertible debentures *(see note 11)* of the Company due November 2023 (together with accrued and unpaid interests thereon) into common shares, at the same conversion price as the issuance price of the common share being issued pursuant to the Financing.

The closing of the Financing is subject to customary shareholder and regulatory approvals.

(b) Supplier

On August 22, 2023 the Company received notification from its largest supplier of import wines that its contract will expire on October 1, 2023 and is not being renewed. As of June 30, 2023, this supplier represented $9.1 million in revenue and $3.1 million in gross margin. The Company is still assessing the impact to its profits in the agency division as well as any mitigating actions that may be undertaken.