

DIAMOND ESTATES WINES & SPIRITS INC.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED SEPTEMBER 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 SEPTEMBER 30, 2023 AND MARCH 31, 2023
(Stated in Canadian dollars)
(Unaudited - Prepared by Management)

	<u>September 30</u> <u>2023</u>	<u>March 31</u> <u>2023</u>
ASSETS		
Current:		
Accounts receivable (Note 6)	\$ 2,815,294	\$ 3,159,280
Inventories (Note 7)	19,733,393	26,289,426
Biological assets	355,151	-
Prepaid expenses	218,505	341,667
Assets held for sale (Note 8)	10,759,979	-
	<u>33,882,322</u>	<u>29,790,373</u>
Long term:		
Property, plant and equipment	18,598,954	25,141,085
Right-of-use assets	1,452,613	2,554,677
Intangible assets	4,057,780	4,483,318
	<u>\$ 57,991,669</u>	<u>\$ 61,969,453</u>
LIABILITIES		
Current:		
Accounts payable and accrued liabilities (Note 9)	\$ 6,802,613	\$ 6,708,787
Loan payable - related party (Note 10)	750,000	-
Current portion of term loans payable (Note 11)	24,558,117	25,658,120
Current portion of lease liabilities	287,479	456,930
Debentures payable (Note 12(c))	4,799,894	4,359,242
Derivative liability (Note 12(d))	876,243	590,327
Liabilities held for sale (Note 8)	1,420,383	-
	<u>39,494,729</u>	<u>37,773,406</u>
Long term:		
Lease liabilities	822,766	1,906,254
	<u>40,317,495</u>	<u>39,679,660</u>
SHAREHOLDERS' EQUITY		
Common shares (Note 13)	40,848,245	40,848,245
Contributed surplus	3,720,390	3,525,577
Accumulated deficit	(26,894,461)	(22,084,029)
	<u>17,674,174</u>	<u>22,289,793</u>
	<u>\$ 57,991,669</u>	<u>\$ 61,969,453</u>
Going concern (Note 2(c))		
Subsequent events (Note 20)		

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 AND SIX MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(Stated in Canadian dollars, except per share amounts)
(Unaudited - Prepared by Management)

	Three months ended September 30 2023	Six months ended September 30 2023	Three months ended September 30 2022	Six months ended September 30 2022
Revenue	\$ 7,773,184	\$ 15,684,380	\$ 9,216,140	\$ 16,696,918
Cost of sales				
Change in inventories of finished goods and raw materials consumed	4,696,684	9,698,764	5,645,795	10,114,368
Depreciation of property, plant and equipment and right-of-use assets used in production	176,269	337,970	161,683	204,716
	<u>4,872,953</u>	<u>10,036,734</u>	<u>5,807,478</u>	<u>10,319,084</u>
Gross profit	<u>2,900,231</u>	<u>5,647,646</u>	<u>3,408,662</u>	<u>6,377,834</u>
Expenses				
Employee compensation and benefits	1,813,464	3,676,114	1,808,120	3,622,782
General and administrative	1,175,480	2,258,927	1,033,428	2,128,310
Advertising and promotion	518,880	1,022,853	847,773	1,588,172
Interest and accretion	997,045	1,954,108	340,801	634,990
Delivery and warehousing	381,353	765,760	351,831	636,013
Financing fees	9,931	19,339	(26,991)	(336)
Share based compensation (Note 13(e))	111,066	194,813	144,043	256,003
Depreciation of property, plant and equipment and right-of-use assets used in selling and administration	98,277	275,627	161,621	334,097
Amortization of intangible assets	95,474	194,278	88,659	186,674
	<u>5,200,970</u>	<u>10,361,819</u>	<u>4,749,285</u>	<u>9,386,705</u>
Loss before undernoted items	(2,300,739)	(4,714,173)	(1,340,623)	(3,008,871)
Change in fair value of derivative liability (Note 12(d))	(203,235)	(285,916)	-	-
Gain on disposition of right-of-use assets	157,621	189,657	10,188	64,564
Restructuring charge	-	-	(36,000)	(36,000)
	<u>-</u>	<u>-</u>	<u>(36,000)</u>	<u>(36,000)</u>
Net loss and comprehensive loss	<u>\$ (2,346,353)</u>	<u>\$ (4,810,432)</u>	<u>\$ (1,366,435)</u>	<u>\$ (2,980,307)</u>
Basic and diluted loss per share (Note 13(f))	<u>\$ (0.08)</u>	<u>\$ (0.17)</u>	<u>\$ (0.05)</u>	<u>\$ (0.11)</u>

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 SEPTEMBER 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		-	-	-	(2,980,307)	(2,980,307)
Share based compensation	13(e)	-	-	256,003	-	256,003
As at September 30, 2022		27,875,978	40,848,245	3,279,399	(16,538,681)	27,588,963
Net loss and comprehensive loss		-	-	-	(5,545,348)	(5,545,348)
Share based compensation		-	-	246,178	-	246,178
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		-	-	-	(4,810,432)	(4,810,432)
Share based compensation	13(e)	-	-	194,813	-	194,813
As at September 30, 2023		<u>27,875,978</u>	<u>\$40,848,245</u>	<u>\$ 3,720,390</u>	<u>\$ (26,894,461)</u>	<u>\$ 17,674,174</u>

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

DIAMOND ESTATES WINES & SPIRITS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(Stated in Canadian dollars)
(Unaudited - Prepared by Management)

	2023	2022
Operating activities		
Net loss and comprehensive loss	\$ (4,810,432)	\$ (2,980,307)
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment and right-of-use assets	606,664	542,842
Amortization of intangible assets	194,278	186,674
Gain on disposition of right-of-use assets	(189,657)	(64,564)
Change in fair value of derivative liability	285,916	-
Interest accretion on debentures payable	440,652	-
Share based compensation	194,813	256,003
Wine Sector Support Grant proceeds released from inventory	(231,703)	-
Recognition of fair value purchase price accounting adjustment on EWG inventory	91,173	440,000
Interest expense	1,954,108	634,990
Interest paid	(1,709,419)	(757,096)
	(3,173,607)	(1,741,458)
Change in non-cash working capital items		
Accounts receivable	311,807	102,814
Inventories	3,273,797	1,432,498
Biological assets	(355,151)	(354,272)
Prepaid expenses	77,701	(185,933)
Accounts payable and accrued liabilities	289,539	1,490,176
	424,086	743,825
Investing activities		
Purchase of property, plant and equipment and intangible assets	(57,234)	(85,807)
Proceeds on disposal of right-of-use assets	189,657	-
	132,423	(85,807)
Financing activities		
Loan payable - related party	750,000	-
Repayment of lease liabilities	(206,506)	(158,157)
Net draws against (repayments of) revolving term loans	(543,591)	66,553
Repayment on non-revolving term loans	(556,412)	(566,414)
	(556,509)	(658,018)
Change in cash	-	-
Cash, beginning of period	-	-
Cash, end of period	\$ -	\$ -
Non-cash transactions (Note 15)		

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

DIAMOND ESTATES WINES & SPIRITS INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(Stated in Canadian dollars, except per share amounts)
(Unaudited - Prepared by Management)

1. **NATURE OF OPERATIONS**

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

2. **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 November 21, 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.

DIAMOND ESTATES WINES & SPIRITS INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(Stated in Canadian dollars, except per share amounts)
(Unaudited - Prepared by Management)

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 six months ended September 30, 2023 was \$4,810,432 (2022 - \$2,980,307). Additionally, the Company reported negative cash flow from operations (before changes in non-cash working capital) of \$3,173,607 for the six months ended September 30, 2023 (2022 - \$1,741,458). As at September 30, 2023, the Company had an accumulated deficit of \$26,894,461 (March 31, 2023 - \$22,084,029) and a working capital deficiency of \$5,612,407 (March 31, 2023 - \$7,983,033).

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. As of November 14, 2023 the Company entered into a second amended and waiver to the second amended and restated credit agreement whereby the lender consented to waiving the requirements of the FCCR covenant to the first quarter of the next fiscal year (*see note 20(e)*). As of September 30, 2023, the Company has debt repayment requirements of approximately \$31.1 million over the next twelve months, including all its bank indebtedness that matures on January 2, 2024 (*see note 20(e)*), 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 12*), 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, negative cash flows from operating activities, and loss of a significant supplier (*see note 5*), 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 debenture financing arranged in November, 2022 and its subsequent rollover (*see note 12(e)*), the assets held for sale (*see note 9*), the related party loan received in May, 2023 (*see note 10*), the Trajectory Beverage Partners initiative announced in November, 2023 (*see note 20(b)*), the November, 2023 private placement (*see note 20(d)*) and an updated credit agreement with its primary lender (*see note 20(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.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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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.

5. LOSS OF KEY 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 September 30, 2023, this supplier annually 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.

DIAMOND ESTATES WINES & SPIRITS INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(Stated in Canadian dollars, except per share amounts)
(Unaudited - Prepared by Management)

6. **ACCOUNTS RECEIVABLE**

	September 30 2023	March 31 2023
Trade receivables	\$ 2,758,723	\$ 3,114,403
Accrued receivables	56,571	44,877
	\$ 2,815,294	\$ 3,159,280

The Company has an allowance for doubtful accounts as at September 30, 2023 of \$152,488 (March 31, 2023 - \$121,638).

7. **INVENTORIES**

	September 30 2023	March 31 2023
Bulk wine	\$ 10,049,678	\$ 14,238,786
Bottled wine and spirits	9,033,228	11,082,446
Bottling supplies and packaging	650,487	968,194
	\$ 19,733,393	\$ 26,289,426

The Company has a provision for inventory obsolescence as at September 30, 2023 of \$312,533 (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 14*), a total of \$231,703 was released to cost of goods sold during the six months ended September 30, 2023 as it was sold.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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8. **ASSETS HELD FOR SALE**

As at September 30, 2023, the Company has classified certain winery division properties and related operating assets detailed below totalling \$9,339,596 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 September 30, 2023, no impairment provision has been recognized.

Assets held for sale

Accounts receivable	\$ 32,179
Inventory	3,456,947
Prepaid expenses	45,461
Property, plant and equipment	6,097,148
Right-of-use assets	896,984
Intangible assets	231,260
	<u>10,759,979</u>

Liabilities held for sale

Accounts payable and accrued liabilities	440,403
Lease liability	979,980
	<u>1,420,383</u>
Net assets held for resale	\$ <u>9,339,596</u>

9. **ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	September 30 2023	March 31 2023
Trade accounts payable	\$ 4,854,299	\$ 4,479,415
Accrued liabilities	1,859,326	2,127,721
Government remittances payable	88,988	101,651
	<u>\$ 6,802,613</u>	<u>\$ 6,708,787</u>

10. **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.

DIAMOND ESTATES WINES & SPIRITS INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(Stated in Canadian dollars, except per share amounts)
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11. **TERM LOANS PAYABLE**

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

	<u>September 30</u> <u>2023</u>	<u>March 31</u> <u>2023</u>
BMO term loans:		
Revolving term loan	\$ 13,452,614	\$ 13,996,205
Non-revolving term loan	9,673,000	9,943,000
BCAP non- revolving term loan	<u>1,432,503</u>	<u>1,718,915</u>
	<u>24,558,117</u>	25,658,120
Current portion of term loans	<u>(24,558,117)</u>	<u>(25,658,120)</u>
	<u>\$ -</u>	<u>\$ -</u>

(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 September 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.

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11. **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 (*see note 11(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 September 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 September 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 September 30, 2023, there was a balance of \$279,271 drawn on this facility (March 31, 2023 - \$279,271), and is included in lease liabilities.

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11. **TERM LOANS PAYABLE, CONTINUED**

- (d) On November 14, 2023, the Company entered into a second amendment to its Second Amended and Restated Credit Agreement (the “SARCA”) with Bank of Montreal (“BMO”) (*see note 20(e)*).

12. **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.

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(Unaudited - Prepared by Management)

12. **DEBENTURES PAYABLE, CONTINUED**

- (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 six months ended September 30, 2023 of \$440,652, the carrying value of the debenture as at September 30, 2023 was \$4,799,894.

Interest payable on the debentures in the amount of \$244,869 was accrued for the six months ended September 30, 2023. A total of \$444,244 in interest payable has been accrued and included in accounts payable and accrued liabilities at September 30, 2023.

- (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 September 30, 2023 of \$876,243 has increased by \$285,916 compared to the fair value as at March 31, 2023 of \$590,327, with the change being recognized as an expense during the six months ended September 30, 2023.
- (e) On November 9, 2023, the remaining and outstanding rolled into new convertible debentures (*see note 20(c)*).

13. **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 September 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 six months ended September 30, 2023.

On November 14, 2023, the Company closed a previously announced non-brokered private placement through the issuance of 20,000,000 common shares to Lassonde Industries Inc. at an issue price of \$0.45 per common share for an aggregate purchase price of \$9,000,000 (*see note 20(d)*).

(b) **Stock options**

During the six months ended September 30, 2023, there were no option grants or exercises or. During the reporting period, a total of 100,000 options expired unexercised on the departure of members of management.

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13. **SHARE CAPITAL, CONTINUED**

(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 six months ended September 30, 2023, no common share purchase warrants were issued, exercised or expired.

(e) **Share based compensation**

Total share based compensation recognized for the six months ended September 30, 2023 was \$194,813 (2022 - \$256,003) 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 and six months ended September 30, 2023 were 27,875,978 and 27,875,978 respectively (three and six months ended September 30, 2022 - 27,875,978 and 27,875,978 respectively).

14. **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 six months ended September 30, 2023, a total of \$231,703 was released from inventory to cost of goods sold.

The Company has been approved to receive an additional \$933,802 under the program, with that payment actually received in 2024 Q3 (*see note 20(f)*).

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15. **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	167,137	12,639

16. **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 11*) and there has been no change in the overall capital risk management strategy during the year.

17. **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 six months ended September 30, 2023 and 2022:

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17. **SEGMENTED INFORMATION, CONTINUED**

	<u>Six months ended September 30, 2023</u>		
	Agency	Manufactured	Consolidated
	\$	wines	\$
Manufactured wines	-	9,017,608	9,017,608
Third-party wines and spirits	4,911,136	-	4,911,136
Commission and other	<u>2,245,665</u>	<u>-</u>	<u>2,245,665</u>
Gross revenue	7,156,801	9,017,608	16,174,409
Inter-segment revenue	<u>(446,243)</u>	<u>(43,786)</u>	<u>(490,029)</u>
Net revenue	<u>6,710,558</u>	<u>8,973,822</u>	<u>15,684,380</u>
Gross profit	2,464,741	3,182,905	5,647,646
Interest and accretion	20,857	1,933,251	1,954,108
Depreciation and amortization	244,453	563,422	807,875
Additions of property, plant and equipment and intangible assets	-	57,234	57,234

	<u>Statement of financial position balances as at</u> <u>September 30, 2023</u>		
Intangible assets	644,255	3,644,785	4,289,040
Total assets	5,477,352	52,514,317	57,991,669
Total liabilities	2,255,262	38,062,233	40,317,495

	<u>Six months ended September 30, 2022</u>		
	Agency	Manufactured	Consolidated
	\$	wines	\$
Manufactured wines	-	9,563,266	9,563,266
Third-party wines and spirits	5,269,841	-	5,269,841
Commission and other	<u>2,299,185</u>	<u>-</u>	<u>2,299,185</u>
Gross revenue	7,569,026	9,563,266	17,132,292
Inter-segment revenue	<u>(435,375)</u>	<u>-</u>	<u>(435,375)</u>
Net revenue	<u>7,133,651</u>	<u>9,563,266</u>	<u>16,696,918</u>
Gross profit	2,562,268	3,815,565	6,377,834
Interest	27,146	607,844	634,990
Depreciation and amortization	289,647	435,841	725,487
Additions of property, plant and equipment and intangible assets	-	85,807	85,807

	<u>Statement of financial position balances as at</u> <u>March 31, 2023</u>		
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.

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17. **SEGMENTED INFORMATION, CONTINUED**

Geographic information	2023	2022
<i>Revenue</i>		
Canada	\$ 15,296,822	\$ 16,031,527
China and other	387,558	665,391
	\$ 15,684,380	\$ 16,696,918

18. **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.

19. **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 September 30, 2023 would impact annual interest expense and net income by \$246,000 (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 11).

Total current liabilities as at September 30, 2023 of \$39,494,729 (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.

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19. **FINANCIAL INSTRUMENTS AND RISK FACTORS, CONTINUED**

The following table outlines the Company's estimated contractual undiscounted obligations as at September 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 and liabilities held for sale	8,223	-	-	-	8,223
Term loans payable	24,558	-	-	-	24,558
Lease liabilities	287	444	329	49	1,109
Loan payable - related party	750	-	-	-	750
Debentures (and accrued interest) payable	5,328	-	-	-	5,328
Purchase contracts for grapes, packaging and other raw materials	<u>3,654</u>	<u>3,654</u>	<u>-</u>	<u>-</u>	<u>7,308</u>
Total contractual obligations	<u>42,800</u>	<u>4,098</u>	<u>329</u>	<u>49</u>	<u>47,276</u>

20. **SUBSEQUENT EVENTS**

(a) **DSU issuance**

On October 24, 2023, the Company issued an aggregate of 250,521 DSUs to non-executive directors in settlement of \$60,125.00 of deferred directors' compensation. The DSUs are to be settled in common shares of the Company when the director retires from all positions with the Company.

(b) **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 commences 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.

In addition, in accordance with the terms of the agreement, TBP can also exercise a put option before May 1, 2024 to sell its agency business in the Territory to Renaissance. The purchase price would be determined pursuant to a formula that takes into account trailing gross margin and commissions revenue, which purchase price the Company currently estimates would be an amount between \$3 million and \$4 million.

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20. **SUBSEQUENT EVENTS, CONTINUED**

(c) **Convertible debentures**

On November 9, 2023, all of the remaining and outstanding debentures payable (*see note 12*) will be rolled into new one year convertible debentures with a similar and market interest rate, and a conversion price based on the then current trading price of the Common Shares. The Company will solidify the newly completed debentures within 60 days of the anniversary date.

(d) **Financing**

On November 14, 2023, the Company closed a previously announced non-brokered private placement through the issuance of 20,000,000 common shares of the Company to Lassonde Industries Inc. (“Lassonde”) at an issue price of \$0.45 per common share for an aggregate purchase price of \$9,000,000 (the “Subscription Price”)

The Subscription Price was satisfied through the payment of \$8.25 million in consideration for 18,333,334 common shares (the “Financing”), and the settlement of the \$750,000 principal amount owed under the advance agreement between the Company and Lassonde Industries dated May 30, 2023 (*see note 10*), which principal amount converted into 1,666,666 common shares (the “Settlement”). The Company intends to use the net proceeds from the Financing to reduce the Company’s debt and accounts payable, and to pay transaction fees.

The Company received shareholder approval for the Financing and Settlement at its annual shareholders meeting held on September 6, 2023. The Financing and the Settlement remain subject to the final acceptance of the TSXV. The securities issued pursuant to the Financing and the Settlement will be subject to a four-month hold period under applicable Canadian securities laws.

(e) **Amended BMO credit agreement**

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”) (*see note 11*). The notable terms of the Amendment are as follows:

- extension of the maturity date to January 2, 2025;
- as a result of the repayment of obligations with the use of proceeds from the Financing, a decrease in the total credit limit from \$14.4 million to \$11.4 million; and
- 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).

The Amendment also provides a waiver of the Company’s fixed charge coverage ratios through to the end of fiscal year 2024. All other terms of the SARCA, as amended, remain in full force and effect.

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20. **SUBSEQUENT EVENTS, CONTINUED**

(f) **Wine Sector Support Program**

The Company received an additional \$933,802 in 2024 Q3 under the Wine Sector Support Program (*see note 14*).