# DIAMOND ESTATES WINES & SPIRITS INC.

## INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## THREE AND NINE MONTHS ENDED DECEMBER 31, 2021 AND 2020

**(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, 2021 AND MARCH 31, 2021
## (Unaudited - Prepared by Management)

| | December 31 2021 | March 31 2021 |
|---|---|---|
| **ASSETS** | | |
| **Current:** | | |
| Accounts receivable (Note 6) | **$ 3,918,550** | $ 2,684,546 |
| Inventories (Note 7) | **28,337,763** | 23,418,282 |
| Prepaid expenses | **504,886** | 254,101 |
| | **32,761,199** | 26,356,929 |
| **Long term:** | | |
| Property, plant and equipment | **26,078,548** | 17,697,058 |
| Right-of-use assets | **2,960,074** | 3,180,600 |
| Intangible assets | **6,130,180** | 2,585,404 |
| | **$ 67,930,001** | $ 49,819,991 |
| **LIABILITIES** | | |
| **Current:** | | |
| Accounts payable and accrued liabilities (Note 8) | **$ 5,815,009** | $ 4,734,792 |
| Current portion of term loans payable (Note 9) | **3,092,195** | 799,851 |
| Current portion of lease liabilities | **452,272** | 420,811 |
| | **9,359,476** | 5,955,454 |
| **Long term:** | | |
| Term loans payable (Note 9) | **22,705,072** | 22,990,244 |
| Lease liabilities | **2,433,507** | 2,686,996 |
| | **34,498,055** | 31,632,694 |
| **SHAREHOLDERS' EQUITY** | | |
| Common shares (Note 11) | **40,717,122** | 27,690,705 |
| Contributed surplus | **3,172,110** | 1,581,984 |
| Accumulated deficit | **(10,457,286)** | (11,085,392) |
| | **33,431,946** | 18,187,297 |
| | **$ 67,930,001** | $ 49,819,991 |

**Subsequent event** (Note 16)

*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 INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) THREE AND NINE MONTHS ENDED DECEMBER 31, 2021 AND 2020
### (Unaudited - Prepared by Management)

| | **Three months ended December 31 2021** | **Nine months ended December 31 2021** | Three months ended December 31 2020 | Nine months ended December 31 2020 |
|---|---|---|---|---|
| **Revenue** | **$ 8,394,161** | **$ 22,911,142** | $ 6,964,106 | $ 20,187,155 |
| **Cost of sales** | | | | |
| Change in inventories of finished goods and raw materials consumed | **5,198,179** | **13,910,364** | 4,054,779 | 11,388,982 |
| Depreciation of property, plant and equipment and right-of-use assets used in production | **108,574** | **429,582** | 71,076 | 300,868 |
| | **5,306,753** | **14,339,946** | 4,125,855 | 11,689,850 |
| **Gross profit** | **3,087,408** | **8,571,196** | 2,838,251 | 8,497,305 |
| **Expenses** | | | | |
| Employee compensation and benefits | **1,706,963** | **4,531,527** | 1,383,034 | 3,467,110 |
| General and administrative | **1,110,450** | **2,641,855** | 829,867 | 2,419,300 |
| Advertising and promotion | **444,722** | **1,182,598** | 245,773 | 812,488 |
| Interest | **391,889** | **937,087** | 244,786 | 686,598 |
| Delivery and warehousing | **259,561** | **771,553** | 239,238 | 774,229 |
| Financing costs | **155,817** | **227,567** | 27,756 | 264,838 |
| Share based compensation | **98,748** | **436,719** | 144,281 | 175,445 |
| Depreciation of property, plant and equipment and right-of-use assets used in selling and administration | **204,467** | **435,394** | 197,668 | 431,748 |
| Amortization of intangible assets | **90,023** | **269,627** | 84,845 | 254,534 |
| | **4,462,640** | **11,433,927** | 3,397,248 | 9,286,290 |
| **Loss before undernoted items** | **(1,375,232)** | **(2,862,731)** | (558,997) | (788,985) |
| Gain on acquisition (Note 5(c)) | **3,246,685** | **3,246,685** | - | - |
| Realized gain on derivative liability (Note 10(e)) | **114,329** | **141,068** | - | - |
| Gain on disposition of right-of-use assets | **31,899** | **103,084** | 76,165 | 98,196 |
| Restructuring charges | **-** | **-** | - | (533,380) |
| **Net income (loss) and comprehensive income (loss)** | **$ 2,017,681** | **$ 628,106** | $ (482,832) | $ (1,224,169) |
| **Basic and diluted income (loss) per share** (Note 11(a)) | **$ 0.08** | **$ 0.03** | $ (0.02) | $ (0.06) |

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

# DIAMOND ESTATES WINES & SPIRITS INC.
## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
## PERIOD FROM APRIL 1, 2020 TO DECEMBER 31, 2021
## (Unaudited - Prepared by Management)

| | Note | Common shares Shares | Common shares Amount | Contributed surplus | Accumulated deficit | Total |
|---|---|---|---|---|---|---|
| **As at April 1, 2020** | | **20,000,557** | **$27,690,705** | **$ 1,205,216** | **$ (8,450,179)** | **$20,445,742** |
| Net income (loss) and comprehensive income (loss) | | - | - | - | (1,224,169) | (1,224,169) |
| Share based compensation and financing costs from warrant issuance | | - | - | 221,779 | - | 221,779 |
| **As at December 31, 2020** | | **20,000,557** | **27,690,705** | **1,426,995** | **(9,674,348)** | **19,443,352** |
| Net income (loss) and comprehensive income (loss) | | - | - | - | (1,411,044) | (1,411,044) |
| Share based compensation and financing costs from warrant issuance | | - | - | 154,989 | - | 154,989 |
| **As at March 31, 2021** | | **20,000,557** | **27,690,705** | **1,581,984** | **(11,085,392)** | **18,187,297** |
| Net income (loss) and comprehensive income (loss) | | - | - | - | 628,106 | 628,106 |
| Share based compensation and financing costs from warrant issuance | | - | - | 458,471 | - | 458,471 |
| Proceeds on issuance of common shares | **11(b)(i)** | 3,770,331 | 6,221,155 | 565,560 | - | 6,786,715 |
| Share issue costs | **11(e)(i)** | - | (494,805) | - | - | (494,805) |
| Broker warrants | **11(e)(i)** | - | (89,095) | 89,095 | - | - |
| Purchase consideration issued on acquisition of EWG | **11(b)(ii)** | 3,055,556 | 5,500,000 | 477,000 | - | 5,977,000 |
| Shares issued on conversion of debenture principal and accrued interest | **11(b)(iii)** | 1,049,534 | 1,889,162 | - | - | 1,889,162 |
| **As at December 31, 2021** | | **27,875,978** | **$ 40,717,122** | **$ 3,172,110** | **$ (10,457,286)** | **$ 33,431,946** |

*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 31, 2021 AND 2020
## (Unaudited - Prepared by Management)

| | 2021 | 2020 |
|---|---|---|
| **Operating activities** | | |
| **Net income (loss)** | **$ 628,106** | $ (1,224,169) |
| Add (deduct) items not affecting cash | | |
| Depreciation of property, plant and equipment and right-of-use assets | **729,727** | 732,616 |
| Amortization of intangible assets | **269,627** | 254,534 |
| Amortization of deferred financing costs | **144,109** | 46,979 |
| Gain on disposition of right-of-use assets | **(103,084)** | (98,196) |
| Realized gain on derivative liability | **(141,068)** | - |
| Interest accretion on debentures payable | **128,405** | - |
| Share based compensation and financing costs from warrant issue | **458,471** | 221,779 |
| Gain on acquisition (Note 5(c)) | **(3,246,685)** | - |
| Interest expense | **961,609** | 686,598 |
| Interest paid | **(851,809)** | (686,598) |
| | **(1,022,592)** | (66,457) |
| **Change in non-cash working capital items** | | |
| Accounts receivable | **(876,004)** | 729,602 |
| Inventories | **(391,836)** | (1,929,163) |
| Prepaid expenses | **(181,765)** | 127,352 |
| Accounts payable and accrued liabilities | **(388,731)** | (1,460,655) |
| | **(2,860,928)** | (2,599,321) |
| **Investing activities** | | |
| Purchase of property, plant and equipment | **(166,314)** | (275,455) |
| Purchase of intangible assets | **(114,402)** | (73,343) |
| Acquisition of Equity Wine Group Inc. (Note 5(a)) | **(1,500,000)** | - |
| Acquisition of Shiny Apple brand (Note 5(b)) | **(1,267,000)** | - |
| | **(3,047,716)** | (348,798) |
| **Financing activities** | | |
| Proceeds on issuance of convertible debenture, net of issuance costs | **1,560,821** | - |
| Repayment of lease liabilities | **(183,966)** | (343,502) |
| Deferred financing costs paid | **-** | (88,324) |
| Net borrowings (repayments) on revolving term loans | **(1,189,274)** | 879,945 |
| Repayment on non-revolving term loans | **(570,847)** | (250,000) |
| Net proceeds from issuance of common shares (Note 11(b)) | **6,291,910** | - |
| Proceeds under BCAP non-revolving term loan | **-** | 2,750,000 |
| | **5,908,644** | 2,948,119 |
| **Change in cash** | **-** | - |
| Cash, beginning of period | **-** | - |
| **Cash, end of period** | **$ -** | $ - |

**Non-cash transactions: (Note 14)**

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

## 1. NATURE OF OPERATIONS

(a) 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.

(b) **COVID-19 pandemic:**

During the nine months ended December 31, 2021, the COVID-19 pandemic has continued to cause governments to enact emergency measures to combat the spread of the virus. These measures, which include the implementation of self-imposed quarantine periods and social distancing, government-mandated closures of restaurants and hospitality businesses and travel bans, have caused material disruption to business, and remained in place for most of the period.

Depending on the duration and extent of the ongoing impact of COVID-19 and its impact on the overall economy and related advisories and restrictions., this could materially impact our customers and their demand for our products, our supply chains, lease agreements, banking agreements and related covenants (*see note 9*). This in turn may have a direct impact on the Company's operating results, cash flows and financial position.

(c) **Liquidity risk**

Liquidity risk is the risk that the Company may encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or damage to the Company's reputation. To ensure the Company maintains an adequate level of liquidity, including compliance with debt covenants, the Company maintains a strategic review process that engages in actions designed to reduce the cost structure, improve productivity and enhance future cash flow.

2. **SIGNIFICANT ACCOUNTING POLICIES**

(a) **Basis of presentation and 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, except as noted below, that were described in note 2 to the Company's annual consolidated financial statements for the year ended March 31, 2021 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 25, 2022.

These unaudited interim condensed consolidated financial statements are presented in Canadian dollars unless otherwise noted.

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 *(see note 11)*.

(b) **Basis of consolidation**

These unaudited interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries:

| | |
|---|---|
| ♦ Diamond Estates Wines & Spirits Ltd. | 100% |
| ♦ De Sousa Wines Toronto Inc. | 100% |
| ♦ Backyard Vineyards Corp. | 100% |
| ♦ Equity Wine Group of Companies, including Equity Wine Group Inc., Creekside Estate Winery Inc., 26101636 Ontario Inc. (o/a Queenston Mile Vineyard) and 1314102 Ontario Ltd. *(see note 5(a))* | 100% |

A subsidiary is an entity controlled by the Company. Control exists when the Company has power over an investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. The financial statements of a subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are changed when necessary to align them with the policies applied by the Company in these unaudited interim condensed consolidated financial statements. All intercompany balances, income and expenses, and unrealized gains and losses resulting from intercompany transactions are eliminated in full.

2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(c) **Debentures payable**

When a contract contains an embedded derivative, the economic and risk characteristics of both the embedded derivative and host contract are analyzed to understand whether or not they are closely related and to decide whether the embedded derivative should be accounted for separately from the host contract.

The embedded features in the financial instrument issued by the Company are identified at inception. Each feature is evaluated separately and classified either as part of the host liability, as a separate embedded liability or an equity instrument in accordance with the substance of the contractual arrangement.

(d) **Financial instruments**

The Company classifies each financial liability into one of two categories depending upon the purpose for which the liability was incurred.

**Financial liabilities at FVTPL**

Liabilities in this category are derivatives or liabilities classified as held-for-trading or designated as FVTPL on initial recognition. After initial recognition, such liabilities are measured at fair value with changes in fair value being recognized in profit or loss. Derivatives recognized from the Company's debentures payable are recognized as FVTPL *(see note 10(d))*.

**Amortized cost**

Liabilities in this category are non-derivative financial liabilities that are not classified as held-for-trading. After initial recognition, such liabilities are measured at amortized cost using the effective interest rate method. The debentures payable have been classified as amortized cost *(see note 10(c))*.

(e) **Business combinations**

Business combinations are accounted for using the acquisition method, whereby acquired assets and liabilities are recorded at fair value as of the date of acquisition with the excess of the purchase consideration over such fair value being recorded as goodwill.

If the fair value of the net assets acquired exceeds the purchase consideration, the difference is recognized immediately as a gain on acquisition in the consolidated statement of net income and comprehensive income.

Acquisition costs are expensed during the period in which they are incurred and are included in general and administrative expenses.

## 2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The Company measures the identifiable assets acquired and liabilities assumed at their fair values on the date of acquisition. This requires estimates and judgments to be made, which are inherently subjective. As such, the amounts assigned to individual identifiable assets and liabilities, including the fair value of inventories, long-lived assets, the recognition and measurement of any unrecorded intangible assets and the determination of goodwill or the gain on acquisition are impacted. Due to the nature of these estimates, the purchase price allocation impacts the Company's reported assets and liabilities and future net earnings due to the impact on future cost of goods sold, amortization and impairment tests.

## 3. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENT

### (a) IFRS 16 "Leases"

This standard has been amended to provide lessees with an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. This amendment is effective for annual periods beginning on or after June 1, 2020. At this time, the Company has not received rent concessions related to COVID-19 and therefore, this amendment is not expected to 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.

### (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 requires certain related disclosures. The amendments are effective for annual periods beginning on or after January l, 2022. The Company has not yet assessed the impact of the amendments 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 l, 2022. The Company has not yet assessed the impact of the amendments on the unaudited interim condensed consolidated financial statements.

4. **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS, CONTINUED**

(c) **IAS 1, "Presentation of Financial Statements", and IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors"**

This standard has been amended to clarify that liabilities are classified as either 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. This amendment also clarifies the meaning of settlement of a liability. This amendment is effective for annual periods beginning on or after January l, 2023. The Company has not yet assessed the impact of the amendment on the unaudited interim condensed consolidated financial statements.

(d) **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 amendment on the unaudited interim condensed consolidated financial statements.

5. **ACQUISITIONS**

On October 6, 2021, concurrent with the finalization of a private placement *(see note 11(b)(i))* and conversion of debentures *(see note 11(b)(iii))*, the Company closed on two acquisitions as detailed below:

(a) **Equity Wine Group Inc.**

On October 6, 2021, the Company acquired 100% of the common shares of Equity Wine Group Inc. ("EWG") for total consideration of $11,224,000, which was funded as follows: $1,500,000 in cash, $5,500,000 by the issuance of 3,055,556 common shares, $477,000 through the issuance of 2,291,667 common share purchase warrants, and $3,747,000 through assumption of EWG's bank indebtedness. The results of operations from October 7, 2021 onward have been included in the consolidated financial statements and this acquisition has been accounted for as a business combination.

(b) **Shiny Apple brand**

The Company acquired all of the rights and title to the Shiny Apple craft cider brand (the "Shiny Apple brand") from Stonechurch Vineyard and Winery Holdings Inc. for aggregate consideration of $2,367,000, which was satisfied by a (i) closing cash payment of $1,100,000, (ii) $1,100,000 earn-out payment (deposited into escrow by the Company on closing (see note 8) payable quarterly over the course of 12 months following closing depending on sales targets being met, and (iii) $167,000 in cash for inventory, after settlement of an initial $300,000 inventory holdback.

5. **ACQUISITIONS, CONTINUED**

(c) **Purchase price allocation**

The following table summarizes the amounts paid or payable at the purchase date and the preliminary allocation of the purchase price to the identifiable assets acquired and liabilities assumed based on management's estimate of the fair values at the date of acquisition (stated in 000's).

| | Equity Wine Group Inc. | Shiny Apple brand | Totals |
|---|---|---|---|
| **Assets acquired:** | | | |
| Accounts receivable | **$ 358** | $ - | $ 358 |
| Inventories | **4,227** | 167 | 4,394 |
| Prepaids and deposits | **69** | - | 69 |
| Land and building | **8,342** | - | 8,342 |
| Machinery and equipment | **451** | - | 451 |
| Intangible assets - brand name | **1,300** | 2,200 | 3,500 |
| Intangible assets - customer list | **200** | - | 200 |
| | **14,947** | 2,367 | 17,314 |
| **Liabilities assumed:** | | | |
| Accounts payable and accrued liabilities | **476** | - | 476 |
| **Net assets acquired** | **14,471** | 2,367 | 16,838 |
| **Total purchase consideration** | **11,224** | 2,367 | 13,591 |
| **Gain on acquisition** | **$ 3,247** | $ - | $ 3,247 |

The gain on acquisition derived from the excess of net assets acquired over the purchase consideration, primarily by the fair value of the land and building and inventory acquired from EWG. The consolidated statement of net income (loss) and comprehensive income (loss) reflects the gain on acquisition as recorded as other income. Acquisition costs of $150,000 related to the transactions were expensed to general and administrative expenses.

6. **ACCOUNTS RECEIVABLE**

| | **December 31 2021** | March 31 2021 |
|---|---|---|
| Trade receivables | **$ 3,593,392** | $ 2,398,643 |
| Accrued receivables | **325,158** | 264,903 |
| Income taxes recoverable | **-** | 21,000 |
| | **$ 3,918,550** | $ 2,684,546 |

The Company has an allowance for doubtful accounts as at December 31, 2021 of $151,672 (March 31, 2021 - $168,961).

### 7. INVENTORIES

| | December 31 2021 | March 31 2021 |
|---|---|---|
| Bulk wine | **$ 18,284,188** | $ 15,847,385 |
| Bottled wine and spirits | **9,408,287** | 7,112,765 |
| Bottling supplies and packaging | **645,288** | 458,132 |
| | **$ 28,337,763** | $ 23,418,282 |

The Company has a provision for inventory obsolescence as at December 31, 2021 of $28,465 (March 31, 2021 - $81,361).

### 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | December 31 2021 | March 31 2021 |
|---|---|---|
| Trade accounts payable | **$ 3,873,920** | $ 3,389,413 |
| Accrued liabilities | **750,700** | 1,259,649 |
| Government remittances payable | **90,389** | 85,730 |
| Escrow payable - Shiny Apple purchase (Note 5(b)) | **1,100,000** | - |
| | **$ 5,815,009** | $ 4,734,792 |

### 9. TERM LOANS PAYABLE

As at December 31, 2021, the balances outstanding on the Company's term loans were as follows:

| | December 31 2021 | March 31 2021 |
|---|---|---|
| BMO term loans: | | |
| Revolving term loan | **$ 12,624,721** | $ 12,583,995 |
| Non-revolving term loan | **10,618,000** | 8,500,000 |
| BCAP non- revolving term loan | **2,578,153** | 2,750,000 |
| | **25,820,874** | 23,833,995 |
| Deferred financing costs | **(23,607)** | (43,900) |
| | **25,797,267** | 23,790,095 |
| Current portion | **(3,092,195)** | (799,851) |
| | **$ 22,705,072** | $ 22,990,244 |

(a) On November 30, 2021, the Company entered into a Second Amended and Restated Credit Agreement ("SARCA") with Bank of Montreal ("BMO"). The SARCA folds in the previous BMO facility of EWG with the Company's existing BMO credit facility. EWG was acquired by the Company on October 6, 2021 *(see note 5(a))*, and a condition of the transaction was for the Company to consolidate all its facilities with BMO.

## 9. Term Loans Payable, continued

(b) The notable terms of the SARCA are as follows:

(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. The Business Credit Availability Program ("BCAP") facility expires on October 1, 2022 unless extended by the lender in its sole and absolute discretion at the request of the borrower for a further period provided that such extension shall not in any case extend beyond October 26, 2025.

(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.

(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.

## 10. 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 *(see note 11(b)(iii))*.

(c) The major terms of the debentures were as follows:

(i) The debentures bore interest from the date of issue at 10.0% per annum, calculated monthly, in arrears. The interest accrued on the principal outstanding under the debentures until such principal was repaid or converted.

(ii) The debentures were convertible at the holder's option from the date of issuance until the maturity date at a fixed conversion price of $1.80 on the principal portion and market rate on the date of conversion for accrued interest. The debentures were also redeemable at the Company's option, subject to an early redemption fee during the first 12 months following closing of the offering of an additional 1% interest and, if during the first six months, a minimum six months interest.

## 10. DEBENTURES PAYABLE, CONTINUED

(d) (i) The convertible debentures have been 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 was 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.

(ii) The initial fair value of $1,935,595 less the face value of the debt of $1,830,000, net of transaction fees reimbursed to one the debenture holders of $18,221, resulted in initial recognition of a deferred loss of $123,816. As a result of the debenture conversion, the initial amount of the deferred loss has been expensed as a financing cost in the consolidated statements of net income (loss) and comprehensive income (loss).

(e) 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 income (loss) and comprehensive income (loss). As a result of the debenture conversion, the fair value of the embedded derivative on initial recognition of $141,068 has been recognized as income.

## 11. 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, 2020 to December 31, 2021. Details of major changes in each component during the current reporting period are as follows:

(a) **Income (loss) per share**

Basic income (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, 2021 were 23,837,924 and 21,284,331 respectively (three and nine months ended December 31, 2020 - 20,000,557 and 20,000,557 respectively).

As at December 31, 2021, the following potentially dilutive equity instruments were outstanding: (i) 1,710,000 options (March 31, 2021 - 1,510,000, (ii) 314,193 deferred share units (March 31, 2021 - 181,504), and (iii) 5,630,906 common share purchase warrants (March 31, 2021 - 75,000). The fully diluted number of common shares outstanding as at December 31, 2021 was 35,531,077 (March 31, 2021 - 21,767,061).

## 11. Share Capital And Other Equity Instruments, continued

### (b) Issuance of common shares

The Company executed the following share capital transactions concurrently on October 6, 2021:

(i) The Company closed a brokered private placement consisting of the issuance of 3,770,331 units at a price of $1.80 per unit for gross proceeds of $6,786,715. Each unit consisted of one common share and three-quarters of one common share purchase warrant. Each whole warrant is exercisable to acquire one common share at an exercise price of $2.20 per common share for 36 months *(see note 11(e)(i))*.

(ii) In connection with the acquisition of EWG *(see note 5(a))*, the Company issued 3,055,556 common shares to the shareholders of EWG valued at $5,500,000, at a deemed issuance price of $1.80 per share. EWG shareholders also received 2,291,668 common share purchase warrants, with each warrant exercisable to acquire one common share at an exercise price of $2.20 per common share for 36 months *(see note 11(e)(ii))*.

(iii) Upon conversion of the debentures, the Company issued 1,049,534 common shares valued at $1,889,162 in full satisfaction of the outstanding debenture principal and accrued interest *(see note 10(b))*.

### (c) Stock options

(i) On May 17, 2021, the Board of Directors authorized the issuance of 50,000 stock options to a key member of management. The options each have an exercise price of $2.00 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 0.75%, (2) expected volatility of 72.8%, (3) expected life of 5 years, and (4) dividend yield of 0.0%, such that the fair value attributed to each option was $1.10.

(ii) On August 24, 2021, the Board of Directors authorized the issuance of 100,000 stock options to members of management. The options each have an exercise price of $1.80 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 0.71%, (2) expected volatility of 72.0%, (3) expected life of 5 years, and (4) dividend yield of 0.0%, such that the fair value attributed to each option was $0.90.

(iii) On October 26, 2021, the Company issued 150,000 stock options to a key member of management. The options have an exercise price of $1.80 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 0.45%, (2) expected volatility of 88.1%, (3) expected life of 5 years, and (4) dividend yield of 0.0%, such that the fair value attributed to each option was $1.20.

During the nine month period ended December 31, 2021, a total of 100,000 options expired unexercised on the departure of members of management.

## 11. SHARE CAPITAL AND OTHER EQUITY INSTRUMENTS, CONTINUED

### (d) Deferred share units

During the nine months ended December 31, 2021, the Company has issued DSUs in settlement of deferred directors' compensation as follows:

- May 17, 2021: 16,969 DSUs valued at $33,938
- June 26, 2021: 14,687 DSUs valued at $26,438
- October 20, 2021: 17,773 DSUs valued at $28,437

### (e) Warrants

(i) In connection with the private placement that closed on October 6, 2021 *(see note 11(b)(i))*, the Company also issued 2,827,780 common share purchase warrants, exercisable at $2.20 per common share for 36 months. The fair value of the warrants was calculated with the Black-Scholes option pricing model, using the assumptions of: (1) risk free interest rate of 0.57%, (2) expected volatility of 30.0%, (3) expected life of 3 years, and (4) dividend yield of 0.0%, such that the fair value attributed to each warrant was $0.20.

In addition to cash commissions and other transaction costs of $494,805, the Company also issued 163,681 broker warrants to the agent for conducting the private placement. Each broker warrant entitles the holder to acquire one unit (a "Broker Unit") at $1.80 per Broker Unit for a period for 24 months. Each Broker Unit consists of one common share and three-quarters of one common share purchase warrant (each whole warrant, a "Broker Unit Warrant"). Each Broker Unit Warrant is exercisable to acquire one common share at an exercise price of $2.20 per common share for 36 months.

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 0.17%, (2) expected volatility of 68.8%, (3) expected life of 2 years, and (4) dividend yield of 0.0%, such that the fair value attributed to each option was $0.50.

(ii) In connection with the EWG acquisition that closed on October 6, 2021 *(see note 5(a))*, the Company also issued 2,291,667 common share purchase warrants, exercisable under the same terms as above. The fair value attributed to each warrant, using the same Black-Scholes inputs, was also $0.20.

(iii) As consideration for BMO entering into the SARCA *(see note 9(a))*, the Company issued 150,000 warrants to the lender on December 31, 2021. Each warrant is exercisable into one common share of the Company at an exercise price of $1.80 per common share. The warrants vested immediately and expire on December 31, 2024. The fair value of the warrants was calculated with the Black-Scholes option pricing model, using the assumptions of: (1) risk free interest rate of 0.41%, (2) expected volatility of 30.0%, (3) expected life of 3 years, and (4) dividend yield of 0.0%, the fair value attributed to each warrant was $0.15. The total expense recognized of $21,752 has been included in the financing costs line in the statements of net income (loss) and comprehensive income (loss).

## 11. Share Capital And Other Equity Instruments, continued

### (f) Share based compensation

Total share based compensation recognized for the nine months ended December 31, 2021 was $436,719 (2020 - $175,445) based on accrual of previously granted options expected to vest in the reporting period and the issuance of DSUs as described above.

## 12. 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.

## 13. Government Grants

During the nine months ended December 31, 2021, the Company has recorded funding of $107,317 (2020 - $695,581) under the Canadian Employment Wage Subsidy ("CEWS") program and $28,182 (2020 - $Nil) under the Canadian Emergency Rent Subsidy ("CERS") program, the proceeds of which have been netted against certain expense categories in the statement of net income (loss) and comprehensive income (loss).

## 14. Non-Cash Transactions

| | **2021**<br>**$** | 2020<br>$ |
|---|---|---|
| Right-of-use assets acquired under lease liabilities | **110,850** | - |
| Accounts payable offset against debenture proceeds | **158,025** | - |
| Lease liabilities for assets disposed of under lease | **148,912** | - |
| Shares issued on conversion of debentures and accrued interest | **1,889,162** | - |
| Shares and warrants issued for EWG acquisition | **5,977,000** | - |
| Shiny Apple brand purchase consideration held in escrow | **1,100,000** | - |

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 three months ended December 31, 2021 and 2020:

| | Nine months ended December 31, 2021 | | |
|---|---|---|---|
| | **Agency** | **Manufactured wines** | **Consolidated** |
| | **$** | **$** | $ |
| Gross revenue | **12,091,141** | **11,049,368** | **23,140,509** |
| Inter-segment revenue | **(229,367)** | **-** | **(229,367)** |
| Net revenue | **11,861,774** | **11,049,368** | **22,911,142** |
| Gross profit | **4,529,758** | **4,041,438** | **8,571,196** |
| Interest | **40,771** | **896,316** | **937,087** |
| Depreciation and amortization | **430,823** | **703,780** | **1,134,603** |
| Additions of property, plant and equipment and intangible assets | **-** | **280,716** | **280,716** |
| | Statement of financial position balances as at December 31, 2021 | | |
| Intangible assets | **4,940,235** | **1,189,945** | **6,130,180** |
| Total assets | **4,815,462** | **63,114,539** | **67,930,001** |
| Total liabilities | **3,109,256** | **31,388,799** | **34,498,055** |

| | Nine months ended December 31, 2020 | | |
|---|---|---|---|
| | **Agency** | **Manufactured wines** | **Consolidated** |
| | **$** | **$** | $ |
| Gross revenue | 11,905,089 | 8,690,763 | 20,595,852 |
| Inter-segment revenue | (408,697) | - | (408,697) |
| Net revenue | 11,496,392 | 8,690,763 | 20,187,155 |
| Gross profit | 4,861,300 | 3,636,005 | 8,497,305 |
| Interest | 44,364 | 642,234 | 686,598 |
| Depreciation and amortization | 423,543 | 563,607 | 987,150 |
| Additions of property, plant and equipment and intangible assets | - | 348,798 | 348,798 |
| | Statement of financial position balances as at March 31, 2021 | | |
| Intangible assets | 1,449,555 | 1,135,849 | 2,585,404 |
| Total assets | 5,751,830 | 44,068,161 | 49,819,991 |
| Total liabilities | 3,202,986 | 28,429,708 | 31,632,694 |

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**

| | **2021** | 2020 |
|---|---|---|
| ***Revenue*** | | |
| Canada | **$ 20,897,087** | $ 19,104,668 |
| China and other | **2,014,055** | 1,082,487 |
| | **$ 22,911,142** | $ 20,187,155 |

16. **SUBSEQUENT EVENT**

**Option and DSU Grants**

On January 31, 2022, the Company issued 75,000 stock options to certain members of management. The options have an exercise price of $1.36 and a term of 5 years, vesting as to 25% per year on each anniversary date over the next 4 years. In addition, the Company issued an aggregate of 20,910 DSUs in settlement of $28,437 of deferred directors' compensation.