DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

DIAMOND ESTATES WINES & SPIRITS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

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, 2023 ("Q2 2024" and "YTD 2024" respectively) compared with the corresponding periods ended September 30, 2022 ("Q2 2023" and "YTD 2023" respectively). This discussion is prepared as of November 21, 2023 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, 2023 and 2022, and (ii) both the audited consolidated financial statements and MD&A for the fiscal years ended March 31, 2023 and 2022. 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, the Covid-19 pandemic, 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, 2023.

DIAMOND ESTATES WINES & SPIRITS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

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 five wineries, four in Ontario and one in British Columbia, that produce predominantly VQA wines under such well-known brand names as 20 Bees, Creekside, EastDell, Lakeview Cellars, Mindful, Queenston Mile, Shiny Apple Cider, Fresh, Proud Pour, Red Tractor, Seasons, Serenity, Persona 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, Magnum Cream Liqueur from Scotland, Talamonti and Cielo wines from Italy, Catedral and Cabeca de Toiro wines from Portugal, Waterloo Beer & Radlers from Canada, Landshark Lager from the USA, 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, Wize Spirits, Hounds Vodka and Valley of Mother of God Gins from Canada, Bols Vodka from Amsterdam, Collective Arts beers, spirits and RTDs from Ontario, Koyle Family Wines from Chile and Pearse Lyons whiskies and gins from Ireland.

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 five 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.

RECENT EVENTS AND 2024 Q2 HIGHLIGHTS

- Revenue for Q2 2024 was $7.8 million, a decrease of $1.4 million, from $9.2 million in Q2 2023. The Winery division experienced a decrease in sales of $0.9 million and the Agency division by $0.5 million. The declines in the Winery division were driven by excise taxes of $0.2 million (excise tax is applied against gross revenue) and a decrease in sales across several channels including exports, liquor boards, grocery and on-site retail. The declines in the Agency division was primarily driven by declines experienced in the buy/sell markets.
- Gross margin[1] for Q2 2024 was $3.1 million, a decrease of $0.5 million, from $3.6 million in Q2 2023 while gross margin as a percentage of revenue was 39.6% for Q2 2024 compared to 38.7% in Q2 2023. However, when factoring the adjustments to cost of goods sold for the fair value of EWG inventories sold, gross margin for Q2 2024 remained unchanged while Q2 2023 was $3.8 million and 41.1% of revenue. The decrease in gross margins for the period was from the Winery experiencing a decrease of $0.4 million and the Agency division by $0.1 million. When considering the non-recurring impacts of the inventory provision and net impact of the excise tax and winery support program, gross margin as a percentage sale increases from 39.6% in Q2 2024 to 44.1%.
- EBITDA[1] decreased by $0.3 million to negative $0.8 million in Q2 2024 from a negative $0.5 million in Q2 2023. However, when adjusting for the fair value of EWG inventories sold, Adjusted EBITDA declined by $0.5 million when comparing Q2 2024 to Q2 2023. When considering the non-recurring impacts of the inventory provision and net impact of the excise tax and winery support program EBITDA increases from negative $0.8 million to negative $0.5 million.
- On November 14, 2023, the Company closed a non-brokered private placement through the issuance of 20,000,000 common shares of the Company to Lassonde Industries Inc. at an issue price of $0.45 per common share for an aggregate purchase price of $9,000,000, settled by $8.25 million in cash and conversion of a $750,000 loan.
- On November 14, 2023, the Company amended the terms of its credit agreement with Bank of Montreal ("BMO"), the notable changes of which include (i) extension of the maturity date to January 2, 2025, (ii) a decrease in the total credit limit from $14.4 million to $11.4 million, and (iii) calculation of borrowing margins will use a new formula based on net orderly liquidation values, starting with a fixed margin of $2.5 million. The Amendment also provides a waiver of the Company's fixed charge coverage ratios through to the end of fiscal year 2024.
- On November 9, 2023, all of the remaining and outstanding debentures payable will be rolled into new one-year convertible debentures with a similar and market interest rate, and a conversion price based on the then current trading price of the common shares. The Company will solidify the newly completed debentures within 60 days of the anniversary date.
- On November 1, 2023, the Company has entered into a business collaboration agreement between its commercial division, Trajectory Beverage Partners ("TBP"), and Renaissance Wine Merchants Ltd. ("Renaissance") under which Renaissance will manage the combined sales forces. The agreement also allows TBP the ability to exercise a put option before May 1, 2024 to sell its agency business to Renaissance. The purchase price, currently estimated between $3 million and $4 million, would be determined pursuant to a formula that takes into account trailing gross margin and commissions revenue.
- The Company received an additional $933,802 in 2024 Q3 under the Wine Sector Support Program.

- On August 22, 2023 the Company received notification from its largest supplier of import wines that its contract will expire on October 1, 2023 and is not being renewed. As of September 30, 2023, this supplier annually represented $9.1 million in revenue and $3.1 million in gross margin. The Company is still assessing the impact to its profits in the agency division as well as any mitigating actions that may be undertaken.

[1] *See definition of selected terms under the heading "Non-IFRS Financial Measures" (see page 12)*

GOING CONCERN

The accompanying 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 2024 was $4.8 million (YTD 2023 - $3.0 million). Additionally, the Company reported negative cash flow from operations (before changes in non-cash working capital) of $3.2 million in YTD 2024 (YTD 2023 - $1.7 million). As at September 30, 2023, the Company had an accumulated deficit of $26.9 million (March 31, 2023 - $22.1 million). As at September 30, 2023, the Company had a working capital deficiency of $5.6 million (March 31, 2023 - $8.0 million).

On May 31, 2023, BMO consented in writing to waive the Company's requirement to comply with the fixed charge coverage ratio ("FCCR") covenant for the rolling twelve month period ended June 30, 2023. As of November 14, 2023, the Company entered into a second amended and waiver to the second amended and restated credit agreement whereby the lender consented to waiving the requirements of the FCCR covenant to the first quarter of the next fiscal year. As of September 30, 2023, the Company has debt repayment requirements of $31.1 million over the next twelve months, including all its bank indebtedness that matures on January 2, 2024, the loan payable - related party, the current portion of its lease liabilities, and the principal amount of the debentures payable plus accrued interest due by November 2, 2023, as well as annual seasonal grape purchase commitments in the fall of 2023. 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, as evidenced by the debenture financing arranged in November, 2022 and subsequent rollover, the assets held for sale, the related party loan received in May, 2023, the Trajectory Beverage Partners initiative announced in November, 2023, the November, 2023 private placement and an updated credit agreement with its primary lender. 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 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-2023 Q2 2024	Jun-2023 Q1 2024	Mar-2023 Q4 2023	Dec-2022 Q3 2023	Sep-2022 Q2 2023	Jun-2022 Q1 2023	Mar-2022 Q4 2022	Dec-2021 Q3 2022
	$	$	$	$	$	$	$	$
Balance sheet								
Working capital surplus (deficiency)	(5,612,407)	3,745,468	(7,983,033)	19,150,127	(2,842,434)	(1,920,390)	(696,908)	23,401,723
Term debt, lease liabilities and debentures payable	30,468,256	30,778,356	32,380,546	30,653,735	27,879,579	29,747,827	28,707,858	28,683,046
Total equity	17,674,174	19,909,461	22,890,793	26,526,485	27,588,963	28,811,355	30,313,267	33,431,936
Income statement								
Revenue	7,773,184	7,911,196	5,916,596	9,109,426	9,216,140	7,480,778	7,074,715	8,394,161
Gross margin	3,076,500	2,909,116	247,367	3,780,582	3,570,345	3,012,205	2,046,886	3,195,982
EBITDA	(812,676)	(925,361)	(2,878,434)	(220,846)	(443,814)	(921,920)	(1,601,211)	(325,714)
Adjusted EBITDA	(782,745)	(895,430)	(919,279)	(73,846)	(223,815)	(701,920)	(1,111,102)	(21,865)
Net income (loss)	(2,346,353)	(2,464,079)	(4,367,725)	(1,177,624)	(1,366,434)	(1,613,872)	(3,101,092)	2,017,681
Basic income (loss) per share	(0.08)	(0.09)	(0.16)	(0.04)	0.05	(0.06)	(0.11)	0.08

RESULTS OF OPERATIONS

	Q2 2024	YTD 2024	Q2 2023	YTD 2023
Revenue	**$ 7,773,184**	**$ 15,684,380**	$ 9,216,140	$ 16,696,918
Cost of sales	**4,696,684**	**9,698,764**	5,645,795	10,114,368
Gross margin	**3,076,500**	**5,985,616**	3,570,345	6,582,550
Gross margin (% of revenue)	**39.6%**	**38.2%**	38.7%	39.4%
Selling, general and administration expenses	**3,889,176**	**7,723,654**	4,041,152	7,975,277
SG&A expenses (% of revenue)	**50.0%**	**49.2%**	43.8%	47.8%
EBITDA	**(812,676)**	**(1,738,038)**	(470,807)	(1,392,727)
Interest and accretion	**997,045**	**1,954,108**	340,801	634,990
Depreciation and amortization	**370,021**	**807,875**	411,963	725,487
Financing costs	**9,931**	**19,339**	(26,991)	(336)
Loss from operations	**(2,189,673)**	**(4,519,360)**	(1,196,580)	(2,752,868)
Change in fair value of derivative liability	**(203,235)**	**(285,916)**	-	-
Gain on disposition of right-of-use assets	**157,621**	**189,657**	10,188	64,564
Share based compensation	**(111,066)**	**(194,813)**	(144,043)	(256,003)
Restructuring charge	**-**	**-**	(36,000)	(36,000)
Net loss and comprehensive loss	**$ (2,346,353)**	**$ (4,810,432)**	$ (1,366,435)	$ (2,980,307)

See definition of selected terms under the heading "Non-IFRS Financial Measures" (see page 12)

Revenue for Q2 2024 was $7.8 million, a decrease of $1.4 million, from $9.2 million in Q2 2023. The decrease in sales year over year resulted from the Winery experiencing a decrease in sales of $0.9 million and the Agency division by $0.5 million. The declines in the Winery division were driven by excise taxes of $0.2 million and a decrease in sales across several channels including exports, liquor boards, grocery and on-site retail. The declines in the Agency division was primarily driven by declines experienced in the buy/sell markets. Revenue for YTD 2024 was $15.7 million, a decrease of $1.0 million from $16.7 million in YTD 2023 with the Winery division experiencing a decrease of $0.6 million and the Agency division $0.4 million.

Gross margin for Q2 2024 was $3.1 million, a decrease of $0.5 million, from $3.6 million in Q2 2023 while gross margin as a percentage of revenue was 39.6% for Q2 2024 compared to 38.7% in Q2 2023. However, when factoring the adjustments to cost of goods sold for the fair value of EWG inventories sold, gross margin for Q2 2024 remained unchanged while Q2 2023 was $3.8 million and 41.1% of revenue. The decrease in gross margins for the period was from the Winery experiencing a decrease of $0.4 million and the Agency division by $0.1 million. The declines in the Winery division are a result of higher overheads experienced in prior vintages, volume declines in higher margin channels such as on-site retail and on-premise and the net impact of the excise tax and winery support program. The decline experienced in the Agency division comes from an increase in their inventory provision. When considering the non-recurring impacts of the inventory provision and net impact of the excise tax and winery support program gross margin as a percentage sale increases from 39.6% in Q2 2024 to 44.1%

Gross margin for YTD 2024 was $6.0 million, a decrease of $0.6 million from $6.6 million in YTD 2023, while gross margin as a percentage of revenue was 38.2% for YTD 2024 compared to 39.4% in YTD 2023. The decline is gross is attributed to the Winery division which experienced a decrease in gross margins from 42.0% in YTD 2023 to 39.2% in YTD 2024. When accounting for the depletion of the EWG inventory, gross margins decreased by 3.4% from 42.1% in YTD 2023 to 38.7% in YTD 2024.

Total SG&A expenses for Q2 2024 were $3.9 million, a decrease of $0.1 million, from $4.0 million in Q2 2023. Employee compensation remained consistent at approximately $1.8 million and increased as a percentage of sales from 19.6% in Q2 2023 to 23.1% in Q2 2024. General and administrative expenses increased by $0.2 million year over year at $1.1 million and as a percentage of sales from 10.9% in Q2 2023 to 15.4% in Q2 2024. The remainder of the change is attributable to a decrease in advertising and promotion of $0.3 million. Total SG&A expenses for YTD 2024 were $7.7 million, a decrease of $0.3 million from $8.0 million in YTD 2023.

Interest and accretion expense for Q2 2024 was $1.0 million, an increase of $0.7 million, from $0.3 million in Q2 2023. The increase is a result of the increase in year-over-year interest rates and the addition of the $4.9 million of convertible debentures issued in November 2022. Interest and accretion expense for YTD 2024 was $2.0 million, an increase of $1.4 million compared to $0.6 million in YTD 2023. Depreciation and amortization expense for Q2 2024 was $0.4 million, consistent compared to $0.4 million in Q2 2023.

EBITDA decreased by $0.3 million to negative $0.8 million in Q2 2024 from a negative $0.5 million in Q2 2023. However, when adjusting for the fair value of EWG inventories sold, Adjusted EBITDA declined by $0.5 million when comparing Q2 2024 to Q2 2023. When considering the non-recurring impacts of the inventory provision and net impact of the excise tax and winery support program EBITDA increases from negative $0.8 million to negative $0.5 million.

Loss from operations for Q2 2024 was $2.2 million compared to $1.2 million in Q2 2023, a decrease in profitability of $1.0 million. The lower level of profitability compared to revenue is a direct result of a decrease in sales and an increase in interest expenses quarter over quarter. Loss from operations for YTD 2024 was $4.5 million compared to $2.8 million in YTD 2023, a decrease in profitability of $1.7 million.

LIQUIDITY AND CAPITAL RESOURCES

	September 30, 2023 As reported	September 30, 2023 Assets held for sale	September 30, 2023 Adjusted	March 31, 2023
ASSETS				
Accounts receivable	$ 2,815,294	$ 32,179	$ 2,847,473	$ 3,159,280
Inventory	19,733,393	3,456,947	23,190,340	26,289,426
Prepaid expenses	218,505	45,461	263,966	341,667
Asset held for resale	10,759,979	(10,759,979)	-	-
Biological assets	355,151	-	355,151	-
Total current assets	33,882,322	(7,225,392)	26,656,930	29,790,373
Property, plant and equipment	18,598,954	6,097,148	24,696,102	25,141,085
Right of use assets	1,452,613	896,984	2,349,597	2,554,677
Intangible assets	4,057,780	231,260	4,289,040	4,483,318
Total assets	$ 57,991,669	$ -	$ 57,991,669	$ 61,969,453
LIABILITIES				
Accounts payable and accrued liabilities	$ 6,802,613	$ 440,403	$ 7,243,016	$ 6,708,787
Loan payable - related party	750,000	-	750,000	-
Current portion of term loans payable and lease liabilities	24,845,596	101,436	24,947,032	26,115,050
Debentures payable	4,799,894	-	4,799,894	4,359,242
Derivative liability	876,243	-	876,243	590,327
Liabilities held for sale	1,420,383	(1,420,383)	-	-
Total current liabilities	39,494,729	(878,544)	38,616,185	37,773,406
Lease liabilities, net of current portion	822,766	878,544	1,701,310	1,906,254
Total liabilities	40,317,495	-	40,317,495	39,679,660
SHAREHOLDERS' EQUITY	17,674,174	-	17,674,174	22,289,793
	$ 57,991,669	$ -	$ 57,991,669	$ 61,969,453

The Company has modified the presentation of the statement of financial position as at September 30, 2023 to also include columns to allocate the (net) assets held for sale back to their equivalent presentation as at March 31, 2023. 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)*;

The working capital deficiency, modified to reflect reclassification of (net) assets held for sale (see further discussion below), increased by $4.0 million to negative $12.0 million as at September 30, 2023 from negative $8.0 million as at March 31, 2023, mostly due to operating losses and the decrease in inventory. On May 31, 2023, BMO consented in writing to waive the Company's requirement to comply with the fixed charge coverage ratio "(FCCR") covenant for the rolling twelve month period ended June 30, 2023. On November 14, 2023, the Company entered into a second amendment to its Second Amended and Restated Credit Agreement (the "SARCA") with BMO which provides a waiver of the Company's fixed charge coverage ratios through to the end of fiscal year 2024 *(see further discussion below).*

As at September 30, 2023, the Company has classified certain winery division properties and related operating assets detailed below totalling $9,339,596 as assets held for sale. Management intends to sell these assets within one year of the reporting date. They have commenced an active process to sell these assets, but no agreements of purchase and sale have been entered into as of the date of release of these unaudited interim condensed consolidated financial statements.

Assets held for sale	
Accounts receivable	**$ 32,179**
Inventory	**3,456,947**
Prepaid expenses	**45,461**
Property, plant and equipment	**6,097,148**
Right-of-use assets	**896,984**
Intangible assets	**231,260**
	10,759,979
Liabilities held for sale	
Accounts payable and accrued liability	**440,403**
Lease liability	**979,980**
	1,420,383
Net assets held for resale	**$ 9,339,596**

Accounts receivable of $2.8 million as at September 30, 2023 decreased by $0.4 million from $3.2 million as at March 31, 2023 as a result of a general decrease in exports, liquor boards and grocery sales.

The inventory balance was $23.2 million as at September 30, 2023, a decrease of $3.1 million from $26.3 million as at March 31, 2023. Bulk wine decreased by $4.2 million from $14.2 million as at March 31, 2023 to $10.0 million as at September 30, 2023 and was attributable to the significant bulk wine sales in Q1 2024 and bottlings throughout the period. Finished goods decreased by $2.1 million due to the general sell-through of our products.

Property, plant and equipment of $24.7 million as at September 30, 2023 decreased by $0.4 million from $25.1 million as at March 31, 2023 due mostly to depreciation taken in YTD 2024. Right-of-use assets of $2.3 million as at September 30, 2023 decreased by $0.2 million compared to March 31, 2023 as a result of disposition of certain leased vehicles. Intangible assets of $4.3 million as at September 30, 2023 decreased by $0.2 million from $4.5 million as at September 30, 2023 due to depreciation taken during YTD 2024.

Accounts payable and accrued liabilities of $7.2 million as at September 30, 2023 increased by $0.5 million from $6.7 million as at September 30, 2023 as a result of a similar increase in trade accounts payable.

The BMO credit facilities are governed under the terms of the SARCA and include the BCAP term loan, an existing non-revolving term loan, a revolving operating line, the total of which was $24.6 million as at September 30, 2023, a decrease of $1.1 million from $25.7 million as at September 30, 2023. The decrease resulted from (i) repayments on the non-revolving term loans of $0.6 million and (ii) an increase in utilization of the revolving term loan of $0.5 million.

On October 24, 2022, the Company entered into a further amendment to its SARCA, the major terms of which are outlined below:

Credit limits: The credit limits remained unchanged (i) the revolving term loan of $14.4 million with an accordion feature to fund future growth, and (ii) the non-revolving term loan of $10.8 million.
Maturity dates: The maturity dates remained unchanged with the revolving and non-revolving facilities having a two-year term expiring as at January 2, 2024, including the Business Credit Availability Program ("BCAP") facility.
Interest rates: Under the current amendment, the interest rate increased by 1.00% on each component of the facility as follows:

- prime plus 2.40% under the revolving term facility;
- prime plus 2.65% under the non-revolving term facility; and
- prime plus 2.65% under the BCAP Facility.

Repayment: The repayment terms remained unchanged (i) the non-revolving term loan is repayable in 80 quarterly principal payments of 1.25% of the drawn amount, or $135,000, and (ii) the BCAP loan is repayable in monthly principal payments of $57,292.

Covenants: The Amendment is subject to compliance to the following additional covenants:

- the leverage ratio shall not be less than or equal to 2.00 to 1 for every calendar month and fiscal quarter
- the Company will not permit its forecasted or actual liquidity (as defined under the SARCA) to be less than $Nil.

The adjusted SARCA is still subject to the following major covenants:

- leverage ratio at less than or equal to 2.15 to 1; and
- fixed charges coverage ratio at greater than or equal to 1.25 to 1.

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

- extension of the maturity date to January 2, 2025;
- as a result of the repayment of obligations with the use of proceeds from the Financing, a decrease in the total credit limit from $14.4 million to $11.4 million; and
- 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).

The Amendment also provides a waiver of the Company's fixed charge coverage ratios through to the end of fiscal year 2024. All other terms of the SARCA, as amended, remain in full force and effect.

On November 2, 2022, the Company completed a non-brokered private placement of $4.884 million of 10.0% unsecured convertible debentures of the Company. The Company intends to use the net proceeds of the placement for general working capital and investment purposes. Certain insiders of the Company, including Lassonde and a related company controlled by its chairman, subscribed for $3.35 million of the total placement. The debentures mature one year from their date of issuance, being November 2, 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 a conversion price of $0.80. 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 2, 2022 with a fair value of $4,884,000 less transaction costs of $77,949 less the fair value of the embedded derivative of $775,591. After recording interest accretion on the debenture payable of $328,782, the carrying value of the debenture as at March 31, 2023 was $4,359,242. After recording further interest accretion on the debenture payable for the six months ended September 30, 2023 of $440,652, the carrying value of the debenture as at September 30, 2023 was $4,799,894. Coupon interest on the debentures in the amount of $244,869 was accrued for the six months ended September 30, 2023, such that a total of $444,244 has been accrued and is included in accounts payable and accrued liabilities at September 30, 2023.

The fair value of the embedded derivative as at September 30, 2023 of $876,243 has increased by $285,916 compared to the fair value as at March 31, 2023 of $590,327, with the change being recognized as an expense during the six months ended September 30, 2023.

On November 9, 2023, all of the remaining and outstanding debentures payable will be rolled into new one-year convertible debentures with a similar and market interest rate, and a conversion price based on the then current trading price of the common shares. The Company will solidify the newly completed debentures within 60 days of the anniversary date.

The following table outlines the Company's contractual obligations as at September 30, 2023:

	<1 year	**2-3 years**	**4-5 years** **$ (000's)**	**>5 years**	**Total**
Accounts payable and accrued liabilities and liabilities held for sale	8,223	-	-	-	8,223
Term loans payable	24,558	-	-	-	24,558
Lease liabilities	287	444	329	49	1,109
Loan payable - related party	750	-	-	-	750
Debentures payable	5,328	-	-	-	5,328
Purchase contracts for grapes, packaging and other raw materials	3,654	3,654	-	-	7,308
Total contractual obligations	42,800	4,098	329	49	47,276

The Company's debt to equity ratio increased to 1.87:1 as at September 30, 2023 from 1.48:1 as at March 31, 2023, where debt is defined as total liabilities less accounts payable and accrued liabilities, and equity is defined as shareholders' equity. This increase is due to the loan payable - related party and the loss incurred for Q2 2024.

SUBSEQUENT EVENTS

DSU issuance

On October 24, 2023, the Company issued an aggregate of 250,521 DSUs to non-executive directors in settlement of $60,125.00 of deferred directors' compensation. The DSUs are to be settled in common shares of the Company when the director retires from all positions with the Company.

Agreement with Renaissance Wine Merchants

On November 1, 2023, the Company has entered into a business collaboration agreement between its commercial division, Trajectory Beverage Partners ("TBP") , and Renaissance Wine Merchants Ltd. ("Renaissance") to augment each parties' capabilities in Western Canada (the "Territory"). Pursuant to this agreement, the Renaissance management team will combine the sales forces of both parties and lead a bolstered team in close partnership with TBP's national supplier activities. The agreement commences November 13, 2023 and will continue for an initial six-month period, renewing automatically for subsequent six month terms unless cancelled in accordance with its terms.

In addition, in accordance with the terms of the agreement, TBP can also exercise a put option before May 1, 2024 to sell its agency business in the Territory to Renaissance. The purchase price would be determined pursuant to a formula that takes into account trailing gross margin and commissions revenue, which purchase price the Company currently estimates would be an amount between $3 million and $4 million.

Financing

On November 14, 2023, the Company closed a previously announced non-brokered private placement through the issuance of 20,000,000 common shares of the Company to Lassonde Industries Inc. (“Lassonde”) at an issue price of $0.45 per common share for an aggregate purchase price of $9,000,000 (the “Subscription Price”)

The Subscription Price was satisfied through the payment of $8.25 million in consideration for 18,333,334 common shares (the “Financing”), and the settlement of the $750,000 principal amount owed under the advance agreement between the Company and Lassonde Industries dated May 30, 2023, which principal amount converted into 1,666,666 common shares (the “Settlement”). The Company intends to use the net proceeds from the Financing to reduce the Company’s debt and accounts payable, and to pay transaction fees.

The Company received shareholder approval for the Financing and Settlement at its annual shareholders meeting held on September 6, 2023. The Financing and the Settlement remain subject to the final acceptance of the TSXV. The securities issued pursuant to the Financing and the Settlement will be subject to a four-month hold period under applicable Canadian securities laws.

Amended BMO credit agreement

On November 14, 2023, the Company entered into a second amendment (the "Amendment") to its Second Amended and Restated Credit Agreement (the "SARCA") with Bank of Montreal ("BMO") *(see further discussion in "Liquidity and Capital Resources" section above).*

Wine Sector Support Program

The Company received an additional $933,802 in 2024 Q3 under the Wine Sector Support Program.

CAPITALIZATION

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

	September 30, 2023	**March 31, 2023**	**Change in reporting period**
Common shares	27,875,978	27,875,978	-
Stock options	1,635,000	1,735,000	(100,000)
Deferred share units	912,935	528,778	384,157
Warrants	5,555,905	5,555,905	-
Total equity instruments	35,979,818	35,695,661	284,157

There were no issuances, exercises or expiries of common shares, options or warrants during YTD 2024, other than 100,000 options that expired unexercised on departure of members of management. In May, 2023, the Company issued an aggregate of 285,980 DSUs in settlement of $100,093 of previously accrued deferred directors compensation. In July, 2023, the Company issued a further 98,177 DSUs valued at $47,125.

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, government funding under CEWS and CERS programs, 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 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 2024	**YTD 2024**	Q2 2023	YTD 2023
	$	**$**	$	$
Revenue	**7,773,184**	15,684,380	9,216,140	16,696,918
Cost of sales				
Change in inventories of finished goods and raw materials consumed	**4,696,684**	9,698,764	5,645,795	10,114,368
Depreciation	**176,270**	337,970	161,683	204,716
Gross profit	**2,900,230**	5,647,646	3,408,662	6,377,834
Exclude depreciation	**176,270**	337,970	161,683	204,716
Gross margin	**3,076,500**	5,985,616	3,570,345	6,582,550
Gross margin (% of revenue)	**39.6%**	38.2%	38.7%	39.4%

The Company calculates EBITDA and Adjusted EBITDA as follows:

	Q2 2024	YTD 2024	Q2 2023	YTD 2023
	$	**$**	$	$
Net loss for period	**(2,346,353)**	(4,810,432)	(1,366,435)	(2,980,307)
Interest and accretion	**997,045**	1,954,108	340,801	634,990
Financing costs	**9,931**	19,339	(26,991)	(336)
Share-based compensation	**111,066**	194,813	144,043	256,003
Depreciation and amortization	**370,021**	807,875	411,963	725,487
Change in fair value of derivative liability	**203,235**	285,916	-	-
Gain on disposition of right-of-use assets	**(157,621)**	(189,657)	(10,188)	(64,564)
Restructuring charge	**-**	-	36,000	36,000
EBITDA	**(812,676)**	(1,738,038)	(470,807)	(1,392,727)
Cost of goods sold adjustments for fair value of EWG inventories sold	**29,931**	220,000	199,103	199,103
Adjusted EBITDA	**(782,745)**	(1,518,038)	(271,704)	(1,193,624)

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, we are seeing consumers impacted by significant economic events, such as inflation and the dramatic increase in interest rates, causing their disposable income to decline. 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 expect that this trend will continue to ease over the coming months and consumers will slowly 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. To date, the government has issued 450 beer licenses and 226 wine licenses to Ontario grocers and has reiterated its commitment to allowing the sale of beer and wine in grocery, big-box and convenience stores during their current mandate, which began in June, 2022. There is an active debate within the beverage alcohol industry and government on how best to influence this modernization program to the benefit of all stakeholders.

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, reduce its debt via divestments of non-strategic assets, and new equity and debt placements.

RECENTLY ADOPTED AND ISSUED ACCOUNTING PRONOUNCEMENTS

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 this amendment on the unaudited interim condensed consolidated financial statements.

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. This amendment is effective for annual periods beginning on or after January 1, 2023. 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 amendment are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. The Company has not yet assessed the impact of this amendment on unaudited interim condensed consolidated financial statements.