DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2024 AND 2023

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The following management discussion and analysis ("MD&A") of Diamond Estates Wines & Spirits Inc. ("Diamond" or "the Company") provides a review of corporate developments, results of operations and financial position for the three and six months ended September 30, 2024 ("Q2 2025" and "YTD 2025" respectively) compared with the corresponding periods ended September 30, 2023 ("Q2 2024" and "YTD 2024" respectively). This discussion is prepared as of November 28, 2024 and should be read in conjunction with (i) the unaudited interim condensed consolidated financial statements and the accompanying notes for the three and six months ended September 30, 2024 and 2023, and (ii) both the audited consolidated financial statements and MD&A for the fiscal years ended March 31, 2024 and March 31, 2023. The financial years ending March 31, 2025 and March 31, 2024 are referred to as "fiscal 2025 and "fiscal 2024" respectively. Additional information regarding Diamond is available on Diamond's SEDAR profile at www.sedar.com. The results reported in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars, which is the Company's functional currency.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements. Forward-looking statements can often be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such forward-looking statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, the ability of the Company to obtain necessary financing, the economy generally, conditions in the target market of the Company, consumer interest in the services and products of the Company, competition and anticipated and unanticipated costs. Such statements could also be materially affected by environmental regulation, liquor regulation, taxation policies, competition, the lack of available and qualified personnel or management, stock market volatility and the ability to access sufficient capital from internal or external sources. Actual results, performance or achievement could differ materially from those expressed herein. While the Company anticipates that subsequent events and developments may cause its views to change, the Company specifically disclaims any obligation to update these forward-looking statements, except as required by applicable law. These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to the date of this MD&A. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. Readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the Company.

Detailed information on risks and uncertainties is provided in the "Uncertainties and Principal Risk Factors" section of the annual MD&A for the year ended March 31, 2024.

COMPANY OVERVIEW

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

Through its commercial division, Trajectory Beverage Partners, the Company is the sales agent for many leading international brands in all regions of the country as well as being a distributor in the western provinces. These recognizable brands include Fat Bastard, Meffre, Pierre Chavin and Andre Lurton wines from France, Brimincourt Champagne from France, Merlet and Larsen Cognacs from France, Kaiken wines from Argentina, Blue Nun and Erben wines from Germany, Calabria Family Estate Wines and McWilliams Wines from Australia, Saint Clair Family Estate Wines and Yealands Family Wines from New Zealand, Storywood and Cofradia Tequilas from Mexico, Maverick Distillery spirits (including Tag Vodka and Barnburner Whisky) from Ontario, Talamonti and Cielo wines from Italy, Catedral and Cabeca de Toiro wines from Portugal, Edinburgh Gin, Tamdhu, Glengoyne and Smokehead single-malt Scotch whiskies from Scotland, Islay Mist, Grand MacNish and Waterproof whiskies from Scotland, C. Mondavi & Family wines including C.K Mondavi & Charles Krug from Napa and Hounds Vodka from Canada, Bols Vodka from Amsterdam, Koyle Family Wines from Chile, Pearse Lyons whiskies and gins from Ireland and McCormick Distilling International including Tequila Rose Strawberry Cream, Five Farms Irish Cream Liqueur, Broker's Gin, Hussong's Tequila, Tarantula Tequila, 360 Vodka and Holliday Bourbon.

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

The Company is committed to achieving its sales objectives through its distribution network, which is focused on the provincial liquor boards, licensed restaurants and bars, grocery chains, Diamond's four retail locations, direct-to-consumer and export channels. This distribution network is supported by enhanced sales, marketing and promotional programs. To ensure the Company strives to maintain an adequate level of liquidity, including compliance with future debt covenants, the Company continues to maintain a strategic review process that engages in actions designed to reduce the cost structure, improve productivity and enhance future cash flow. In addition, the Company is also focused on maintaining on-going funding support from BMO, shareholders and the sale of non-strategic assets to fund future operations.

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RECENT EVENTS AND 2025 Q1 HIGHLIGHTS

- Revenue for Q2 2025 was $7.7 million, a decrease of $0.1 million from $7.8 million in Q2 2024. The Winery division experienced an increase in sales of $2.4 million while the Agency division experienced a decrease of $2.4 million. The increase in sales in the Winery division is largely attributable to $0.9 million in sales from DPTB, $0.5 million increase in sales of all other brands and the remainder is from the VQA wine support program. The increase in sales is a direct result of the Ontario's government announcement to expand the marketplace to convenience, grocery and big-box stores. The decrease in the Agency division was primarily driven by the loss of a key supplier in the prior year in the amount of $2.1 million and the sale of Western Canada operations to Renaissance in August, 2024.
- Gross margin[1] as a percentage of revenue was 53.9% for Q2 2025 compared to 39.6% in Q2 2024 and gross margin increased $1.1 million, from $3.1 million in Q2 2024 to $4.2 million for Q2 2025. The Winery division experienced an increase of $1.5 million while the Agency declined by $0.4 million. The gross margin in the Winery division increased from 43.7% in Q2 2024 to 51.0% in Q2 2025 as a result of the VQA Wine support program and general margin increases across various skus. The gross margin at the Agency increased from 33.9% in Q2 2024 to 76.4% in Q2 2025 due to the sale of Western Canada operations to Renaissance in August, 2024 and the increase in commissions sales compared to third party wines and spirits.
- Adjusted EBITDA[1] increased by $1.3 million to positive $0.5 million in Q2 2025 from a negative $0.8 million in Q2 2024. Adjusted EBITDA increases are attributed to improving gross margins in the Winery division and an overall decrease in SG&A expenses of $0.2 million compared to the prior year.
- In May, 2024, the Company agreed to purchase D'Ont Poke the Bear("DPTB") inventory from Generations Wine Company Limited and entered into a licensing agreement to sell DPTB products with 3346625 Canada Inc., a corporation controlled by Mr. Pierre-Paul Lassonde.
- In May, 2024, the Ontario government updated to its December 2023 announcement with respect to significant policies and changes to an existing program intended to provide economic support for the Ontario wine industry for a period of five years. Under the revised Ontario VQA Support Program, the Company recorded $1.8 million for the six-month ended September 30, 2024.
- In May, 2024, the Ontario government also announced its commitment to expand the province's alcohol beverage marketplace. By the end of October 2024, all eligible convenience, grocery and big-box store in Ontario will be able to sell beer, cider, wine and ready-to-drink alcoholic beverages
- In June, 2024, in accordance with the terms of an agreement with Renaissance Wine Merchants, TBP gave written notice to exercise a put option to sell its Western Canada operations. To date, the Company has received $1.4 million with respect to inventory and expects to receive an additional $0.8 million with respect to its intangible assets. The transaction has resulted in a gain on sale of $0.5 million.
- In July, 2024, the Company closed on a non-brokered private placement of 11,466,065 shares at $0.20 per share for total proceeds of $2.3 million, all of which were used for general working capital purposes.
- In July, 2024, the Company issued 730,480 common shares for deemed proceeds of $145,519 after conversion of debentures with a face value of $125,000 and related accrued interest.

[1] *See definition of selected terms under the heading "Non-IFRS Financial Measures"*

- As of the end of Q2 2025, the non-revolving term loan has been paid down from the inventory proceeds of $1.4 million in August, 2024 from the Renaissance transaction, the VQA Wine Support Program of $2.1 million in July, 2024, and the net proceeds of $3.3 million from the Queenston Mile property sale that closed in February, 2024.
- In October, 2024, the Company closed on the acquisition of certain assets from the Perigon Beverage Group. More specifically, Diamond has purchased the agency and supplier contracts, the intellectual property, and other intangible assets of Perigon and its agency business, such as its website, customer lists, business names and inventory. The purchase price is $1.8 million based on Perigon's latest financial results to be satisfied through the issuance of common shares of Diamond over the next eighteen months.
- In November, 2024, the Company replaced the $4.8 million of 2023 Replacement Debentures with new debentures (the "2024 Replacement Debentures"). The material terms of the 2024 Replacement Debentures are the same as the 2023 Replacement Debentures, other than (i) the conversion price, which is now $0.24, and (ii) the maturity date, which is now November 9, 2025.
- In November, 2024, the Company entered into a further amendment to its Second Amended and Restated Credit Agreement (the "SARCA") with Bank of Montreal ("BMO"), the notable terms of which were (i) the establishment of a non-revolving credit facility in the amount of $2,500,000 ("Demand NRT Facility"), (ii) the non-revolving term credit facility previously available in the amount of $8.7 million has been reduced to $3.0 million, and (iii) a limited recourse guarantee granted by Lassonde Industries Inc. in favour of BMO on the Demand NRT Facility.

GOING CONCERN

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

Net loss and comprehensive loss for YTD 2025 was $1.8 million (YTD 2024 - $4.8 million). Additionally, the Company reported negative cash flow from operations (before changes in non-cash working capital) of $0.7 million in YTD 2025 (YTD 2024 - $2.9 million). As at September 30, 2024, the Company had an accumulated deficit of $34.6 million (March 31, 2024 - $32.7 million) and a working capital deficiency of $0.1 million (March 31, 2024 - $2.4 million).

As of November 14, 2023, the Company entered into a second amendment to its Second Amended and Restated Credit Agreement (the "SARCA") with Bank of Montreal ("BMO"), whereby the lender consented to waiving the requirements of the fixed charge coverage ratio ("FCCR") covenant to the end of fiscal 2024. Based on the results for the three months ended June 30, 2024, the Company estimates that it will be in breach of its quarterly fixed charge covenant under the terms of its current credit agreement for which the Company has yet to receive a waiver. As of September 30, 2024, the Company has debt repayment requirements of $20.7 million over the next twelve months, including all its non-revolving term loans due by May 31, 2024, the current portion of its lease liabilities, the principal amount of the debentures payable plus accrued interest due by November 9, 2024, as well as annual seasonal grape purchase commitments in the fall of 2024. These circumstances lend significant doubt as to the ability of the Company to continue as a going concern and, accordingly, the appropriateness ultimately of the use of accounting principles applicable to the going concern assumption.

In response to the recurring operating losses, negative cash flows from operating activities, and loss of a significant supplier, the Company is taking a number of actions to enhance its financial flexibility, to meet its obligations and to fund its ongoing business operations. This has been evidenced by the November, 2023 private placement for net cash proceeds of $8.2 million, the July, 2025 private placement for net proceeds of $2.3 million, the debenture financing of $4.9 million arranged in November, 2022 and its subsequent rollover, the sale of Queenston Mile Vineyard in February, 2024 for net proceeds of $3.3 million and the other assets held for sale, the agreement with Renaissance and execution of the put option for total proceeds of $2.3 million, the updated credit agreement with BMO, and significant progress on its debt reduction initiatives. To ensure the Company maintains an adequate level of liquidity, including compliance with debt covenants, the Company continues to maintain a strategic review process that engages in actions designed to reduce the cost structure, improve productivity and enhance future cash flow.

The Company's ability to meet the covenant measurements under the terms of its credit agreements with its lenders is still dependent upon profitable commercial operations, divestiture of non-strategic assets, continued funding support from BMO and shareholders, and new equity and debt placements. However, there can be no assurance that management will be successful in this regard. These unaudited interim condensed consolidated financial statements do not include any adjustments to the carrying value of assets or liabilities, to the recoverable amounts or the reported expenses and consolidated statement of financial position classifications that would be necessary if the going concern assumption were inappropriate, and these adjustments could be material.

QUARTERLY PERFORMANCE

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

	Sep-2024 Q2 2025 $	Jun-2024 Q1 2025 $	Mar-2024 Q4 2024 $	Dec-2023 Q3 2024 $	Sep-2023 Q2 2024 $	Jun-2023 Q2 2024 $	Mar-2023 Q4 2023 $	Dec-2022 Q3 2023 $
Balance sheet								
Working capital surplus (deficiency)	(99,350)	(3,285,654)	(2,394,660)	9,610,860	(5,612,407)	3,745,468	(7,983,033)	19,150,127
Term debt, lease liabilities and debentures payable	18,284,616	23,153,429	22,183,891	24,726,782	30,468,256	30,778,356	32,380,546	30,653,735
Total equity	21,639,419	18,952,346	20,896,431	21,511,786	17,674,174	19,909,461	22,289,793	26,526,485
Income statement								
Revenue	7,715,463	6,171,781	5,500,120	7,320,640	7,773,184	7,911,196	5,916,596	9,109,426
Gross margin	4,157,914	2,762,287	3,704,311	1,916,636	3,076,500	2,909,116	247,367	3,780,582
EBITDA	1,045,174	(1,099,239)	424,220	(4,066,632)	979,291	(54,063)	(3,441,296)	23,877
Adjusted EBITDA	520,353	(330,147)	1,711,323	(1,738,354)	(761,365)	(895,430)	(670,322)	(73,846)
Net income (loss)	190,449	(2,017,779)	(679,394)	(5,162,568)	(2,346,353)	(2,464,079)	(4,367,725)	(1,177,624)
Basic income (loss) per share	0.00	(0.04)	(0.01)	(0.14)	(0.08)	(0.09)	(0.16)	(0.04)

[1] *See definition of selected terms under the heading "Non-IFRS Financial Measures"*

RESULTS OF OPERATIONS

	Q2 2025	YTD 2025	Q2 2024	YTD 2024
Revenue	**$ 7,715,463**	**$ 13,887,244**	$ 7,773,184	$ 15,684,380
Cost of sales	**3,557,549**	**6,967,043**	4,696,684	9,698,764
Gross margin	**4,157,914**	**6,920,201**	3,076,500	5,985,616
Gross margin (% of revenue)	***53.9%***	***49.8%***	*39.6%*	*38.2%*
Selling, general and administration expenses	**3,707,675**	**6,899,080**	3,899,108	7,742,993
SG&A expenses (% of revenue)	***48.1%***	***49.7%***	*50.2%*	*49.4%*
Earnings (loss) from operations	**450,239**	**21,121**	(822,608)	(1,757,377)
Impairment charge - sale of assets	**-**	**410,000**	-	-
Change in fair value of derivative liability	**(200,388)**	**(253,034)**	203,235	285,916
Restructuring charge	**38,700**	**79,532**	-	-
Loss on de-recognition of ROU asset	**-**	**198,240**	-	-
Gain on disposition of right-of-use assets	**-**	**-**	(157,621)	(189,657)
Gain on disposition of intangible assets	**(501,137)**	**(501,137)**	-	-
Share based compensation	**67,890**	**141,583**	111,066	194,813
EBITDA	**1,045,174**	**(54,063)**	(979,288)	(2,048,449)
Interest and accretion	**539,316**	**1,123,262**	997,045	1,954,108
Depreciation and amortization	**315,409**	**650,002**	370,020	807,875
Net income loss) and comprehensive income (loss)	**$ 190,449**	**$ (1,827,327)**	$ (2,346,353)	$ (4,810,432)

[1] *See definition of selected terms under the heading "Non-IFRS Financial Measures"*

Revenue for Q2 2025 was $7.7 million, a decrease of $0.1 million, from $7.8 million in Q2 2024. The Winery division experienced an increase in sales of $2.3 million while the Agency division experienced a decrease of $2.4 million. The increase in sales in the Winery division is largely attributable to $0.9 million in sales from DPTB, $0.5 million increase in sales of all other brands and the remainder is from the VQA wine support program. The increase in sales is a direct result of the Ontario's government announcement to expand the marketplace to convenience, grocery and big-box stores. The decrease in the Agency division was primarily driven by the loss of a key supplier in the prior year in the amount of $2.1 million and the sale of Western Canada operations to Renaissance in August, 2024.

Gross margin[1] as a percentage of revenue was 53.9% for Q2 2025 compared to 39.6% in Q2 2024, and gross margin increased $1.1 million from $3.1 million in Q2 2024 to $4.2 million for Q2 2025. The Winery division experienced an increase of $1.5 million while the Agency declined by $0.4 million. The gross margin in the Winery division increased from 43.7% in Q2 2024 to 51.0% in Q2 2025 as a result of the VQA Wine support program and general margin increases across various skus. The gross margin at the Agency increased from 33.9% in Q2 2024 to 76.4% in Q2 2025 due to the sale of Western Canada operations to Renaissance in August, 2024 and the increase in higher commissions based sales.

Total SG&A expenses for Q2 2025 were $3.7 million, a decrease of $0.2 million, from $3.9 million in Q2 2024, and decreased as a percentage of sales from 50.2% in Q2 2024 to 48.1% in Q2 2025. The decline in Q2 2025 is directly related to a decline in employee compensation of $0.3 million.

Earnings from operations for Q2 2025 was $0.5 million compared to a loss from operations in Q2 2024 of $0.8 million, an increase in profitability of $1.3 million. The increase is mostly the result of improving gross margin in the Winery division and an overall decrease in SG&A expenses of $0.2 million compared to the prior year.

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 net loss and comprehensive loss. The fair value of that embedded derivative as at September 30, 2024 was $1,628,193, a decrease of $200,388 that was recognized as income during the three months ended September 30, 2024.

In August, 2024, the Company closed on an agreement to sell its Western Canada operations of the Agency division to Renaissance Wine Merchants for gross proceeds of $2.2 million. Inventory proceeds of $1.4 million were received in August, 2024 and applied against the Company non-revolving term loan. The proceeds on the distribution rights (based on the forecasted future gross margins of the Western Canada operations) are estimated to be $0.8 million. After deducting the remaining book value of the TBP distribution rights of $0.3 million, the Company has recorded an estimated gain on sale of $0.5 million.

EBITDA increased by $2.0 million to positive $1.0 million in Q2 2025 from a negative $1.0 million in Q2 2024. Adjusted EBITDA[1] increased by $1.3 million to positive $0.5 million in Q2 2025 from a negative $0.8 million in Q2 2024. Both EBITDA and Adjusted EBITDA[1] increases are attributed to improving gross margins in the Winery division and an overall decrease in SG&A expenses of $0.2 million compared to the prior year.

Interest and accretion expense for Q2 2025 was $0.5 million, a decrease of $0.5 million, from $1.0 million in Q2 2024. The decrease arose from a decline in accretion of $0.2 million on the convertible debentures, and a $0.3 million decrease in interest expense from a decrease in the amounts borrowed under the BMO credit facility. Depreciation and amortization expense for Q2 2025 was $0.3 million compared to $0.4 million in Q2 2024.

Net income for Q2 2025 was $0.2 million compared to a net loss of $2.3 million in Q2 2024. The increase in profitability is mainly due to (i) the increase in gross margin of $1.1 million, (ii) the decrease in interest and accretion expense of $0.5 million, (iii) a gain on sale of the intangible assets from the Renaissance transaction of $0.5 million, and (iv) a comparative gain on the change of the fair value of the derivative liability of $0.4 million.

LIQUIDITY AND CAPITAL RESOURCES

	September 30, 2024			March 31, 2024		
ASSETS	As reported	Assets held for sale	Adjusted	As reported	Assets held for sale	Adjusted
Accounts receivable	$ 6,574,245	$ 15,728	$ 6,589,973	$ 4,814,940	$ 29,100	$ 4,844,040
Inventory	14,853,876	2,013,730	16,867,606	18,317,266	2,329,701	20,646,967
Biological assets	150,887	-	150,887	-	-	-
Prepaid expenses	997,723	38,495	1,036,218	904,557	40,240	944,797
Asset held for resale	3,923,369	(3,923,369)	-	4,663,957	(4,663,957)	-
Mortgage receivable	500,000	-	500,000	-	-	-
Current portion of finance lease receivable	56,755	-	56,755	-	-	-
	27,056,855	(1,855,416)	25,201,439	28,700,720	(2,264,916)	26,435,804
Mortgage receivable	-	-	-	500,000	-	500,000
Finance lease receivable	207,963	-	207,963	-	-	-
Property, plant and equipment	17,761,207	727,172	18,488,379	18,158,973	1,136,672	19,295,645
Right of use assets	825,093	896,984	1,722,077	1,360,981	896,984	2,257,965
Intangible assets	3,490,568	231,260	3,721,828	3,872,361	231,260	4,103,621
	$ 49,341,686	$ -	$ 49,341,686	$ 52,593,035	$ -	$ 52,593,035
LIABILITIES						
Accounts payable and accrued liabilities	$ 6,766,992	$ 143,921	$ 6,910,913	$ 6,507,814	$ 193,752	$ 6,701,566
Current portion of term loans payable and lease liabilities	13,025,550	105,461	13,131,011	16,931,130	104,102	17,035,232
Debentures payable	4,713,004	-	4,713,004	4,651,537	-	4,651,537
Derivative liability	1,628,193	-	1,628,193	1,881,227	-	1,881,227
Liabilities held for sale	1,022,466	(1,022,466)	-	1,123,672	(1,123,672)	-
	27,156,205	(773,084)	26,383,121	31,095,380	(825,818)	30,269,562
Lease liabilities, net of current portion	546,062	773,084	1,319,146	601,224	825,818	1,427,042
	27,702,267	-	27,702,267	31,696,604	-	31,696,604
SHAREHOLDERS' EQUITY	21,639,419	-	21,639,419	20,896,431	-	20,896,431
	$ 49,341,686	$ -	$ 49,341,686	$ 52,593,035	$ -	$ 52,593,035

The Company has modified the presentation of the unaudited interim condensed consolidated statement of financial position as at September 30, 2024 and March 31, 2024 to include columns to allocate the assets (liabilities) held for sale back to their equivalent presentation as if the assets (liabilities) were not held for sale. This is presented as a supplementary non-IFRS financial measure to provide users with more meaningful comparative balances and to better illustrate the impact on working capital of the reclassification of assets held for sale.

Liquidity risk is the risk that the Company may encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or damage to the Company's reputation. To ensure the Company maintains an adequate level of liquidity, including compliance with debt covenants, the Company maintains a strategic review process that engages in actions designed to reduce the cost structure, improve productivity and enhance future cash flow *(see further discussion in "Going Concern" section above)*;

Working capital deficiency, modified to reflect reclassification of assets (liabilities) held for sale *(see further discussion below),* decreased by $2.6 million to negative $1.2 million as at September 30, 2024 from negative $3.8 million as at March 31, 2024, mostly resulting from the private placement that closed in July, 2024 for net proceeds of $2.3 million.

As at September 30, 2024, the Company has classified certain operating assets (and associated liabilities) detailed below netting to $2.9 million as assets held for sale. Management is pursuing an active program to locate a buyer and intends to sell the remaining assets within one year of the reporting date, having already sold the previously similarly classified Queenston Mile Vineyard winery in February, 2024. Based on a management estimate, an impairment provision of $0.4 million has been recognized as at June 30, 2024 relating to the property, plant and equipment.

	September 30, 2024	March 31, 2024
Assets held for sale		
Accounts receivable	**$ 15,728**	$ 29,100
Inventory	**2,013,730**	2,329,701
Prepaid expenses	**38,495**	40,240
Property, plant and equipment	**727,172**	1,136,672
Right-of-use assets	**896,984**	896,984
Intangible assets	**231,260**	231,260
	3,923,369	4,663,957
Liabilities held for sale		
Accounts payable and accrued liabilities	**143,921**	193,752
Lease liability	**878,545**	929,920
	1,022,466	1,123,672
Net assets held for sale	**$ 2,900,903**	3,540,285

Accounts receivable of $6.6 million as at September 30, 2024 increased by $1.8 million from $4.8 million as at March 31, 2024 resulting from accruals under the VQA program of $1.9 million and the remaining estimated proceeds of $0.8 million due from the Renaissance transaction.

The inventory balance was $16.9 million as at September 30, 2024, a decrease of $3.7 million from $20.6 million as at March 31, 2024. The decrease in the inventory balance is largely attributable to the increase in sales experienced at the Winery Division from the Ontario's government announcement to expand the marketplace to convenience, grocery and big-box stores and $1.4 million is related to the Renaissance transaction.

Property, plant and equipment of $18.5 million as at September 30, 2024 decreased by $0.8 million from $19.3 million as at March 31, 2024 due to depreciation of $0.5 million taken in Q2 2025 and an impairment provision of $0.4 million recognized on property, plant and equipment included in assets held for sale.

Right-of-use assets of $1.7 million as at September 30, 2024 decreased by $0.6 million compared to $2.3 million as at March 31, 2024. As a result of the sub-lease of office premises in Oakville, Ontario in June, 2024, the Company de-recognized the right-of-use asset relating to the head lease carried at $0.5 million and recognized the net investment in the sub-lease of $0.3 million, resulting in a loss on derecognition of $0.2 million.

Accounts payable and accrued liabilities of $6.9 million as at September 30, 2024 increased by $0.2 million compared to $6.7 million as at March 31, 2024 due to an increase in trade payables of the same amount.

The BMO credit facilities are governed under the terms of the SARCA and include a non-revolving term loan a revolving operating line, the total of which was $12.7 million as at September 30, 2024, a decrease of $3.9 million from $16.6 million as at September 30, 2024. The decrease resulted from a paydown of the non-revolver of $3.9 million during YTD 2025, sourced from the $2.2 million private placement in July, 2024 the inventory proceeds of $1.4 million from the Renaissance transaction in August, 2024.

On November 14, 2023, the Company entered into a second amendment to its SARCA with BMO. The notable terms of the amendment are as follows:

i. **Maturity date**: extension of the maturity date to January 2, 2025.
ii. **Credit limits:** as a result of the repayment of obligations with the use of proceeds from the financing, credit limits have decreased as follows:
   - on the revolving term loan from $14.4 million to $11.4 million, and
   - the non-revolving term loan from $10.8 million to $8.8 million, reducing to $Nil by May 31, 2024
iii. **Proceeds from recent financing**: the entire net cash proceeds from the recent financing of approximately $8.25 million must be entirely applied to reduce (in certain amounts) each of the non-revolving term loan, the revolving term loan, and the BCAP term loan
iv. **Revolving term loan**: any excess of the revolving term loan over the borrowing base has to be cured within 10 business days of such occurrence with a shareholder contribution of equity, including common shares, convertible debentures, or other equity-type funding
v. **Non-revolving term loan:** the non-revolving term loan has been paid down from the inventory proceeds of $1.4 million in August, 2024 from the Renaissance transaction, the VQA Wine Support Program of $2.1 million in July, 2024, the net proceeds of the private placement of $2.2 million in July, 2024, and the net proceeds of $3.3 million from the Queenston Mile property sale that closed in February, 2024.
vi. **Lassonde debt:** accounts payable to Lassonde, incurred through ordinary course business transactions, cannot exceed $1 million.
vii. **Borrowing margins**: calculation of borrowing margins will use a new formula based on net orderly liquidation values, starting with a fixed margin of $2.5 million (subject to meeting certain appraisal conditions).
i. **Covenant waiver:** The Amendment also provides a waiver of the Company's fixed charges ratios through to the end of its fiscal year 2024. Based on the results for the three months ended September 30, 2024, the Company estimates that it will be in breach of its quarterly fixed charge covenant under the terms of its current credit agreement for which the Company has yet to receive a waiver.

On November 21, 2024, the Company announced that it entered into a further amendment (the "Third Amendment") to its SARCA with BMO *(see further discussion in "Subsequent Events" section below).*

On November 9, 2023, all of the remaining and outstanding $4.9 million of 10.0% unsecured convertible debentures were rolled over into new one-year convertible debentures with similar terms and market interest rate, and a conversion price based on the then current trading price of $0.30 per common share. Certain insiders of the Company, including Lassonde and a related company controlled by its chairman, subscribed for $3.4 million of the total placement. The debentures mature one year from their date of issuance, being November 9, 2023, unless the holder requests to accelerate the maturity date in the event the Company completes an equity financing within the next 12 months. The debentures are convertible at the holder's option into common shares of the Company from the date of issuance until the maturity date at the new conversion price of $0.30. If repayment of the debentures on the maturity date would constitute non-compliance by the Company under its senior borrowing obligations, the holder has the option to convert at the conversion price, or to roll the obligations over into new one-year debentures, on similar terms to be negotiated, subject to TSXV approval.

The convertible debentures have been accounted for as a compound financial instrument under IAS 32 - Financial Instruments and have both a liability and an embedded derivative component. The convertible debentures were initially recognized on November 9, 2023 with a fair value of $4.6 million less estimated transaction costs of $0.05 million. After redemption of convertible debentures with a face value of $0.1 million and recording accretion on the debenture payable of $0.2 million in Q2 2025, the carrying value of the debenture as at September 30, 2024 was $4.7 million. Interest payable on the convertible debentures in the amount of $0.2 million was accrued during Q2 2025, such that a total of $0.9 million in interest payable has been accrued on both the original and renewed convertible debentures up to September 30, 2024, and is included in accounts payable and accrued liabilities.

The embedded derivative has been separated as a FVTPL instrument and is re-measured at each reporting period with subsequent changes in fair value recorded in the unaudited interim condensed consolidated statements of net loss and comprehensive loss. The fair value of the embedded derivative of the renewed convertible debentures as at September 30, 2024 of $1.6 million has decreased by $0.3 million compared to the fair value as at March 31, 2024 of $1.9 million, with the change being recognized as income in Q2 2025.

The following table outlines the Company's contractual obligations as at September 30, 2024:

	<1 year	**2-3 years**	**4-5 years**	**>5 years**	**Total**
			$ (000's)		
Accounts payable and accrued liabilities and liabilities held for sale	7,789	-	-	-	7,789
Term loans payable	12,734	-	-	-	12,734
Lease liabilities	413	360	208	-	981
Debentures payable	5,660	-	-	-	5,660
Purchase contracts for grapes, packaging and other raw materials	2,000	2,000	-	-	4,000
Total contractual obligations	28,596	2,360	208	-	31,164

The Company's debt to equity ratio decreased to 0.96:1 as at September 30, 2024 from 1.21:1 as at March 31, 2024, where debt is defined as total liabilities less accounts payable and accrued liabilities, and equity is defined as shareholders' equity. This decrease is due to the equity financing detailed above.

CAPITALIZATION

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

	September 30, 2024	**March 31, 2024**	**Change in reporting period**
Common shares	60,254,663	48,058,118	12,196,545
Stock options	1,200,000	1,200,000	-
Deferred share units	1,575,320	1,178,538	396,782
Warrants	5,269,465	5,269,465	-
Convertible debentures	15,863,333	16,280,000	(416,667)
Total equity instruments	84,162,781	71,986,121	12,176,660

During the six months ended September 30, 2024, the Company had the following changes to its capitalization:

In July, 2024, the Company closed a fully subscribed non-brokered private placement through the issuance of 11,466,065 common shares, of which Lassonde and a company related to it subscribed for 9,000,000. In August, 2024, the Company issued 730,480 common after conversion of debentures with a face value of $125,000 and related accrued interest payable.

There were no issuances, exercises, terminations or expiries for either stock options or warrants.

In May, 2024, the Company issued an aggregate of 232,894 DSUs in settlement of $44,250 of previously accrued deferred directors compensation. In August, 2024, the Company issued a further 163,888 DSUs in settlement of $44,250 of previously accrued deferred directors compensation.

The aggregate common shares issuable on conversion of the debentures declined by 416,667 due to a partial conversion of debentures with a face value of $125,000 in July, 2024.

SUBSEQUENT EVENTS

Warrants

In October, 2024, a total of 5,119,465 warrants issued in October, 2021 as part of the Equity Wine Group acquisition expired unexercised.

Deferred share units ("DSUs)

In October, 2024, the Company issued an aggregate of 184,374 DSUs in settlement of $44,250 of previously accrued deferred directors compensation.

Wine Sector Support Program

In October, 2024, the Company signed an agreement to receive the $841,000 under the program, none of which has been accrued as of September 30, 2024.

Perigon Beverage Group acquisition

In October, 2024, the Company closed on the acquisition of certain assets from the Perigon Beverage Group ("Perigon"). More specifically, Diamond has purchased the agency and supplier contracts, the intellectual property, and other intangible assets of Perigon and its agency business, such as its website, customer lists, business names and inventory. The purchase price is $1.8 million based on Perigon's latest financial results. The purchase price will be satisfied by the issuance of common shares of Diamond in four tranches as follows: 5,000,000 common shares of Diamond have been issued at a deemed issuance price of $0.26 per share, and thereafter an additional amount of shares having a value of approximately $0.5 million issuable in three equal installments payable every six months over the eighteen month period following closing, subject to certain adjustments based upon the achievement of gross margin targets.

Replacement debentures

On November 11, 2024, the Company replaced the $4.759 million of 2023 Replacement Debentures with new debentures (the "2024 Replacement Debentures"). Certain insiders of the Company, including Lassonde and a related company controlled by its chairman, have maintained their subscriptions for $3.35 million of the total placement. The material terms of the 2024 Replacement Debentures are the same as the 2023 Replacement Debentures, other than (i) the conversion price, which is now $0.24, and (ii) the maturity date, which is now November 9, 2025.

BMO credit facility amendment

On November 21, 2024, the Company announced that effective as of November 15, 2024, it entered into a further amendment (the "Third Amendment") to its SARCA with BMO. The notable terms of the Third Amendment are as follows:

Credit Facilities: The establishment of a non-revolving credit facility (the "Demand NRT Facility") in the amount of $2,500,000 of which matures on the date that is the earlier of: (a) the date BMO demands repayment of all outstanding secured obligations under the Demand NRT Facility; (b) the date on which the Lender is satisfied that the VQA rebate for the 2025 fiscal year has been received by the Company; (c) the fully drawn amount under the Demand NRT Facility is prepaid by the Company; and (d) July 31, 2025.
Credit Facilities: The non-revolving term credit facility (the "NRT Facility") previously available in the amount of $8,673,000 has been reduced to $2,982,118.
Lassonde Limited Guarantee: The addition of a limited recourse guarantee granted by Lassonde Industries Inc., in favour of BMO in an aggregate amount not exceeding the Demand NRT Facility secured obligations under the SARCA.
Interest Rates: The interest rates in respect of the following facilities have been amended to now be as follows:

- the alternate base rate of Canada plus 2.40% in respect of each Base Rate Canada Loan under the RT Facility;
- the alternate base rate of Canada plus 2.65% in respect of each Base Rate Canada Loan under the NRT Facility; and
- the prime rate plus 3.15% in respect of each Prime Rate Loan under the Demand NRT Facility.

All other terms of the SARCA, as amended, remain in full force and effect.

NON-IFRS FINANCIAL MEASURES

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

Gross margin, EBITDA and Adjusted EBITDA are supplemental financial measures to further assist readers in assessing the Company's ability to generate income from operations before considering the Company's financing decisions, depreciation of property, plant and equipment and amortization of intangible assets. EBITDA comprises gross margin less operating costs before financial expenses, depreciation and amortization, non-cash expenses such as share-based compensation, one-time and other unusual items, and income tax. Adjusted EBITDA comprises EBITDA before non-recurring expenses including cost of sales adjustments related to inventory acquired in business combinations, EWG transaction costs expensed, cost of sales adjustments to fixed production overheads, and other non-recurring adjustments included in the calculation of EBITDA. Gross margin is defined as gross profit excluding depreciation on property, plant and equipment used in production. Operating expenses exclude interest, depreciation on property, plant and equipment used in selling and administration, and amortization of intangible assets.

EBITDA does not represent the actual cash provided by the operating activities nor is it a recognized measure of financial performance under IFRS. Readers are cautioned that this measure should not be considered as a replacement for those as per the unaudited interim condensed consolidated financial statements prepared under IFRS. The Company's definitions of this non-IFRS financial measure may differ from those used by other companies.

The Company calculates gross margin as follows:

	Q2 2025	YTD 2025	Q2 2024	YTD 2024
	$	$	$	$
Revenue	**7,715,463**	**13,887,244**	7,773,184	15,684,380
Cost of sales				
Change in inventories of finished goods and raw materials consumed	**3,557,549**	**6,967,043**	4,696,684	9,698,764
Depreciation	**147,621**	**316,556**	176,269	337,970
Gross profit	**4,010,293**	**6,603,645**	2,900,231	5,647,646
Exclude depreciation	**147,621**	**316,556**	176,269	337,970
Gross margin	**4,157,914**	**6,920,201**	3,076,500	5,985,616
Gross margin (% of revenue)	***53.9%***	***49.8%***	*39.6%*	*38.2%*

The Company calculates EBITDA and Adjusted EBITDA as follows:

	Q2 2025	YTD 2025	Q2 2024	YTD 2024
	$	$	$	$
Net income (loss) for period	**190,449**	**(1,827,327)**	(2,346,353)	(4,810,432)
Interest and accretion	**539,316**	**1,123,262**	997,045	1,954,108
Depreciation and amortization	**315,409**	**650,002**	370,020	807,875
EBITDA	**1,045,174**	**(54,063)**	(979,288)	(2,048,449)
Impairment charge - intangible assets	**-**	**410,000**	-	-
Change in fair value of derivative liability	**(200,388)**	**(253,034)**	203,235	285,916
Restructuring charge	**38,700**	**79,532**	-	-
Loss on de-recognition of ROU asset	**-**	**198,240**	-	-
Gain on disposition of right-of-use assets	**-**	**-**	(157,621)	(189,657)
Gain on disposition of intangible assets	**(501,137)**	**(501,137)**	-	-
Share-based compensation	**67,890**	**141,583**	111,066	194,813
Cost of goods sold adjustments for fair value of EWG inventories sold	**70,114**	**135,850**	61,243	91,173
Adjusted EBITDA	**520,353**	**156,971**	(761,365)	(1,666,204)

RECENT ACCOUNTING PRONOUNCEMENTS

Recently adopted accounting pronouncement

IAS 1 "Presentation of Financial Statements"
This standard has been amended to clarify the classification of liabilities as current or non- current depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. The amendment also clarifies the meaning of settlement of a liability. The standard has also been amended to specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Instead, the amendments require a company to disclose information about these covenants in the notes to the financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. The adoption of the amendment did not have a significant impact on the unaudited interim condensed consolidated financial statements.

Recently issued accounting pronouncements

IFRS 18 "Presentation and Disclosure in Financial Statements"

In April 2024, IFRS 18 was issued to achieve comparability of the financial performance of similar entities. The standard, which replaces IAS 1, impacts the presentation of primary financial statements and notes, including the statement of earnings where companies will be required to present separate categories of income and expense for operating, investing, and financing activities with prescribed subtotals for each new category. The standard will also require management-defined performance measures to be explained and included in a separate note within the consolidated financial statements. The standard is effective for annual reporting periods beginning on or after January 1, 2027, including interim financial statements, and requires retrospective application. The Company has not yet assessed the impact of the amendment on the unaudited interim condensed consolidated financial statements.

IFRS 9 and IFRS 7, Amendments to the Classification and Measurement of Financial Instruments

In May 2024, both IFRS 9 and IFRS 7 were amended to clarify that a financial liability is derecognized on the 'settlement date' and introduce an accounting policy choice to derecognize financial liabilities settled using an electronic payment system before the settlement date. Other clarifications include the classification of financial assets with environmental, social, and governance linked features via additional guidance on the assessment of contingent features. Clarifications have been made to non-recourse loans and contractually linked instruments. Additional disclosures are introduced for financial instruments with contingent features and equity instruments classified at fair value through other comprehensive income. The amendments are effective for annual periods starting on or after January 1, 2026. Early adoption is permitted, with an option to early adopt the amendments for contingent features only. The Company has not yet assessed the impact of the amendment on the unaudited interim condensed consolidated financial statements.

STRATEGIC OUTLOOK AND DIRECTION

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

The past several years have been difficult with the consequences of Covid-19 and, more recently, significant inflation and higher interest rates causing declines in disposable income. This has reduced consumer confidence and has resulted in less dining out, lower priced beverage alcohol choices and decreased beverage alcohol consumption in order to pay for the essentials of living including groceries, gas and housing. We are seeing this trend easing and we expect consumers to return to more normal consumption behaviour.

The retail modernization of the sale of beverage alcohol in Ontario continues to be a high priority for the provincial government. Currently, the government has issued 450 beer licenses and 226 wine licenses to Ontario grocers and has recently confirmed its commitment to allow the sale of beer and wine in grocery, big-box and convenience stores starting in July 2024. Importantly, the Ontario government updated its December 2023 announcement in May, 2024 confirming the enhancement of an existing support program intended to provide economic support to the Ontario wine industry for years to come. The government has committed to this program for a period of up to five years. In addition, this announcement is focused on improving and increasing distribution of beer, wine and cider in grocery, convenience and big box grocery stores across Ontario.

Lastly, in response to operating losses and negative cash flows from operating activities, the Company is taking a number of actions to return to profitable commercial operations, enhance its financial flexibility, and reduce its debt via divestments of non-strategic assets and new equity and debt placements. The Company has made significant progress against its strategic plans by continuing to reduce its total debt and has made considerable improvements in EBITDA. The Company is seeing improvements in EBITDA from the revitalized VQA program, the completion of a licensing agreement for the DPTB brand, acquisitions and other ongoing initiatives, and expects to see further improvements to EBITDA as it continues to right size the Agency division. The total debt was reduced through the divestiture of QMV, an equity raise and the execution of TBP put option, and will be further reduced from the remaining assets held for sale.