DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

THREE AND NINE MONTHS ENDED DECEMBER 31, 2023 AND 2022

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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 nine months ended December 31, 2023 ("Q3 2024" and "YTD 2024" respectively) compared with the corresponding periods ended December 31, 2022 ("Q3 2023" and "YTD 2023" respectively). This discussion is prepared as of February 22, 2024 and should be read in conjunction with (i) the unaudited interim condensed consolidated financial statements and the accompanying notes for the three and nine months ended December 31, 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.

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, which 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.
EBITDA[1]

RECENT EVENTS AND 2024 Q3 HIGHLIGHTS

- Revenue for Q3 2024 was $7.3 million, a decrease of $1.8 million, from $9.1 million in Q3 2023. The Winery division experienced a decrease in sales of $0.7 million and the Agency division by $1.0 million. The declines in the Winery division were primarily driven by excise taxes of $0.2 million, non-recurring government grants of $0.2 million and a decrease in export sales of $0.3 million. The decline in the Agency division was primarily driven by the loss of a key supplier which contributed to $0.8 million while the remainder is transitional softness in the buy/sell markets.
- Gross margin[1] for Q3 2024 was $1.9 million, a decrease of $1.9 million, from $3.8 million in Q3 2023 while gross margin as a percentage of revenue was 26.2% for Q3 2024 compared to 41.5% in Q3 2023. The decrease in gross margins for the period was from the Winery experiencing a decrease of $1.3 million and the Agency division $0.6 million. The declines in the Winery division are a result of $0.5 million of one-time adjustments, higher overheads experienced from prior short crop vintages across all channels, greater discounts in higher margin channels such as on-site retail and direct to consumer and on-premise, and the loss of non-recurring government grants. The decline experienced in the Agency division comes from the loss of a key supplier and its impacts in the commission and buy/sell market. The company is currently adapting its structure to adjust to the new reality.
- EBITDA[1] decreased by $1.6 million to negative $1.8 million in Q3 2024 from a negative $0.2 million in Q3 2023. However, when considering the fair value of EWG inventories sold, adjusted EBITDA declined by $1.7 million over the same period.
- 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 in Western Canada. 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.
- On November 9, 2023, all of the remaining and outstanding debentures payable were effectively 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 of $0.30.
- 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 December 14, 2023, the Province of Ontario announced significant policies and changes to an existing program intended to provide economic support to enhance the Ontario wine industry for years to come. Based on the assumptions in the program, starting in 2024-2025, we estimate eligible sales under the VQA Wine Support Program will qualify for approximately $2.5 million in funding. This enhanced funding will apply to payments that will be issued in the calendar year 2024, for sales that occurred in the 2023- 2024 fiscal year. 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.
- On February 16, 2024, the Company closed on the sale of its Queenston Mile Vineyard winery for an estimated gross sales of $4.5 million. On closing, the Company received net sales proceeds of $3.7 million, comprising of $3.2 million in cash and a vendor take-back mortgage of $0.5 million. The Company entered into an agreement to sell an estimated $0.5 million of inventory over a one- year period. The cash proceeds will be applied against the non- revolving term loan under the BMO credit facility.
- The Company received an additional $0.9 million 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 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 2024 was $10.0 million (YTD 2023 - $4.2 million). Additionally, the Company reported negative cash flow from operations (before changes in non-cash working capital) of $5.8 million in YTD 2024 (YTD 2023 - $2.4 million). As at December 31, 2023, the Company had an accumulated deficit of $32.1 million (March 31, 2023 - $22.1 million) and a working capital deficiency of $9.6 million (March 31, 2023 - $8.0 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 first quarter of the next fiscal year. As of December 31, 2023, the Company has debt repayment requirements of $16.9 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 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. This has been evidenced by the November, 2023 private placement for net cash proceeds of $8.2 million, the debenture financing arranged in November, 2022 and its subsequent rollover, the sale of Queenston Mile Vineyard and the other assets held for sale, the Trajectory Beverage Partners initiative announced in November, 2023, and the updated credit agreement with BMO. 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".

	Dec-2023 Q3 2024 $	**Sep-2023 Q2 2024** $	**Jun-2023 Q1 2024** $	**Mar-2023 Q4 2023** $	**Dec-2022 Q3 2023** $	**Sep-2022 Q3 2023** $	**Jun-2022 Q1 2023** $	**Mar-2022 Q4 2022** $
Balance sheet								
Working capital surplus (deficiency)	9,610,860	(5,612,407)	3,745,468	(7,983,033)	19,150,127	(2,842,434)	(1,920,390)	(696,908)
Term debt, lease liabilities and debentures payable	24,726,782	30,468,256	30,778,356	32,380,546	30,653,735	27,879,579	29,747,827	28,707,858
Total equity	21,511,786	17,674,174	19,909,461	22,890,793	26,526,485	27,588,963	28,811,355	30,313,267
Income statement								
Revenue	7,320,640	7,773,184	7,911,196	5,916,596	9,109,426	9,216,140	7,480,778	7,074,715
Gross margin	1,916,636	3,076,500	2,909,116	247,367	3,780,582	3,570,345	3,012,205	2,046,886
EBITDA	(1,799,597)	(812,676)	(925,361)	(2,878,434)	(220,846)	(443,814)	(921,920)	(1,601,211)
Adjusted EBITDA	(1,738,354)	(782,745)	(895,430)	(919,279)	(73,846)	(223,815)	(701,920)	(1,111,102)
Net income (loss)	(5,162,568)	(2,346,353)	(2,464,079)	(4,367,725)	(1,177,624)	(1,366,434)	(1,613,872)	(3,101,092)
Basic income (loss) per share	(0.19)	(0.08)	(0.09)	(0.16)	(0.04)	0.05	(0.06)	(0.11)

RESULTS OF OPERATIONS

	Q3 2024	YTD 2024	Q3 2023	YTD 2023
Revenue	**$ 7,320,640**	**$ 23,005,020**	$ 9,109,426	$ 25,806,343
Cost of sales	**5,404,004**	**15,102,769**	5,328,844	15,443,212
Gross margin	**1,916,636**	**7,902,251**	3,780,582	10,363,131
Gross margin (% of revenue)	**26.2%**	**34.4%**	41.5%	40.2%
Selling, general and administration expenses	**3,716,233**	**11,439,891**	4,001,429	11,976,703
SG&A expenses (% of revenue)	**50.8%**	**49.7%**	43.9%	46.4%
EBITDA	**(1,799,597)**	**(3,537,640)**	(220,847)	(1,613,572)
Interest and accretion	**764,871**	**2,718,979**	741,164	1,376,155
Depreciation and amortization	**331,070**	**1,138,945**	460,335	1,185,823
Financing costs	**9,631**	**28,970**	17,080	16,744
Loss from operations	**(2,905,169)**	**(7,424,534)**	(1,439,426)	(4,192,294)
Impairment charge - sale of assets	**(1,374,468)**	**(1,374,468)**	-	-
Change in fair value of derivative liability	**(899,692)**	**(1,185,608)**	125,370	125,370
Restructuring charge	**(245,725)**	**(245,725)**	-	(36,000)
Change in fair value of debentures payable	**326,319**	**326,319**	-	-
Gain on disposition of right-of-use assets	**19,507**	**209,164**	26,594	91,158
Gain on debt extinguishment	**-**	**-**	224,984	224,984
Share based compensation	**(83,340)**	**(278,153)**	(115,146)	(371,149)
Net loss and comprehensive loss	**$ (5,162,568)**	**$ (9,973,005)**	$ (1,177,624)	$ (4,157,931)

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

Revenue for Q3 2024 was $7.3 million, a decrease of $1.8 million, from $9.1 million in Q3 2023. The decrease in sales year over year resulted from the Winery experiencing a decrease in sales of $0.8 million and the Agency division by $1.0 million. The declines in the Winery division were primarily driven by excise taxes of $0.2 million, non-recurring government grants of $0.2 million and a decrease in export sales of $0.3 million. The decline in the Agency division was primarily driven by the loss of a key supplier which contributed to $0.8 million while the remainder is transitional softness in the buy/sell markets. Revenue for YTD 2024 was $23.0 million, a decrease of $2.8 million from $25.8 million in YTD 2023 with the Winery division experiencing a decrease of $1.3 million and the Agency division $1.5 million.

Gross margin for Q3 2024 was $1.9 million, a decrease of $1.9 million, from $3.8 million in Q3 2023 while gross margin as a percentage of revenue was 26.2% for Q3 2024 compared to 43.1% in Q3 2023. However, when factoring the adjustments to cost of goods sold for the fair value of EWG inventories sold, gross margin for Q3 2024 was $2.0 million and 27.0% of revenue while Q3 2023 was $3.9 million and 43.1% of revenue. The decrease in gross margins for the period was from the Winery experiencing a decrease of $1.3 million and the Agency division by $0.7 million. The declines in the Winery division are a result of $0.5 million of one-time adjustments, higher overheads experienced from prior short crop vintages across all channels, greater discounts in higher margin channels such as on-site retail and direct to consumer and on-premise, and the loss of non-recurring government grants. The decline experienced in the Agency division comes from the loss of a key supplier and its impacts in the commission and buy/sell market. The company is currently adapting its structure to adjust to the new reality.

Gross margin for YTD 2024 was $7.9 million, a decrease of $2.5 million from $10.4 million in YTD 2023, while gross margin as a percentage of revenue was 34.4% for YTD 2024 compared to 40.2% in YTD 2023. The decline in gross is mainly attributed to the Winery division which experienced a decrease in gross margins from 44.3% in YTD 2023 to 36.0% in YTD 2024, while the Agency experienced a decrease of 2.7% over the same period. When accounting for the depletion of the EWG inventory, gross margins decreased by 7.4% from 42.4% in YTD 2023 to 35.0% in YTD 2024.

Total SG&A expenses for Q3 2024 were $3.7 million, a decrease of $0.3 million, from $4.0 million in Q3 2023. Employee compensation for Q3 2024 declined $0.1 million to $1.6 million and increased as a percentage of sales from 19.1% in Q3 2023 to 21.5% in Q3 2024. General and administrative expenses decreased by $0.2 million year over year to $1.1 million and as a percentage of sales increased from 14.1% in Q3 2023 to 15.5% in Q3 2024. Total SG&A expenses for YTD 2024 were $11.4 million, a decrease of $0.6 million from $12.0 million in YTD 2023.

Interest and accretion expense for Q3 2024 was $0.8 million, an increase of $0.1 million, from $0.7 million in Q3 2023. Interest and accretion expense for YTD 2024 was $2.7 million, an increase of $1.3 million compared to $1.4 million in YTD 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. Depreciation and amortization expense for Q3 2024 was $0.3 million compared to $0.5 million in Q3 2023.

On the rollover of the convertible debentures in November, 2023 and effective extension for another year, the resulting new embedded derivative was valued at $2.0 million (as at November 9, 2023), resulting in a change in the fair value of the derivative liability in the amount of $1.0 million in Q3 2024.

An impairment provision in the amount of $1.4 million was recognized with respect to property, plant and equipment related to the sale of Queenston Mile included in assets held for sale.

EBITDA decreased by $1.6 million to negative $1.8 million in Q3 2024 from a negative $0.2 million in Q3 2023. However, when considering deletion of EWG inventories sold, adjusted EBITDA declined by $1.7 over the same period.

Loss from operations for Q3 2024 was $2.9 million compared to $1.4 million in Q3 2023, a decrease in profitability of $1.5 million. The lower level of profitability compared to revenue is a direct result of the decrease in sales and gross margin and an increase in interest and accretion expense quarter over quarter. Loss from operations for YTD 2024 was $7.4 million compared to $4.2 million in YTD 2023, a decrease in profitability of $3.2 million.

LIQUIDITY AND CAPITAL RESOURCES

	December 31, 2023 As reported	December 31, 2023 Assets held for sale	December 31, 2023 Adjusted	March 31, 2023
ASSETS				
Accounts receivable	$ 2,452,079	$ 50,124	$ 2,502,203	$ 3,159,280
Inventory	18,854,883	3,001,174	21,856,057	26,289,426
Prepaid expenses	288,761	48,059	336,820	341,667
Asset held for resale	8,862,789	(8,862,789)	-	-
Total current assets	30,458,512	(5,763,432)	24,695,080	29,790,373
Property, plant and equipment	18,529,101	4,635,188	23,164,289	25,141,085
Right of use assets	1,404,426	896,984	2,301,410	2,554,677
Intangible assets	3,962,306	231,260	4,193,566	4,483,318
Total assets	$ 54,354,345	$ -	$ 54,354,345	$ 61,969,453
LIABILITIES				
Accounts payable and accrued liabilities	$ 5,078,341	$ 306,388	$ 5,384,729	$ 6,708,787
Current portion of term loans payable and lease liabilities	8,172,393	108,233	8,280,626	26,115,050
Debentures payable	4,559,482	-	4,559,482	4,359,242
Derivative liability	1,775,935	-	1,775,935	590,327
Liabilities held for sale	1,261,501	(1,261,501)	-	-
Total current liabilities	20,847,652	(846,880)	20,000,772	37,773,406
Term loans payable, net of current portion	11,273,948	-	11,273,948	-
Lease liabilities, net of current portion	720,959	846,880	1,567,839	1,906,254
Total liabilities	32,842,559	-	32,842,559	39,679,660
SHAREHOLDERS' EQUITY	21,511,786	-	21,511,786	22,289,793
	$ 54,354,345	$ -	$ 54,354,345	$ 61,969,453

The Company has modified the presentation of the statement of financial position as at December 31, 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),* decreased by $3.3 million to negative $4.7 million as at December 31, 2023 from negative $8.0 million as at March 31, 2023, mostly as a result of the proceeds from the equity financing of $8.25 million less operating losses. 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 December 31, 2023, the Company has classified certain winery division properties and related operating assets (and associated liabilities) detailed below netting to $7,601,288 as assets held for sale, net of an impairment provision on certain property, plant and equipment of $1.4 million. Management intends to sell these assets within one year of the reporting date and entered into a subsequent purchase and sale agreement for the Queenston Mile Vineyard winery dated February 15, 2024.

Assets held for sale	
Accounts receivable	**$ 50,124**
Inventory	**3,001,174**
Prepaid expenses	**48,059**
Property, plant and equipment	**4,635,188**
Right-of-use assets	**896,984**
Intangible assets	**231,260**
	8,862,789
Liabilities held for sale	
Accounts payable and accrued liability	**306,388**
Lease liability	**955,113**
	1,261,501
Net assets held for sale	**$ 7,601,288**

Accounts receivable of $2.5 million as at December 31, 2023 decreased by $0.7 million from $3.2 million as at March 31, 2023 as a result of a general decrease in sales in the Winery division and a loss of a key supplier at the Agency.

The inventory balance was $21.9 million as at December 31, 2023, a decrease of $4.4 million from $26.3 million as at March 31, 2023. Bulk wine decreased by $1.5 million from $14.2 million as at March 31, 2023 to $12.7 million as at December 31, 2023 and was attributable to the significant bulk wine sales in Q1 2024 and bottlings throughout the period. Finished goods decreased by $2.7 million due to the general sell-through of our products.

Property, plant and equipment of $23.2 million as at December 31, 2023 decreased by $1.9 million from $25.1 million as at March 31, 2023 due mostly to the impairment provision of $1.4 million and depreciation taken in YTD 2024. Right-of-use assets of $2.3 million as at December 31, 2023 decreased by $0.2 million compared to March 31, 2023 as a result of disposition of certain leased vehicles. Intangible assets of $4.2 million as at December 31, 2023 decreased by $0.3 million from $4.5 million as at December 31, 2023 due to amortization taken during YTD 2024.

Accounts payable and accrued liabilities of $5.4 million as at December 31, 2023 increased by $1.3 million from $6.7 million as at December 31, 2023 as a result of lower operational activity and vendor paydowns from the proceeds of the equity raise.

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 $19.1 million as at December 31, 2023, a decrease of $6.6 million from $25.7 million as at December 31, 2023. The decrease resulted from the proceeds of the equity raise applied against the aggregate components of the BMO credit facility.

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 $10.753 million to $8.763 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:** any proceeds from assets held for resale, mainly the Backyard Vineyards and Queenston Mile properties and their related operations, will be applied against the non-revolving term loan. Any remaining balance of the non-revolving term loan is to be settled as of May 31, 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.

On November 9, 2023, all of the remaining and outstanding $4.884 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 $3.35 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 $4,557,681 less estimated transaction costs of $50,000. After recording interest accretion on the debenture payable of $51,801, the carrying value of the debenture as at December 31, 2023 was $4,559,482. The difference between the face value of the convertible debentures of $4,884,000 (that matured on November 9, 2023) and the fair value of the rolled-over convertible debentures of $4,557,681 of $326,319 was recognized as income during the nine months ended December 31, 2023. Interest payable on the convertible debentures in the amount of $358,606 was accrued for the nine months ended December 31, 2023. A total of $557,981 in interest payable has been accrued on both the original and renewed convertible debentures up to December 31, 2023, 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 December 31, 2023 of $1,775,935 has increased by $1,185,608 compared to the fair value as at March 31, 2023 of $590,327, with the change being recognized as an expense during the nine months ended December 31, 2023.

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. ("Lassonde") at an issue price of $0.45 per common share for an aggregate purchase price of $9,000,000. The subscription price was satisfied through the payment of $8.25 million in consideration for 18,333,334 common shares, and the settlement of the $750,000 principal amount owed under the advance agreement between the Company and Lassonde dated May 30, 2023, which principal amount converted into 1,666,666 common shares. Share issue costs related to the financing, consisting of legal fees and listing fees, totalled $83,155.

The following table outlines the Company's contractual obligations as at December 31, 2023:

	<1 year	2-3 years	4-5 years $ (000's)	>5 years	Total
Accounts payable and accrued liabilities and liabilities held for sale	6,340	-	-	-	6,340
Term loans payable	7,861	-	-	-	7,861
Lease liabilities	311	416	292	13	1,032
Debentures payable	5,442	-	-	-	5,442
Purchase contracts for grapes, packaging and other raw materials	3,654	3,654	-	-	7,308
Total contractual obligations	23,608	4,070	292	13	27,983

The Company's debt to equity ratio decreased to 1.28:1 as at December 31, 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 decrease is due to the equity financing detailed above.

SUBSEQUENT EVENT

On February 16, 2024, the Company closed on the sale of its Queenston Mile Vineyard winery for estimated gross proceeds of $4.5 million. On closing the Company received net proceeds of $3.7 million, comprising of $3.2 million in cash and a vendor take-back mortgage of $0.5 million. The Company entered into an agreement to sell an estimated $0.5 million of inventory over a one- year period. The cash proceeds will be applied against the non- revolving term loan under the BMO credit facility.

CAPITALIZATION

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

	December 31, 2023	March 31, 2023	Change in reporting period
Common shares	47,875,978	27,875,978	20,000,000
Stock options	1,595,000	1,735,000	(140,000)
Deferred share units	1,163,456	528,778	634,678
Warrants	5,392,225	5,555,905	(163,680)
Total equity instruments	56,026,659	35,695,661	20,330,998

The Company issued 20,000,000 common shares as part of an equity financing that closed on November 14, 2023. During YTD 2024, there were no option grants or exercises, and a total of 140,000 options expired unexercised on the departure of members of management and the Board of Directors.

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. In October, 2023, the Company issued an aggregate of 250,521 DSUs valued at $60,125.

During YTD 2024, no common share purchase warrants were issued or exercised. In October, 2023, a total of 163,680 broker warrants expired unexercised.

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 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:

	Q3 2024	**YTD 2024**	**Q3 2023**	**YTD 2023**
	$	**$**	$	$
Revenue	**7,320,640**	23,005,020	9,109,426	25,806,343
Cost of sales				
Change in inventories of finished goods and raw materials consumed	**5,404,004**	15,102,769	5,328,844	15,443,212
Depreciation	**156,998**	494,968	186,075	390,792
Gross profit	**1,759,638**	7,407,283	3,594,507	9,972,339
Exclude depreciation	**156,998**	494,968	186,075	390,792
Gross margin	**1,916,636**	7,902,251	3,780,582	10,363,131
Gross margin (% of revenue)	**26.2%**	34.4%	41.5%	40.2%

The Company calculates EBITDA and Adjusted EBITDA as follows:

	Q3 2024	YTD 2024	Q3 2023	YTD 2023
	$	**$**	$	$
Net loss for period	**(5,162,568)**	(9,973,005)	(1,177,624)	(4,157,931)
Interest and accretion	**764,871**	2,718,979	741,164	1,376,155
Depreciation and amortization	**331,070**	1,138,945	460,335	1,185,823
Financing costs	**9,631**	28,970	17,080	16,744
Impairment charge - intangible assets	**1,374,468**	1,374,468	-	-
Change in fair value of derivative liability	**899,692**	1,185,608	(125,370)	(125,370)
Restructuring charge	**245,725**	245,725	-	36,000
Change in fair value of debentures	**(326,319)**	(326,319)	-	-
Gain on disposition of right-of-use assets	**(19,507)**	(209,164)	(26,594)	(91,158)
Gain on debt extinguishment	**-**	-	(224,984)	(224,984)
Share-based compensation	**83,340**	278,153	115,146	371,149
EBITDA	**(1,799,597)**	(3,537,640)	(220,847)	(1,613,572)
Cost of goods sold adjustments for fair value of EWG inventories sold	**61,243**	152,416	147,000	587,000
Adjusted EBITDA	**(1,738,354)**	(3,385,224)	(73,847)	(1,026,572)

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.