

DIAMOND ESTATES WINES & SPIRITS INC.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED DECEMBER 31, 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 DECEMBER 31, 2019 AND MARCH 31, 2019
(Unaudited - Prepared by Management)

	<u>December 31</u> <u>2019</u>	<u>March 31</u> <u>2019</u>
ASSETS		
Current:		
Accounts receivable	\$ 2,826,262	\$ 2,906,154
Inventories	21,186,385	19,462,687
Prepaid expenses	<u>380,514</u>	<u>232,591</u>
	24,393,161	22,601,432
Long term:		
Property, plant and equipment	18,286,779	18,773,456
Intangible assets	2,902,254	3,155,141
Right-of-use assets (Note 3)	<u>3,276,538</u>	<u>1,205,150</u>
	<u>\$ 48,858,732</u>	<u>\$ 45,735,179</u>
LIABILITIES		
Current:		
Accounts payable and accrued liabilities	\$ 5,331,226	\$ 6,342,500
Note payable (Note 4)	-	550,000
Unearned revenue and deposits received	60,810	60,810
Current portion of term loans payable (Note 5)	463,120	452,187
Current portion of leases liabilities (Note 6)	<u>418,753</u>	<u>308,406</u>
	6,273,909	7,713,903
Long term:		
Term loans payable (Note 5)	17,824,482	21,536,947
Lease liabilities (Note 6)	<u>2,813,795</u>	<u>844,076</u>
	<u>26,912,186</u>	<u>30,094,926</u>
SHAREHOLDERS' EQUITY		
Common shares (Note 7)	27,702,327	19,157,313
Contributed surplus	1,111,172	747,080
Accumulated deficit	<u>(6,866,953)</u>	<u>(4,264,140)</u>
	<u>21,946,546</u>	<u>15,640,253</u>
	<u>\$ 48,858,732</u>	<u>\$ 45,735,179</u>

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 NINE MONTHS ENDED DECEMBER 31, 2019 AND 2018
(Unaudited - Prepared by Management)

	Three month period ended December 31 2019	Nine month period ended December 31 2019	Three month period ended December 31 2018	Nine month period ended December 31 2018
Revenue	\$ 6,901,517	\$ 21,407,638	\$ 7,412,303	\$ 23,585,981
Cost of sales				
Change in inventories of finished goods and raw materials consumed	3,588,209	10,604,596	4,118,443	12,428,307
Freight in & royalties in and other	313,525	729,667	269,704	724,448
Depreciation of property, plant and equipment used in production	287,604	580,165	178,364	580,112
	4,189,338	11,914,428	4,566,511	13,732,867
Gross profit	2,712,179	9,493,210	2,845,792	9,853,114
Expenses				
Employee compensation and benefits	1,712,507	5,222,522	1,617,884	5,133,233
General and administrative	869,658	2,742,175	883,546	2,497,720
Advertising and promotion	532,962	1,483,712	508,743	1,280,858
Delivery and warehousing	223,065	627,152	221,659	576,355
Interest on long-term debt	257,772	848,965	282,575	873,337
Financing costs	67,348	121,688	22,689	68,066
Amortization of intangible assets	84,431	253,294	87,058	259,421
Depreciation of property, plant and equipment used in selling and administration	147,328	398,346	110,034	296,148
Share based compensation	131,160	398,169	213,139	354,306
	4,026,231	12,096,023	3,947,327	11,339,444
(Loss) before income taxes	(1,314,052)	(2,602,813)	(1,101,535)	(1,486,330)
Income taxes (recovery)	-	-	(19,924)	(75,529)
Net (loss) and comprehensive (loss)	\$ (1,314,052)	\$ (2,602,813)	\$ (1,081,611)	\$ (1,410,801)
Basic (loss) income per share (Note 7(a))	\$ 0.00	\$ (0.02)	\$ (0.01)	\$ (0.01)
Diluted (loss) income per share (Note 7(a))	\$ 0.00	\$ (0.02)	\$ (0.01)	\$ (0.01)

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 DECEMBER 31, 2019
(Unaudited - Prepared by Management)

	Common shares		Contributed surplus	Accumulated deficit	Total
	Shares	Amount			
As at April 1, 2018	140,373,841	\$ 16,657,513	\$ 589,982	\$ (992,895)	\$ 16,254,600
Net income and comprehensive income	-	-	-	(1,410,801)	(1,410,801)
Exercise of options	3,250,000	965,670	(358,170)	-	607,500
Settlement of DSU's	200,405	34,130	(34,130)	-	-
Share based compensation	-	-	354,306	-	354,306
Common shares issued on acquisition of Backyards Vineyards Corp.	4,687,500	1,500,000	-	-	1,500,000
As at December 31, 2018	148,511,746	19,157,313	551,988	(2,403,696)	17,305,605
Net loss and comprehensive loss	-	-	-	(1,860,444)	(1,860,444)
Share based compensation	-	-	195,093	-	195,093
As at March 31, 2019	148,511,746	19,157,313	747,081	(4,264,140)	15,640,254
Proceeds on issuance of common shares to Lassonde (Note 7(b))	49,133,805	9,335,423	-	-	9,335,423
Share issuance cost (Note 7(b))	-	(1,100,612)	-	-	(1,100,612)
Share based compensation (Note 7(e))	-	-	398,169	-	398,169
Settlement of deferred share units (Note 7(d))	360,015	70,203	(34,078)	-	36,125
Exercise of options	2,000,000	240,000	-	-	240,000
Net loss and comprehensive loss	-	-	-	(2,602,813)	(2,602,813)
As at December 31, 2019	200,005,566	\$ 27,702,327	\$ 1,111,172	\$ (6,866,953)	\$ 21,946,546

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

DIAMOND ESTATES WINES & SPIRITS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED December 31, 2019 AND 2018
(Unaudited - Prepared by Management)

	<u>December 31</u> <u>2019</u>	<u>December 31</u> <u>2018</u>
Operating activities		
Net (loss)	\$ (2,602,813)	\$ (1,410,801)
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	978,511	876,260
Amortization of intangible assets	253,294	259,421
Amortization of deferred finance fees	35,435	34,092
Share based compensation	398,169	354,306
Recovery of deferred income taxes	-	(75,529)
Interest expense	848,965	873,337
Interest paid	<u>(848,965)</u>	<u>(794,166)</u>
	(937,404)	116,920
Change in non-cash working capital items		
Accounts receivable	79,892	(2,584,515)
Inventories	(1,723,698)	(659,327)
Prepaid expenses	(147,921)	176,889
Accounts payable and accrued liabilities	<u>(1,011,274)</u>	<u>215,400</u>
	(3,740,405)	(2,734,633)
Investing activities		
Acquisition of Backyard Vineyards Corp., net of cash acquired	-	(609,386)
Purchase of property, plant and equipment	(145,713)	(797,042)
Purchase of Intangible Assets	-	(64,210)
Proceeds from sale lease back of property, plant and equipment	-	838,342
Proceeds on sale of property, plant and equipment	18,949	-
Repayment of note payable	<u>(550,000)</u>	<u>-</u>
	(676,764)	(632,296)
Financing activities		
Net repayments on revolving term loans and operating lines payable	(3,501,489)	3,318,791
Repayment on non-revolving term loans payable	(375,000)	(375,000)
Repayment of lease liabilities	(181,153)	(184,362)
Proceeds on exercise of options	240,000	607,500
Proceeds from issuance of common shares (Note 7(b))	<u>8,234,811</u>	<u>-</u>
	4,417,169	3,366,929
Change in cash	-	-
Cash, beginning of period	<u>-</u>	<u>-</u>
Cash, end of period	\$ -	\$ -

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

DIAMOND ESTATES WINES & SPIRITS INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED DECEMBER 31, 2019 AND 2018
(Unaudited - Prepared by Management)

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 February 21, 2020.

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.

DIAMOND ESTATES WINES & SPIRITS INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED DECEMBER 31, 2019 AND 2018
(Unaudited - Prepared by Management)

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.

DIAMOND ESTATES WINES & SPIRITS INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED DECEMBER 31, 2019 AND 2018
(Unaudited - Prepared by Management)

2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Leases, continued

In relation to those leases under IFRS 16, the Company has recognized \$3,276,538 of ROU assets, net of accumulated depreciation, and \$3,232,548 of lease liabilities as at December 31, 2019. During the interim period ended December 31, 2019, the Company has recognized \$347,236 of depreciation expense and \$41,899 of interest expense from these leases, instead of operating lease expense.

3. **RIGHT OF USE ASSETS**

	<u>Building</u>	<u>Vehicles</u>	<u>Machinery and equipment</u>	<u>Total</u>
<u>Cost</u>				
As at April 1, 2018	\$ -	\$ 792,133	\$ -	\$ 792,133
Additions	-	108,218	838,342	946,560
Disposals	-	(53,849)	-	(53,849)
As at March 31, 2019	-	846,502	838,342	1,684,844
Additions	-	9,565	-	9,565
Disposals	-	(12,042)	-	(12,042)
Right-of-use assets on transition to IFRS 16 (see note 2(b))	2,385,244	-	-	2,385,244
As at December 31, 2019	\$ 2,385,244	\$ 844,025	\$ 838,342	\$ 4,067,611
<u>Accumulated depreciation</u>				
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	159,812	171,705	15,719	347,236
Disposals	-	(35,857)	-	(35,857)
As at December 31, 2019	\$ 159,812	\$ 606,809	\$ 24,452	\$ 791,073
<u>Net book value</u>				
As at March 31, 2019	\$ -	\$ 375,541	\$ 829,609	\$ 1,205,150
As at December 31, 2019	\$ 2,225,432	\$ 237,216	\$ 813,890	\$ 3,276,538

DIAMOND ESTATES WINES & SPIRITS INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED DECEMBER 31, 2019 AND 2018
(Unaudited - Prepared by Management)

4. **NOTE PAYABLE**

The note payable is due to Azura Management (Kelowna) Corp. ("AMKC"), bears interest at 5% and was due June 28, 2019. 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 December 31, 2019, the balances outstanding on the Company's term loans were as follows:

	December 31 2019	March 31 2019
BMO term loans:		
Revolving operating term loan	\$ 9,324,705	\$ 12,686,672
Non-revolving term loan	9,000,000	9,375,000
	18,324,705	22,061,672
Financing costs	(37,103)	(72,538)
	18,287,602	21,989,134
Current portion	(463,120)	(452,187)
	\$ 17,824,482	\$ 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 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

DIAMOND ESTATES WINES & SPIRITS INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED DECEMBER 31, 2019 AND 2018
(Unaudited - Prepared by Management)

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 December 31, 2019 there was a letter of credit in the amount of \$24,641 outstanding with BMO (March 31, 2019 - \$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. 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 December 31, 2019 and March 31, 2019 there were no amounts outstanding on this facility.

The Company also has an available 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 December 31, 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 December 31, 2019 there was a balance of \$714,969 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 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 brokered private placements entered into by the Company up to October 31, 2019 (*see note 7(b)*) as equivalent to earnings before interest, depreciation and amortization for a 12 month period ending October 2020.

DIAMOND ESTATES WINES & SPIRITS INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED DECEMBER 31, 2019 AND 2018
(Unaudited - Prepared by Management)

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 \$41,899 during the interim period ended December 31, 2019 was recognized from these leases. During the same period, the Company has not entered into any new lease agreements with Element Inc, which secures Company's obligations under the terms of the lease.

	December 31	March 31
	2019	2019
Lease liabilities (including current portion), beginning of period	\$ 3,344,504	\$ 1,152,482
Interest payable on lease liabilities	117,484	-
Repayments during the period	<u>(229,440)</u>	<u>-</u>
Lease liabilities (including current portion), end of period	<u>\$ 3,232,548</u>	<u>\$ 1,152,482</u>

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

Interest expense on lease liabilities	\$	41,899
Depreciation on right-of-use assets		347,236
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 December 31, 2019. Details of major changes in each component during the current reporting period are as follows:

DIAMOND ESTATES WINES & SPIRITS INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED DECEMBER 31, 2019 AND 2018
(Unaudited - Prepared by Management)

7. **SHARE CAPITAL AND OTHER EQUITY INSTRUMENTS, CONTINUED**

(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 nine month period ended December 31, 2019 was 272,036,620 (2018 - 143,243,502).

As at December 31, 2019, the following potentially dilutive equity instruments were outstanding: (1) 7,850,000 options (2018 - 10,850,000), and (2) 1,703,957 deferred share units (2018 - 1,622,000). The fully diluted number of common shares outstanding for the nine month period ended December 31, 2019 was 209,559,523 (2018 - 160,908,746).

(b) **Issuance of common shares**

On July 29, 2019, the Company completed a brokered private placement with Lassonde Industries Inc. ("Lassonde") to issue 36,900,000 common shares at \$0.19 per share for gross proceeds of \$7,011,000, less issuance costs of \$895,491 for cash proceeds of \$6,115,509.

On October 30, 2019, the Company closed a second private placement offering of 12,233,805 common shares at a price of \$0.19 per Common Share for total gross proceeds of \$2,324,423, less issuance costs of \$205,121, for net proceeds of \$2,119,302.

(c) **Stock options**

- (i) During the first quarter of fiscal 2020, a total of 675,000 options, initially granted on November 24, 2014, expired unexercised on the departure of three executives of the Company.
- (ii) During the second quarter of fiscal 2020, a total of 1,575,000 options, initially granted on September 27, 2018, expired unexercised on the departure of three executives of the Company.
- (iii) On September 28, 2019, the Company issued stock options to its directors and key members of the management team. A total of 900,000 stock options were issued with an exercise price of \$0.20 per share.
- (iv) On November 11, 2019, 2,000,000 of the stock options originally granted on November 10, 2014 were exercised at the purchase price of \$0.12 for total proceeds of \$240,000.
- (v) During the third quarter of fiscal 2020, a total of 450,000 options, initially granted on October 1, 2018, expired unexercised on the departure of an executive of the Company.

DIAMOND ESTATES WINES & SPIRITS INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED DECEMBER 31, 2019 AND 2018
(Unaudited - Prepared by Management)

7. **SHARE CAPITAL AND OTHER EQUITY INSTRUMENTS, CONTINUED**

(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.

On October 19, 2019, the Company issued an aggregate of 185,255 DSU's to non executive directors under the DSU plan in settlement of \$36,125 of deferred directors' compensation.

To date, a total of 2,264,378 DSUs have been issued, of which 1,703,957 remain outstanding, after the settlement of:

- i) 200,405 DSUs into common shares of the Company on retirement of a member of the Board of Directors on April 3, 2018.
- ii) 332,451 DSUs into common shares of the Company on retirement of another member of the Board of Directors on September 27, 2019 and 27,564 more DSUs into common shares for the same member on October 19, 2019.

(e) **Share based compensation**

Total share-based compensation for the nine month period ended December 31, 2019 of \$398,169 (2018 - \$354,306) was recognized based on accrual of previously granted options expected to vest in the reporting period and the issuance of DSUs as described above.

DIAMOND ESTATES WINES & SPIRITS INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED DECEMBER 31, 2019 AND 2018
(Unaudited - Prepared by Management)

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 nine months ended December 31, 2019 and 2018:

	<u>December 31, 2019</u>		
	Agency	Manufactured wines	Consolidated
	\$	\$	\$
Gross revenue	10,291,998	11,608,699	21,900,697
Inter-segment revenue	<u>(493,059)</u>	<u>-</u>	<u>(493,059)</u>
Net revenue	<u>9,798,939</u>	<u>11,608,699</u>	<u>21,407,638</u>
Gross profit	4,258,955	5,234,255	9,493,210
Interest on long-term debt	181,497	667,468	848,965
Depreciation and amortization	298,024	933,781	1,231,805
Additions of property, plant and equipment and intangible assets	4,397	141,316	145,713

	<u>Statement of financial position balances</u> <u>as at December 31, 2019</u>		
Intangible assets	911,175	1,991,079	2,902,254
Total assets	8,052,508	40,806,224	48,858,732
Total liabilities	3,254,503	23,657,683	26,912,186

	<u>December 31, 2018</u>		
	Agency	Manufactured wines	Consolidated
	\$	\$	\$
Gross revenue	10,877,925	13,085,675	23,963,600
Inter-segment revenue	<u>(377,619)</u>	<u>-</u>	<u>(377,619)</u>
Net revenue	<u>10,500,306</u>	<u>13,085,675</u>	<u>23,585,981</u>
Gross profit	4,750,887	5,102,227	9,853,114
Interest on bank indebtedness	69,213	804,124	873,337
Depreciation and amortization	347,713	787,968	1,135,681
Additions of property, plant and equipment and intangible assets	281,486	1,460,637	1,742,123
Fair value of property, plant and equipment acquired on purchase of BYV	-	1,470,000	1,470,000

	<u>Statement of financial position balances as at</u> <u>March 31, 2019</u>		
Intangible assets	1,055,060	2,100,081	3,155,141
Total assets	6,927,878	38,807,301	45,735,179
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.

DIAMOND ESTATES WINES & SPIRITS INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED DECEMBER 31, 2019 AND 2018
(Unaudited - Prepared by Management)

8. **SEGMENTED INFORMATION, CONTINUED**

Geographic information	December 2019	December 2018
<i>Revenue</i>		
Canada	\$ 20,061,227	\$ 18,602,093
China and other	<u>1,346,411</u>	<u>4,983,888</u>
	<u>\$ 21,407,638</u>	<u>\$ 23,585,981</u>

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.