DIAMOND ESTATES WINES & SPIRITS INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE AND NINE MONTHS ENDED DECEMBER 31, 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 DECEMBER 31, 2023 AND MARCH 31, 2023
(Stated in Canadian dollars)
(Unaudited - Prepared by Management)

	December 31 2023	March 31 2023
ASSETS		
Current:		
Accounts receivable (Note 6)	**$ 2,452,079**	$ 3,159,280
Inventories (Note 7)	**18,854,883**	26,289,426
Prepaid expenses	**288,761**	341,667
Assets held for sale (Note 8)	**8,862,789**	-
	30,458,512	29,790,373
Long term:		
Property, plant and equipment	**18,529,101**	25,141,085
Right-of-use assets	**1,404,426**	2,554,677
Intangible assets	**3,962,306**	4,483,318
	$ 54,354,345	$ 61,969,453
LIABILITIES		
Current:		
Accounts payable and accrued liabilities (Note 9)	**$ 5,078,341**	$ 6,708,787
Current portion of term loans payable (Note 11)	**7,861,000**	25,658,120
Current portion of lease liabilities	**311,393**	456,930
Debentures payable (Note 12(d))	**4,559,482**	4,359,242
Derivative liability (Note 12(f))	**1,775,935**	590,327
Liabilities held for sale (Note 8)	**1,261,501**	-
	20,847,652	37,773,406
Long term:		
Term loans payable (Note 11)	**11,273,948**	-
Lease liabilities	**720,959**	1,906,254
	32,842,559	39,679,660
SHAREHOLDERS' EQUITY		
Common shares (Note 13)	**49,765,090**	40,848,245
Contributed surplus	**3,803,730**	3,525,577
Accumulated deficit	**(32,057,034)**	(22,084,029)
	21,511,786	22,289,793
	$ 54,354,345	$ 61,969,453

Going concern (Note 2(c))

Subsequent event (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 NINE MONTHS ENDED DECEMBER 31, 2023 AND 2022
(Stated in Canadian dollars, except per share amounts)
(Unaudited - Prepared by Management)

	Three months ended December 31 2023	**Nine months ended December 31 2023**	Three months ended December 31 2022	Nine months ended December 31 2022
Revenue	**$ 7,320,640**	$ 23,005,020	$ 9,109,426	$ 25,806,343
Cost of sales				
Change in inventories of finished goods and raw materials consumed	**5,404,004**	15,102,769	5,328,844	15,443,212
Depreciation of property, plant and equipment and right-of-use assets used in production	**156,997**	494,968	186,075	390,792
	5,561,001	15,597,737	5,514,919	15,834,004
Gross profit	**1,759,639**	7,407,283	3,594,507	9,972,339
Expenses				
Employee compensation and benefits	**1,574,625**	5,250,739	1,736,924	5,359,706
General and administrative	**1,135,017**	3,393,945	1,288,572	3,416,879
Advertising and promotion	**582,807**	1,605,662	627,612	2,215,784
Interest and accretion	**764,871**	2,718,979	741,164	1,376,155
Delivery and warehousing	**423,785**	1,189,545	348,321	984,334
Financing fees	**9,631**	28,970	17,080	16,744
Share based compensation (Note 13(e))	**83,340**	278,153	115,146	371,149
Depreciation of property, plant and equipment and right-of-use assets used in selling and administration	**78,598**	354,225	185,290	519,387
Amortization of intangible assets	**95,474**	289,752	88,970	275,644
	4,748,148	15,109,970	5,149,079	14,535,782
Loss before undernoted items	**(2,988,509)**	(7,702,687)	(1,554,572)	(4,563,443)
Impairment provision - assets for sale	**(1,374,468)**	(1,374,468)	-	-
Change in fair value of derivative liability (Note 12(f))	**(899,692)**	(1,185,608)	125,370	125,370
Restructuring charge	**(245,725)**	(245,725)	-	(36,000)
Change in fair value of debenture	**326,319**	326,319	-	-
Gain on disposition of right-of-use assets	**19,507**	209,164	26,594	91,158
Gain on debt extinguishment (loss on debt modification)	**-**	-	224,984	224,984
Net loss and comprehensive loss	**$ (5,162,568)**	$ (9,973,005)	$ (1,177,624)	$ (4,157,931)
Basic and diluted loss per share (Note 13(f))	**$ (0.14)**	$ (0.32)	$ (0.04)	$ (0.15)

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

	Note	Common shares 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		-	-	-	(4,157,931)	(4,157,931)
Share based compensation	**13(e)**	-	-	371,149	-	371,149
As at December 31, 2022		**27,875,978**	**40,848,245**	**3,394,545**	**(17,716,305)**	**26,526,485**
Net loss and comprehensive loss		-	-	-	(4,367,724)	(4,367,724)
Share based compensation		-	-	131,032	-	131,032
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		-	-	-	(9,973,005)	(9,973,005)
Share based compensation	**13(e)**	-	-	278,153	-	278,153
Issuance of shares	**13(a)**	20,000,000	9,000,000	-	-	9,000,000
Share issue costs		-	(83,155)	-	-	(83,155)
As at December 31, 2023		**47,875,978**	**$49,765,090**	**$ 3,803,730**	**$ (32,057,034)**	**$ 21,511,786**

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
NINE MONTHS ENDED DECEMBER 30, 2023 AND 2022
(Stated in Canadian dollars)
(Unaudited - Prepared by Management)

	2023	2022
Operating activities		
Net loss and comprehensive loss	**$ (9,973,005)**	$ (4,157,931)
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment and right-of-use assets	**842,260**	914,082
Amortization of intangible assets	**289,752**	275,644
Amortization of deferred financing costs	**9,631**	-
Gain on disposition of right-of-use assets	**(209,164)**	(91,158)
Change in fair value of derivative liability	**1,185,608**	(125,370)
Change in FV of debenture	**(326,319)**	-
Interest accretion on debentures payable	**576,558**	-
Gain on debt extinguishment	**-**	(224,985)
Share based compensation	**278,153**	371,149
Impairment - capital assets and inventory	**1,374,468**	-
Wine Sector Support Grant proceeds released from inventory	**(320,553)**	-
Recognition of fair value purchase price accounting adjustment on EWG inventory	**152,416**	587,000
Interest expense	**2,718,979**	1,376,155
Interest paid	**(2,360,373)**	(1,371,137)
	(5,761,589)	(2,446,551)
Change in non-cash working capital items		
Accounts receivable	**657,076**	1,679,999
Inventories	**4,664,765**	(522,688)
Prepaid expenses	**4,847**	(96,079)
Accounts payable and accrued liabilities	**(1,732,663)**	(1,429,413)
	(2,167,564)	(2,814,732)
Investing activities		
Purchase of property, plant and equipment and intangible assets	**(121,117)**	(218,256)
Purchase of intangible assets	**-**	(6,700)
Proceeds on disposal of right-of-use assets	**209,164**	-
	88,047	(224,956)
Financing activities		
Net proceeds from issuance of common shares	**8,916,845**	-
Proceeds on issuance of convertible debenture, net of issuance costs	**-**	4,806,051
Net draws against (repayments of) revolving term loans	**(3,800,915)**	(648,413)
Repayment on non-revolving term loans	**(2,541,792)**	(873,260)
Repayment of lease liabilities	**(304,525)**	(244,690)
Deferred financing costs paid	**(190,096)**	-
	2,079,517	3,039,688
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

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 February 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 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 nine months ended December 31, 2023 was $9,973,005 (2022 - $4,157,931). Additionally, the Company reported negative cash flow from operations (before changes in non-cash working capital) of $5,761,589 for the nine months ended December 31, 2023 (2022 - $2,446,551). As at December 31, 2023, the Company had an accumulated deficit of $32,057,034 (March 31, 2023 - $22,084,029) and a working capital surplus of $9,610,860 (March 31, 2023 - deficiency of $7,983,033).

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 FCCR covenant to the first quarter of the next fiscal year *(see note 11(a))*. As of December 31, 2023, the Company has debt repayment requirements of approximately $16.9 million within the next twelve months, including all its non-revolving term loans due by May 31, 2024, the current portion of its lease liabilities, the principal amount of the debentures payable plus accrued interest due by November 9, 2024 *(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. This has been evidenced by the November, 2023 private placement for net cash proceeds of $8.2 million *(see note 13(a))*, the debenture financing arranged in November, 2022 and its subsequent rollover *(see note 12(e))*, the sale of Queenston Mile Vineyard *(see note 20(a)*) and the other assets held for sale *(see note 8),* the Trajectory Beverage Partners initiative announced in November, 2023 *(see note 5),* and the updated credit agreement with BMO *(see note 11(a))*. 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.

5. LOSS OF KEY SUPPLIER AND RENAISSANCE AGREEMENT

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 December 31, 2023, this supplier annually represented $9.1 million in revenue and $3.1 million in gross margin.

(Stated in Canadian dollars, except per share amounts)

LOSS OF KEY SUPPLIER AND RENAISSANCE AGREEMENT, CONTINUED

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.

6. ACCOUNTS RECEIVABLE

	December 31 2023	March 31 2023
Trade receivables	**$ 2,447,737**	$ 3,114,403
Accrued receivables	**4,342**	44,877
	$ 2,452,079	$ 3,159,280

The Company has an allowance for doubtful accounts as at December 31, 2023 of $130,106 (March 31, 2023 - $121,638).

7. INVENTORIES

	December 31 2023	March 31 2023
Bulk wine	**$ 11,265,041**	$ 14,238,786
Bottled wine and spirits	**6,916,490**	11,082,446
Bottling supplies and packaging	**673,352**	968,194
	$ 18,854,883	$ 26,289,426

The Company has a provision for inventory obsolescence as at December 31, 2023 of $358,326 (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 $320,553 was released to cost of goods sold during the nine months ended December 31, 2023 as it was sold.

(Stated in Canadian dollars, except per share amounts)

8. ASSETS HELD FOR SALE

As at December 31, 2023, the Company has classified certain winery division properties and related operating assets detailed below totalling $7,601,288 as assets held for sale, net of impairment provisions detailed below. Management intends to sell these assets within one year of the reporting date and entered into a purchase and sale agreement for the Queenston Mile Vineyard winery (see note 20(a)), and all other assets are actively in the process of being sold.

Assets are carried at the lower of fair value less costs of disposal and carrying amount. An impairment provision of $1,374,468 has been recognized as at December 31, 2023 relating to property, plant and equipment.

Assets held for sale	
Accounts receivable	**$ 50,124**
Inventory	**3,001,174**
Prepaid expenses	**48,059**
Property, plant and equipment	**4,635,188**
Right-of-use assets	**896,984**
Intangible assets	**231,260**
	8,862,789
Liabilities held for sale	
Accounts payable and accrued liabilities	**306,388**
Lease liability	**955,113**
	1,261,501
Net assets held for sale	**$ 7,601,288**

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31 2023	March 31 2023
Trade accounts payable	**$ 2,749,908**	$ 4,479,415
Accrued liabilities	**2,239,463**	2,127,721
Government remittances payable	**88,970**	101,651
	$ 5,078,341	$ 6,708,787

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 was unsecured, subordinated to the Company's senior lender, bears interest at prime plus 1 %, and is repayable within 120 business days of being advanced. As part of the equity financing that closed on November 14, 2023 *(see note 13(a))*, the loan was settled by the issuance of 1,666,666 common shares at a price of $0.45 per share.

(Stated in Canadian dollars, except per share amounts)

11. TERM LOANS PAYABLE

As at December 31, 2023, the balances outstanding on the Company's term loans were as follows:

	December 31 2023	March 31 2023
BMO term loans:		
Revolving term loan	**$ 11,273,948**	$ 13,996,205
Non-revolving term loan	**7,861,000**	9,943,000
BCAP non- revolving term loan	**-**	1,718,915
	19,134,948	25,658,120
Current portion of term loans (Note 11(a)(v))	**(7,861,000)**	(25,658,120)
	11,273,948	-

(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

(iii) **Proceeds from recent financing**: the proceeds from the recent 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 and Queenston Mile properties and their related operations, will be applied against the non-revolving term loan. Any remaining balance of the non-revolving term loan is to be settled as of May 31, 2024.

(vi) **Lassonde debt:** accounts payable to Lassonde, incurred through ordinary course business transactions, cannot exceed $1 million.

11. **TERM LOANS PAYABLE, CONTINUED**

(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 through to the end of its fiscal year 2024.

(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, and (ii) the BCAP loan is repayable in monthly principal payments of $57,292. The non-revolving term loan is to be reduced to $Nil by May 31, 2024 out of the net proceeds of expected asset sales and shareholder equity contributions as required. The BCAP facility has been fully paid off as of November 14, 2023 out the proceeds of the recent 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 the following sub-facilities:

(i) As at December 31, 2023, there were letters of credit in the amount of $50,000 outstanding with BMO (March 31, 2023 - $50,000); and

11. TERM LOANS PAYABLE, CONTINUED

(ii) The Company has a master lease finance line facility under the BMO Equipment Leasing Group and as at December 31, 2023, there was a balance of $247,257 drawn on this facility (March 31, 2023 - $342,127), and is included in lease liabilities.

12. 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.

12. 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 $51,801, the carrying value of the debenture as at December 31, 2023 was $4,559,482.

The difference between the face value of the convertible debentures of $4,884,000 (that matured on November 2, 2023) and the fair value of the rolled-over convertible debentures of $4,557,681 of $326,319 was recognized as income during the nine months ended December 31, 2023.

(e) Interest payable on the convertible debentures in the amount of $358,606 was accrued for the nine months ended December 31, 2023. A total of $557,981 in interest payable has been accrued on both the original and renewed convertible debentures up to December 31, 2023, and is included in accounts payable and accrued liabilities as at December 31, 2023.

(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. The fair value of the embedded derivative of the renewed convertible debentures as at December 31, 2023 of $1,775,935 has increased by $1,185,608 compared to the fair value as at March 31, 2023 of $590,327, with the change being recognized as an expense during the nine months ended December 31, 2023.

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 December 31, 2023. Details of major changes in share capital during the current reporting period are as follows:

(a) **Common shares**

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 dated May 30, 2023 *(see note 10)*, which principal amount converted into 1,666,666 common shares (the “Settlement”).

13. **SHARE CAPITAL, CONTINUED**

Share issue costs related to the Financing, consisting of legal fees and listing fees, totalled $83,155.

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

(b) **Stock options**

During the nine months ended December 31, 2023, there were no option grants or exercises or. During the reporting period, a total of 140,000 options expired unexercised on the departure of members of management and the Board of Directors.

(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. In October, 2023, the Company issued an aggregate of 250,521 DSUs valued at $60,125.

(d) **Warrants**

During the nine months ended December 31, 2023, no common share purchase warrants were issued or exercised. In October, 2023, a total of 163,680 broker warrants expired unexercised.

(e) **Share based compensation**

Total share based compensation recognized for the nine months ended December 31, 2023 was $278,153 (2022 - $371,149) 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 nine months ended December 31, 2023 were 38,093,369 and 31,294,160 respectively (three and nine months ended December 31, 2022 - 27,875,978 and 27,875,978 respectively).

(Stated in Canadian dollars, except per share amounts)

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 three month period ended December 31, 2023, a further 933,802 was received under this program and recorded as a reduction to the cost of inventory. During the nine months ended December 31, 2023, a total of $320,553 was released from inventory to cost of goods sold.

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	**171,880**	160,590

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 nine months ended December 31, 2023 and 2022:

(Stated in Canadian dollars, except per share amounts)

17. **SEGMENTED INFORMATION, CONTINUED**

	Nine months ended December 31, 2023		
	Agency	Manufactured wines	Consolidated
	$	$	$
Manufactured wines	-	13,410,957	13,410,957
Third-party wines and spirits	7,562,398	-	7,562,398
Commission and other	2,753,626	-	2,753,626
Gross revenue	10,316,024	13,410,957	23,726,981
Inter-segment revenue	(655,915)	(66,046)	(721,961)
Net revenue	9,660,109	13,344,911	23,005,020
Gross profit	3,091,857	4,315,427	7,407,283
Interest and accretion	29,497	2,689,482	2,718,979
Depreciation and amortization	354,610	784,335	1,138,945
Additions of property, plant and equipment and intangible assets	-	121,117	121,117
	Statement of financial position balances as at December 31, 2023		
Intangible assets	563,725	3,629,841	4,193,566
Total assets	4,053,807	50,300,538	54,354,345
Total liabilities	2,269,071	30,573,488	32,842,559

	Nine months ended December 31, 2022		
	Agency	Manufactured wines	Consolidated
	$	$	$
Manufactured wines	-	14,688,079	14,688,079
Third-party wines and spirits	8,296,134	-	8,296,134
Commission and other	3,458,421	-	3,458,421
Gross revenue	11,754,555	14,688,079	26,442,634
Inter-segment revenue	(636,291)	-	(636,291)
Net revenue	11,118,264	14,688,079	25,806,343
Gross profit	3,855,195	6,117,144	9,972,339
Interest	40,719	1,335,436	1,376,155
Depreciation and amortization	430,908	754,915	1,185,823
Additions of property, plant and equipment and intangible assets	-	218,256	218,256
	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.

(Stated in Canadian dollars, except per share amounts)

17. SEGMENTED INFORMATION, CONTINUED

Geographic information	2023	2022
Revenue		
Canada	**$ 22,226,391**	$ 24,466,850
China and other	**778,629**	1,339,493
	$ 23,005,020	$ 25,806,343

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 December 31, 2023 would impact annual interest expense and net income by $191,000 (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 December 31, 2023 of $20,847,652 (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.

19. FINANCIAL INSTRUMENTS AND RISK FACTORS, CONTINUED

The following table outlines the Company's estimated contractual undiscounted obligations as at December 31, 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	6,340	-	-	-	6,340
Term loans payable	7,861	11,274	-	-	19,135
Lease liabilities	311	416	292	13	1,032
Debentures (and accrued interest) payable	5,442	-	-	-	5,442
Purchase contracts for grapes, packaging and other raw materials	3,654	3,654	-	-	7,308
Total contractual obligations	23,608	15,344	292	13	39,257

20. SUBSEQUENT EVENT

(a) **Sale of Queenston Mile Vineyard winery**

On February 16, 2024, the Company closed on the sale of its Queenston Mile Vineyard winery for estimated gross proceeds of $4.5 million. On closing the Company received net proceeds of $3.7 million, comprising of $3.2 million in cash and a vendor take-back mortgage of $0.5 million. The Company entered into an agreement to sell an estimated $0.5 million of inventory over a one- year period. The cash proceeds will be applied against the non- revolving term loan under the BMO credit facility.