DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

YEARS ENDED MARCH 31, 2023 AND 2022

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The following management discussion and analysis ("MD&A") of Diamond Estates Wines & Spirits Inc. ("Diamond" or "the Company") provides a review of corporate developments, results of operations and financial position for the three and twelve months ended March 31, 2023 ("Q4 2023" and "FY 2023" respectively) compared with the corresponding periods ended March 31, 2022 ("Q4 2022" and "FY 2022" respectively). This discussion is prepared as of July 28, 2023 and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the years ended March 31, 2023 and 2022. Additional information regarding Diamond is available on Diamond's SEDAR profile at www.sedar.com. The results reported in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars (unless otherwise indicated) which is the Company's functional currency.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements. Forward-looking statements can often 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 the Company 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 MD&A. Such forward-looking statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, the ability of the Company to obtain necessary financing, the economy generally, the Covid-19 pandemic, conditions in the target market of the Company, consumer interest in the services and products of the Company, competition and anticipated and unanticipated costs. Such statements could also be materially affected by environmental regulation, liquor regulation, taxation policies, competition, the lack of available and qualified personnel or management, stock market volatility and the ability to access sufficient capital from internal or external sources. Actual results, performance or achievement could differ materially from those expressed herein. While the Company anticipates that subsequent events and developments may cause its views to change, the Company specifically disclaims any obligation to update these forward-looking statements, except as required by applicable law. These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to the date of this MD&A. 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. Readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the Company.

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COMPANY OVERVIEW

Diamond Estates Wines and Spirits Inc. is a producer of high-quality wines and ciders as well as a sales agent for over 120 beverage alcohol brands across Canada. The Company operates five wineries, four in Ontario and one in British Columbia, that produce predominantly VQA wines under such well-known brand names as 20 Bees, Creekside, EastDell, Lakeview Cellars, Mindful, Queenston Mile, Shiny Apple Cider, Fresh, Proud Pour, Red Tractor, Seasons, Serenity, Persona and Backyard Vineyards.

Through its commercial division, 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, Meffre, and Pierre Chavin wines from France, Brimincourt Champagne from France, Merlet and Larsen Cognacs from France, Kaiken wines from Argentina, Blue Nun and Erben wines from Germany, Calabria Family Estate Wines from Australia, Saint Clair Family Estate Wines from New Zealand, Redemption Bourbon and Rye whiskies from the U.S., Gray Whale Gin from California, Storywood and Cofradia Tequilas from Mexico, Magnum Cream Liqueur from Scotland, Talamonti and Cielo wines from Italy, Catedral and Cabeca de Toiro wines from Portugal, Waterloo Beer & Radlers from Canada, Landshark Lager from the USA, Edinburgh Gin, Tamdhu, Glengoyne and Smokehead single-malt Scotch whiskies from Scotland, Islay Mist, Grand MacNish and Waterproof whiskies from Scotland, C. Mondavi & Family wines including C.K. Mondavi & Charles Krug from Napa, Wize Spirits and Hounds Vodka from Canada, Bols Vodka from Amsterdam, Koyle Family Wines from Chile and Pearse Lyons whiskies and gins from Ireland.

The Company's mission is to build lasting, mutually beneficial relationships with channel partners, growers, suppliers and employees. To meet this goal, the Company is undertaking significant investments in winemaking, brand marketing, sales programming, performance management and back-office infrastructure, including information systems which will support growth in an efficient, profitable manner. Based on its analysis of the market, the Company believes that the growth prospects for the domestic and import beverage alcohol markets in Canada are positive. The Company continues to be a participant in the export market and has been successfully expanding its focus beyond China. Canadian wines and particularly Icewine enjoy a premium product positioning with international consumers.

The Company is committed to achieving its sales objectives through its distribution network, which is focused on the provincial liquor boards, licensed restaurants and bars, grocery chains, Diamond's five retail locations, direct-to-consumer and export channels. This distribution network is supported by enhanced sales, marketing and promotional programs. To ensure the Company strives to maintain an adequate level of liquidity, including compliance with future 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. In addition, the Company is also focused on maintaining on-going funding support from BMO, shareholders and non- strategic assets to fund future operations.

RECENT EVENTS AND FY 2023 HIGHLIGHTS

- Revenue for FY 2023 was $31.7 million, an increase of $1.7 million from $30.0 million in FY 2022. The largest contribution to the increase year-over-year came from the Winery division with the Equity Wine Group acquisition, the continued growth in the grocery channel, a resurgence in retail and on-premise and the opening of the new Shiny retail outlet. The Agency experienced a moderate decline of $0.8 million in FY 2023 from lost suppliers over the last fiscal year.
- Gross margin[1] for FY 2023 was $10.6 million, a decrease of $0.4 million from $11.0 million in FY 2022, while gross margin as a percentage of revenue was 33.4% for FY 2023 compared to 36.8% in FY 2022. However, when factoring in adjustments to cost of goods sold of $0.8 million for the fair value of EWG inventories sold, $1.7 million adjustment to deferred fixed overheads for the low yields experienced from the vintage 2022 harvest and excise tax paid of $0.1 million, gross margin for FY 2023 was $13.2 million or 41.5% of revenue compared to $11.7 million and 39.0% for FY 2022.
- EBITDA[1] was negative $4.5 million in FY 2023, a decrease of $2.8 million from negative $1.7 million in FY 2022, The decrease was attributable to an increase experienced in selling, general and administration expenses of $2.3 million. As a percentage of revenue, SG&A expense increased to 47.5% for FY 2023 from 42.6% for FY 2022.
- EBITDA for FY 2023 was adjusted by (i) $0.8 million to account for the incremental fair value of EWG inventories sold since March, 2022, and (ii) $1.7 million from to reflect allocation of fixed production overheads after a reduced harvest, such that Adjusted EBITDA[1] was negative $1.9 million in FY 2023 compared to negative $1.1 million in FY 2022.
- On May 30, 2023, the Company received a loan of $750,000 from a related party.
- 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 $4.9 million (see further discussion in "Liquidity and Capital Resources" section below).
- 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"), under which the Company received a waiver on its fixed charge covenant until March 31, 2023 (see further discussion in "Liquidity and Capital Resources" section below).
- On June 29, 2022, the Canadian government announced the Wine Sector Support Program ("WSSP") to provide non-repayable grants to licensed Canadian wineries based on the production of bulk wine fermented in Canada from domestic and/or imported grapes. The Government has budgeted up to $166M over a two-year period and will review further annual funding in the near future. The Company had applied for this support program and received $1.5 million in Q4 2023.
- The Government of Canada has repealed the federal excise duty exemption of 100% Canadian wines effective June 30, 2022 and is subject to an excise tax of $0.69 per litre. All wines packaged prior to June 30, 2022 can continue to be sold under the previous exemption. As part of the transition provisions, any 100% Canadian wine packaged prior to June 30, 2022 could continue to be sold under the previous exemption. This inventory was depleted in Q4 2023 and as such, revenue subject to excise tax was reduced by $0.1 million in Q4 2023.

[1] *See definition of selected terms under the heading "Non-IFRS Financial Measures" (see page 12)*

GOING CONCERN

The accompanying consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") (as issued by the International Accounting Standard Board ("IASB")) applicable to a going concern.

Net loss and comprehensive loss for FY 2023 was $8.5 million (FY 2022 - $2.5 million). Additionally, the Company reported negative cash flow from operations (before changes in non-cash working capital) of $5.0 million in FY 2023 (FY 2022 - $2.4 million). As at March 31, 2023, the Company had an accumulated deficit of $22.1 million (March 31, 2022 - $13.6 million). As at March 31, 2023, the Company had a working capital deficiency of $8.0 million (March 31, 2022 - $0.7 million).

The operations and net loss for the rolling twelve-month period ended September 30, 2022 had 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. However, on October 24, 2022, the Company entered into an amendment for which the Company received a waiver on its fixed charge covenant until March 31, 2023. The Company has debt repayment requirements of $31.5 million over the next twelve months, including all its bank indebtedness that matures on January 2, 2024, the current portion of its lease liabilities, and the principal amount of the debentures payable plus accrued interest due by November 2, 2023, 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 in November, 2022 *(see further discussions in "Liquidity and Capital Resources" section below)*. 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 profitable commercial operations, divestiture of non-strategic assets, continued funding support from BMO and shareholders, and new equity and debt placements. However, there can be no assurance that management will be successful in this regard. These 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 consolidated statement of financial position classifications that would be necessary if the going concern assumption were inappropriate, and these adjustments could be material.

SELECT FINANCIAL INFORMATION

	FY 2023	FY 2022	FY 2021
	$	$	$
Revenue	**31,722,940**	29,985,857	25,552,514
Gross margin	**10,610,499**	11,047,664	10,531,143
Net loss and comprehensive loss	**(8,525,655)**	(2,472,982)	(2,635,213)
Basic and diluted loss per share	**(0.31)**	(0.11)	(0.13)
Working capital surplus (deficiency)	**(7,983,033)**	(696,908)	20,401,475
Total assets	**61,969,453**	68,165,199	49,819,991
Term loans, lease liabilities and debentures payable	**32,380,546**	28,707,858	26,897,902
Shareholders' equity	**22,289,793**	30,313,267	18,187,297

See discussion of financial results under "Results of Operations" and "Liquidity and Capital Resources"

QUARTERLY PERFORMANCE

The following table highlights certain key quarterly financial highlights. Commentary on the selected highlights is included under "Results of Operations" and "Liquidity and Capital Resources".

	Mar-2023 Q4 2023	**Dec-2022 Q3 2023**	**Sep-2022 Q2 2023**	**Jun-2022 Q1 2023**	**Mar-2022 Q4 2022**	**Dec-2021 Q3 2022**	**Sep-2021 Q2 2022**	**Jun-2021 Q1 2022**
	$	$	$	$	$	$	$	$
Balance sheet								
Working capital surplus (deficiency)	(7,983,033)	19,150,127	(2,842,434)	(1,920,390)	(696,908)	23,401,723	(1,641,158)	20,410,991
Term debt, lease liabilities and debentures payable	32,380,546	30,653,735	27,879,579	29,747,827	28,707,858	28,683,046	27,121,527	26,943,179
Total equity	22,289,793	26,526,485	27,588,963	28,811,355	30,313,267	33,431,936	17,135,698	17,999,442
Income statement								
Revenue	5,916,596	9,109,426	9,216,140	7,480,778	7,074,715	8,394,161	7,144,174	7,372,807
Gross margin	247,367	3,780,582	3,570,345	3,012,205	2,046,886	3,195,982	2,719,618	3,085,178
EBITDA	(2,878,434)	(220,846)	(443,814)	(921,920)	(1,601,211)	(325,714)	(208,338)	407,304
Adjusted EBITDA	(919,279)	(73,846)	(223,815)	(701,920)	(1,111,102)	(21,865)	(267,986)	331,737
Net income (loss)	(4,367,725)	(1,177,624)	(1,366,434)	(1,613,872)	(3,101,092)	2,017,681	(1,035,479)	(354,092)
Basic income (loss) per share	(0.16)	(0.04)	0.05	(0.06)	(0.11)	0.08	(0.04)	(0.02)

RESULTS OF OPERATIONS

	FY 2023	FY 2022
Revenue	$ 31,722,940	$ 29,985,857
Cost of sales	21,112,441	18,938,193
Gross margin	10,610,499	11,047,664
Gross margin (% of revenue)	33.4%	36.8%
Selling, general and administration expenses	15,075,513	12,775,623
SG&A expenses (% of revenue)	47.5%	42.6%
EBITDA	(4,465,014)	(1,727,959)
Interest and accretion	2,276,142	1,191,003
Depreciation and amortization	1,556,763	1,652,539
Financing costs	102,576	276,598
Loss from operations	(8,400,495)	(4,848,099)
Gain on debt extinguishment	224,984	(373,734)
Change in fair value of derivative liability	185,264	141,068
Gain on disposition of right-of-use assets	129,530	136,223
Gain on acquisition	-	2,721,483
Share based compensation	(502,181)	(546,480)
Restructuring charge	(457,257)	(230,000)
Impairment charge - intangible assets	(50,000)	-
Loss before income taxes	(8,870,155)	(2,999,539)
Recovery of deferred income taxes	344,500	526,557
Net loss and comprehensive loss	$ (8,525,655)	$ (2,472,982)

See definition of selected terms under the heading "Non-IFRS Financial Measures"

Revenue for FY 2023 was $31.7 million, an increase of $1.7 million from $30.0 million in FY 2022. The largest contribution to increases in sales year-over-year came from the Winery division with the Equity Wine Group acquisition and the continued growth in the grocery channel, a resurgence in retail and on-premise compared to FY 2022 while the opening of the new Shiny retail outlet contributed $0.2 million There continued to be softness experienced in the export market where revenue declined from $2.4 million in FY 2022 to $1.4 million in FY 2023. Agency revenue for FY 2023 was $14.2 million, a decrease of $0.8 million from $15.0 million in FY 2022. Total revenue for Q4 2023 was $5.9 million, a decrease of $1.2 million compared to Q4 2022, with a $1.1 million decrease attributable to the Winery Division and $0.1 million from the Agency Division. The decrease is a result of softening in wine sales throughout the industry and continued weakness in export sales.

Gross margin for FY 2023 was $10.6 million, a decrease of $0.4 million from $11.0 million in FY 2022, while gross margin as a percentage of revenue was 33.4% for FY 2023 compared to 36.8% in FY 2022. The winery experienced gross margins of 32.0% while the agency experienced gross margins of 35.2%. The gross margin of the winery business for FY 2023 increased by $0.1 million compared to FY 2022 from the revenue increases experienced in our highest gross margin channels. The gross margin of the agency business decreased by $0.6 million in FY 2023 from FY 2022 due to higher product costs in the buy/sell market.

Gross margin for FY 2023 increased to $13.2 million and 41.5% of revenue, compared to $11.7 million and 39.0% of revenue for FY 2022 when factoring in the adjustments to cost of goods sold of $0.8 million for the fair value of EWG inventories sold and $1.7 million to deferred fixed overheads for the low yields experienced from the vintage 2022 harvest. As a result, the winery experienced an adjusted gross margin of 46.5% as a percentage of revenue.

Gross margin for Q4 2023, before factoring in the cost of sales adjustments noted above, was $0.2 million, a decrease of $1.8 million from $2.0 million in Q4 2022. Gross margin as a percentage of revenue was 4.2% for Q4 2023 compared to 28.9% in Q4 2022, with all of the decline attributable to the fixed production overheads adjustment of $1.7 million from the low yields experienced in the vintage 2022 harvest.

Total SG&A expenses for FY 2023 were $15.1 million, an increase of $2.3 million from $12.8 million in FY 2022. The change is mostly attributable to (i) an increase in advertising and promotion of $0.8 million from marketing campaigns at the Agency division in the buy/sell markets, (ii) an increase in employee compensation and benefits of $0.6 million from a full year complement of the employees associated with the Equity Wine group acquisition, the addition of the Shiny Retail store and the cessation of COVID funding, and (iii) the increase in general and administrative expenses of $0.7 million arising from a general increase in operating costs and an increase in bad debt expense.

Interest expense for FY 2023 was $2.3 million, an increase of $1.1 million compared to $1.2 million in FY 2022. The increase is a result of increase in general interest rates during FY 2023 and the addition of the convertible debentures issued in November 2022. Depreciation and amortization expense for FY 2023 was $1.6 million compared to $1.7 million in FY 2022.

EBITDA declined by $2.8 million from negative $1.7 million in FY 2022 to negative $4.5 million in FY 2023. The decline was driven by the reduced gross margin of $0.4 million and an increase experienced in selling, general and administration expenses of $2.3 million. As a percentage of revenue, SG&A expense increased to 47.5% for FY 2023 from 42.6% for FY 2022. EBITDA for Q4 2023 before adjustments was a negative $2.9 million, a decrease of $1.3 million from a negative $1.6 million in Q4 2022. Adjusted EBITDA for Q4 2023 was negative $0.9 million, compared to negative $1.1 million in Q4 2022, and the net loss for Q4 2023 was $4.4 million compared with $3.1 million in Q4 2022. 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.

Loss from operations for FY 2023 was $8.4 million compared to $4.8 million in FY 2022, a decrease in profitability of $3.6 million. When factoring in the adjustments for the fair value of the EWG inventory sold and fixed production overheads after a reduced harvest, the loss from operations for FY 2023 was $5.9 million compared to a loss from operations of $4.1 million in FY 2022. The lower level of profitability is a direct result of the increase in selling, general and administration and interest expenses year over year.

LIQUIDITY AND CAPITAL RESOURCES

	March 31, 2023	March 31, 2022
ASSETS		
Accounts receivable	**$ 3,159,280**	$ 5,204,837
Inventory	**26,289,426**	28,913,977
Prepaid expenses	**341,667**	383,727
Total current assets	**29,790,373**	34,502,541
Property, plant and equipment	**25,141,085**	25,893,088
Right of use assets	**2,554,677**	2,878,226
Intangible assets	**4,483,318**	4,891,344
Total assets	**$ 61,969,453**	$ 68,165,199
LIABILITIES		
Accounts payable and accrued liabilities	**$ 6,708,787**	$ 8,799,574
Current portion of term loans payable and lease liabilities	**26,115,050**	26,399,875
Debentures payable	**4,359,242**	-
Derivative liability	**590,327**	-
Total current liabilities	**37,773,406**	35,199,449
Lease liabilities, net of current portion	**1,906,254**	2,307,983
Deferred income taxes	**-**	344,500
Total liabilities	**39,679,660**	37,851,932
SHAREHOLDERS' EQUITY	**22,289,793**	30,313,267
	$ 61,969,453	$ 68,165,199

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 *(see further discussion in "Going Concern" section above)*;

The working capital deficiency decreased by $7.3 million to negative $8.0 million as at March 31, 2023 from a negative $0.7 million as at March 31, 2022. The operations and net loss for the rolling twelve-month period ended September 30, 2022 had resulted in the Company being in breach of its quarterly fixed charge covenant under the terms of its current credit agreement with BMO. However, on October 24, 2022 the Company entered into an amendment for which the Company received a waiver on its fixed charge covenant until March 31, 2023. As the banking agreement expires on January 2, 2024, all term loans payable have been classified as current as of March 31, 2023. For the rolling twelve-month period ended March 31, 2022, the Company was in breach of its fixed charge covenant ratio, resulting in all term loans payable also being classified as current as of that date.

Accounts receivable of $3.2 million as at March 31, 2023 decreased by $2.0 million from $5.2 million as at March 31, 2022. The decrease is a result of (i) a decline of trade accounts receivable of $0.9 million, and (ii) collection of the Shiny Apple escrow receivable of $1.1 million on October 5, 2022.

The inventory balance was $26.3 million as at March 31, 2023, a decrease of $2.6 million from $28.9 million as at March 31, 2022. The decrease was attributable to the inventory adjustments of $1.7 million to deferred fixed overheads for the low yields experienced from the vintage 2022 harvest, $1.0 million from the WSSP grant and the remainder of the decline due to the short harvest. Despite the short harvest, the Company has sufficient inventory to satisfy future demand from the forecasted market expansion and retail modernization.

Property, plant and equipment of $25.1 million as at March 31, 2023 decreased by $0.8 million from $25.9 million as at March 31, 2022. The decrease was mostly attributable to depreciation taken during FY 2023 less additions of $0.3 million.

Right-of-use assets of $2.6 million as at March 31, 2023 decreased from $2.9 million as at March 31, 2022, largely due to depreciation of $0.4 million taken during FY 2023.

Intangible assets of $4.5 million as at March 31, 2023 decreased by $0.4 million from $4.9 million as at March 31, 2022 due to depreciation taken during FY 2023.

Accounts payable and accrued liabilities of $6.7 million as at March 31, 2023 decreased by $2.1 million from $8.8 million as at March 31, 2022 as trade accounts payable were paid down out of the net proceeds from the debenture offering.

The BMO credit facilities are governed under the terms of the SARCA and include the BCAP term loan, an existing non-revolving term loan, a revolving operating line, the total of which was $25.7 million as at March 31, 2023, a decrease of $0.3 million from $26.0 million as at March 31, 2022. The decrease resulted from (i) repayments on the non-revolving term loans of $1.2 million, (ii) an increase in utilization of the revolving term loan of $1.3 million, and (iii) gain on debt extinguishment of $0.2 million.

On October 24, 2022, the Company entered into a further amendment to its SARCA, the major terms of which are outlined below:

Credit limits: The credit limits remained unchanged (i) the revolving term loan of $14.4 million with an accordion feature to fund future growth, and (ii) the non-revolving term loan of $10.8 million.
Maturity dates: The maturity dates remained unchanged with the revolving and non-revolving facilities having a two-year term expiring as at January 2, 2024, including the Business Credit Availability Program ("BCAP") facility.
Interest rates: Under the current amendment, the interest rate increased by 1.00% on each component of the facility as follows:

- prime plus 2.40% under the revolving term facility;
- prime plus 2.65% under the non-revolving term facility; and
- prime plus 2.65% under the BCAP Facility.

Repayment: The repayment terms remained unchanged (i) the non-revolving term loan is repayable in 80 quarterly principal payments of 1.25% of the drawn amount, or $135,000, and (ii) the BCAP loan is repayable in monthly principal payments of $57,292.

Covenants: The Amendment is subject to compliance to the following additional covenants:

- the leverage ratio shall not be less than or equal to 2.00 to 1 for every calendar month and fiscal quarter
- the Company will not permit its forecasted or actual liquidity (as defined under the SARCA) to be less than $Nil.

The adjusted SARCA is still subject to the following major covenants:

- leverage ratio at less than or equal to 2.15 to 1; and
- fixed charges coverage ratio at greater than or equal to 1.25 to 1.

On November 2, 2022, the Company completed a non-brokered private placement of $4.884 million of 10.0% unsecured convertible debentures of the Company. The Company intends to use the net proceeds of the placement for general working capital and investment purposes. Certain insiders of the Company, including Lassonde and a related company controlled by its chairman, subscribed for $3.35 million of the total placement. The debentures mature one year from their date of issuance, being November 2, 2023, unless the holder requests to accelerate the maturity date in the event the Company completes an equity financing within the next 12 months. 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.

The convertible debentures have been accounted for as a compound financial instrument under IAS 32 - Financial Instruments, and have both a liability and an embedded derivative component. The convertible debentures were initially recognized on November 2, 2022 with a fair value of $4,884,000 less transaction costs of $77,949 less the fair value of the embedded derivative of $775,591. After recording interest accretion on the debenture payable of $328,782, the carrying value of the debenture as at March 31, 2022 was $4,359,242.

The difference between the fair value of the embedded derivative on initial recognition of $775,591 and the fair value on March 31, 2022 of $590,327 resulted in the recognition of a change of fair value of $185,265.

The following table outlines the Company's contractual obligations as at March 31, 2023:

	<1 year	**2-3 years**	**4-5 years**	**>5 years**	**Total**
			$ (000's)		
Accounts payable and accrued liabilities	6,709	-	-	-	6,709
Term loans payable	25,658	-	-	-	25,658
Lease liabilities	457	783	523	601	2,364
Debentures payable	5,372	-	-	-	5,372
Purchase contracts for grapes, packaging and other raw materials	3,654	3,654	-	-	7,308
Total contractual obligations	41,850	4,437	523	601	47,411

The Company's debt to equity ratio increased to 1.48:1 as at March 31, 2023 from 0.96:1 as at March 31, 2022, where debt is defined as total liabilities less accounts payable and accrued liabilities, and equity is defined as shareholders' equity. This increase is due to the debenture placement and the loss incurred for FY 2023.

RELATED PARTY TRANSACTIONS

During FY 2023 and FY 2022, the Company had related party transactions, including (i) compensation of key management personnel and directors, and (ii) transactions with entities related to or controlled by directors, as follows:

	FY 2023	FY 2022
	$	$
Salary	**876,088**	790,277
Director fees	**-**	77,750
Share based compensation under stock option plan and DSU plan	**394,816**	413,091
Commissions	**57,426**	367,268
Interest on shareholder loan		

Accounts payable and accrued liabilities as at March 31, 2023 includes $105,816 (2022 - $85,876) with respect to balances owing to related parties for the transactions disclosed above.

CAPITALIZATION

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.

The Company has common shares and other equity instruments outstanding at each reporting date as follows:

	March 31, 2023	**March 31, 2022**	**Change in reporting period**
Common shares	27,875,978	27,875,978	-
Stock options	1,735,000	1,785,000	(50,000)
Deferred share units	528,778	335,073	193,705
Warrants	5,555,905	5,630,905	(75,000)
Total equity instruments	35,695,661	35,626,956	68,705

The Company did not issue any common shares during FY 2023.

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. During FY 2023, a total of 200,000 options expired unexercised on the departure of members of management, and a further 50,000 expired unexercised.

During FY 2023, the Company issued 193,705 DSUs valued at $193,576 to non-executive directors under the DSU Plan in settlement of deferred directors' compensation.

On July 1, 2022, 75,000 warrants previously issued to BMO as consideration for entering into an amended banking agreement expired unexercised.

NON-IFRS FINANCIAL MEASURES

Management uses net loss and comprehensive loss as presented in the consolidated statements of net loss and comprehensive loss as well as "gross margin", "EBITDA" and "Adjusted EBITDA" as a measure to assess performance of the Company. The Company defines "gross margin" as gross profit excluding depreciation. EBITDA and "Adjusted EBITDA" are other financial measures and are reconciled to net loss and comprehensive loss below under "Results of Operations".

Gross margin, EBITDA and Adjusted EBITDA are supplemental financial measures to further assist readers in assessing the Company's ability to generate income from operations before considering 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. Adjusted EBITDA comprises EBITDA before non-recurring expenses including cost of sales adjustments related to inventory acquired in business combinations, EWG transaction costs expensed, government funding under CEWS and CERS programs, and other non-recurring adjustments included in the calculation of EBITDA. Gross margin is defined as gross profit excluding depreciation on property, plant and equipment used in production. Operating expenses exclude 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 consolidated financial statements prepared under IFRS. The Company's definitions of this non-IFRS financial measure may differ from those used by other companies.

The Company calculates gross margin as follows:

	FY 2023 **$**	FY 2022 $
Revenue	**31,722,940**	29,985,857
Cost of sales		
Change in inventories of finished goods and raw materials consumed	**21,112,441**	18,938,193
Depreciation	**519,552**	630,160
Gross profit	**10,090,947**	10,417,504
Exclude depreciation	**519,552**	630,160
Gross margin	**10,610,499**	11,047,664
Gross margin (% of revenue)	**33.4%**	36.8%

The Company calculates EBITDA and Adjusted EBITDA as follows:

	FY 2023	FY 2022
	$	$
Net loss for year	**(8,525,655)**	(2,472,982)
Interest and accretion	**2,276,142**	1,191,003
Financing costs	**102,576**	276,598
Share-based compensation	**502,181**	546,480
Depreciation and amortization	**1,556,763**	1,652,539
(Gain on debt extinguishment) Loss on debt modification	**(224,984)**	373,734
Change in fair value of derivative liability	**(185,264)**	(141,068)
Gain on disposition of right-of-use assets	**(129,530)**	(136,223)
Gain on acquisition	**-**	(2,721,483)
Restructuring charge	**457,257**	230,000
Impairment charge - intangible assets	**50,000**	-
Recovery of deferred income taxes	**(344,500)**	(526,557)
EBITDA	**(4,465,014)**	(1,727,959)
Cost of goods sold adjustments for fair value of EWG inventories sold	**832,213**	658,743
Cost of sales adjustment to fixed production overheads	**1,713,941**	-
Adjusted EBITDA	**(1,918,860)**	(1,069,216)

SUBSEQUENT EVENTS

Related party loan

In May, 2023, the Company received a loan in the principal amount of $750,000 from a related party, the proceeds of which are intended to be used for general working capital purposes. The loan is unsecured, subordinated to the Company's senior lender, bears interest at prime plus 1 %, and is repayable within 120 business days of being advanced.

DSU issuance

In May, 2023, the Company issued an aggregate of 285,980 DSUs in settlement of $100,093 of deferred directors' compensation.

Covenant waiver

On May 31, 2023, the Company's primary lender consented in writing to waive the Company's requirement to comply with the fixed charge coverage ratio "(FCCR") covenant for the twelve month rolling period ended June 30, 2023.

STRATEGIC OUTLOOK AND DIRECTION

Diamond is committed to building enduring, high quality beverage alcohol brands that enhance life enjoyment in a socially responsible manner. The Company believes in the development of leading brands that recognize consumers' interests in wine, beer, cider and ready-to-drink beverages and spirits, while addressing their desire to explore many of the Company's exciting offerings. The Company has also added a low alcohol brand Mindful, to its domestic portfolio in addition to low alcohol and no-alcohol beer and wine suppliers to its import portfolio, reflecting consumer interest and demand in those categories. Vertically integrated, Diamond combines modern and efficient production facilities for its Niagara and B.C. wines with a national marketing agency for its broad portfolio of leading international wines and spirits. The Company is well positioned to add to its throughput of wine production and leverage its national sales force to drive growth from existing brands and support new brands secured by the agency without material change to its cost structure.

Over the past three years, the Covid-19 pandemic has had a material impact on the global economy. In the spring of 2023, the pandemic impact has eased significantly and consumers have returned to more normal shopping and consumption behaviour. We anticipate the impact of Covid to continue to ease, but also expect that some volatility will continue both domestically and around the world. We also expect to see continued supply chain challenges, pressure on staffing and recent record setting inflation – further fuelled by the conflict in Ukraine.

We are seeing a return to more normal sales channel development with the return of the on-premise (restaurant and bars) business to near pre Covid levels, the partial return of business to our winery retail stores and significantly improved export sales as countries around the world re-open to import wines and consumers get back to entertaining and dining out. Interest in and appreciation of Canadian Icewine and table wines remains high. Our company continues to successfully expand distribution into several new jurisdictions including Finland, USA, Thailand, Singapore, Vietnam and Taiwan.

Consumers discovered on-line shopping for wine and beer during the pandemic and we see this as a very positive development for our business. This channel is more profitable given tax treatment of direct sales and it allows a more controlled retail interaction with our customers. This provides an additional way to build enduring brand relationships and to turn a first interaction at one of our wineries into an ongoing dialogue and purchasing behaviour. It also provides us with greater ability to manage our inventories as we control what we promote.

The retail modernization of the sale of beverage alcohol in Ontario continues to be a high priority for the provincial government. To date, the government has issued 450 beer licenses and 226 wine licenses to Ontario grocers and has reiterated its commitment to allowing the sale of beer and wine in grocery, big-box and convenience stores during their current mandate, which began in June, 2022. There is an active debate within the beverage alcohol industry and government on how best to influence this modernization program to the benefit of all stakeholders.

Lastly, 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, return to profitable commercial operations, divestiture of non-strategic assets, continued funding support from BMO and shareholders, and new equity and debt placements.

RISK FACTORS

BUSINESS RISKS

The following risk factors should be carefully considered in evaluating the Company and the industry it operates in. The risks presented below may not be all of the risks that Diamond may face. It is believed that these are the factors that could cause actual results to be different from expected and historical results. New risks may emerge and management may not be able to predict all of them, or be able to predict how they may cause actual results to be different from those contained in any forward-looking statements.

PROFITABILITY

There is no assurance that Diamond will earn profits in the future, or that profitability will be sustained. There is no assurance that future revenues will be sufficient to generate the funds required to continue Diamond's business development and marketing activities. If Diamond does not have sufficient capital to fund its operations, it may be required to reduce its sales and marketing efforts or forego certain business opportunities.

DEPENDENCE ON MANAGEMENT AND KEY PERSONNEL

Diamond will depend on the business and technical expertise of its management team and there is little possibility that this dependence will decrease in the near term. Diamond's success will depend in large measure on certain key personnel. The loss of the services of such key personnel may have a material adverse effect on Diamond's business, financial condition, results of operations and prospects. The contributions of the existing management team to the immediate and near-term operations of Diamond are likely to be of central importance. In addition, the competition for qualified personnel in the industry is competitive and there can be no assurance that Diamond will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Diamond.

GOVERNMENT REGULATION OF LIQUOR INDUSTRY

Diamond will operate in the highly regulated retail liquor industry in the Province of Ontario and throughout Canada. The Alcohol and Gaming Commission of Ontario (the "AGCO"), the Liquor Control Board of Ontario (the "LCBO") and similar Liquor Boards throughout Canada, may issue decisions, enact rules, new legislation or regulations or may make changes to existing legislation or regulations, all of which can impact the operation of Diamond both favourably and unfavourably. There is no assurance that new legislation or regulations or changes to existing legislation or regulations or decisions of any regulatory bodies in the retail liquor industry in Canada will not adversely affect the operations, profitability, or distributable cash of Diamond.

SIGNIFICANT COMPETITION

The alcoholic beverage industry in Canada is intensely competitive, consisting of many large and small Canadian corporations and international corporations with some possessing extensive experience and financial resources.

MANAGEMENT OF GROWTH

Diamond may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of Diamond to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of Diamond to deal with this growth may have a material adverse effect on Diamond's business, financial condition, results of operations and prospects.

ADDITIONAL FINANCING

Diamond will require additional financing in order to make further investments or take advantage of future opportunities. The ability of Diamond to arrange such financing in the future will depend in part upon prevailing capital market conditions, as well as upon the business success of Diamond. There can be no assurance that Diamond will be successful in its efforts to arrange additional financing on terms satisfactory to Diamond. If additional financing is raised by the issuance of shares or other forms of convertible securities from treasury, control of Diamond may change and shareholders may suffer additional dilution. If adequate funds are not available, or are not available on acceptable terms, Diamond may not be able to take advantage of opportunities, or otherwise respond to competitive pressures and remain in business.

From time to time, Diamond may enter into transactions to acquire assets or the shares of other organizations or seek to obtain additional working capital. These transactions may be financed in whole or in part with debt, which may increase Diamond's debt levels above industry standards for companies of similar size. Depending on future plans, Diamond may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms to Diamond. The level of Diamond's indebtedness, from time to time, could impair its ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

LABOUR COSTS AND SHORTAGES AND LABOUR RELATIONS

The success of Diamond's business depends on a large number of both hourly and salaried employees. Changes in the general conditions of the employment market could affect the ability of Diamond to hire or retain staff at current wage levels. The occurrence of either of these events could have an adverse effect on Diamond's results of operations. Diamond does not currently have unionized staff, but no assurance can be made that some or all of the employees of Diamond will not unionize in the future. If successful, such an occurrence could increase labour costs and thereby have an adverse effect on Diamond's results of operations.

The Covid-19 pandemic has multiple effects on the Company and its employees. Diamond has recently instituted new retail protocols and procedures in all its retail facilities including the use of PPE, instituting mandatory physical distancing between employees and patrons and installing plexiglass dividers at all check-out counters and tasting bars. Additionally, the Company has revamped its manufacturing procedures to insure physical distancing and the use of appropriate protective equipment with all manufacturing and delivery staff.

The Company is respecting and complying with all additional safety protocols and guidelines, and has enhanced operating protocols to ensure physical distancing, personal protection and proper sanitizing with additional support for in-house delivery for PPE and safety protocols.

AGRICULTURAL RISK

The production and sale of wine is dependent upon a consistent supply of high-quality grapes available at reasonable prices. Should some or all of the wineries that Diamond works with be unable to produce the quality of grapes necessary to produce wine, such a shortfall in product could adversely affect the operations, results and financial position of Diamond.

Diamond expects to continue to increase its share of the premium wine business in Canada, principally through the sale of VQA wines, and as a result is more dependent on the quality and supply of domestically grown premium quality grapes. If any of Diamond's vineyards experience certain weather variations, natural disasters, pestilence, other severe environmental problems or other occurrences, Diamond may not be able to secure a sufficient supply of grapes and there could be a decrease in the production of certain products from those regions and/or an increase in costs. In the past, where there was a significant reduction in domestically sourced grapes, the Government of Ontario, in conjunction with the Wine Council of Ontario and the Ontario Grape Growers Marketing Board, agreed to temporarily increase the blending of imported wines, which enabled Diamond to continue to supply wines to the market. There is no certainty that such intervention will be available to the same extent in the future, if at all. The inability to secure premium quality grapes could impair the ability of Diamond to supply wines to its customers.

FOREIGN EXCHANGE

Foreign exchange risk exists on the purchases of all agency brand inventories purchased in foreign currencies for British Columbia and Alberta, which are predominately in Euros and Australian dollars. Diamond currently does not enter into foreign exchange contracts.

ENERGY COSTS

Diamond could experience an increase in energy costs which could result in higher transportation, freight and other operating costs. Diamond's future operating expenses and margins will be dependent on its ability to manage the impact of cost increases. Diamond cannot guarantee that it will be able to pass along increased energy costs to its customers through increased prices.

TAXATION

Canada imposes excise and other taxes on beverage alcohol products in varying amounts which have been subject to change. Significant increases in excise and other taxes on beverage alcohol products could materially and adversely affect Diamond's financial condition or results of operations. In addition, federal and provincial governmental agencies extensively regulate the beverage alcohol products industry concerning such matters as licensing, trade practices, permitted and required labelling, advertising and relations with consumers and retailers. Certain federal and provincial regulations also require warning labels and signage. New or revised regulations or increased licensing fees, requirements or taxes could also have a material adverse effect on Diamond's financial condition or results of operations.

TRADEMARKS

Diamond considers its trademarks, particularly certain brand names and product packaging, advertising and promotion design and artwork to be of significant importance to its business and ascribes a significant value to these intangible assets. Diamond will rely on trademark laws and other arrangements to protect its proprietary rights. There can be no assurance that the steps taken by Diamond to protect its intellectual property rights will preclude competitors from developing confusingly similar brand names or promotional materials. Diamond believes that its proprietary rights do not infringe upon the proprietary rights of third parties, but there can be no assurance in this regard.

IMPORTANCE OF INVENTORY, WAREHOUSE AND DISTRIBUTION SYSTEMS

Diamond's inventory, warehouse and distribution systems are critical components of its operations. Diamond's ability to maintain and upgrade the capabilities of these systems is important to its future performance. If Diamond is unable to maintain the inventory, warehouse and distribution systems or fails to adequately upgrade these systems, Diamond's operations could be adversely affected with the further material adverse effect being on financial results of operations.

WHOLESALE COST INCREASES

Wholesale costs are dependent on a number of factors, including inflation and fuel prices. Any attempt to pass on an increase in wholesale costs to consumers through product price increases could have a material adverse effect on Diamond's sales while a failure to effectively pass any such increases on to consumers could have a material adverse effect on Diamond's result of operations.

CONCENTRATION RISK

Concentration risk is the risk arising from a dependence on one customer or supplier for a significant portion of sales or purchases. The risk of a significant customer having financial difficulties would have a negative impact on the Company, as would losing a large suppplier who represents a significant portion of the Company's purchases.

DISTRIBUTION BUSINESS

Diamond's business model includes a number of wine and alcohol brands that are represented on an agency basis. There is a risk that such agency brands are sold to an entity that has a pre-existing distribution agency relationship with a provider other than Diamond, and Diamond's revenues and profitability could suffer as result. Furthermore, Diamond's distribution business depends on the ability to retain its current brands as well as attracting additional brands in the future, and a failure to do so could negatively impact revenues and profitability of Diamond.

CREDIT RISK

Credit risk arises from credit exposure to customers through outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the Company's financial assets. The objective of managing counterparty credit risk is to prevent losses in financial assets. The Company assesses the credit quality of its counterparties, considering their financial position, past experience and other factors. As the large majority of the Company's accounts receivable balances are collectable from government-controlled liquor boards, management believes the Company's credit risk relating to accounts receivable is at an acceptably low level.

EXPOSURE TO INTEREST RATE FLUCTUATIONS

The Company has a high level of floating rate debt. Interest rate risk exists as an increase in interest rates would increase the Company's overall financing costs and have a material impact on Diamond's financial position over the long term.

ENVIRONMENTAL COMPLIANCE

Environmental liabilities may potentially arise when companies are in the business of manufacturing products and, thus, required to handle potentially hazardous materials. As an owner and lessor of property, the Company is subject to various federal and provincial laws relating to environmental matters. Such laws provide that the Company could be held liable for the cost of removal and remediation of hazardous substances on its properties. Management is of the opinion that the risk of environmental liabilities is considered minimal.

PACKAGING

The Company purchases glass, bag in box and other components used in the bottling and packaging of wine. The largest component in the packaging of wine is glass, of which there are few domestic or international suppliers. Diamond sources glass from various distributors and manufacturers both domestically and internationally to insure an adequate supply. As there is currently only one commercial supplier of glass in Canada, any interruption in supply could have an adverse impact on the Company's ability to supply its markets.

The Covid-19 outbreak is now affecting many countries. This pandemic is having significant impacts on global supply chains. The Company's supply of packaging could therefore be significantly affected by disruptions affecting certain suppliers directly and indirectly.

INDUSTRY CONSOLIDATION

In recent years, the global beverage alcohol industry has experienced a significant amount of consolidation. Industry consolidation can have varying degrees of impact and, in some cases, may even create exceptional opportunities. Under either scenario, management believes that the Company is well positioned to deal with this or other changes to the competitive landscape in Canada.

CYBERSECURITY

In the normal course of business, the Company relies on information technology systems to process, transmit and store information in all areas of its operations as well as for the reporting of its results. Additionally, a significant portion of that information concerns its business and/or clients and partners and is maintained either within its premises or at the sites of its technology partners.

These systems may be vulnerable to an increasing number of sophisticated cyber threats and other failures such as telecommunications interruptions, natural disasters, human error and other security issues. Such events could impede or interrupt the Company’s operations or result in other negative consequences, including remediation costs, loss of revenue, litigation and reputational damage, or fines and criminal penalties. The Company’s financial results, market value or ability to achieve its strategic business objectives could be significantly affected by such events.

The Company regularly monitors, manages, and enhances its ability to mitigate cyber risk through its enterprise-wide cyber security programs; disaster recovery investments; risk management practices; implementations of policies, procedures and control processes; and outsourcing contract management practices to address such risks. However, there is no absolute assurance that such measures can impede all such risks.

RISKS RELATED TO COMMON SHARE INVESTMENTS

PRICE VOLATILITY OF PUBLICLY TRADED SECURITIES

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price. There can be no assurance that continuing fluctuations in price will not occur. It may be anticipated that any quoted market for Diamond’s shares will be subject to market trends generally, notwithstanding any potential success of Diamond in creating revenues, cash flows or earnings. The value of Diamond’s shares will be affected by such volatility. A public trading market in the Common Shares having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of common shares at any given time, which presence is dependent on the individual decisions of investors over which Diamond has no control. There can be no assurance that an active trading market in securities of Diamond will be sustained. The market price for Diamond’s securities could be subject to wide fluctuations, which could have an adverse effect on the market price of Diamond. The stock market has, from time to time, experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance, net asset values or prospects of particular companies. If an active public market for Diamond’s shares is not present, the liquidity of a shareholder’s investment may be limited and the share price may decline.

DILUTION

Diamond may make future acquisitions or enter into financings or other transactions involving the issuance of securities of Diamond which may be dilutive to the existing shareholders.

DIVIDENDS

Diamond has not paid any dividends on its outstanding common shares. Any payments of dividends on the common shares of Diamond will be dependent upon the financial requirements to finance future growth, the financial condition of Diamond and other factors which Diamond's board of directors may consider appropriate in the circumstance. It is unlikely that Diamond will pay dividends in the immediate or foreseeable future.

FINANCIAL MARKET TURMOIL

Global financial market and economic conditions can pose a significant threat to economic growth in almost all sectors and economies, causing a decline in consumer and business confidence, a reduction in credit availability and a dampening in business and household spending.

USES OF ESTIMATES AND JUDGEMENTS

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made. These include, but are not limited to, the following:

FAIR VALUE OF GRAPES AT THE POINT OF HARVEST

Where possible, the fair value of grapes at the point of harvest is determined by reference to local market prices for grapes of a similar quality and the same varietal. For grapes for which local market prices are not readily available, the average price of similar grapes is used. The fair value of grapes is included in the cost of bulk wine inventory.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and ROU assets represent a significant proportion of the asset base of the Company as they amount to 44.7% of total assets as at March 31, 2023 (March 31, 2022 - 42.2%). Therefore, estimates and assumptions made to determine their carrying value and related depreciation are critical to the Company's financial position and performance. IFRS requires management to test for impairment of property, plant and equipment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. The useful lives and residual values of the Company's assets are determined by management at the time the asset is acquired and reviewed annually for appropriateness. Their lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their life.

GROSS VERSUS NET PRESENTATION

When deciding the most appropriate basis for presenting revenue or costs of revenue, both the legal form and substance of the agreement between the Company and its business partners are reviewed to determine each party's respective role in the transaction. Where the Company's role in a transaction is that of principal, revenue is recognized on a gross basis. This requires revenue to comprise the gross value of the transaction billed to the customer, after trade discounts, with any related expenditure charged as an operating cost. Where the Company's role in a transaction is that of an agent, revenue is recognized on a net basis with revenue representing the margin earned.

USEFUL LIFE OF INTANGIBLE ASSETS

Significant judgement is involved in the determination of useful life for the computation of depreciation of intangible assets. No assurance can be given that actual useful lives will not differ significantly from current assumptions.

IMPAIRMENT OF INTANGIBLE ASSETS

Testing intangible assets for impairment involves estimating the recoverable amount of the CGUs to which intangible assets are allocated. This requires making assumptions about future cash flows, growth rates, market conditions and discount rates, which are inherently uncertain. Actual amounts may vary from these assumptions and cause significant adjustments.

APPLYING THE ACQUISITION METHOD TO BUSINESS COMBINATIONS

Applying the acquisition method to business combinations requires each identifiable asset and liability to be measured at its acquisition date fair value. The excess, if any, of the fair value of consideration, both actual and contingent, over the fair value of the net identifiable assets acquired is recognized as goodwill. Non-cash consideration paid must also be measured at its acquisition date fair value. The determination of acquisition date fair values often requires management to make assumptions and estimates about future events. The assumptions with respect to the fair value of intangible assets require a high degree of judgement and include estimates for anticipated future cash flows and discount factors.

COMPOUND FINANCIAL INSTRUMENTS

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 conversion feature of the convertible debentures was accounted for as a derivative liability and was required to be fair valued on inception and at each reporting period. The estimates, assumptions and judgments made in relation to the fair value of derivative liabilities are subject to measurement uncertainty. The valuation techniques used to determine fair value require inputs that involve assumptions and judgments such as estimating the future volatility of the stock price and expected life. Such judgments and assumptions are inherently uncertain.

LEASES

Critical accounting estimates were made in determining the lease term and incremental borrowing rate. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs, which affects this assessment and that is within the control of the lessee. In determining the carrying amount of right-of-use assets and lease liabilities, the Company is required to estimate the incremental borrowing rate specific to each leased asset or portfolio of leased assets if the interest rate implicit in the lease is not readily determined. Management determines the incremental borrowing rate of each leased asset or portfolio of leased assets by using the Company's specific risk portfolio, the security, term and value of the underlying leased asset and the economic environment in which the leased asset operates. The incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment.

RECENTLY ADOPTED AND ISSUED ACCOUNTING PRONOUNCEMENTS

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 se11ing 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 consolidated financial statements.

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 consolidated statements.

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 consolidated statements.

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 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 amendment are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. The Company has not yet assessed the impact of this amendment on consolidated financial statements.

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 this amendment on the consolidated financial statements.