DIAMOND ESTATES WINES & SPIRITS INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

(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, 2022 AND MARCH 31, 2022
(Unaudited - Prepared by Management)

	September 30 2022	March 31 2022
ASSETS		
Current:		
Accounts receivable (Note 5)	**$ 5,102,023**	$ 5,204,837
Inventories (Note 6)	**27,208,914**	28,913,977
Biological assets	**354,272**	-
Prepaid expenses	**569,660**	383,727
	33,234,869	34,502,541
Long term:		
Property, plant and equipment	**25,459,397**	25,893,088
Right-of-use assets	**2,703,856**	2,878,226
Intangible assets	**4,704,671**	4,891,344
	$ 66,102,793	$ 68,165,199
LIABILITIES		
Current:		
Accounts payable and accrued liabilities (Note 7)	**$ 10,289,751**	$ 8,799,574
Current portion of term loans payable (Note 8)	**25,328,291**	25,950,258
Current portion of lease liabilities	**459,261**	449,617
	36,077,303	35,199,449
Long term:		
Lease liabilities	**2,092,027**	2,307,983
Deferred income taxes	**344,500**	344,500
	38,513,830	37,851,932
SHAREHOLDERS' EQUITY		
Common shares (Note 10)	**40,848,245**	40,848,245
Contributed surplus	**3,279,399**	3,023,396
Accumulated deficit	**(16,538,681)**	(13,558,374)
	27,588,963	30,313,267
	$ 66,102,793	$ 68,165,199

Going concern (Note 2(c))

Subsequent events (Note 14)

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, 2022 AND 2021
(Unaudited - Prepared by Management)

	Three months ended September 30 2022	**Six months ended September 30 2022**	Three months ended September 30 2021	Six months ended September 30 2021
Revenue	**$ 9,216,140**	**$ 16,696,918**	$ 7,144,174	$ 14,516,981
Cost of sales				
Change in inventories of finished goods and raw materials consumed	**5,645,795**	**10,114,368**	4,424,556	8,712,186
Depreciation of property, plant and equipment and right-of-use assets used in production	**161,683**	**204,716**	208,789	321,008
	5,807,478	**10,319,084**	4,633,345	9,033,194
Gross profit	**3,408,662**	**6,377,834**	2,510,829	5,483,787
Expenses				
Employee compensation and benefits	**1,808,120**	**3,622,782**	1,437,857	2,824,562
General and administrative	**1,006,437**	**2,127,974**	876,504	1,603,153
Advertising and promotion	**847,773**	**1,588,172**	375,484	737,873
Delivery and warehousing	**351,831**	**636,013**	279,814	511,992
Interest	**340,801**	**634,990**	281,445	545,198
Share based compensation (Note 10(e))	**144,043**	**256,003**	171,734	337,972
Depreciation of property, plant and equipment and right-of-use assets used in selling and administration	**161,621**	**334,097**	93,579	230,927
Amortization of intangible assets	**88,659**	**186,674**	90,310	179,605
	4,749,285	**9,386,705**	3,606,727	6,971,282
Loss before undernoted items	**(1,340,623)**	**(3,008,871)**	(1,095,898)	(1,487,495)
Gain on disposition of right-of-use assets	**10,188**	**64,564**	52,214	71,185
Restructuring charge	**(36,000)**	**(36,000)**	-	-
Unrealized gain on derivative liability (Note 9(d))	**-**	**-**	8,205	26,739
Net loss and comprehensive loss	**$ (1,366,435)**	**$ (2,980,307)**	$ (1,035,479)	$ (1,389,571)
Basic and diluted loss per share (Note 10(f))	**$ (0.05)**	**$ (0.11)**	$ (0.05)	$ (0.07)

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, 2021 TO SEPTEMBER 30, 2022
(Unaudited - Prepared by Management)

	Note	Common shares Shares	Common shares Amount	Contributed surplus	Accumulated deficit	Total
As at April 1, 2021		**20,000,557**	**$27,690,705**	**$ 1,581,984**	**$ (11,085,392)**	**$18,187,297**
Net loss and comprehensive loss		-	-	-	(1,389,571)	(1,389,571)
Share based compensation		-	-	337,972	-	337,972
As at September 30, 2021		**20,000,557**	**27,690,705**	**1,919,956**	**(12,474,963)**	**17,135,698**
Net loss and comprehensive loss		-	-	-	(1,083,411)	(1,083,411)
Share based compensation		-	-	270,635	-	270,635
Proceeds on issuance of common shares		3,770,331	6,221,155	565,560	-	6,786,715
Share issue costs, net of deferred income taxes		-	(363,682)	-	-	(363,682)
Broker warrants		-	(89,095)	89,095	-	-
Fair value of purchase consideration issued on acquisition of EWG		3,055,556	5,500,000	178,150	-	5,678,150
Shares issued on conversion of debenture principal and accrued interest		1,049,534	1,889,162	-	-	1,889,162
As at March 31, 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		-	-	256,003	-	256,003
As at September 30, 2022		**27,875,978**	**$40,848,245**	**$ 3,279,399**	**$ (16,538,681)**	**$27,588,963**

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

DIAMOND ESTATES WINES & SPIRITS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2022 AND 2021
(Unaudited - Prepared by Management)

	2022	2021
Operating activities		
Net loss	**$ (2,980,307)**	$ (1,389,571)
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment and right-of-use assets	**542,842**	551,936
Amortization of intangible assets	**186,674**	179,605
Amortization of deferred financing costs	**-**	30,007
Gain on disposition of right-of-use assets	**(64,564)**	(71,185)
Unrealized gain on derivative liability	**-**	(26,739)
Interest accretion on debentures payable	**-**	19,124
Share based compensation and financing costs from warrant issue	**256,003**	337,972
Amortization of fair value purchase price accounting adjustment on EWG inventory	**440,000**	-
Interest expense	**634,990**	545,198
Interest paid	**(757,096)**	(545,198)
	(1,741,458)	(368,851)
Change in non-cash working capital items		
Accounts receivable	**102,814**	(1,019,857)
Inventories	**1,432,498**	(57,025)
Biological assets	**(354,272)**	(26,273)
Prepaid expenses	**(185,933)**	(94,788)
Accounts payable and accrued liabilities	**1,490,176**	1,738,274
	743,825	171,480
Investing activities		
Purchase of property, plant and equipment	**(85,807)**	(225,902)
Purchase of intangible assets	**-**	(77,510)
	(85,807)	(303,412)
Financing activities		
Proceeds on issuance of convertible debenture, net of issuance costs	**-**	1,560,821
Repayment of lease liabilities	**(158,157)**	(137,088)
Deferred financing costs paid	**-**	(7,756)
Net borrowings (repayments) on revolving term loans	**66,553**	(1,034,045)
Repayment on non-revolving term loans	**(566,414)**	(250,000)
	(658,018)	131,932
Change in cash	**-**	-
Cash, beginning of period	**-**	-
Cash, end of period	**$ -**	$ -

Non-cash transactions (Note 12)

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, 2022 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 24, 2022.

(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.

(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, 2022 was $2,980,307 (2021 - $1,389,571). Additionally, the Company reported negative cash flow from operations (before changes in non-cash working capital) of $1,741,458 for the six months ended September 30, 2022 (2022 - $368,851). As at September 30, 2022, the Company had an accumulated deficit of $16,538,681 (March 31, 2022 - $13,558,374) and a working capital deficiency of $2,842,434 (March 31, 2022 - $696,908).

2. BASIS OF PRESENTATION AND GOING CONCERN, CONTINUED

The operations and net loss for the rolling twelve-month period ended September 30, 2022 have resulted in the Company being in breach of its quarterly fixed charge covenant under the terms of its current credit agreement with Bank of Montreal ("BMO"), its primary lender *(see note 8(a))*. However, subsequent to quarter-end, on October 24, 2022, the Company entered into an amendment for which the Company received a waiver on its fixed charge covenant to the end of the fiscal year *(see note 14(a))*. The significant working capital deficiency as at September 30, 2022 is from the covenant breach and amended Bank Agreement which reclassified the non-current debt in the amount of $24,100,791 (March 31, 2022 - $22,964,065) as current. The Company has debt repayment requirements of $1,686,761 over the next twelve months, including the current portion of the non-revolving term loans and current portion of finance leases, as well as annual seasonal grape purchase commitments in the fall of 2023. These circumstances lend significant doubt as to the ability of the company to continue as a going concern and, accordingly, the appropriateness ultimately of the use of accounting principles applicable to the going concern assumption.

In response to the recurring operating losses and negative cash flows from operating activities, the Company is taking a number of actions to enhance its financial flexibility, to meet its obligations and to fund its ongoing business operations, as evidenced by the restructured credit agreement and debenture financing arranged after period end *(see note 14)*. To ensure the Company maintains an adequate level of liquidity, including compliance with debt covenants, the Company continues to maintain a strategic review process that engages in actions designed to reduce the cost structure, improve productivity and enhance future cash flow.

The Company's ability to meet the covenant measurements under the terms of its credit agreements with its lenders is still dependent upon continued improvement in profitable commercial operations and continued funding support from BMO, 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 balance sheet classifications that would be necessary if the going concern assumption were inappropriate, and these adjustments could be material.

3. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

(a) **IAS 16 "Property, Plant and Equipment"**

This standard has been amended to prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use, clarify that an entity is "testing whether the asset is functioning properly" when it assesses the technical and physical performance of the asset and require certain related disclosures. The amendments are effective for annual periods beginning on or after January 1, 2022. The adoption of the amendment did not have a significant impact on the unaudited interim condensed consolidated financial statements.

(b) **IAS 37 "Provisions"**

This standard has been amended to clarify that, before a separate provision for an onerous contract is established, an entity recognizes an impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract and to clarify the meaning of costs to fulfil a contract. The amendments are effective for annual periods beginning on or after January 1, 2022. The adoption of these amendments did not have a significant impact on the unaudited interim condensed consolidated statements.

(c) **IFRS 9 "Financial Instruments"**

This standard has been amended to address which fees should be included in the 10% test for derecognition of financial liabilities. This amendment is effective for annual periods beginning on or after January 1, 2022. The adoption of the amendment did not have a significant impact on the unaudited interim condensed consolidated statements.

4. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

As at the date of authorization of these unaudited interim condensed consolidated financial statements, the IASB has issued the following new or revised standards as detailed below. The Company has not yet assessed the impact of any of the amendments on the unaudited interim condensed consolidated financial statements.

(a) **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, 2023. The standard has also been amended to specify that covenants to be complied with after the v1
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.

4. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS, CONTINUED

(b) 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.

5. ACCOUNTS RECEIVABLE

	September 30 2022	March 31 2022
Trade receivables	**$ 3,961,805**	$ 3,935,838
Accrued receivables	**40,218**	168,999
Escrow receivable	**1,100,000**	1,100,000
	$ 5,102,023	$ 5,204,837

The Company has an allowance for doubtful accounts as at September 30, 2022 of $99,549 (March 31, 2022 - $84,849).

The escrow receivable, related to contingent consideration previously paid into escrow as part of the Shiny Apple asset acquisition, that was recoverable at the expiry of the escrow period on September 30, 2022 was received in full on October 5, 2022.

6. INVENTORIES

	September 30 2022	March 31 2022
Bulk wine	**$ 16,272,273**	$ 18,388,770
Bottled wine and spirits	**10,056,197**	9,620,299
Bottling supplies and packaging	**880,444**	904,908
	$ 27,208,914	$ 28,913,977

The Company has a provision for inventory obsolescence as at September 30, 2022 of $45,954 (March 31, 2022 - $19,315).

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30 2022	March 31 2022
Trade accounts payable	**$ 8,398,953**	$ 6,664,784
Accrued liabilities	**1,805,711**	2,072,352
Government remittances payable	**85,087**	62,438
	$ 10,289,751	$ 8,799,574

8. TERM LOANS PAYABLE

As at September 30, 2022, the balances outstanding on the Company's term loans were as follows:

	September 30 2022	March 31 2022
BMO term loans:		
Revolving term loan	**$ 12,825,826**	$ 12,781,235
Non-revolving term loan	**10,370,141**	10,746,200
BCAP non- revolving term loan	**2,132,324**	2,422,823
	25,328,291	25,950,258
Current portion of non-revolving terms loans	**(1,227,500)**	(2,986,193)
Remaining portion classified as current due to covenant breach (Note 8(a)(v)	**(24,100,791)**	(22,964,065)
	$ -	$ -

(a) On November 30, 2021, the Company entered into a Second Amended and Restated Credit Agreement ("SARCA") with Bank of Montreal ("BMO"), the notable terms of which are detailed below. On October 24, 2022, the Company entered into an amendment to its SARCA, the major terms of which are outlined in note 14(a).

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

(ii) **Maturity dates:** The revolving and non-revolving facilities have a two-year term expiring as at January 2, 2024, including the Business Credit Availability Program ("BCAP") facility.

(iii) **Interest rates:** The interest rate on each of the facilities is as follows:

- prime plus 1.40% under the revolving term facility;
- prime plus 1.65% under the non-revolving term facility; and
- prime plus 1.65% under the BCAP Facility.

(iv) **Repayment:** The non-revolving term loan is repayable in 80 quarterly principal payments of 1.25% of the drawn amount, or $135,000. The BCAP loan is repayable in monthly principal payments of $57,292.

8. TERM LOANS PAYABLE, CONTINUED

(v) **Covenants:** The SARCA is 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.

For 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 amendment for which the Company received a waiver on its fixed charge covenant to the end of the fiscal year *(see note 14(a))*. This covenant breach has required the non-current portion of the BMO term loans of $24,100,791 to be classified as a current liability under IFRS as at September 30, 2022. The Company was in compliance with its other covenants as at September 30, 2022.

(b) 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, 2022, there were letters of credit in the amount of $50,000 outstanding with BMO (March 31, 2022 - $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, 2022, there was a balance of $403,452 drawn on this facility (March 31, 2022 - $463,284), and is included in lease liabilities.

8. TERM LOANS PAYABLE, CONTINUED

(c) On October 26, 2020, the Company obtained a term loan from its existing lender, Bank of Montreal, in the amount of $2,750,000. The loan was advanced under the auspices of the federal government's Business Credit Availability Program ("BCAP"), under which it is secured by an 80% guarantee from the Export Development Corporation ("EDC"). The funds were utilized to fund the Company's contractual grape purchases in the fall of 2020.

The BCAP loan has the following terms and conditions:

- bears interest monthly at CAD prime rate plus 1.25%;
- repayable in 48 equal monthly principal payments of $57,292, starting on the first anniversary of funding;
- EDC guarantee subject to renewal annually at a fee of 1.8% of the amount of the original loan.

9. DEBENTURES PAYABLE

(a) On June 10, 2021, the Company completed a non-brokered private placement of $1.83 million of 10.0% unsecured convertible debentures of the Company with certain insiders of the Company, including Lassonde and Oakwest Corporation Limited.

(b) On October 7, 2021, the debenture holders elected to convert the debentures and accrued interest totalling $1,889,162 into common shares.

(c) The convertible debentures were accounted for as a compound financial instrument under IAS 32 - Financial Instruments, and had both a liability and an embedded derivative component. The convertible debentures were initially recognized with a fair value of $1,935,595 less transaction costs of $92,932 less the fair value of the embedded derivative of $141,068. After recording interest accretion on the debenture payable of $19,124, the carrying value of the debenture as at September 30, 2021 was $1,720,719.

(d) The derivative was separated as a FVTPL instrument and was re-measured at each reporting period with subsequent changes in fair value recorded in the consolidated statements of net loss and comprehensive loss. The difference between the fair value of the embedded derivative on initial recognition of $141,068 and the fair value on September 30, 2021 of $114,329 resulted in recognition of a gain in the amount of $26,739.

10. SHARE CAPITAL AND OTHER EQUITY INSTRUMENTS

On November 10, 2021, the Company announced implementation of the consolidation of its share capital on a 10 for 1 basis. All common share and equity instrument transactions and balances up to that date, including earnings per share, have been retroactively restated to give effect to that consolidation. Shareholder authorization to effect the share consolidation was approved pursuant to a special resolution passed by shareholders on September 28, 2021.

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, 2021 to September 30, 2022. 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, 2021.

(b) **Stock options**

On August 28, 2022, the Board of Directors authorized the issuance of 200,000 stock options to a key member of management. The options each have an exercise price of $0.90 and a term of 5 years, vesting as to 25% per year on each anniversary date over the next 4 years. The fair value of the options was calculated with the Black-Scholes option pricing model, using the assumptions of: (1) risk free interest rate of 2.77%, (2) expected volatility of 86.5%, (3) expected life of 5 years, and (4) dividend yield of 0.0%, such that the fair value attributed to each option was $0.72.

(c) **Deferred share units**

During the six months ended September 30, 2022, the Company has issued DSUs in settlement of deferred directors' compensation as follows:

- May 22, 2022: 25,852 DSUs valued at $28,438
- August 28, 2022: 30,252 DSUs valued at $28,438

(d) **Warrants**

During the six month period ended September 30, 2022, 75,000 common share purchase warrants expired unexercised.

(e) **Share based compensation**

Total share based compensation recognized for the six months ended September 30, 2022 was $256,003 (2021 - $337,972) based on accrual of previously granted options expected to vest in the reporting period and the issuance of DSUs as described above.

10. SHARE CAPITAL AND OTHER EQUITY INSTRUMENTS, CONTINUED

(f) Loss per share

Basic loss per share is computed using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three and six months ended September 30, 2022 were 27,875,978 and 27,875,978 respectively (three and six months ended September 30, 2021 - 20,000,557 and 20,000,557 respectively).

As at September 30, 2022, the following potentially dilutive equity instruments were outstanding: (i) 1,985,000 options (March 31, 2022 - 1,785,000, (ii) 391,177 deferred share units (March 31, 2022 - 335,073), and (iii) 5,555,905 common share purchase warrants (March 31, 2022 - 5,630,905). The fully diluted number of common shares outstanding as at September 30, 2022 was 35,808,060 (March 31, 2022 - 35,626,956).

11. GOVERNMENT GRANTS

During the six months ended September 30, 2022, the Company has recorded funding of $Nil (2021 - $107,317) under the Canadian Employment Wage Subsidy ("CEWS") program and $Nil (2021 - $27,898) under the Canadian Emergency Rent Subsidy ("CERS") program, the proceeds of which have been netted against certain expense categories in the statements of net loss and comprehensive loss.

12. NON-CASH TRANSACTIONS

	2022 **$**	2021 $
Right-of-use assets acquired under lease liabilities	**62,339**	110,850
Proceeds from disposition of right-of-use assets applied against lease liabilities	**110,493**	85,246
Accounts payable offset against debenture proceeds	**-**	158,025

13. 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.

14. SUBSEQUENT EVENTS

(a) Credit agreement

On October 24, 2022, the Company entered into an amendment to its Second Amended and Restated Credit Agreement (the "SARCA") with Bank of Montreal ("BMO") *(see note 8)*. The major components of the amendment are as follows:

The interest rate on each of the facilities is now as follows:

- prime plus 2.40% under the revolving term facility;
- prime plus 2.65% under the non-revolving term facility;
- prime plus 2.65% under the BCAP facility;
- alternate base rate Canada plus 2.40% in the case of each base rate Canada loan under the revolving term facility; and
- alternate base rate Canada plus 2.65% in the case of each base rate Canada loan under the non-revolving term facility.

The Amendment is subject to compliance with 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.

All other terms of the SARCA, as amended, remain in full force and effect.

(b) Debenture financing

On November 9, 2022, the Company closed a non-brokered private placement of 10.0% unsecured convertible debentures of the Company for gross proceeds of $4.884 million. The Company intends to use the net proceeds of the placement for general working capital and investment purposes.

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 unless the holder requests to accelerate the maturity date in the event the Company completes an equity financing within the next 12 months.

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.

Insiders of the Company subscribed for an aggregate of $500,000 in principal amount of debentures.

15. 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 years ended September 30, 2022 and 2021:

	Six months ended September 30, 2022		
	Agency	**Manufactured wines**	**Consolidated**
	$	**$**	$
Gross revenue	**7,516,734**	**9,615,559**	**17,132,293**
Inter-segment revenue	**(435,375)**	**-**	**(435,375)**
Net revenue	**7,081,359**	**9,615,559**	**16,696,918**
Gross profit	**2,509,976**	**3,867,858**	**6,377,834**
Interest	**27,146**	**607,844**	**634,990**
Depreciation and amortization	**289,646**	**435,841**	**725,487**
Additions of property, plant and equipment and intangible assets	**-**	**85,807**	**85,807**
	Statement of financial position balances as at September 30, 2022		
Intangible assets	**966,376**	**3,738,295**	**4,704,671**
Total assets	**4,593,737**	**61,509,056**	**66,102,793**
Total liabilities	**2,249,933**	**36,263,897**	**38,513,830**

	Six months ended September 30, 2021		
	Agency	**Manufactured wines**	**Consolidated**
	$	**$**	$
Gross revenue	7,714,846	7,013,731	14,728,577
Inter-segment revenue	(211,596)	-	(211,596)
Net revenue	7,503,250	7,013,731	14,516,981
Gross profit	2,887,744	2,596,043	5,483,787
Interest	27,412	517,786	545,198
Depreciation and amortization	284,526	447,014	731,540
Additions of property, plant and equipment and intangible assets	-	303,412	303,412
	Statement of financial position balances as at March 31, 2022		
Intangible assets	1,127,435	3,763,909	4,891,344
Total assets	6,110,279	62,054,920	68,165,199
Total liabilities	4,289,684	33,562,248	37,851,932

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

15. **SEGMENTED INFORMATION, CONTINUED**

Geographic information	2022	2021
Revenue		
Canada	**$ 16,031,527**	$ 12,940,445
China and other	**665,391**	1,576,536
	$ 16,696,918	$ 14,516,981

16. **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, 2022 would impact annual interest expense and net income by $280,000.

(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 8)*.

Total current liabilities as at September 30, 2022 of $36,077,303 (March 31, 2022 - $35,199,449), which includes accounts payable and accrued liabilities, current portion of term loans payable and lease liabilities, are considered current and are due within 12 months of the end of the reporting period. It also includes the non-current portion of the BMO term loans of $24,100,791 (March 31, 2022 - $22,964,065) being classified as current due to the Company being in breach of its fixed charge covenant ratio for the twelve-month period ended September 30, 2022 *(see note 8(b)(v))*. This classification has resulted in the Company having a working capital deficiency as at September 30, 2022 of $2,842,434 (March 31, 2022 - $696,908).

16. FINANCIAL INSTRUMENTS AND RISK FACTORS, CONTINUED

The following table outlines the Company's estimated contractual undiscounted obligations as at September 30, 2022. 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, 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	10,290	-	-	-	10,290
Term loans payable	1,228	24,100	-	-	25,328
Lease liabilities	459	882	564	646	2,551
Purchase contracts for grapes, packaging and other raw materials	3,469	3,469	-	-	6,938
Total contractual obligations	15,446	28,451	564	646	45,107