

## FORM 51-102F3

### MATERIAL CHANGE REPORT

#### Item 1 Name and Address of Company

Diamond Estates Wines & Spirits Inc. (the “**Issuer**”)  
1067 Niagara Stone Road  
Niagara-on-the-Lake, ON  
L0S 1J0

#### Item 2 Date of Material Change

The material change occurred on July 29, 2019.

#### Item 3 News Release

A press release in connection with the material change was issued on July 29, 2019 through Canadian newswires and filed on [www.sedar.com](http://www.sedar.com) under the Issuer’s profile and is attached hereto as Schedule “A”.

#### Item 4 Summary of Material Change

The Company has entered into a strategic relationship with Lassonde Industries Inc. (“Lassonde”) (LAS.A-TSX), a North American leader in the development, manufacture and sale of a wide range of beverages. As part of the strategic relationship, Lassonde purchased 36.9 million Diamond Estates common shares at a price of \$0.19 per common share, resulting in gross proceeds of approximately \$7.0 million (the “Private Placement”).

#### Item 5 Full Description of Material Change

##### *5.1 Full Description of Material Change*

On July 29, 2019, the Company announced entering into a Private Placement with Lassonde in accordance with the description in Item 4 above. As a result of the Private Placement, Lassonde became an insider of Diamond Estates, holding 19.9% of the common shares of the Company. The Company intends to deploy the net proceeds of the Private Placement in support of its growth strategies, including the expansion of sales volumes in the emerging Ontario grocery channel and the development of a new winery in British Columbia’s Okanagan Valley. Lassonde and the Company have also entered into an investor rights agreement providing for Lassonde’s right to nominate two of seven directors to a Board of Directors to be reconstituted, as well as certain anti-dilution and registration rights and governance matters. Full details of the transaction are available in the press release attached hereto.

##### *5.2 Disclosure for Restructuring Transactions*

Not applicable

**Item 6 Reliance on subsection 7.1(2) of National Instrument 51-102**

Not applicable

**Item 7 Omitted Information**

Not applicable

**Item 8 Executive Officer**

For further information with respect to this report, please contact Mr. J. Murray Souter, President and Chief Executive Officer of the Issuer at (905) 641.1042 Ext. 234.

**Item 9 Date of Report**

August 1, 2019.

## Schedule “A”

### **Diamond Estates Wines & Spirits Reports Fiscal 2019 Financial Results and Announces Strategic Relationship with Lassonde Industries**

#### ***Lassonde acquires 19.9% interest in Diamond Estates and enters into commercial agreement***

**July 29, 2019, Niagara-on-the-Lake, Ontario** – Diamond Estates Wines & Spirits Inc. (“Diamond Estates” or “the Company”) (DWS-TSX Venture) today announced its financial results for the three and 12-month periods ended March 31, 2019 (“Q4 2019” and “FY 2019” respectively).

The Company is also pleased to announce that it has entered into a strategic relationship with Lassonde Industries Inc. (“Lassonde”) (LAS.A-TSX), a North American leader in the development, manufacture and sale of a wide range of beverages. As part of the strategic relationship, Lassonde purchased 36.9 million Diamond Estates common shares at a price of \$0.19 per common share, resulting in gross proceeds of approximately \$7.0 million (the “Private Placement”). The Company intends to deploy the net proceeds in support of its growth strategies, including the expansion of sales volumes in the emerging Ontario grocery channel and the development of a new winery in British Columbia’s Okanagan Valley. The issue price represents a premium of 18.8% to the closing price of the Company’s common shares on July 26, 2019. As a result of the Private Placement, Lassonde became an insider of Diamond Estates, holding 19.9% of the common shares of the Company. Lassonde and Diamond Estates have also entered into an investor rights agreement providing for Lassonde’s right to nominate two of seven directors to a Board of Directors to be reconstituted, as well as certain anti-dilution and registration rights and governance matters.

In connection with the Private Placement, Diamond Estates has also entered into a commercial brokerage agreement (the “Brokerage Agreement”) with Lassonde Beverages Canada, Lassonde’s wholly-owned subsidiary. Under the terms of the Brokerage Agreement, Lassonde Beverages Canada will deploy its sales team to build and expand the Company’s market share in grocery stores across Canada. Lassonde Beverages Canada has a sales force of over 100 people and has a proven track-record in the distribution of well-known national beverage brands such as Oasis, Rougemont, Allen’s, Fairlee and Everfresh.

***Murray Souter, President and CEO of Diamond Estates, said:*** “This partnership with Lassonde Industries is a landmark event for Diamond Estates and serves as an endorsement of the quality of our products and brands. Lassonde shares our view that the grocery channel represents the most exciting growth opportunity the Ontario wine industry has experienced in decades. With Lassonde’s support, we have a unique opportunity to invest capital to strengthen our brands and expand our competitive position in Ontario grocery stores. This will become increasingly important as the provincial government expands the rollout of beverage alcohol in grocery stores in the months ahead.”

“Another exciting growth opportunity for Diamond Estates is the development of a new Lakeview winery in the Okanagan Valley. We now have the expansion capital in place to begin moving forward with this project and expanding our presence in the British Columbia market, which we entered last year with the acquisition of Backyard Vineyards. We expect this development to build significant long-term value for shareholders,” Mr. Souter added.

***Jean Gattuso, President and Chief Operating Officer of Lassonde Industries, commented:*** “Lassonde Industries Inc. is proud to become a shareholder of Diamond Estates Wines & Spirits and to participate in the growth of this leader in the production, marketing and distribution of wines and other alcoholic beverages in Canada. This new business relationship fits perfectly with our strategic development plan. It also serves the growth objectives of our respective companies. This is a win-win agreement.”

**FY 2019 Summary:**

- Revenue was \$28.1 million, compared to \$34.3 million in the 12-month period ended March 31, 2018 (“FY 2018”), reflecting the previously-disclosed softness in export sales and the loss of large agency suppliers, partially offset by the positive contribution from the acquisition of Backyard Vineyards (“BYV”), positive momentum in the grocery channel, and new high-growth suppliers in the agency division;
- Gross Margin was \$12.2 million, or 43.5% of revenue, compared to \$15.2 million, or 44.3% of revenue, in FY 2018, with lower winery export revenues and fair value adjustments to inventory on the acquisition of BYV driving the decline;
- EBITDA was negative \$0.5 million, compared to \$2.5 million in FY 2018, due to lower top-line revenue, decreased gross margin contribution and increased investment in distribution, promotional programming and in senior-level roles;
- Net loss was \$3.3 million, compared to slightly positive net income in FY 2018;
- Diamond Estates maintained its leading position in the Ontario grocery channel, with case sales increasing 40.5% year-over-year and Diamond brands representing four of the top five-selling products by volume in this channel;
- The Company acquired Backyard Vineyards in June 2018, which transformed it into a national producer of VQA wines and allows for the introduction of Diamond Estates brands into British Columbia and Alberta, Canada’s third and fourth largest wine markets;
- The annual harvest was completed during Q3 2019, yielding 2,100 tonnes of high-quality grapes, which represents sufficient inventory to meet the Company’s production needs;
- The Company initiated a new export sales strategy with a focus on diversifying its export customer base, which has resulted in initial orders from the United Kingdom, Russia and Europe;
- The Company completed the re-branding of Trajectory Beverage Partners, its sales agency division, and opened the division’s new modern office space in Oakville, Ontario;
- The Company continued to accumulate accolades for its high-quality wines,

winning 29 awards including the prestigious Double Gold & Best Dessert Wine at the 2018 All Canadian Wine Championships for its Lakeview Cellars 2016 Vidal Icewine, Best Icewine for its EastDell 2016 Cabernet Franc Icewine at the 2018 Finger Lakes International Wine Competition, and a Gold Medal for its Backyard Vineyards 2017 Riesling at the San Francisco International Wine Competition; and

- Subsequent to FY 2019, the Company announced that it entered into a strategic relationship with Lassonde Industries Inc., as described above.

#### **Q4 2019 Summary:**

Q4 2019 revenue was \$4.5 million compared with \$5.4 million in the three-month period ended March 31, 2018 (“Q4 2018”), reflecting the impact of previously disclosed supplier losses in the agency division. Gross margin was \$1.8 million, or 39.6% of revenue, compared to \$2.3 million, or 42.2% of revenue, in Q4 2018. EBITDA was (\$1.4) million, compared to (\$0.8) million in Q4 2018, and the net loss was \$2.2 million compared with \$1.4 million in Q4 2018. The January-to-March quarter is a seasonally slow period for the Company, and financial results in the fiscal fourth quarter are therefore typically weaker than in other quarters.

“Our financial results in Fiscal 2019 were disappointing, due largely to temporary challenges in the export market and the loss of major suppliers in our agency division, as previously disclosed,” said Mr. Souter. “However, we have achieved our long-term goal of establishing the leading competitive position in the Ontario grocery channel. We believe that grocery will ultimately be the preferred sales channel for Ontario customers, so establishing this position now is critical for our long-term success. We also became a national VQA producer during Fiscal 2019 through the Backyard Vineyards acquisition, positioning us for significant long-term growth.”

“We are confident that export sales will get back on track in the coming quarters. In addition, we believe that our re-vectored strategy in the agency division will strengthen our relationships with suppliers and minimize the supplier losses that impacted our performance in Fiscal 2019. We are excited about the strategic alliance with Lassonde and believe we will see positive business growth in the near future.”

#### **Deferred Share Units**

Diamond Estates also announced today that it has issued deferred share units (“DSUs”) to its directors. Under the amended DSU plan, approved by shareholders on September 27, 2016, the Company has issued an aggregate of 256,618 DSUs to non-executive directors under the Company's deferred share unit plan in settlement of \$43,625 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.

#### **Financial Statements**

The Company's audited consolidated financial statements and the related Management's Discussion & Analysis (“MD&A”) for FY 2019 are available on the Company's website

at <https://www.lakeviewwineco.com/site/investors-diamond-estates-financial-filings> and on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Conference Call**

Murray Souter, CEO, and Paul Dowdall, CFO, will host a conference call for the investment community today at 10:00 a.m. (ET). The call-in numbers for participants are (416) 764-8688 or (888) 390-0546. In addition, the call will be webcast live at: <https://event.on24.com/wcc/r/2047778/8A3F3E2D49E7390A82BCC66FC3C6188B>.

A replay of the call will be available until Monday, August 5, 2019. To access the replay, dial (416) 764-8677 or (888) 390-0541 (Passcode: 312412 #). A transcript of the call will be archived on the Company's website.

### **About Diamond Estates Wines and Spirits Inc.**

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

### **Forward Looking Statements**

This press release contains forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects” or “does not expect”, “is expected”, “estimates”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases or state that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Diamond Estates Wines and Spirits Inc. to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this press release. Such forward-looking statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to: the economy generally; consumer interest in the services and products of the Company; financing; competition; and anticipated and unanticipated costs. While the Company acknowledges

that subsequent events and developments may cause its views to change, the Company specifically disclaims any obligation to update these forward-looking statements. These forward-looking statements should not be relied upon as representing the views of the Company as of any date subsequent to the date of this press release. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

### **Non IFRS Financial Measure**

Management uses net income (loss) and comprehensive income (loss) as presented in the unaudited interim condensed consolidated statements of net income (loss) and comprehensive income (loss) as well as "EBITDA" as a measure to assess performance of the Company. EBITDA is another financial measure and is reconciled to net income (loss) and comprehensive income (loss) under "Results of Operations" in the Company's MD&A.

EBITDA is a supplemental financial measure to further assist readers in assessing the Company's ability to generate income from operations before taking into account the Company's financing decisions, depreciation of property, plant and equipment and amortization of intangible assets. EBITDA comprises gross margin less operating costs before financial expenses, depreciation and amortization, non-cash expenses such as share based compensation, one time and other unusual items, and income tax. Gross margin is defined as gross profit excluding depreciation on property, plant and equipment used in production. Operating expenses excludes interest, depreciation on property, plant and equipment used in selling and administration, and amortization of intangible assets.

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

### **For more information, please contact:**

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