DIAMOND ESTATES WINES & SPIRITS INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED JUNE 30, 2019 AND 2018

(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, 2019 AND MARCH 31, 2019
(Unaudited - Prepared by Management)

	June 30 2019	March 31 2019
ASSETS		
Current:		
Accounts receivable	**$ 3,552,440**	$ 2,906,154
Inventories	**18,308,342**	19,462,687
Biological assets	**14,234**	-
Prepaid expenses	**236,776**	232,592
	22,111,792	22,601,433
Long term:		
Property, plant and equipment	**18,555,633**	18,773,456
Intangible assets	**3,070,709**	3,155,141
Right-of-use assets (Note 3)	**3,501,079**	1,205,150
	$ 47,239,213	$ 45,735,180
LIABILITIES		
Current:		
Accounts payable and accrued liabilities	**$ 6,371,504**	$ 6,342,500
Note payable (Note 4)	**550,000**	550,000
Unearned revenue and deposits received	**60,810**	60,810
Current portion of term loans payable (Note 5)	**326,647**	452,187
Current portion of leases liabilities (Note 6)	**446,759**	308,406
	7,755,720	7,713,903
Long term:		
Term loans payable (Note 5)	**21,497,722**	21,536,947
Lease liabilities (Note 6)	**3,003,313**	844,076
	32,256,755	30,094,926
SHAREHOLDERS' EQUITY		
Common shares (Note 7)	**19,157,313**	19,157,313
Contributed surplus	**901,724**	747,081
Accumulated deficit	**(5,076,579)**	(4,264,140)
	14,982,458	15,640,254
	$ 47,239,213	$ 45,735,180

Subsequent event (Note 11)

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) INCOME AND COMPREHENSIVE (LOSS) INCOME THREE MONTHS ENDED JUNE 30, 2019 AND 2018
(Unaudited - Prepared by Management)

	June 30 2019	June 30 2018
Revenue	**$ 7,291,322**	$ 8,005,329
Cost of sales		
Change in inventories of finished goods and raw materials consumed	**3,812,489**	4,154,479
Freight in & royalties in and other	**177,062**	171,731
Depreciation of property, plant and equipment used in production	**202,454**	163,965
	4,192,005	4,490,175
Gross profit	**3,099,317**	3,515,154
Expenses		
Employee compensation and benefits	**1,757,338**	1,639,208
General and administrative	**896,701**	735,424
Advertising and promotion	**339,238**	344,827
Delivery and warehousing	**187,327**	146,507
Interest on long-term debt	**316,801**	324,701
Financing costs	**22,688**	22,688
Amortization of intangible assets	**84,431**	85,306
Depreciation of property, plant and equipment used in selling and administration	**152,589**	80,251
Share based compensation	**154,643**	35,884
	3,911,756	3,414,796
Net (loss) income and comprehensive (loss) income	**$ (812,439)**	$ 100,358
Basic (loss) income per share (Note 7(a))	**$ (0.01)**	$ 0.00
Diluted (loss) income per share (Note 7(a))	**$ (0.01)**	$ 0.00

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, 2018 TO JUNE 30, 2019
(Unaudited - Prepared by Management)

	Common shares		Contributed	Accumulated	Total
	Shares	Amount	surplus	deficit	
As at April 1, 2018	**140,373,841**	**$ 16,657,513**	**$ 589,982**	**$ (992,895)**	**$ 16,254,600**
Net income and comprehensive income	-	-	-	100,358	100,358
Exercise of options	150,000	26,439	(9,938)	-	16,501
Settlement of DSU's	200,405	34,130	(34,130)	-	-
Share based compensation	-	-	35,884	-	35,884
Common shares issued on acquisition of Backyards Vineyards Corp.	4,687,500	1,500,000	-	-	1,500,000
As at June 30, 2018	**145,411,746**	**18,218,082**	**581,798**	**(892,537)**	**17,907,343**
Net loss and comprehensive loss	-	-	-	(3,371,603)	(3,371,603)
Exercise of options	3,100,000	939,231	(348,232)	-	590,999
Share based compensation	-	-	513,515	-	513,515
As at March 31, 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**

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, 2019 AND 2018
(Unaudited - Prepared by Management)

	June 30 2019	June 30 2018
Operating activities		
Net (loss) income	**$ (812,439)**	$ 100,358
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	**355,043**	244,216
Amortization of intangible assets	**84,431**	85,306
Amortization of deferred finance fees	**22,688**	11,236
(Gain) loss on disposal of property, plant and equipment	**(15,256)**	-
Share based compensation	**154,643**	35,884
Interest expense	**316,801**	324,700
Interest paid	**(316,801)**	(245,529)
	(210,890)	556,171
Change in non-cash working capital items		
Accounts receivable	**(646,286)**	(2,116,661)
Inventories	**1,154,345**	710,486
Biological assets	**(14,234)**	(8,695)
Prepaid expenses	**(4,185)**	107,330
Accounts payable and accrued liabilities	**(24,209)**	1,061,741
	254,541	310,372
Investing activities		
Acquisition of Backyard Vineyards Corp., net of cash acquired	**-**	(609,386)
Purchase of property, plant and equipment	**(27,856)**	(469,600)
Proceeds from sale of property, plant and equipment	**18,949**	-
	(8,907)	(1,078,986)
Financing activities		
Repayment of lease liabilities	**(141,503)**	(51,792)
Net drawings on revolving term loans and operating lines payable	**20,869**	928,906
Repayment on non-revolving term loans payable	**(125,000)**	(125,000)
Proceeds on exercise of options	**-**	16,500
	(245,634)	768,614
Change in cash	**-**	-
Cash, beginning of period	**-**	-
Cash, end of period	**$ -**	$ -

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

1. NATURE OF OPERATIONS

Diamond Estates Wines & Spirits Inc. ("Diamond" or the "Company") is a public company listed on the TSX-V whose shares trade under the symbol "DWS.V". Its principal business activities include the production, marketing and sale of wine, and through its agency division, operating as Trajectory Beverage Partners ("TBP"), distribution and marketing activities for various beverage alcohol brands that it represents in Canada. The address of the Company's registered office and principal place of business is 1067 Niagara Stone Road, Niagara-On-The-Lake, Ontario, L0S 1J0. The operations and principal place of business of TBP are located at 100-435 North Service Road West, Oakville, Ontario, L6M 4X8.

2. 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 that were described in note 2 to the Company's annual consolidated financial statements for the year ended March 31, 2019 which were prepared in accordance with IFRS as issued by the IASB, except for the accounting policy listed below in note 2(b).

The 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 29, 2019.

The unaudited interim condensed consolidated financial statements are presented in Canadian dollars, unless otherwise stated.

(b) Leases

In January 2016, the IASB issued IFRS 16 Leases ("IFRS 16"), which supersedes IAS 17 Leases, as well as several interpretations on leases. IFRS 16 eliminates the classification of leases by a lessee between operating and finance leases and introduces a single, on-balance sheet accounting model for lessees. As a result, the Company has recognized right-of-use ("ROU") assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The details of this change in accounting policy are disclosed below.

The Company recognizes a ROU asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Leases, continued

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company has applied judgement to determine the lease term for lease contracts which include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and ROU assets recognized.

Leases with a term less than twelve months or of a low value are expensed as incurred.

Transition

The Company adopted IFRS 16 in its unaudited interim financial statements for the period beginning April 1, 2019 using the modified retrospective approach under which the cumulative effect of initial application is recognized in retained earnings at April 1, 2019. Accordingly, the prior period financial information has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

The Company used the following practical expedients as permitted under the new IFRS 16 standard:

Leases with a remaining lease term of less than twelve months as at February 1, 2019 are classified as short-term leases.
Leases of low dollar value continue to be expensed as incurred.
The Company did not apply any grandfathering practical expedients.

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Company recognized lease liabilities of $2,385,244 as at April 1, 2019, which were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate of 5.2%. The associated ROU assets *(see note 3)* were measured at the lease liability amount on April 1, 2019 resulting in no adjustment to the opening balance of retained earnings. The ROU assets and lease liabilities recognized as of April 1, 2019 relate to the Company's lease of its production and retail facility in Langley BC, and corporate offices in Oakville Ontario.

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Leases, continued

In relation to those leases under IFRS 16, the Company has recognized $3,501,078 of ROU assets, net of accumulated depreciation, and $3,450,072 of lease liabilities as at June 30, 2019. During the interim period ended June 30, 2019, the Company has recognized $113,130 of depreciation expense and $32,494 of interest expense from these leases, instead of operating lease expense.

3. RIGHT OF USE ASSETS

	Building	Vehicles	Machinery and equipment	Total
Cost				
As at April 1, 2018	**$ -**	**$ 792,133**	**$ -**	**$ 792,133**
Additions	-	54,369	838,342	892,711
As at March 31, 2019	**-**	**846,502**	**838,342**	**1,684,844**
Additions	-	53,849	-	53,849
Disposals	-	(65,891)	-	(65,891)
Right-of-use assets on transition to IFRS 16 *(see note 2(b))*	2,385,244	-	-	2,385,244
As at June 30, 2019	**$ 2,385,244**	**$ 834,460**	**$ 838,342**	**$ 4,058,046**
Accumulated depreciation				
As at April 1, 2018	**$ -**	**$ 260,094**	**$ -**	**$ 260,094**
Depreciation	-	210,867	8,733	219,600
As at March 31, 2019	**-**	**470,961**	**8,733**	**479,694**
Depreciation	53,271	54,620	5,239	113,130
Disposals	-	(35,857)	-	(35,857)
As at June 30, 2019	**$ 53,271**	**$ 489,724**	**$ 13,972**	**$ 556,967**
Net book value				
As at March 31, 2019	**$ -**	**$ 375,541**	**$ 829,609**	**$ 1,205,150**
As at June 30, 2019	**$ 2,331,973**	**$ 344,736**	**$ 824,370**	**$ 3,501,079**

4. NOTE PAYABLE

The note payable was due to Azura Management (Kelowna) Corp. ("AMKC"), bore interest at 5% and was due June 28, 2019.

Subsequent to March 31, 2019, the Company agreed to an extension of the term of the note payable with AMKC revising the due date to July 31, 2019. The note was repaid in full on July 30, 2019.

5. TERM LOANS PAYABLE

As at June 30, 2019, the balances outstanding on the Company's term loans were as follows:

	June 30 2019	March 31 2019
BMO term loans:		
Revolving operating term loan	**$ 12,635,154**	$ 12,686,672
Non-revolving term loan	**9,250,000**	9,375,000
	21,885,154	22,061,672
Financing costs	**(60,785)**	(72,538)
	21,824,369	21,989,134
Current portion	**(326,647)**	(452,187)
	$ 21,497,722	$ 21,536,947

The BMO credit agreement executed on September 29, 2017 is guaranteed by a general security agreement covering the assets of the Company and its subsidiaries and is subject to the following facilities and terms:

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) Due on September 26, 2020
(d) 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 2019 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

5. **TERM LOANS PAYABLE, CONTINUED**

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 March 31, 2019 there was a letter of credit in the amount of $24,641 was outstanding with BMO (March 31, 2018 - $24,641).
(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. As March 31, 2019 a BA was in place on the non-revolving term loan to fix the effective interest rate at 4.54% (BA rate of 2.04%) for the period from March 1, 2019 to April 1, 2019. As at March 31, 2018 a BA was in place on the non-revolving term loan to fix the effective interest rate at 4.08% (BA rate of 1.58%) for the period from March 1, 2018 to April 2, 2018.
(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, 2019 and March 31, 2018 there were no amounts outstanding on this facility.

The Company also has available a delayed draw term loan of $2,500,000 to finance future capital expenditures at a rate of CAD prime +1.25%, repayable in quarterly principal instalments commencing at the end of the fiscal quarter in which the initial draw takes place. A standby fee in the amount of 0.55% to be payable quarterly is due on the undrawn portion of this loan. There was no balance drawn on this facility as at June 30, 2019 and March 31, 2019.

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, 2019 there was a balance of $767,215 drawn on this facility (March 31, 2019 - $792,860).

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 $5,000,000 in fiscal 2018 and $1,500,000 in subsequent years without prior bank approval

On June 27, 2019, the Company received a waiver from BMO pertaining to the minimum fixed charge coverage ratio and the maximum total liabilities to effective net worth ratio as these ratios were not expected to be in compliance with the above noted covenants at June 30, 2019. As such, the outstanding balances have been presented as a non-current liability. Without this waiver, BMO would have been entitled to request immediate payment on the outstanding balances of the term loans payable.

On July 29, 2019, the terms of certain financial covenants with BMO were amended. The fixed charge coverage ratio was amended to include the net proceeds of the Lassonde brokered private placement *(see note 11)* as equivalent to earnings before interest, depreciation and amortization for a 12 month period ending October 2020.

6. LEASE LIABILITIES

As a result of initially applying IFRS 16, the Company recognized lease liabilities of $2,385,244 as at April 1, 2019 *(see note 2(b))*. Interest expense of $32,494 during the interim period ended June 30, 2019 was recognized from these leases. During the interim period ended June 30, 2019, the Company entered into a new lease agreement with Element Inc for the acquisition of two vehicles, both of which secure the Company's obligations under the terms of the lease.

	June 30, 2019	March 31, 2019
Lease liabilities (including current portion), beginning of period	**$ 1,152,482**	$ 1,152,482
Lease liabilities on transition to IFRS 16	**2,385,244**	-
Lease liabilities for assets acquired under lease	**53,849**	-
Interest payable on lease liabilities	**32,494**	-
Repayments during the period	**(173,997)**	-
Lease liabilities (including current portion), end of period	**$ 3,450,072**	$ 1,152,482

The following amounts were recognized in profit and loss during the period:

Interest expense on lease liabilities	**$ 32,494**
Depreciation on right-of-use assets	**113,130**
Expense related to short-term leases	**23,710**
Expenses related to leases of low-value assets	**$ -**

7. 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, 2018 to June 30, 2019. Details of major changes in each component during the current reporting period are as follows:

(a) (Loss) income per share

Basic (loss) income 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, 2019 was 148,511,746 (2018 - 140,804,177).

As at June 30, 2019, the following potentially dilutive equity instruments were outstanding: (1) 10,975,000 options (2018 - 6,850,0000), and (2) 1,972,579 deferred share units (2018 - 1,362,833). The fully diluted number of common shares outstanding for the three month period ended June 30, 2019 was 161,359,325 (2018 - 154,149,984).

(b) Issuance of common shares

On June 28, 2018, the Company issued 4,687,500 common shares valued at $0.32 per share in settlement of $1,500,000 of the purchase consideration paid to acquire Backyard Vineyards Corp.

(c) 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.

(d) Deferred Share Units

On May 27, 2019, the Company issued an aggregate of 250,579 DSUs to non-executive directors under the DSU Plan in settlement of $42,599 of deferred directors' compensation. To date, a total of 2,072,984 DSUs have been issued, of which 1,872,579 remain outstanding, after the settlement of 200,405 DSUs into common shares of the company on retirement of a member of the Board of Directors on April 3, 2018.

(e) Share based compensation

Total share-based compensation for the three month period ended June 30, 2019 of $154,643 (2018 - $35,884) was recognized based on accrual of previously granted options expected to vest in the reporting period and the issuance of DSUs as described above.

8. **SEGMENTED INFORMATION**

Business segments

The Company operates in two business segments, namely (i) sales of manufactured wines and (ii) distribution and sales of products represented in Canada under agency agreements with third parties. The following table presents selected financial information associated with each of these segments for the three months ended June 30, 2019 and 2018:

		June 30, 2019	
	Agency	Manufactured wines	Consolidated
	$	$	$
Gross revenue	**3,211,344**	**4,134,161**	**7,345,505**
Inter-segment revenue	**(54,183)**	**-**	**(54,183)**
Net revenue	**3,157,161**	**4,134,161**	**7,291,322**
Gross profit	**1,477,545**	**1,621,772**	**3,099,317**
Interest on long-term debt	**106,321**	**210,480**	**316,801**
Depreciation and amortization	**84,431**	**355,043**	**439,474**
Additions of property, plant and equipment and intangible assets	**-**	**27,856**	**27,856**
	Statement of financial position balances as at June 30, 2019		
Intangible assets	**970,628**	**2,100,081**	**3,070,709**
Total assets	**6,927,879**	**40,311,334**	**47,239,213**
Total liabilities	**3,541,346**	**28,715,410**	**32,256,755**

		June 30, 2018	
	Agency	Manufactured wines	Consolidated
	$	$	$
Gross revenue	3,442,463	4,660,908	8,103,371
Inter-segment revenue	(98,042)	-	(98,042)
Net revenue	3,344,421	4,660,908	8,005,329
Gross profit	1,539,289	1,975,865	3,515,154
Interest on bank indebtedness	29,797	294,904	324,701
Depreciation and amortization	113,706	215,816	329,522
Additions of property, plant and equipment and intangible assets	33,522	436,078	469,600
	Statement of financial position balances as at March 31, 2019		
Intangible assets	1,055,060	2,100,081	3,155,141
Total assets	6,927,878	38,807,301	45,735,180
Total liabilities	3,541,346	26,553,580	30,094,926

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

8. SEGMENTED INFORMATION, CONTINUED

Geographic information

	2019	2018
Revenue		
Canada	**$ 6,593,212**	$ 5,764,361
China and other	**698,110**	2,240,968
	$ 7,291,322	$ 8,005,329

9. 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.

10. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified, where applicable, to conform to the presentation adopted in the current fiscal period.

11. SUBSEQUENT EVENT

On July 29, 2019, the Company completed a brokered private placement with Lassonde Industries Inc. ("Lassonde") to issue 36.9 million common shares at $0.19 per share for gross proceeds of $7.011 million. The issuance of the common shares has led to Lassonde taking a 19.9% ownership in the Company and Lassonde will have the right to designate two of the seven members of the Board of Directors.