DIAMOND ESTATES WINES & SPIRITS INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(Unaudited - Prepared by Management)

These unaudited interim condensed consolidated financial statements, prepared by management, have not been reviewed by the Company's external auditor.

DIAMOND ESTATES WINES & SPIRITS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2021 AND MARCH 31, 2021
(Unaudited - Prepared by Management)

	September 30 2021	March 31 2021
ASSETS		
Current:		
Accounts receivable (Note 5)	**$ 3,704,403**	$ 2,684,546
Inventories (Note 6)	**23,556,450**	23,418,282
Biological assets	**26,273**	-
Prepaid expenses	**348,889**	254,101
	27,636,015	26,356,929
Long term:		
Property, plant and equipment	**17,478,523**	17,697,058
Right-of-use assets	**3,088,748**	3,180,600
Intangible assets	**2,483,310**	2,585,404
	$ 50,686,596	$ 49,819,991
LIABILITIES		
Current:		
Accounts payable and accrued liabilities (Note 7)	**$ 6,315,042**	$ 4,734,792
Current portion of term loans payable (Note 8)	**22,509,859**	799,851
Current portion of lease liabilities	**452,272**	420,811
	29,277,173	5,955,454
Long term:		
Term loans payable (Note 8)	**-**	22,990,244
Lease liabilities	**2,544,052**	2,686,996
Debentures payable (Note 9(c))	**1,615,344**	-
Derivative liability (Note 9(d))	**114,329**	-
	33,550,898	31,632,694
SHAREHOLDERS' EQUITY		
Common shares (Note 10)	**27,690,705**	27,690,705
Contributed surplus	**1,919,956**	1,581,984
Accumulated deficit	**(12,474,963)**	(11,085,392)
	17,135,698	18,187,297
	$ 50,686,596	$ 49,819,991

Subsequent events (Note 15)

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

Approved on behalf of the Board:

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

DIAMOND ESTATES WINES & SPIRITS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2021 AND 2020
(Unaudited - Prepared by Management)

	Three months ended September 30 2021	**Six months ended September 30 2021**	Three months ended September 30 2020	Six months ended September 30 2020
Revenue	**$ 7,144,174**	**$ 14,516,981**	$ 7,192,922	$ 13,223,050
Cost of sales				
Change in inventories of finished goods and raw materials consumed	**4,424,556**	**8,712,186**	4,102,563	7,334,204
Depreciation of property, plant and equipment and right-of-use assets used in production	**208,789**	**321,008**	43,358	229,792
	4,633,345	**9,033,194**	4,145,921	7,563,996
Gross profit	**2,510,829**	**5,483,787**	3,047,001	5,659,054
Expenses				
Employee compensation and benefits	**1,437,857**	**2,824,562**	1,076,404	2,084,076
General and administrative	**834,801**	**1,531,403**	815,542	1,589,432
Advertising and promotion	**375,484**	**737,873**	153,200	566,713
Interest	**281,445**	**545,198**	231,583	441,812
Delivery and warehousing	**279,814**	**511,992**	290,310	534,991
Financing costs	**41,703**	**71,750**	161,087	237,082
Share based compensation	**171,734**	**337,972**	12,323	31,164
Depreciation of property, plant and equipment and right-of-use assets used in selling and administration	**93,579**	**230,927**	89,373	234,081
Amortization of intangible assets	**90,310**	**179,605**	84,846	169,690
	3,606,727	**6,971,282**	2,914,668	5,889,041
Loss before undernoted items	**(1,095,898)**	**(1,487,495)**	132,333	(229,987)
Restructuring charges	**-**	**-**	(533,380)	(533,380)
Gain on disposition of right-of-use assets	**52,214**	**71,185**	22,031	22,031
Unrealized gain on derivative liability	**8,205**	**26,739**	-	-
Net loss and comprehensive loss	**$ (1,035,479)**	**$ (1,389,571)**	$ (379,016)	$ (741,336)
Basic and diluted loss per share (Note 10(a))	**$ (0.005)**	**$ (0.007)**	$ (0.002)	$ (0.004)

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

DIAMOND ESTATES WINES & SPIRITS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
PERIOD FROM APRIL 1, 2020 TO SEPTEMBER 30, 2021
(Unaudited - Prepared by Management)

	Note	Common shares Shares	Common shares Amount	Contributed surplus	Accumulated deficit	Total
As at April 1, 2020		**200,005,566**	**$27,690,705**	**$ 1,205,216**	**$ (8,450,179)**	**$20,445,742**
Net loss and comprehensive loss		-	-	-	(741,336)	(741,336)
Share based compensation and financing costs from warrant issuance		-	-	77,500	-	77,500
As at September 30, 2020		**200,005,566**	**27,690,705**	**1,282,716**	**(9,191,515)**	**19,781,906**
Net loss and comprehensive loss		-	-	-	(1,893,877)	(1,893,877)
Share based compensation and financing costs from warrant issuance		-	-	299,268	-	299,268
As at March 31, 2021		**200,005,566**	**27,690,705**	**1,581,984**	**(11,085,392)**	**18,187,297**
Net loss and comprehensive loss		-	-	-	(1,389,571)	(1,389,571)
Share based compensation		-	-	337,972	-	337,972
As at September 30, 2021		**200,005,566**	**$27,690,705**	**$ 1,919,956**	**$ (12,474,963)**	**$ 17,135,698**

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
SIX MONTHS ENDED SEPTEMBER 30, 2021 AND 2020
(Unaudited - Prepared by Management)

	2021	2020
Operating activities		
Net loss	**$ (1,389,571)**	$ (741,336)
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment and right-of-use assets	**551,936**	349,425
Amortization of intangible assets	**179,605**	169,690
Amortization of deferred financing costs	**30,007**	27,629
Gain on disposition of right-of-use assets	**(71,185)**	(22,031)
Unrealized gain on derivative liability	**(26,739)**	-
Interest accretion on debentures payable	**19,124**	-
Share based compensation and financing costs from warrant issue	**337,972**	77,500
Interest expense	**545,198**	441,812
Interest paid	**(545,198)**	(441,812)
	(368,851)	(139,123)
Change in non-cash working capital items		
Accounts receivable	**(1,019,857)**	260,951
Inventories	**(57,025)**	(197,255)
Biological assets	**(26,273)**	(24,234)
Prepaid expenses	**(94,788)**	23,222
Accounts payable and accrued liabilities	**1,738,274**	350,742
	171,480	274,303
Investing activities		
Purchase of property, plant and equipment	**(225,902)**	(263,589)
Purchase of intangible assets	**(77,510)**	(39,844)
	(303,412)	(303,433)
Financing activities		
Proceeds on issuance of convertible debenture, net of issuance costs	**1,560,821**	-
Repayment of lease liabilities	**(137,088)**	(110,809)
Deferred financing costs paid	**(7,756)**	-
Net borrowings on revolving term loans and operating lines payable	**-**	389,939
Net borrowings (repayments) on revolving term loan	**(1,034,045)**	-
Repayment on non-revolving term loan	**(250,000)**	(250,000)
	131,932	29,130
Change in cash	**-**	-
Cash, beginning of period	**-**	-
Cash, end of period	**$ -**	$ -

Non-cash transactions: (Note 14)

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

1. NATURE OF OPERATIONS

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

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

During the six month period ended September 30, 2021, the COVID-19 pandemic has caused governments to continue enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of self-imposed quarantine periods and social distancing, government-mandated closures of restaurants and hospitality businesses and travel bans, have caused material disruption to business, and remained in place for most of the period.

Depending on the duration and extent of the ongoing impact of COVID-19 and its impact on the overall economy and related advisories and restrictions., this could materially impact our customers and their demand for our products, our supply chains, lease agreements, banking agreements and related covenants (*see note 8*). This in turn may have a direct impact on the Company's operating results, cash flows and financial position.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) **Basis of presentation and statement of compliance**

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"), and accordingly do not include all the information required for full annual financial statements by International Financial Reporting Standards ("IFRS"). They have been prepared using the same accounting policies, except as noted below, that were described in note 2 to the Company's annual consolidated financial statements for the year ended March 31, 2021 which were prepared in accordance with IFRS as issued by the IASB.

These unaudited interim condensed consolidated financial statements have not been reviewed by the Company's external auditors. They were authorized for issuance by the Board of Directors on November 23, 2021.

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

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(b) Debentures payable

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

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

(c) Financial instruments

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

Financial liabilities at FVTPL

Liabilities in this category are derivatives or liabilities classified as held-for-trading or designated as FVTPL on initial recognition. After initial recognition, such liabilities are measured at fair value with changes in fair value being recognized in profit or loss. Derivatives recognized from the Company's debentures payable are recognized as FVTPL *(see note 9(d))*.

Amortized cost

Liabilities in this category are non-derivative financial liabilities that are not classified as held-for-trading. After initial recognition, such liabilities are measured at amortized cost using the effective interest rate method. The debentures payable have been classified as amortized cost *(see note 9(c))*.

3. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENT

(a) IFRS 16 "Leases"

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

4. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

As at the date of authorization of these unaudited interim condensed consolidated financial statements, the IASB has issued the following new or revised standards as detailed below.

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

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

(b) IAS 37 "Provisions"

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

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

This standard has been amended to clarify that liabilities are classified as either current or non-current depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. This amendment also clarifies the meaning of settlement of a liability. This amendment is effective for annual periods beginning on or after January l, 2023. The Company has not yet assessed the impact of the amendment on the unaudited interim condensed consolidated financial statements.

(d) IAS 12 "Income Taxes"

This standard has been amended to require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company has not yet assessed the impact of the amendment on the unaudited interim condensed consolidated financial statements.

5. ACCOUNTS RECEIVABLE

	September 30 2021	March 31 2021
Trade receivables	**$ 3,698,691**	$ 2,398,643
Accrued receivables	**5,712**	264,903
Income taxes recoverable	**-**	21,000
	$ 3,704,403	$ 2,684,546

The Company has an allowance for doubtful accounts as at September 30, 2021 of $151,788 (March 31, 2021 - $168,961).

6. INVENTORIES

	September 30 2021	March 31 2021
Bulk wine	**$ 15,043,587**	$ 15,847,385
Bottled wine and spirits	**8,008,502**	7,112,765
Bottling supplies and packaging	**504,361**	458,132
	$ 23,556,450	$ 23,418,282

The Company has a provision for inventory obsolescence as at September 30, 2021 of $57,256 (March 31, 2021 - $81,361).

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30 2021	March 31 2021
Trade accounts payable	**$ 3,610,376**	$ 3,389,413
Accrued liabilities	**2,682,602**	1,259,649
Government remittances payable	**22,064**	85,730
	$ 6,315,042	$ 4,734,792

8. TERM LOANS PAYABLE

As at September 30, 2021, the balances outstanding on the Company's term loans were as follows:

	September 30 2021	March 31 2021
BMO term loans:		
Revolving operating term loan	**$ 11,549,949**	$ 12,583,995
Non-revolving term loan	**8,250,000**	8,500,000
BCAP non- revolving term loan (Note 8)(g))	**2,750,000**	2,750,000
	22,549,949	23,833,995
Deferred financing costs	**(40,090)**	(43,900)
	22,509,859	23,790,095
Current portion (Note 8(f))	**(22,509,859)**	(799,851)
	$ -	$ 22,990,244

(a) On October 26, 2020, the Company entered into an Amended and Restated Credit Agreement ("ARCA") to replace the original the BMO credit agreement dated September 29, 2017. The ARCA was amended on March 26, 2021 (the "First Amendment to the ARCA") and further amended on June 29, 2021 (the "Second Amendment to the ARCA"), under which the expiry date was extended to October 1, 2022. The ARCA 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 initial BMO credit agreement was dated September 29, 2017 and was 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.

(b) The revolving operating term loan is for working capital and general corporate requirements and is subject to the following terms, generally unchanged after the Second Amendment to the ARCA:

(i) Revolving credit facility of up to $13,000,000, subject to specified borrowing base margin limitations, with a temporary bulge of an additional $1,000,000 until July 1, 2021
(ii) Monthly interest only payments at CAD prime rate +1.00%
(iii) Standby fee of 0.50% on available unused revolving term credit to be paid on the last day of each quarter

8. TERM LOANS PAYABLE, CONTINUED

(c) The non-revolving term loan is for the purpose of refinancing the previous term debt and funding scheduled capital expenditures. The loan is subject to the following terms, generally unchanged after the Second Amendment to the ARCA:

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

(d) The BMO credit agreement includes the following sub-facilities:

(i) Letter of credit sub-facility included under the umbrella of the $13,000,000 revolving term loan, up to a maximum of $1,000,000 at a rate of CAD prime +2.50% having a term of up to 1 year. As at September 30, 2021, there were letters of credit in the amount of $50,000 outstanding with BMO (March 31, 2021 - $50,000).
(ii) Bankers' acceptance ("BA") sub-facility included under the umbrella of the revolving and non-revolving term loans, with a minimum draw of $1,000,000, terms of 28 to 182 days, fees charged at rates 2.50% to 2.75% per annum on the face amount of the BA plus interest at the BA rate.
(iii) Treasury risk management facility of up to $1,500,000 to facilitate hedging of interest rate risk and foreign exchange risk at market rates as determined by the lender. There are no amounts currently outstanding on this facility.

(e) A master lease finance line facility of $2,500,000 is available to the Company to finance equipment under the BMO Equipment Leasing Group and shall reduce monthly in accordance with agreed upon terms based on market rates at the time of each advance. As at September 30, 2021, there was a balance of $521,660 drawn on this facility (March 31, 2021 - $578,614), and is included in lease liabilities.

(f) The ARCA is subject to the following major financial covenants:

(i) Minimum fixed charge coverage ratio of 1.25|1, amended to 0.70|1 and 0.90|1 respectively for the quarters ended March 31, 2021 and June 30, 2021.
(ii) Maximum ratio of total liabilities to tangible net worth of 2.00|1.
(iii) Capital expenditure limit of $1,000,000 for the fiscal years ending March 31, 2021 and 2022.

For the rolling twelve-month period ended September 30, 2021, the Company was in breach of its fixed charged covenant ratio. This covenant breach has required the non-current portion of the BMO term loans of $22,509,859 to be classified as a current liability under IFRS as at September 30, 2021. The covenant breach has been cured as of October 6, 2021 with proceeds of the equity raise *(see note 15(a)(iv))*, as permitted by the Company's lending institution. The Company was in compliance with its other covenants as at September 30, 2021.

8. TERM LOANS PAYABLE, CONTINUED

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

The BCAP loan has the following terms and conditions:

- bears interest monthly at CAD prime rate plus 1.25%';
- repayable in 48 equal monthly principal payments of $57,292, starting on the first anniversary of funding;
- EDC guarantee subject to renewal annually at a fee of 1.8% of the amount of the original loan; and
- maturity date of October 1, 2022.

9. DEBENTURES PAYABLE

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

(b) The major terms of the debentures are as follows:

(i) The debentures bear interest from the date of issue at 10.0% per annum, calculated monthly, in arrears. The interest accrues on the principal outstanding under the debentures until such principal is repaid or converted. The debentures will mature on July 2, 2023, unless the holder requests to accelerate the maturity date in the event the Company completes an equity financing for minimum gross proceeds of $2 million within the next 12 months.

(ii) The debentures are convertible at the holder's option from the date of issuance until the maturity date at a conversion price of $0.185. 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. The debentures are also redeemable at the Company's option, subject to an early redemption fee during the first 12 months following closing of the offering of an additional 1% interest and, if during the first six months, a minimum six months interest.

(iii) All securities issued in connection with the offering are subject to a four-month hold period expiring October 11, 2021. The Company intends to use the net proceeds of the offering for general working capital purposes in support of an anticipated increase in operations coinciding with of the reopening of the economy over the next several months.

9. DEBENTURES PAYABLE, CONTINUED

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

(ii) The initial fair value of $1,935,595 less the face value of the debt of $1,830,000, net of transaction fees reimbursed to one the debenture holders of $18,221, has resulted in initial recognition of a deferred loss of $123,816. After amortizing the deferred loss in the amount of $18,441, its carrying value as at September 30, 2021 is $105,375.

(iii) This loss has been netted against the carrying cost of the debenture payable for presentation purposes similar to deferred financing charges, such that the net carrying value of the debentures payable as at September 30, 2021 is $1,615,344.

(iv) On October 7, 2021, the debenture holders elected to convert all the debentures into common shares *(see note 15(i)(c))*.

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

10. 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, 2020 to September 30, 2021. 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 six months ended September 30, 2021 was 200,005,566 (2020 - 200,005,566).

As at September 30, 2021, the following potentially dilutive equity instruments were outstanding: (i) 15,600,000 options (March 31, 2021 - 15,100,000, (ii) 2,964,198 deferred share units (March 31, 2021 - 2,647,637), and (iii) 750,000 common share purchase warrants (March 31, 2021 - 750,000). The fully diluted number of common shares outstanding as at September 30, 2021 was 219,319,764 (March 31, 2021 - 218,503,203).

10. SHARE CAPITAL AND OTHER EQUITY INSTRUMENTS, CONTINUED

(b) Issuance of common shares

The Company did not issue any common shares during the six months ended September 30, 2021 or during the year ended March 31, 2021.

(c) Stock options

On May 17, 2021, the Board of Directors authorized the issuance of 500,000 stock options to a key member of management. The options each have an exercise price of $0.20 and a term of 5 years, vesting as to 25% per year on each anniversary date over the next 4 years. The fair value of the options was calculated with the Black-Scholes option pricing model, using the assumptions of: (1) risk free interest rate ranging of 0.75%, (2) expected volatility of 72.8%, (3) expected life of 5 years, and (4) dividend yield of 0.0%, such that the fair value attributed to each option was $0.11.

On August 24, 2021, the Board of Directors authorized the issuance of 1,000,000 stock options to members of management. The options each have an exercise price of $0.18 and a term of 5 years, vesting as to 25% per year on each anniversary date over the next 4 years. The fair value of the options was calculated with the Black-Scholes option pricing model, using the assumptions of: (1) risk free interest rate ranging of 0.71%, (2) expected volatility of 72.0%, (3) expected life of 5 years, and (4) dividend yield of 0.0%, such that the fair value attributed to each option was $0.09.

During the six month period ended September 30, 2021, a total of 1,000,000 options expired unexercised on the departure of members of management.

(d) Deferred share units

On May 17, 2021, the Company issued an aggregate of 169,688 DSUs in settlement of $33,938 of deferred directors' compensation. On July 26, 2021, the Company issued an aggregate of 146,873 DSUs in settlement of $26,438 of deferred directors' compensation.

(e) Share based compensation

Total share based compensation recognized for the six months ended September 30, 2021 was $337,972 (2020 - $31,164) based on accrual of previously granted options expected to vest in the reporting period and the issuance of DSUs as described above.

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. **SEGMENTED INFORMATION**

Business segments

The Company operates in two business segments, namely (i) distribution and sales of products represented in Canada under agency agreements with third parties, and (ii) sales of manufactured wines. The following table presents selected financial information associated with each of these segments for the three months ended September 30, 2021 and 2020.:

	Six months ended September 30, 2021		
	Agency	**Manufactured wines**	**Consolidated**
	$	**$**	$
Gross revenue	**7,714,846**	**7,013,731**	**14,728,577**
Inter-segment revenue	**(211,596)**	**-**	**(211,596)**
Net revenue	**7,503,250**	**7,013,731**	**14,516,981**
Gross profit	**2,887,744**	**2,596,043**	**5,483,787**
Interest	**27,412**	**517,786**	**545,198**
Depreciation and amortization	**284,526**	**447,014**	**731,540**
Additions of property, plant and equipment and intangible assets	**-**	**303,412**	**303,412**
	Statement of financial position balances as at September 30, 2021		
Intangible assets	**1,288,496**	**1,194,814**	**2,483,310**
Total assets	**5,462,017**	**45,224,579**	**50,686,596**
Total liabilities	**3,075,929**	**30,474,969**	**33,550,898**

	Six months ended September 30, 2020		
	Agency	**Manufactured wines**	**Consolidated**
	$	**$**	$
Gross revenue	7,544,224	5,949,343	13,493,567
Inter-segment revenue	(270,518)	-	(270,518)
Net revenue	7,273,706	5,949,343	13,223,050
Gross profit	3,203,194	2,455,859	5,659,054
Interest	30,338	411,475	441,812
Depreciation and amortization	290,202	343,360	633,563
Additions of property, plant and equipment and intangible assets	-	303,433	303,433
	Statement of financial position balances as at March 31, 2021		
Intangible assets	1,449,555	1,135,849	2,585,404
Total assets	5,751,830	44,068,161	49,819,991
Total liabilities	3,202,986	28,429,708	31,632,694

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

12. SEGMENTED INFORMATION, CONTINUED

Geographic information

	2021	2020
Revenue		
Canada	**$ 12,940,445**	$ 12,587,291
China and other	**1,576,536**	635,759
	$ 14,516,981	$ 13,223,050

13. GOVERNMENT GRANTS

During the six months ended September 30, 2021, the Company has recorded funding of $107,317 (2020 - $581,615) under the Canadian Employment Wage Subsidy ("CEWS") program and $27,898 (2020 - $Nil under the Canadian Emergency Rent Subsidy ("CERS") program, the proceeds of which have been netted against certain expense categories in the statement of net loss and comprehensive loss.

14. NON-CASH TRANSACTIONS

	2021 **$**	2020 $
Right-of-use assets acquired under lease liabilities	**110,850**	-
Accounts payable offset against debenture proceeds	**158,025**	-
Lease liabilities for assets disposed of under lease	**85,246**	-

15. SUBSEQUENT EVENTS

(a) **Purchase Agreements and Financings**

On October 6, 2021, the Company closed on (i) its acquisition of all of the issued and outstanding securities of Equity Wine Group Inc. ("Equity Wine", and such acquisition, the "Equity Wine Acquisition"), (ii) its acquisition of the Shiny Apple craft cider brand (the "Shiny Apple Brand") from Stonechurch Vineyard and Winery Holdings Inc. ("Stonechurch", such acquisition being the "Stonechurch Acquisition", and together with the Equity Wine Acquisition, the ("Acquisitions"), (iii) the issuance of $1,889,162 in equity upon the conversion of currently outstanding convertible debentures and accrued interest, and (iv) the issuance of $6,786,715 in equity through its previously announced private placement (the "Financing").

(i) **Equity Wine Acquisition**

The purchase consideration for the Equity Wine Acquisition totals approximately $11.6 million, including the following:

- $1.5 million in cash;
- $5.5 million in common shares of Diamond, being 30,555,557 common shares at a deemed issuance price of $0.18 per share;

15. SUBSEQUENT EVENTS, CONTINUED

- 22,916,670 share purchase warrants (with an estimated value of $0.5 million) each entitling the holder to acquire one common share at an exercise price of $0.22 for a period of 36 months;
- the assumption of the Equity Wine's term and operating debt of approximately $4.1 million with the Bank of Montreal. The Company is renegotiating the terms of its current banking agreement with BMO to include this assumed debt.

The common shares and share purchase warrants are subject to certain contractual restrictions on trading for a period of 12 months from the date of issuance with equal portions being released from escrow every quarter.

(ii) **Stonechurch Acquisition**

The Company acquired all of the rights and title to the Shiny Apple Brand from Stonechurch for aggregate consideration of $2.5 million, which was satisfied by a (i) closing cash payment of $1.1 million; (ii) $1.1 million earn-out payment (deposited into escrow by the Company on closing) payable quarterly over the course of 12 months following closing depending on sales targets being met; and (iii) $300,000 inventory holdback. Diamond and Stonechurch also entered into a production and co-packing agreement whereby Stonechurch will continue to produce the Shiny Apple Brand under Diamond's monitoring and oversight for a minimum period of 24 months.

On November 10, 2021, the Company announced that the inventory holdback of $300,000 set out above had been released from escrow. The closing inventory has been valued at $166,613, which resulted in $133,386 plus accrued interest being refunded to Diamond.

(iii) **Conversion of Debentures**

Holders of the Company's 10% unsecured convertible debentures issued on June 10, 2021 in the aggregate principal amount of $1.83 million (see note 9), all of whom are considered insiders of the Company, have each elected to have the Financing (see note 15(a)(iv)) constitute an early maturity date pursuant to the terms of the debentures, which Diamond has elected to satisfy pursuant to a shares-for-debt transaction. Therefore, the obligations of the debentures will be extinguished, and Diamond issued, in satisfaction of $1,889,162 representing the principal and interest owing under the debentures, 10,495,342 units at a price of $0.18 per unit to the debenture holders.

(iv) **Financing**

The Company closed its previously announced brokered private placement, conducted by Paradigm Capital Inc. (the "Agent"). The Financing consisted of the issuance of 37,703,975 units at a price of $0.18 per unit for gross proceeds of $6,786,715 with each unit consisting of one common share and three-quarters (¾) of one share purchase warrant. Each whole warrant is exercisable to acquire one common share at an exercise price of $0.22 per common share for 36 months.

15. **SUBSEQUENT EVENTS, CONTINUED**

(v) **Agency Agreement**

Pursuant to the terms of an agency agreement between the Agent and the Company, the Agent received a cash fee equal to 6.0% of the aggregate gross proceeds of the Financing (the "Cash Commission"), and broker warrants equal to 6.0% of the number of units issued pursuant to the Financing. The Agent received a reduced fee of 3.0% cash and a reduced number of broker warrants equal to 3.0% of the aggregate number of units sold to purchasers on the President's List.

Each broker warrant entitles the holder to acquire one broker unit at $0.18 per broker unit for a period for 24 months. Each broker unit consists of one common share and three-quarters (¾) of one share purchase warrant (each whole warrant, a "Broker Unit Warrant"). Each Broker Unit Warrant is exercisable to acquire one common share at an exercise price of $0.22 per common share for 36 months.

The Company paid an aggregate of $294,805 in cash commissions and issued 1,636,807 broker units to the Agent.

(b) **Option Grant**

On October 26, 2021, the Company issued 1,500,000 stock options to a key member of management. The options have an exercise price of $0.18 and a term of 5 years, vesting as to 25% per year on each anniversary date over the next 4 years.

(c) **Share Consolidation**

On November 10, 2021, the Company announced implementation of the consolidation of its share capital on a 10 for 1 basis, consolidating its currently issued and outstanding shares to 27,876,044. Shareholder authorization to effect the share consolidation was approved pursuant to a special resolution passed by shareholders on September 28, 2021.