DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

THREE MONTHS PERIODS ENDED JUNE 30, 2019 AND 2018

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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 month period ended June 30, 2019 ("Q1 2020") compared with the corresponding period ended June 30, 2018 ("Q1 2019"). This discussion is prepared as of August 29, 2019 and should be read in conjunction with the (i) unaudited interim condensed financial statements and accompanying notes of Diamond for Q1 2020, and (ii) both the audited consolidated financial statements and MD&A for the fiscal years ended March 31, 2019 and March 31, 2018 (herein referred to as fiscal 2019 and fiscal 2018 respectively). All note references are made in reference to these consolidated financial statements. 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, unless otherwise indicated, 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 global financial crisis, 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. Additional factors are noted in this MD&A under "Risk Factors".

COMPANY OVERVIEW

Diamond Estates Wines and Spirits Inc. is a producer of high-quality wines and a sales agent for over 120 beverage alcohol brands across Canada. The Company operates three wineries, two in Ontario and one in British Columbia, that produce predominantly VQA wines under such well-known brand names as 20 Bees, EastDell, Lakeview Cellars, Dan Aykroyd, Fresh, McMichael Collection, Benchmark, Seasons, Serenity, and Backyard Vineyards. Through its wholly owned subsidiary, 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 Josh wines from California, Fat Bastard and Andre Lurton wines from France, Kaiken wines from Argentina, Anciano wines from Spain, Blue Nun wines from Germany, Francois Lurton wines from France and Argentina, Waterloo Brewing and Amsterdam Brewery, both from Canada, Landshark Lager from the USA, Marston's beers from England, Social Lite vodka sodas from Canada, Malfy Gin from Italy, Edinburgh Gin from Scotland, Ian MacLeod and Glengoyne scotches from Scotland, Barcelo Rum from the Dominican Republic, Tequila Rose Liqueur from McCormick Distilling in the USA, Charles Mondavi & Family wines including Charles Krug from Napa, Bols Vodka from Amsterdam, Brokers Gin from the UK, Koyle Family Wines from Chile, Pearse Lyons whiskies and gins from Ireland, Niagara Craft Distillers' beverages from Ontario, Octavia Vodka from British Columbia, Fontana di Papa wines from Italy, and Castoro de Oro wines from British Columbia.

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 long-term growth prospects for the domestic and import beverage alcohol markets in Canada are positive. The Company continues to be a significant participant in the export market expanding its focus beyond China, where acceptance of Canadian wine remains strong, to include the UK, Vietnam, Japan, Mexico and Russian markets. Canadian wines and particularly ice wines enjoy a premium product positioning with consumers in these countries.

The Company is committed to achieving its sales objectives through its distribution network focused on the provincial liquor boards, licensed restaurants and bars, grocery chains, Diamond's three retail locations, and export channels. The Company has a total workforce of approximately 126 full-time employees, including 47 engaged in the selling and marketing of its brands, 29 in the manufacturing and distribution of its brands, 28 involved in the retailing of its domestic products through its retail facilities and 22 in accounting and administration, including the senior officers. The Company also uses several independent representatives that are compensated by commissions to sell its products in the licensee channel.

RECENT EVENTS

Subsequent to the end of Q1 2020, on July 29, 2019, the Company completed a brokered private placement with Lassonde Industries Inc. ("Lassonde") to issue 36.9 million common shares at $0.19 per share for gross proceeds of $7 million. The issuance of the common shares has resulted in Lassonde taking a 19.9% ownership in the Company and Lassonde will have the right to designate two of the seven members of the Company's Board of Directors.

On the same day, the terms of certain financial covenants with BMO were amended. The fixed charge coverage ratio was amended to include the net proceeds of the Lassonde brokered private placement as equivalent to earnings before interest, depreciation and amortization for a 12-month period ending October 2020.

Also subsequent to quarter-end, on July 8, 2019, the Government of British Columbia amended restrictions on imported wine by allowing it to be sold within grocery stores on isle shelves as opposed to the prior restriction that limited the sale to separate liquor stores within the grocery store. This change is expected to allow greater availability of import wines represented by TBP while increasing accessibility of beverage alcohol to consumers.

On June 6, 2019, the Government of Ontario announced the expansion of beer and wine into 87 additional grocery stores. This brings the total number of stores authorized to sell wine to 225 and to sell beer to 450. Diamond Estates wines are currently in 138 stores. These stores will be opening in September/October 2019 with retailers chosen via a lottery program. Diamond Estates is well positioned to take advantage of this change as the Company's brands maintain the top share of the VQA market in the grocery channel. In additional to this, the LCBO is expanding its agency store program by 200 locations with the first 60 expected to open prior to fall 2019, and the remainder to open in the November to March timeframe.

The Ontario Government continues to move forward with its mandate to increase accessibility of beer and wine to Ontario consumers through grocery and convenience store locations, and thus modernize the sale of beverage alcohol in the province. Should the government succeed in implementing this expansion of the retail footprint, this would represent a significant change to the landscape for beverage alcohol sales and as such the Company continues to work closely with industry partners and government officials to ensure it is adequately prepared for the opportunities this change represents to its own brands as well as those of its agency partners.

Q1 2020 HIGHLIGHTS

- Revenue was $7.3 million, a decline of 8.8% from $8.0 million in Q1 2019, driven by a decrease in winery export sales from the year ago period, and severance revenue in Q1 2019 pertaining to a lost supplier which was not replicated in Q1 2020;
- Gross margin was $3.3 million, or 45.3% of revenue, a decline of 16% from $3.7 million, or 46% of revenue in Q1 2019, primarily driven by a sales channel shift in the winery where higher margin export sales were partially offset by an increase in low margin bulk wine sales;
- EBITDA was $0.1 million, compared to $0.8 million in Q1 2019 with the shortfall resulting from lower revenues as gross margin percentage was essentially flat, and higher expenses due to the addition of Backyard Vineyards;
- Net loss was $0.8 million, compared to net income of $0.1 million in Q1 2019;
- Cash flow from operating activities, before changes in non-cash working capital items, was ($0.2) million, compared to $0.6 million in Q1 2019 with the primary driver for the decline being the net loss of $0.8 million;
- Working capital was $14.4 million as at June 30, 2019, a decrease of $0.5 million from the $14.9 million total as at March 31, 2019, with the decline attributed to reduced inventory levels;

- Significant new business development wins included: Charles Mondavi & Family wines including Charles Krug from Napa; Bols Vodka from Amsterdam; Brokers Gin from the UK; Koyle Family Wines – organic Chilean wines; Pearse Lyons – a premium line of Irish Whiskies and Dublin Gins; Niagara Craft Distillers - an Ontario based craft distiller; Octavia Vodka – a BC based craft Vodka distiller; Fontana di Papa wines from Italy, and Castoro de Oro an award-winning BC winery.
- The Company's restructured sales team in BC and Alberta has secured numerous chain and monopoly wins, and the national focus in building on-premise business has yielded both wine and spirits business wins with some of Canada's largest and best known regional and national chains;
- The Company maintained its leadership position in the emerging grocery channel in Ontario with the #1 position amongst VQA wines, with 20Bees holding three of the top five stock-keeping units ("SKU") and EastDell holding the fifth overall position;
- The Company continues to grow its export business, having established new partnerships in Russia, Europe, Hong Kong, and Mexico with revenues from outside of the main Chinese distributor growing 22% year-over-year;
- IFRS 16 – Leases was adopted using the modified retrospective approach under which the cumulative effect of initial application is recognized in retained earnings at April 1, 2019. Accordingly, the prior period financial information has not been restated. The effect of adoption is the classification of leased premises along with fleet vehicle leases as right of use ("ROU") assets which decreases operating expenses by $57K and increase depreciation and interest expenses by $53K and $20K respectively;
- Winery brands received 20 awards across five prestigious competitions during Q1 2020, including seven Gold and two Double Gold. Both Lakeview Cellars' 2016 Merlot and 2017 Gewurztraminer Icewine won Double Gold at the All Canadian Wine Championships, Lakeview Cellars 2017 Vidal Icewine was awarded the Gold medal from the Decanter awards, and Serenity, which was launched late in Q1 as a mid-premium line of wines and has already garnered accolades, won the Gold medal for its 2018 Sauvignon Blanc at the All Canadian Wine Championships.

QUARTERLY PERFORMANCE (UNAUDITED)

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".

	Jun-2019 Q1 2020	Mar-2019 Q4 2019	Dec-2018 Q3 2019	Sep-2018 Q2 2019	Jun-2018 Q1 2019	Mar-2018 Q4 2018	Dec-2017 Q3 2018	Sep-2017 Q2 2018
	$	$	$	$	$	$	$	$
Balance sheet								
Working capital surplus	14,356,072	14,887,530	17,039,151	15,147,683	14,557,047	13,649,842	16,962,914	12,878,449
Term debt and finance leases	25,274,441	23,141,146	23,554,598	20,983,293	20,633,556	19,870,206	22,014,838	18,024,476
Total equity	14,982,458	15,640,264	17,605,714	18,408,185	18,207,451	16,254,600	17,596,514	17,073,197
Income statement								
Revenue	7,291,322	4,536,520	7,412,303	8,168,951	8,005,329	5,379,083	10,350,258	8,909,281
Gross margin	3,301,771	1,797,361	3,024,156	3,729,894	3,679,176	2,268,204	4,745,427	3,785,536
EBITDA	98,479	(1,390,145)	(230,565)	316,894	790,465	(753,214)	1,015,126	781,325
Adjusted EBITDA	229,385	(1,093,555)	(150,219)	517,233	740,610	(449,022)	1,851,476	877,712
Net (loss) income	(812,439)	(2,160,553)	(1,081,611)	(429,548)	400,467	(1,362,867)	504,374	1,268
Basic (loss) income per share	(0.01)	(0.01)	(0.01)	0.00	0.00	(0.01)	0.00	0.00
Diluted (loss) income per share	(0.01)	(0.01)	(0.01)	0.00	0.00	(0.01)	0.00	0.00

See definition of selected terms under the heading "Non-IFRS Financial Measures"

RESULTS OF OPERATIONS

		FY 2019		FY 2018
Revenue	**$**	**7,291,322**	$	8,005,329
Cost of sales		**3,989,551**		4,326,210
Gross margin		**3,301,771**		3,679,119
Gross margin (% of revenue)		***45.3***		*46.0*
Selling, general and administration expenses		**3,203,292**		2,888,654
Selling, general and administration expenses (% of revenue)		***43.9***		*36.1*
EBITDA		**98,479**		790,465
Adjusted EBITDA (see page 17)		**229,385**		**740,610**
Interest		**316,801**		324,701
Depreciation and amortization		**439,474**		329,522
(Loss) income from operations		**(657,796)**		136,242
Share based compensation		**154,643**		35,884
Net (loss) income and comprehensive (loss) income	**$**	**(812,439)**	$	100,358

See definition of selected terms under the heading "Non-IFRS Financial Measures"

The Company reported a net loss for Q1 2020 of $0.8 million compared to net income of $0.1 million in Q1 2019 with the variance attributed to lower revenues and associated gross margin along with increased expenses from the addition of Backyard Vineyards, which was not present in the year ago quarter.

Revenue for Q1 2020 was $7.3 million, a decrease of $0.7 million, or 8.8%, from $8.0 million in Q1 2019. The winery division accounted for $0.5 million of the decrease. The decrease is predominantly a result of lower export sales, which decreased 69% or $1.5 million from Q1 2019. Order volumes from the Company's primary Chinese distributor continue to lag while they work through excess inventory levels from prior periods. Within the export channel, the Company, through continued diversification of its customer base, has grown export revenues outside of those from the aforementioned distributor by 22% or $0.1 million. LCBO sales were down by 8%, or $0.1 million, in Q1 2020 compared to Q1 2019. This is due in large part to distribution disruptions in the LCBO associated with a new warehouse management system implemented in June 2019. The delayed orders resulted in some key products not getting to the shelves in time for the important summer sales season. The delays also affected the launch of the Company's newest brand, Serenity, which did not hit peak distribution until after the quarter-end. Partially offsetting the aforementioned shortfalls were increases in Contract sales by $0.3 million and Bulk Wine sales by $0.5 million, full quarter contribution from Backyard Vineyards which was acquired June 28, 2018 of $0.4 million, and continued growth in the Grocery channel representing an incremental $0.1 million. The Company continues to hold a strong position in the grocery channel, which, as noted above, saw revenue increase 17% in Q1 2020 compared to Q1 2019. At the conclusion of Q1 2020, Diamond Estates brands held the highest market share in the Ontario grocery channel among VQA wine producers, holding 4 of the top 5 SKU's.

The agency division accounted for $0.2 million of the decrease in revenue in Q1 2020 in comparison to Q1 2019. This was driven by $0.2 million in one-time severance revenues received in Q1 2019 associated with lost suppliers, which was not replicated in the current quarter. Underlying this, run rate revenues for lost suppliers of $0.6 million in the year ago quarter were offset by growth from existing brands as well as from the contribution of new business.

Gross margin for Q1 2020 was $3.3 million, a decline of $0.4 million, or 10%, from $3.7 million in Q1 2019. Gross margin as a percentage of revenue was 45.3% for Q1 2020 compared to 46% in Q1 2019. The winery is the main driver for the shortfall, as lower gross margin dollars were a bi-product of the year-over-year decline in export sales, in addition to an adjustment to Backyard Vineyard COGS of an incremental $0.1 million as a result of recognizing inventory at acquisition at fair value, and the receipt of the annual VQA rebate in Q1 2019 of $0.2 million as opposed to the anticipated receipt later in fiscal 2020. The latter two items also contributed to the decrease as a percentage of revenue as did a channel mix shift from export to bulk, the latter of which has significantly lower margins.

Total operating expenses were $3.2 million in Q1 2020, up $0.3 million, or 10%, from $2.9 million in Q1 2019. Employee compensation and benefits increased by $0.1 million as a result of realizing a full quarter of expenses in Backyard Vineyards, which had only been acquired at the end of the comparative period, on June 28, 2018. The additional variance of $0.2 million compared to the year ago period was a result of increased brand investment in the agency business of $0.1 million, as well as increased commissions associated with the agency partnership in Quebec of $0.1 million.

Interest expense was $0.3 million in Q1 2020, which was essentially flat compared to Q1 2019. As Q1 2019 included an adjustment of $0.1 million for a correction between long-term debt and interest, the normalized variance is an increase of $0.1 million. This increase is a result of higher debt levels, the effect of two rate increases in the second half of calendar 2018 totalling an incremental 50 basis points, and the addition of interest associated with right-of-use assets.

Depreciation of $0.4 million in Q1 2020 increased $0.1 million from $0.3 million in Q1 2019. The increase was attributable to the adoption of IFRS 16 – Leases which converted $0.1 million in facility lease expenses to depreciation and interest. Additionally, the full quarter impact from Backyard Vineyards made up the remainder of the increase.

Share based compensation of $0.2 million in Q1 2020 increased by $0.1 million from Q1 2019. The increase was due to the amortization of the costs associated with the 8,100,000 options, which vest annually in 25% increments over a four-year period. that were issued during the third and fourth quarters of fiscal 2019, and the issuance of DSU's as part of quarterly board of directors' compensation.

LIQUIDITY AND CAPITAL RESOURCES

	June 30, 2019	March 31, 2019
Accounts receivable	**$ 3,552,440**	$ 2,906,154
Inventory	**18,308,342**	19,462,687
Prepaid expenses	**236,776**	232,592
Biological assets	**14,234**	-
Total current assets	**22,111,792**	22,601,433
Property, plant and equipment	**18,555,633**	18,773,456
Intangible assets	**3,070,709**	3,155,141
Right of use assets	**3,501,079**	1,205,150
Total assets	**$ 47,239,213**	$ 45,735,180
Accounts payable and accrued liabilities and other	**$ 6,432,314**	$ 6,403,310
Note payable	**550,000**	550,000
Current portion of term loans payable and lease liabilities	**773,406**	760,593
Total current liabilities	**7,755,720**	7,713,903
Term loans payable, net of current portion	**21,497,722**	21,536,947
Finance leases, net of current portion	**3,003,313**	844,076
Total liabilities	**32,256,755**	30,094,926
Shareholders' equity	**14,982,458**	15,640,254
	$ 47,239,213	$ 45,735,180

Accounts receivable of $3.5 million as at June 30, 2019 increased by $0.6 million, from $2.9 million at March 31, 2019. The increase was attributable to the seasonality of the business, as revenues for the fourth quarter of fiscal 2019 were significantly lower than in the first quarter of fiscal 2019, as is typical.

Inventory balance of $18.3 million as at June 30, 2019 decreased by $1.1 million from $19.5 million at March 31, 2019. The winery is driving the decrease in inventories as a result of depleting bulk wine through finished goods, as well as previously mention bulk sales. The agency division inventory declined $0.1 million as a result of the Company's effort in working through excess inventory that was purchased at year-end as part of fulfilling supplier agreements, as well as working through slow moving inventory and working to improve overall turn rates.

Prepaid expenses of $0.2 million were flat at June 30 and March 31, 2019.

Property, plant and equipment of $18.6 million as at June 30, 2019 decreased by $0.2 million from $18.8 million as at March 31, 2019 as a result of depreciation.

Right of use assets of $3.5 million as at June 30, 2019 are incremental to the March 31, 2019 balance of $nil and are a result of adopting IFRS 16 – Leases which moved the facility leases for TBP and Backyard Vineyards on to the balance sheet.

Intangible assets of $3.1 million were essentially flat as at June 30 and March 31, 2019, with the marginal reduction was due to the amortization of the assets.

Accounts payable, accrued liabilities of $6.4 million at June 30, 2019 were flat to March 31, 2019.

Working capital of $14.4 million as at June 30, 2019 decreased by $0.5 million from $14.9 million as at March 31, 2019 as a result of changes to current assets and liabilities as described above.

The Company's debt to equity ratio increased to 1.72:1 as at June 30, 2019 from 1.51:1 as at March 31, 2019, where debt is defined as total liabilities less other current liabilities and equity is defined as shareholders' equity. This is mainly due to the increase of $2.4 million in lease liabilities as a result of the adoption of IFRS 16 as previously mentioned.

CAPITALIZATION

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

	June 30, 2019	March 31, 2019	Change in period
Common shares	148,511,746	148,511,746	-
Deferred share units	1,872,579	1,622,000	250,579
Stock options	10,975,000	11,850,000	(875,000)
Total equity instruments	161,359,325	161,983,746	(624,421)

The changes to the Company's overall capitalization during Q1 2020 were as follows:

- During Q1 2020, a total of 875,000 options, initially granted on November 24, 2014, expired unexercised on the departure of three executives of the Company;
- On May 27, 2019, the Company issued an aggregate of 250,579 DSUs to non-executive directors under the DSU Plan in settlement of $42,599 of deferred directors' compensation.

STRATEGIC OUTLOOK AND DIRECTION

Diamond is committed to building enduring, high quality beverage alcohol brands that enhance life enjoyment and achievement in a socially responsible manner. The Company believes in the development of leading brands that recognize the consumer's interest in wine, beer, ready-to-drink beverages and spirits, addressing their desire to explore the many exciting offerings that the Company has available. Vertically integrated, Diamond combines modern and efficient production facilities for 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. In addition to this, the Company's recently announced partnership with Lassonde Industries provides additional capital to enable the Company to pursue its growth strategies, and access to a strong sales team that can build and expand the Company's market share in grocery stores across Canada.

The Canadian beverage alcohol market continues to grow strongly, outpacing most consumer categories. Statistics Canada recently reported[1] that in the 12 months ended March 31, 2018 ("2018"), $23.2 billion worth of alcoholic beverages was sold in Canada, up 3.1% from the previous 12 months ended March 31, 2017 ("2017"). The total volume of alcohol sold increased 0.8% to 3,098 million litres in 2018. Wine sales in Canada increased 4.9% in 2018 (2017 – 1.9%) to 531 million litres, up from 505 million litres in 2017; within this Canadian wine rose 5.5% (2017 – 6.9%) while import wines grew 4.2% (2017 – 1.4%). This volume is equivalent to 25.6 (2017 – 24.5) bottles of wine sold per person over the legal drinking age in Canada (1 bottle = 750 ml, 12% alcohol content). The value of wine sold increased 4.6% to $7.5 billion in 2018 from $7.2 billion in 2017. Spirits sales increased 4.4% to $5.5 billion in 2018 from $5.3 billion in 2017. By volume, the increase was 2.0% to 171.9 million litres, or 7.4 bottles of spirits sold per person over the legal drinking age in Canada (1 bottle = 750 ml, 40% alcohol content) in 2017 from 168.5 million litres in 2017. Similarly, beer sales increased by 0.8% to $9.2 billion in 2018. Volume sales were 2.2 billion litres, or 220.4 (2017 – 221.5) bottles of beer sold per person over the legal drinking age in Canada (1 bottle = 341 ml, 5% alcohol content). The market share for wine (in dollar volume) was 32.4% in 2018, up from 32.0% in 2017. Beer represented 39.7% in 2018 (2017 – 40.6%) and spirits sales represented 23.7% in 2018 (2017 – 23.4%). The remaining market share is made up of Ciders, Coolers and Other Refreshment Beverages ("CCORB"), which sold 181 million litres in 2018, up from 167 million litres in 2017.

Ontario wineries have a 44% share[2] of the total market of all wine sold in Ontario, but that figure falls to 11% when including only Vintner Quality Alliance ("VQA") wine. In most other international wine regions, the domestic share is consistently above 70%[2]. There are significant opportunities to grow the sales and market share of Ontario wine given increasing wine consumption, continuous quality improvements and competitive pricing[2]. Diamond will continue to focus on further developing its existing brands of VQA certified wines that include Lakeview Cellars, EastDell, Seasons, 20 Bees, Dan Aykroyd and Fresh. This continued focus will include additional investment in marketing, promotion and advertising to ensure top-of-mind awareness and preference for the Company's brands.

Recent provincial government announcements in New Brunswick, Saskatchewan, British Columbia and Ontario related to the sale of alcohol in grocery stores represents a significant change from the government policies of the past. Although each province is choosing different policy directions, the opening up of market channels is a positive development for Diamond, particularly in the province of Ontario, which represents a significant proportion of sales. Demand for imported wine in China is also very strong. China imported 687.5 million litres (or US$2.85 billion) of wine in calendar 20183. While Chinese import volumes were lower compared to calendar 2017, due in part to trade tensions, its total dollar value of imports increased3. Canadian wine producers are in the very early stages of capitalizing on this opportunity. Canadian wine exports to China totaled 1.4 million litres in calendar 2017, up 9% from the prior year4, and International Wine and Spirit Research ("ISWR") reported that China is on pace to become the world's second largest wine consuming country by 2020, surpassing the United Kingdom and France and trailing only the United States.

Within its portfolio of international brands, the Company's emphasis in its agency division is on building awareness, sales and profit for its existing customer base, while continuing to identify new brand entrants that the Company can represent in the Canadian market. These new brand entrants will include international wines and spirits from a variety of global regions with a specific focus on brands that currently do not have distribution within the Canadian marketplace or are dissatisfied with their current distribution arrangements

1. https://www150.statcan.gc.ca/n1/daily-quotidien/190423/dq190423a-eng.htm
2. https://wgao.ca/ontario-wine-industry/
3. https://www.thedrinksbusiness.com/2019/02/chinas-top-10-wine-importing-countries-in-2018
4. http://www.canadianvintners.com/industry-statistics/

RISK FACTORS

BUSINESS RISKS

The following risk factors should be carefully considered in evaluating the Company and the industry it operates in. The risks presented below may not be all of the risks that Diamond may face. It is believed that these are the factors that could cause actual results to be different from expected and historical results. New risks may emerge and management may not be able to predict all of them, or be able to predict how they may cause actual results to be different from those contained in any forward-looking statements.

ADDITIONAL FINANCING

Diamond will require additional financing in order to make further investments or take advantage of future opportunities. The ability of Diamond to arrange such financing in the future will depend in part upon prevailing capital market conditions, as well as upon the business success of Diamond. There can be no assurance that Diamond will be successful in its efforts to arrange additional financing on terms satisfactory to Diamond. If additional financing is raised by the issuance of shares or other forms of convertible securities from treasury, control of Diamond may change and shareholders may suffer additional dilution. If adequate funds are not available, or are not available on acceptable terms, Diamond may not be able to take advantage of opportunities, or otherwise respond to competitive pressures and remain in business.

PROFITABILITY

There is no assurance that Diamond will earn profits in the future, or that profitability will be sustained. There is no assurance that future revenues will be sufficient to generate the funds required to continue Diamond's business development and marketing activities. If Diamond does not have sufficient capital to fund its operations, it may be required to reduce its sales and marketing efforts or forego certain business opportunities.

DEPENDENCE ON MANAGEMENT AND KEY PERSONNEL

Diamond will depend on the business and technical expertise of its management team and there is little possibility that this dependence will decrease in the near term. Diamond's success will depend in large measure on certain key personnel. The loss of the services of such key personnel may have a material adverse effect on Diamond's business, financial condition, results of operations and prospects. The contributions of the existing management team to the immediate and near term operations of Diamond are likely to be of central importance. In addition, the competition for qualified personnel in the industry is competitive and there can be no assurance that Diamond will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Diamond.

GOVERNMENT REGULATION OF LIQUOR INDUSTRY

Diamond will operate in the highly regulated retail liquor industry in the Province of Ontario and throughout Canada. The Alcohol and Gaming Commission of Ontario (the "AGCO"), the Liquor Control Board of Ontario (the "LCBO") and similar Liquor Boards throughout Canada, may issue decisions, enact rules, new legislation or regulations or may make changes to existing legislation or regulations, all of which can impact the operation of Diamond both favourably and unfavourably. There is no assurance that new legislation or regulations or changes to existing legislation or regulations or decisions of any regulatory bodies in the retail liquor industry in Canada will not adversely affect the operations, profitability, or distributable cash of Diamond.

SIGNIFICANT COMPETITION

The alcoholic beverage industry in Canada is intensely competitive, consisting of many large and small Canadian corporations and international corporations with some possessing extensive experience and financial resources.

MANAGEMENT OF GROWTH

Diamond may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of Diamond to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of Diamond to deal with this growth may have a material adverse effect on Diamond's business, financial condition, results of operations and prospects.

ISSUANCE OF DEBT

From time to time, Diamond may enter into transactions to acquire assets or the shares of other organizations or seek to obtain additional working capital. These transactions may be financed in whole or in part with debt, which may increase Diamond's debt levels above industry standards for companies of similar size. Depending on future plans, Diamond may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms to Diamond. The level of Diamond's indebtedness, from time to time, could impair its ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

LABOUR COSTS AND SHORTAGES AND LABOUR RELATIONS

The success of Diamond's business depends on a large number of both hourly and salaried employees. Changes in the general conditions of the employment market could affect the ability of Diamond to hire or retain staff at current wage levels. The occurrence of either of these events could have an adverse effect on Diamond's results of operations. Diamond does not currently have unionized staff but no assurance can be made that some or all of the employees of Diamond will not unionize in the future. If successful, such an occurrence could increase labour costs and thereby have an adverse effect on Diamond's results of operations.

AGRICULTURAL RISK

The production and sale of wine is dependent upon a consistent supply of high-quality grapes available at reasonable prices. Should some or all of the wineries that Diamond works with be unable to produce the quality of grapes necessary to produce wine, such a shortfall in product could adversely affect the operations, profitability, and/or distributable cash of Diamond.

Diamond expects to continue to increase its share of the premium wine business in Canada, principally through the sale of VQA wines, and as a result is more dependent on the quality and supply of domestically grown premium quality grapes. If any of Diamond's vineyards experience certain weather variations, natural disasters, pestilence, other severe environmental problems or other occurrences, Diamond may not be able to secure a sufficient supply of grapes and there could be a decrease in the production of certain products from those regions and/or an increase in costs. In the past, where there was a significant reduction in domestically sourced grapes, the Government of Ontario, in conjunction with the Wine Council of Ontario and the Ontario Grape Growers Marketing Board, agreed to temporarily increase the blending of imported wines, which enables Diamond to continue to supply wines to the market. There is no certainty that such intervention will be available to the same extent in the future, if at all. The inability to secure premium quality grapes could impair the ability of Diamond to supply wines to its customers.

FOREIGN EXCHANGE

Foreign exchange risk exists on the purchases of all agency brand inventories purchased in foreign currencies for British Columbia and Alberta, which are predominately in Euros and Australian dollars. Diamond currently does not enter into foreign exchange contracts.

ENERGY COSTS

Diamond could experience an increase in energy costs which could result in higher transportation, freight and other operating costs. Diamond's future operating expenses and margins will be dependent on its ability to manage the impact of cost increases. Diamond cannot guarantee that it will be able to pass along increased energy costs to its customers through increased prices.

TAXATION

Canada imposes excise and other taxes on beverage alcohol products in varying amounts which have been subject to change. Significant increases in excise and other taxes on beverage alcohol products could materially and adversely affect Diamond's financial condition or results of operations. In addition, federal and provincial governmental agencies extensively regulate the beverage alcohol products industry concerning such matters as licensing, trade practices, permitted and required labelling, advertising and relations with consumers and retailers. Certain federal and provincial regulations also require warning labels and signage. New or revised regulations or increased licensing fees, requirements or taxes could also have a material adverse effect on Diamond's financial condition or results of operations.

TRADEMARKS

Diamond considers its trademarks, particularly certain brand names and product packaging, advertising and promotion design and artwork to be of significant importance to its business and ascribes a significant value to these intangible assets. Diamond will rely on trademark laws and other arrangements to protect its proprietary rights. There can be no assurance that the steps taken by Diamond to protect its intellectual property rights will preclude competitors from developing confusingly similar brand names or promotional materials. Diamond believes that its proprietary rights do not infringe upon the proprietary rights of third parties, but there can be no assurance in this regard.

IMPORTANCE OF INVENTORY, WAREHOUSE AND DISTRIBUTION SYSTEMS

Diamond's inventory, warehouse and distribution systems are critical components of its operations. Diamond's ability to maintain and upgrade the capabilities of these systems is important to its future performance. If Diamond is unable to maintain the inventory, warehouse and distribution systems or fails to adequately upgrade these systems, Diamond's operations could be adversely affected with the further material adverse effect being on financial results of operations.

WHOLESALE COST INCREASES

Wholesale costs are dependent on a number of factors, including inflation and fuel prices. Any attempt to pass on an increase in wholesale costs to consumers through product price increases could have a material adverse effect on Diamond's sales while a failure to effectively pass any such increases on to consumers could have a material adverse effect on Diamond's result of operations.

DISTRIBUTION BUSINESS

Diamond's business model includes a number of wine and alcohol brands that are represented on an agency basis. There is a risk that such agency brands are sold to an entity that has a pre-existing distribution agency relationship with a provider other than Diamond, and Diamond's revenues and profitability could suffer as result. Furthermore, Diamond's distribution business depends on the ability to retain its current brands as well as attracting additional brands in the future, and a failure to do so could negatively impact revenues and profitability of Diamond.

CREDIT RISK

Credit risk arises from credit exposure to customers through outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the Company's financial assets. The objective of managing counterparty credit risk is to prevent losses in financial assets. The Company assesses the credit quality of its counterparties, taking into account their financial position, past experience and other factors. As the large majority of the Company's accounts receivable balances are collectable from government-controlled liquor boards, management believes the Company's credit risk relating to accounts receivable is at an acceptably low level.

EXPOSURE TO INTEREST RATE FLUCTUATIONS

The Company has a high level of floating rate debt. Interest rate risk exists as an increase in interest rates would increase the Company's overall financing costs and have a material impact on Diamond's financial position over the long term.

ENVIRONMENTAL COMPLIANCE

Environmental liabilities may potentially arise when companies are in the business of manufacturing products and, thus, required to handle potentially hazardous materials. As an owner and lessor of property, the Company is subject to various federal and provincial laws relating to environmental matters. Such laws provide that the Company could be held liable for the cost of removal and remediation of hazardous substances on its properties. Management is of the opinion that the risk of environmental liabilities is considered minimal.

PACKAGING

The Company purchases glass, bag in box and other components used in the bottling and packaging of wine. The largest component in the packaging of wine is glass, of which there are few domestic or international suppliers. Diamond sources glass from various distributors and manufacturers both domestically and internationally to insure an adequate supply. As there is currently only one commercial supplier of glass in Canada, any interruption in supply could have an adverse impact on the Company's ability to supply its markets.

INDUSTRY CONSOLIDATION

In recent years, the global beverage alcohol industry has experienced a significant amount of consolidation. Industry consolidation can have varying degrees of impact and, in some cases, may even create exceptional opportunities. Either way, management believes that the Company is well positioned to deal with this or other changes to the competitive landscape in Canada.

RISKS RELATED TO COMMON SHARE INVESTMENTS

PRICE VOLATILITY OF PUBLICLY TRADED SECURITIES

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price. There can be no assurance that continuing fluctuations in price will not occur. It may be anticipated that any quoted market for Diamond's shares will be subject to market trends generally, notwithstanding any potential success of Diamond in creating revenues, cash flows or earnings. The value of Diamond's shares will be affected by such volatility. A public trading market in the Common Shares having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of common shares at any given time, which presence is dependent on the individual decisions of investors over which Diamond has no control. There can be no assurance that an active trading market in securities of Diamond will be established and sustained. The market price for Diamond's securities could be subject to wide fluctuations, which could have an adverse effect on the market price of Diamond. The stock market has, from time to time, experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance, net asset values or prospects of particular companies. If an active public market for Diamond's shares does not develop, the liquidity of a shareholder's investment may be limited and the share price may decline.

DILUTION

Diamond may make future acquisitions or enter into financings or other transactions involving the issuance of securities of Diamond which may be dilutive to the existing shareholders.

DIVIDENDS

Diamond has not paid any dividends on its outstanding common shares. Any payments of dividends on the common shares of Diamond will be dependent upon the financial requirements to finance future growth, the financial condition of Diamond and other factors which Diamond's board of directors may consider appropriate in the circumstance. It is unlikely that Diamond will pay dividends in the immediate or foreseeable future.

FINANCIAL MARKET TURMOIL

Global financial market and economic conditions can pose a significant threat to economic growth in almost all sectors and economies, causing a decline in consumer and business confidence, a reduction in credit availability and a dampening in business and household spending.

NON-IFRS FINANCIAL MEASURES

Management uses net income and comprehensive income as presented in the consolidated statements of net income and comprehensive income as well as "EBITDA" and "Adjusted EBITDA" as a measure to assess performance of the Company. EBITDA and "Adjusted EBITDA" are other financial measures and are reconciled to net income and comprehensive income below under "Results of Operations".

EBITDA and Adjusted EBITDA are supplemental financial measure to further assist readers in assessing the Company's ability to generate income from operations before taking into account 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 such as severance, restructuring costs, one-time financing charges, acquisition costs, cost of sales adjustments related to inventory acquired in business combinations and other non-recurring adjustments. 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 EBITDA and Adjusted EBITDA as follows:

	Q1 2020	Q1 2019
	$	**$**
Net (loss) income	**(812,439)**	100,358
Add: Interest on long-term debt	**316,801**	324,701
Depreciation on property, plant and equipment used in production	**202,454**	163,965
Depreciation on property, plant and equipment used in selling and administration	**152,589**	80,251
Amortization on intangible assets	**84,431**	85,306
Share-based compensation	**154,643**	35,884
EBITDA	**98,479**	790,465
Cost of goods sold adjustments for fair value of BYV inventories sold	**108,218**	-
Acquisition costs	**-**	48,950
Inventory provision	**-**	-
Warehousing cost recovery	**-**	(49,506)
Financing costs	**22,688**	-
IFRS 16 ROU assets adjustment	**-**	-
QST recovery	**-**	(49,299)
Adjusted EBITDA	**229,385**	740,610

USES OF ESTIMATES AND JUDGEMENTS

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made. These include, but are not limited to, the following:

FAIR VALUE OF GRAPES AT THE POINT OF HARVEST

Where possible, the fair value of grapes at the point of harvest is determined by reference to local market prices for grapes of a similar quality and the same varietal. For grapes for which local market prices are not readily available, the average price of similar grapes is used. The fair value of grapes is included in the cost of bulk wine inventory.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment represent a significant proportion of the asset base of the Company as they amount to 46.7% of total assets as at June 30, 2019 (June 30, 2018 - 44.4%). Therefore, estimates and assumptions made to determine their carrying value and related depreciation are critical to the Company's financial position and performance. IFRS requires management to test for impairment of property, plant and equipment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. The useful lives and residual values of the Company's assets are determined by management at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their life.

GROSS VERSUS NET PRESENTATION

When deciding the most appropriate basis for presenting revenue or costs of revenue, both the legal form and substance of the agreement between the Company and its business partners are reviewed to determine each party's respective role in the transaction. Where the Company's role in a transaction is that of principal, revenue is recognized on a gross basis. This requires revenue to comprise the gross value of the transaction billed to the customer, after trade discounts, with any related expenditure charged as an operating cost. Where the Company's role in a transaction is that of an agent, revenue is recognized on a net basis with revenue representing the margin earned.

USEFUL LIFE OF INTANGIBLE ASSETS

Significant judgement is involved in the determination of useful life for the computation of depreciation of intangible assets. No assurance can be given that actual useful lives will not differ significantly from current assumptions.

IMPAIRMENT OF INTANGIBLE ASSETS

Testing intangible assets for impairment involves estimating the recoverable amount of the CGUs to which intangible assets are allocated. This requires making assumptions about future cash flows, growth rates, market conditions and discount rates, which are inherently uncertain. Actual amounts may vary from these assumptions and cause significant adjustments. Management has concluded that a 10% change in any key assumption in the impairment test of intangible assets would not result in an impairment of intangible assets as at March 31, 2017 and March 31, 2016.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

IFRS 9: "Financial Instruments: Classification and Measurement of Financial Assets and Financial Liabilities" was issued by the IASB in July, 2014 and replaced IAS 39 "Financial Instruments: Recognition and Measurement". In addition, IFRS 7 "Financial Instruments: Disclosures" was amended to include additional disclosure requirements on transition to IFRS 9. The mandatory effective date of applying these standards is for annual periods beginning on or after January 1, 2018. The standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used. The standard requires that for financial liabilities measured at fair value, any changes in an entity's own credit risk are generally to be presented in other comprehensive income instead of net earnings. A new hedge accounting model is included in the standard, as well as increased disclosure requirements about risk management activities for entities that apply hedge accounting. The new standard was adopted effective April 1, 2018 using a modified retrospective approach and resulted in the reclassification of the Company's financial assets previously classified as loans and receivables to financial assets at amortized cost. The adoption did not have a significant impact on the consolidated financial statements.

IFRS 15: "Revenue from Contracts with Customers" was issued by the IASB in May, 2014 and supercedes IAS 18 "Revenue" and IAS 11 "Construction Contracts". The standard details a revised model for the recognition of revenue from contracts with customers. The standard is effective for first interim periods within annual periods beginning on or after January 1, 2018. The Company has adopted the accounting standard effective April 1, 2018, using a full retrospective approach and the adoption did not have a significant impact on the consolidated financial statements.

IFRS 16: "Leases" was issued by the IASB in January 2016 and will ultimately replace IAS 17, "Leases" and related interpretations. The new standard will be effective for fiscal years beginning on or after January 1, 2019, with early adoption permitted provided the Company has adopted IFRS 15, Revenue from Contracts with Customers. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all leases contracts, and record it on the statement of financial position, except with respect to lease contracts that meet limited exception criteria. Given that the Company has significant contractual obligations in the form of operating leases under IAS 17, there will be a material increase to both assets and liabilities on adoption of IFRS 16, and material changes to the timing of recognition of expenses associated with the lease arrangements. The Company has adopted the accounting standard effective April 1, 2019, using the modified retrospective approach applying the following practical expedients: (i) grandfather the assessment of which transactions are leases; (ii) recognition exemption of short-term leases; and (iii) recognition exemption leases of low value items. The cumulative effect of initial application is recognized in retained earnings at April 1, 2019. Accordingly, the prior period financial information has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.