DIAMOND ESTATES WINES & SPIRITS INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED JUNE 30, 2020 AND 2019

(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 JUNE 30, 2020 AND MARCH 31, 2020
(Unaudited - Prepared by Management)

	June 30 2020	March 31 2020
ASSETS		
Current:		
Accounts receivable (Note 5)	**$ 2,600,843**	$ 3,406,053
Inventories (Note 6)	**21,664,633**	22,099,156
Biological assets	**14,234**	-
Prepaid expenses	**422,389**	266,146
	24,702,099	25,771,355
Long term:		
Property, plant and equipment	**18,042,579**	18,208,422
Right-of-use assets	**3,052,819**	3,166,836
Intangible assets	**2,719,771**	2,804,615
	$ 48,517,268	$ 49,951,228
LIABILITIES		
Current:		
Accounts payable and accrued liabilities (Note 7)	**$ 5,563,619**	$ 7,220,669
Current portion of term loans payable (Note 8)	**326,647**	19,161,412
Current portion of leases liabilities	**446,759**	382,730
	6,337,025	26,764,811
Long term:		
Term loans payable (Note 8)	**19,512,821**	-
Lease liabilities	**2,565,158**	2,740,675
	28,415,004	29,505,486
SHAREHOLDERS' EQUITY		
Common shares (Note 9)	**27,690,705**	27,690,705
Contributed surplus	**1,224,058**	1,205,216
Accumulated deficit	**(8,812,499)**	(8,450,179)
	20,102,264	20,445,742
	$ 48,517,268	$ 49,951,228

Subsequent events (Note 12)

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

Approved on behalf of the Board:

"David Beutel" Director *"Keith Harris"* Director

DIAMOND ESTATES WINES & SPIRITS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
THREE MONTHS ENDED JUNE 30, 2020 AND 2019
(Unaudited - Prepared by Management)

	2020	2019
Revenue	**$ 5,941,239**	$ 7,291,322
Cost of sales		
Change in inventories of finished goods and raw materials consumed	**3,030,179**	3,812,489
Freight in & royalties in and other	**201,461**	177,062
Depreciation of property, plant and equipment and right-of-use assets used in production	**186,434**	202,454
	3,418,074	4,192,005
Gross profit	**2,523,165**	3,099,317
Expenses		
Employee compensation and benefits	**1,007,672**	1,757,338
General and administrative	**816,899**	896,701
Advertising and promotion	**281,616**	339,238
Delivery and warehousing	**244,681**	187,327
Interest on term loans	**210,230**	316,801
Financing costs	**75,994**	22,688
Depreciation of property, plant and equipment and right-of-use assets used in selling and administration	**144,708**	152,589
Amortization of intangible assets	**84,844**	84,431
Share based compensation	**18,841**	154,643
	2,885,485	3,911,756
Net loss and comprehensive loss	**$ (362,320)**	$ (812,439)
Basic loss income per share (Note 9(a))	**$ (0.002)**	$ (0.005)

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, 2019 TO MARCH 31, 2020
(Unaudited - Prepared by Management)

	Common shares		Contributed	Accumulated	Total
	Shares	Amount	surplus	deficit	
As at April 1, 2019	**148,511,746**	**$ 19,157,313**	**$ 747,081**	**$ (4,264,140)**	**$15,640,254**
Net loss and comprehensive loss	-	-	-	(812,439)	(812,439)
Share based compensation	-	-	154,643	-	154,643
As at June 30, 2019	**148,511,746**	**19,157,313**	**901,724**	**(5,076,579)**	**14,982,458**
Net loss and comprehensive loss	-	-	-	(3,373,600)	(3,373,600)
Share based compensation	-	-	373,695	-	373,695
Proceeds on issuance of common shares	49,133,805	9,335,423	-	-	9,335,423
Share issuance costs	-	(1,112,234)	-	-	(1,112,234)
Exercise of options	2,000,000	240,000	-	-	240,000
Settlement of DSUs	360,015	70,203	(70,203)	-	-
As at March 31, 2020	**200,005,566**	**27,690,705**	**1,205,216**	**(8,450,179)**	**20,445,742**
Net loss and comprehensive loss	-	-	-	(362,320)	(362,320)
Share based compensation	-	-	18,841	-	18,841
As at June 30, 2020	**200,005,566**	**$27,690,705**	**$ 1,224,057**	**$ (8,812,499)**	**$20,102,263**

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

DIAMOND ESTATES WINES & SPIRITS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED JUNE 30, 2020 AND 2019
(Unaudited - Prepared by Management)

	2020	2019
Operating activities		
Net loss	**$ (362,320)**	$ (812,439)
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment and right-of-use assets	**331,142**	355,043
Amortization of intangible assets	**84,844**	84,431
Amortization of deferred finance fees	**15,788**	22,688
(Gain) loss on disposal of right-of-use assets	**-**	(15,256)
Share based compensation	**18,841**	154,643
Interest expense	**210,230**	316,801
Interest paid	**(210,230)**	(316,801)
	88,295	(210,890)
Change in non-cash working capital items		
Accounts receivable	**805,210**	(646,286)
Inventories	**434,523**	1,154,345
Biological assets	**(14,234)**	(14,234)
Prepaid expenses	**(156,243)**	(4,185)
Accounts payable and accrued liabilities	**(1,657,049)**	(24,209)
	(499,498)	254,541
Investing activities		
Purchase of property, plant and equipment	**(51,282)**	(27,856)
Financing activities		
Repayment of lease liabilities	**(111,488)**	(122,554)
Net borrowings on revolving term loans and operating lines payable	**787,268**	20,869
Repayment on non-revolving term loans payable	**(125,000)**	(125,000)
	550,780	(226,685)
Change in cash	**-**	-
Cash, beginning of year	**-**	-
Cash, end of year	**$ -**	$ -

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:**

In March 2020, the World Health Organization characterized the outbreak of the novel strain of coronavirus, specifically identified as COVID-19, as a global pandemic. This has resulted in governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to business, resulting in a global economic slowdown. Equity markets have experienced significant volatility and weakness and the governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The current challenging economic climate may negatively impact our customers and their demand for our products, our supply chains, lease agreements, banking agreements and related covenants *(see note 8),* which in turn may lead to adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position in the future. The ultimate duration and magnitude of the impact and the efficacy of government and Bank of Canada interventions on the economy and the financial effect on the Company is not known at this time. The extent of such impact will depend on future developments, which are highly uncertain and not in the Company's control, including new information which may emerge concerning the spread and severity of COVID-19 and actions taken to address its impact, among others. The repercussions of this health crisis could have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

The Company has been deemed an "essential service" by the Ontario government and therefore, is permitted to continue full operations. In response to COVID-19, the Company has implemented working practices to address potential impacts to its operations, employees and customers, and will take further measures in the future if and as required. At present, the Company has not identified any material continuity-risks specifically associated with COVID-19.

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, 2020 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 August 28, 2020.

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

(b) Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received, and all the required conditions are complied with. Government grants in respect of capital expenditures are credited to the carrying amount of the related asset and are released to income over the expected useful lives of the relevant assets. Government grants which are not associated with an asset are credited to income to net them against the expense to which they relate.

3. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

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

These standards have been amended to use a consistent definition of materiality throughout all accounting standards, clarify the explanation of the definition of material and incorporate some of the guidance in IAS 1 about immaterial information. The amendments are effective for annual periods beginning on or after January 1, 2020. The adoption of these amendments did not have a significant impact on the consolidated financial statements.

(b) IFRS 3 "Business Combinations"

This standard has been amended to improve the definition of a business. The amendments will help companies determine whether an acquisition made is of a business or a group of assets. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contributions to the ability to create outputs. The amendments are effective for annual periods beginning on or after January 1, 2020. The adoption of these amendments did not have a significant impact on the consolidated financial 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) **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 consolidated financial statements.

(b) **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 consolidated financial statements.

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

These standards has been amended to clarify the classification of liabilities as current or non-current. The amendments are effective for annual periods beginning on or after January 1, 2022.

(d) **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 consolidated financial statements.

(e) **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 l, 2022. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

5. ACCOUNTS RECEIVABLE

	June 30 2020	March 31 2020
Trade receivables	$ 2,493,756	$ 2,761,979
Accrued receivables	86,087	623,074
Income taxes recoverable	21,000	21,000
	$ 2,600,843	$ 3,406,053

6. INVENTORIES

	June 30 2020	March 31 2020
Bulk wine	$ 13,173,254	$ 14,980,806
Bottled wine and spirits	7,972,121	6,548,457
Bottling supplies and packaging	519,258	569,893
	$ 21,664,633	$ 22,099,156

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30 2020	March 31 2020
Trade accounts payable	$ 4,958,240	$ 6,332,819
Holdbacks payable	512,902	851,609
Government remittances payable	92,477	36,241
	$ 5,563,619	$ 7,220,669

8. TERM LOANS PAYABLE

As at June 30, 2020, the balances outstanding on the Company's term loans were as follows:

	June 30 2020	March 31 2020
BMO term loans:		
Revolving operating term loan	$ 11,102,889	$ 10,315,621
Non-revolving term loan	8,750,000	8,875,000
	19,852,889	19,190,621
Financing costs	(13,421)	(29,209)
	19,839,468	19,161,412
Current portion	(326,647)	(19,161,412)
	$ 19,512,821	$ -

8. TERM LOANS PAYABLE, CONTINUED

The BMO credit agreement is dated September 29, 2017 and has been amended pursuant to a first amending agreement dated July 29, 2019, a second amending agreement (the "Second Amending Agreement") dated December 17, 2019, a third amending agreement (the "Third Amending Agreement") dated May 15, 2020, and a fourth amending agreement (the "Fourth Amending Agreement") dated July 24, 2020. It is guaranteed by a general security agreement covering the assets of the Company and its subsidiaries and is subject to the following facilities detailed below.

The Third Amending Agreement, in effect as of June 30, 2020, has a maturity date of September 30, 2021. As that maturity date is twelve months after the reporting date, classification has reverted back to long-term. The classification is expected to remain as long-term based on the extension of the credit agreement to July 1, 2022 under the terms of the Fourth Amending Agreement. The Second Amending Agreement, in effect as of March 31, 2020, had a maturity date of September 26, 2020. As that maturity date fell within twelve months of the reporting date, all indebtedness was classified as current.

The revolving operating term loan is for working capital and general corporate requirements and is subject to the following terms:

(a) Revolving credit facility of up to $13,000,000, subject to specified borrowing base margin limitations
(b) Monthly interest only payments at CAD prime rate +1.00%
(c) Standby fee of 0.50% on available unused revolving term credit to be paid on the last day of each quarter

The non-revolving term loan is for the purpose of refinancing the previous term debt and funding scheduled fiscal 2020 capital expenditures. The loan is subject to the following terms:

(a) Initial principal of $10,000,000, amortized over a period of 20 years
(b) Monthly interest only payments at CAD prime rate +1.25%
(c) Quarterly principal payments of $125,000

The BMO credit agreement includes the following sub-facilities:

(a) Letter of credit sub-facility included under the umbrella of the $13,000,000 revolving term loan, up to a maximum of $1,000,000 at a rate of CAD prime +2.50% having a term of up to 1 year. As at June 30, 2020, there were letters of credit in the amount of $74,641 outstanding with BMO (March 31, 2020 - $74,641).
(b) Bankers' acceptance ("BA") sub-facility included under the umbrella of the revolving and non-revolving term loans, with a minimum draw of $1,000,000, terms of 28 to 182 days, fees charged at rates 2.50% to 2.75% per annum on the face amount of the BA plus interest at the BA rate. A swap is in place on the non-revolving term loan to fix the effective interest rate at 4.90% (BA rate of 1.96%) and effective until September 2020.
(c) Treasury risk management facility of up to $1,500,000 to facilitate hedging of interest rate risk and foreign exchange risk at market rates as determined by the lender. As at March 31, 2020 and March 31, 2019 there were no amounts outstanding on this facility.

8. TERM LOANS PAYABLE, CONTINUED

A master lease finance line facility of $2,500,000 is available to the Company to finance equipment under the BMO Equipment Leasing Group and shall reduce monthly in accordance with agreed upon terms based on market rates at the time of each advance. As at June 30, 2020, there was a balance of $661,455 drawn on this facility (March 31, 2020 - $714,969).

The BMO credit agreement is subject to the following major financial covenants:

(a) Minimum fixed charge coverage ratio of 1.25|1
(b) Maximum ratio of total liabilities to tangible net worth of 2.00|1
(c) Annual capital expenditures are not to exceed $1,500,000 in fiscal years subsequent to March 31, 2019 without prior bank approval.

On May 15, 2020, terms of the financial credit agreement were amended upon execution of the Third Amending Agreement as follows:

- the definitions of certain EBITDA adjustments were refined.
- the maturity date was extended to September 30, 2021.
- capital expenditure limit was revised to $1,000,000 for the fiscal years ending March 31, 2021 and 2022.
- the delayed draw term loan facility of $2,500,000 was removed.

The terms of the credit facility were further changed upon execution of the Fourth Amending Agreement dated July 24, 2020, as follows:

- the maturity date was extended to July 1, 2022, meaning all indebtedness is expected to be classified as long-term until June 30, 2021.
- the definitions of certain EBITDA adjustments were refined for the quarters ending September 30, 2020 and December 31, 2020.
- the minimum fixed charge coverage ratio was amended to 1.20|1.00 and 1.05|1.00 respectively for the quarters ending September 30, 2020 and December 31, 2020.
- quarterly principal payments of $125,000 were deferred for the quarters ending September 30, 2020 and December 31, 2020.
- no distributions to shareholders are allowed without prior lender consent.

As consideration for the lender amending the credit agreement, (i) the Company paid a fee of $34,500 with respect to the Third Amending Agreement, and (ii) with respect to the Fourth Amending Agreement, the Company issued 750,000 warrants to the lender, with each such warrant being exercisable for one common share in the Company at an exercise price of $0.16 per common share, vesting immediately and expiring as of July 1, 2022.

9. SHARE CAPITAL AND OTHER EQUITY INSTRUMENTS

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, 2019 to June 30, 2020. Details of major changes in each component during the current reporting period are as follows:

(a) **Loss per share**

Basic loss per share is computed using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three month period ended June 30, 2020 was 200,005,566 (June 30, 2019 - 148,511,746).

As at June 30, 2020, the following potentially dilutive equity instruments were outstanding: (1) 8,050,000 options (March 31, 2020 - 8,050,000), and (2) 2,011,522 deferred share units (March 31, 2020 - 1,815,037). The fully diluted number of common shares outstanding as at June 30, 2020 was 210,067,088 (March 31, 2020 - 209,870,603).

(b) **Stock options**

During the first quarter of fiscal 2020, a total of 875,000 options, initially granted on November 24, 2014, expired unexercised on the departure of three executives of the Company.

(c) **Deferred share units**

On April 20, 2020, the Company issued an aggregate of 196,485 DSUs to non-executive directors under the DSU Plan in settlement of $31,487 of deferred directors' compensation. On May 27, 2019, the Company issued an aggregate of 250,579 DSUs in settlement of $42,599 of deferred directors' compensation.

(d) **Share based compensation**

Total share based compensation recognized for the three month period ended June 30, 2020 was $18,841 (June 30, 2019 - $154,643) based on accrual of previously granted options expected to vest in the reporting period and the issuance of DSUs as described above.

10. 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 quarters ended June 30, 2020 and 2019:

10. SEGMENTED INFORMATION, CONTINUED

	Three months ended June 30, 2020		
	Agency $	Manufactured wines $	Consolidated $
Gross revenue	**3,453,155**	**2,618,843**	**6,071,998**
Inter-segment revenue	**(130,759)**	**-**	**(130,759)**
Net revenue	**3,322,396**	**2,618,843**	**5,941,239**
Gross profit	**1,493,325**	**1,029,840**	**2,523,165**
Interest on long-term debt	**15,040**	**195,189**	**210,230**
Depreciation and amortization	**144,183**	**271,803**	**415,986**
Additions of property, plant and equipment and intangible assets	**-**	**51,282**	**51,282**
	Statement of financial position balances as at June 30, 2020		
Intangible assets	**1,691,145**	**1,028,626**	**2,719,771**
Total assets	**6,932,965**	**41,584,303**	**48,517,268**
Total liabilities	**4,133,117**	**24,281,887**	**28,415,004**

	Three months ended June 30, 2019		
	Agency $	Manufactured wines $	Consolidated $
Gross revenue	3,211,019	4,134,487	7,345,506
Inter-segment revenue	(54,184)	-	(54,184)
Net revenue	3,156,835	4,134,487	7,291,322
Gross profit	1,477,219	1,622,098	3,099,317
Interest on bank indebtedness	56,578	260,223	316,801
Depreciation and amortization	232,479	206,995	439,474
Additions of property, plant and equipment and intangible assets	-	27,856	27,856
	Statement of financial position balances as at March 31, 2020		
Intangible assets	1,771,675	1,032,940	2,804,615
Total assets	7,105,728	42,845,500	49,951,228
Total liabilities	5,068,246	24,437,240	29,505,486

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

Geographic information

	2020	2019
Revenue		
Canada	**$ 5,638,216**	$ 6,593,212
China and other	**303,023**	698,110
	$ 5,941,239	$ 7,291,322

11. 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.

12. SUBSEQUENT EVENTS

(a) BMO credit facility - Fourth Amending Agreement

On July 24, 2020, the Company executed the Fourth Amending Agreement to its credit facility with BMO *(see note 8)*. As consideration for the lender entering into this agreement, the Company issued 750,000 warrants to the lender.

(b) Issuance of DSUs

On August 20, 2020, the Company issued an aggregate of 201,898 DSUs to non-executive directors under the DSU Plan in settlement of $28,266 of deferred directors' compensation.

(c) Issuance of stock options

On August 20, 2020, the Company issued a total of 1,250,000 stock options (effective as of August 3, 2020) to key members of management with an exercise price of $0.14. The options have a term of 5 years vesting 25% per year on each anniversary date over the next 4 years.