DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

THREE MONTHS ENDED JUNE 30, 2020 AND 2019

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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, 2020 ("Q1 2021") compared with the corresponding period ended June 30, 2019 ("Q1 2020"). This discussion is prepared as of August 28, 2020 and should be read in conjunction with the (i) unaudited interim condensed financial statements and accompanying notes of Diamond for Q1 2021, and (ii) both the audited consolidated financial statements and MD&A for the fiscal years ended March 31, 2020 and 2019 (herein referred to as FY2020 and FY2019 respectively). Any note references are made with respect 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, 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. Additional factors are noted in this MD&A under "Risk Factors".

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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 two wineries, one 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, Seasons, Serenity, and Backyard Vineyards. Through its commercial division, Trajectory Beverage Partners ("TBP"), 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, Blue Nun wines from Germany, Francois Lurton wines from France and Argentina, Felix Solis wines from Spain, Waterloo Brewing and Amsterdam Brewery, both from Canada, Landshark Lager from the USA, Marston's beers from England, Social Lite vodka sodas from Canada, Edinburgh Gin from Scotland, Tamdhu, Glengoyne and Smokehead single-malt Scotch whiskies, Barcelo Rum from the Dominican Republic, C.K. Mondavi & Family wines including Charles Krug from Napa, Bols Vodka from Amsterdam, Koyle Family Wines from Chile, Pearse Lyons whiskies and gins from Ireland, Niagara Craft Distillers' beverages from Ontario, Fontana di Papa wines from Italy, and certain Heineken International beer brands, including Tiger from Singapore, Red Stripe and Dragon Stout from Jamaica and Gosser and Kaiser from Austria.

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 expanding its focus beyond China. 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 focused on the provincial liquor boards, licensed restaurants and bars, grocery chains, Diamond's two retail locations, and export channels. This distribution network is supported by enhanced sales, marketing, and promotional programs.

Q1 2021 HIGHLIGHTS

- Revenue for Q1 2021 was $5.9 million, a decline of 18.5% or $1.4 million from $7.3 million in Q1 2020, due primarily to the negative impact of COVID-19, which resulted in the closure of most private retail and on-premise accounts nationally in the winery division, partially offset by increased revenue from TBP;
- Gross margin for Q1 2021 was $2.7 million, a decline of $0.6 million or 17.9% from $3.3 million in Q1 2020, while gross margin as a percentage of revenue reached 45.6% for Q1 2021 compared to 45.3% in Q1 2020;
- EBITDA was $0.3 million in Q1 2021 compared to negative $0.1 million in Q1 2020 with the increase attributable to a decrease in employee compensation of $0.7 million, net of the reduction in gross margin of $0.6 million;
- The Company maintained its strong position in the emerging Ontario grocery channel amongst VQA wines, with 20 Bees representing three of the top 10 selling stock keeping units ("SKU's");

- One of the flagship brands within the TBP agency division, Josh Cellars, is gaining success in the grocery channel, with Josh Cabernet Sauvignon currently the top selling imported red wine over $15 and sales volume growing in excess of 150%. In April 2020, the Company renewed the Deutsch Family Wines agreement for an additional three years, recognizing the considerable success of TBP in building the Josh brand within the Canadian retail and on-premise channels;
- The Company was awarded Canadian representation of a number of Heineken International beer brands under a three year agreement including Tiger from Singapore, Red Stripe and Dragon Stout from Jamaica and Gosser and Kaiser from Austria;;
- The Company continues to leverage its national footprint as a result of the Backyard Vineyards ("BYV") acquisition through new business wins in the high margin Licensee channel, bringing expanded distribution with domestic and partner brands across British Columbia, Alberta and Ontario;
- The Company identified and qualified new international distributors, including partners located in Finland, Sweden, Denmark, Mexico, Singapore, USA and Russia. As the pandemic has eased in certain of these countries, existing export orders have been re-activated and delivered;
- As a result of the COVID-19 pandemic, Diamond has seen a shift of wine volume sales, particularly in Ontario, from traditional retail channels to grocery, on-line, direct delivery and curbside retail channels;
- On July 24, 2020, the Company completed an amendment to its existing credit agreement with Bank of Montreal ("BMO") under which, among other terms, the maturity date of the credit agreement was extended to July 1, 2022. As consideration for the lender entering into this agreement, the Company issued 750,000 warrants to BMO *(see discussion under "Liquidity and Capital Resources" section below)*.

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-2020 Q1 2021	Mar-2020 Q4 2020	Dec-2019 Q3 2020	Sep-2019 Q2 2020	Jun-2019 Q1 2020	Mar-2019 Q4 2019	Dec-2018 Q3 2019	Sep-2018 Q2 2019
	$	$	$	$	$	$	$	$
Balance sheet								
Working capital surplus (deficiency)	18,365,074	(993,456)	18,119,252	14,326,686	14,356,072	14,887,530	17,039,151	15,147,683
Term debt and finance leases	22,851,385	22,284,817	21,520,150	19,266,726	25,274,441	23,141,146	23,554,598	20,983,293
Total equity	20,102,264	20,445,742	21,946,546	20,743,733	14,982,458	15,640,264	17,605,714	18,408,185
Income statement								
Revenue	5,941,239	5,386,592	6,901,517	7,214,799	7,291,322	4,536,520	7,412,303	8,168,951
Gross margin	2,709,599	2,039,191	2,999,783	3,771,820	3,301,771	1,797,361	3,024,156	3,729,894
EBITDA	282,737	(750,506)	(405,757)	183,404	98,479	(1,390,145)	(230,565)	316,894
Adjusted EBITDA	506,715	(241,440)	(284,372)	296,427	229,385	(1,093,555)	(150,219)	517,233
Net income (loss)	(362,320)	(1,583,227)	(1,314,052)	(476,321)	(812,439)	(2,160,553)	(1,081,611)	(429,548)
Basic income (loss) per share	(0.010)	(0.01)	0.00	0.00	(0.01)	(0.01)	(0.01)	0.00
Diluted income (loss) per share	(0.010)	(0.01)	0.00	0.00	(0.01)	(0.01)	(0.01)	0.00

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

RESULTS OF OPERATIONS

		Q1 2021		Q1 2020
Revenue	**$**	**5,941,239**	$	7,291,322
Cost of sales		**3,231,640**		3,989,551
Gross margin		**2,709,599**		3,301,771
Gross margin (% of revenue)		***45.6***		*45.3*
Selling, general and administration expenses		**2,426,862**		3,203,292
Selling, general and administration expenses (% of revenue)		***40.8***		*43.9*
EBITDA		**282,737**		98,479
Interest		**210,230**		316,801
Depreciation and amortization		**415,986**		439,474
Loss from operations		**(343,479)**		(657,796)
Share based compensation		**18,841**		154,643
Net loss and comprehensive loss	**$**	**(362,320)**	$	(812,439)

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

Revenue for Q1 2021 was $5.9 million, a decline of 18.5% or $1.4 million from $7.3 million in Q1 2020. Winery revenue for Q1 2021 was $2.6 million, a decrease of 36.7% or $1.5 million from $4.1 million in Q1 2020, specifically related to the closure of most private retail and on-premise accounts nationally as a result of COVID-19. TBP revenue for Q1 2021 was $3.3 million, an increase of 5.2% or $0.2 million from $3.2 million in Q1 2020.

Gross margin for Q1 2021 was $2.7 million, a decline of $0.6 million or 17.9% from $3.3 million in Q1 2020, while gross margin as a percentage of revenue reached 45.6% for Q1 2021 compared to 45.3% in Q1 2020. The gross margin of the winery business dropped $0.6 million, but gross margin % remained relatively consistent year over year at 39.1% for Q1 2021 compared to 40.1% for Q1 2020. For the agency business, the gross margin increased nominally by $0.1 million, but gross margin % declined to 50.7% for Q1 2021 compared to 52.0% for Q1 2020..

Total SG&A expenses for Q1 2021 were $2.4 million, a decrease of $0.8 million, or 24.2%, from $3.2 million in Q1 2020. The decrease is attributable to a decline of $0.7 million in employee compensation and $0.2 million in advertising and promotion. The decline in employee compensation was a function of payroll decreases of 20 to 25% as employees working hours were reduced due to the effects of COVID-19, as well as a subsidy of $0.3 million received under the federal government's CEWS program.

Interest expense for Q1 2021 was $0.2 million compared to $0.3 million in Q1 2020, a decrease of $0.1 million. The decrease resulted from lower balances drawn on the revolving line of credit and a significant decrease in the bank's prime lending rate from the prior year.

Net loss for Q1 2021 was $0.5 million, a decrease of $0.3 million compared to a net loss of $0.8 million in Q1 2020. The decrease in the net loss was largely attributable to the reduction in SG&A expenses of $0.8 million noted above, partially offset by the decrease in gross margin of $0.6 million in the winery business.

Liquidity and Capital Resources

	June 30, 2020	March 31, 2020
Accounts receivable	**$ 2,600,843**	$ 3,406,053
Inventory	**21,664,633**	22,099,156
Prepaid expenses	**422,389**	266,146
Biological assets	**14,234**	-
Total current assets	**24,702,099**	25,771,355
Property, plant and equipment	**18,042,579**	18,208,422
Right of use assets	**3,052,819**	3,166,836
Intangible assets	**2,719,771**	2,804,615
Total assets	**$ 48,517,268**	$ 49,951,228
Accounts payable and accrued liabilities and other	**$ 5,563,619**	$ 7,220,669
Current portion of term loans payable and lease liabilities	**773,406**	19,544,142
Total current liabilities	**6,337,025**	26,764,811
Term loans payable, net of current portion	**19,512,821**	-
Finance leases, net of current portion	**2,565,158**	2,740,675
Total liabilities	**28,415,004**	29,505,486
Shareholders' equity	**20,102,264**	20,445,742
	$ 48,517,268	$ 49,951,228

The BMO credit agreement is dated September 29, 2017 and has been amended pursuant to a first amending agreement dated July 29, 2019, a second amending agreement (the "Second Amending Agreement") dated December 17, 2019, a third amending agreement (the "Third Amending Agreement") dated May 15, 2020, and a fourth amending agreement (the "Fourth Amending Agreement") dated July 24, 2020.

Working capital was $18.4 million as at June 30, 2020, an increase of $19.3 million compared to the $0.9 million deficiency as at March 31, 2020. The Third Amending Agreement, in effect as of June 30, 2020, has a maturity date of September 30, 2021. As that maturity date is twelve months after the reporting date, classification has reverted back to long-term. The classification is expected to remain as long-term based on the extension of the credit agreement to July 1, 2022 under the terms of the Fourth Amending Agreement. The Second Amending Agreement, in effect as of March 31, 2020, had a maturity date of September 26, 2020. As that maturity date fell within twelve months of the reporting date, all indebtedness was classified as current. On a pro-forma basis (after giving effect to the Fourth Amending Agreement), the working capital as at March 31, 2020 was $17.7 million, such that normalized working capital has increased by $0.7 million as at June 30, 2020.

Accounts receivable of $2.6 million as at June 30, 2020 decreased by $0.8 million from $3.4 million at March 31, 2020. The decrease was primarily the result of the decline in revenue (*see discussion in "Results of Operations" section above*).

The inventory balance was $21.7 million as of June 30, 2020, a small decrease of $0.4 million from $22.1 million at March 31, 2020. Winery bulk inventory decreased by $1.8 million as bulk wine moved through the production process.

Accounts payable and accrued liabilities of $5.6 million as at June 30, 2020 decreased by $1.6 million from $7.2 million as at March 31, 2020. The decrease reflected continued active management of disbursements.

The Company's credit facilities with BMO include a non-revolving term loan and a revolving operating line, the total of which was $19.8 million as at June 30, 2020, 2020, an increase of $0.6 million from $19.2 million as at March 31, 2020. The term loan balance declined by $0.1 million to $8.8 million as a result of quarterly scheduled repayment, while the operating line balance increased by $0.8 million to $11.1 million. The operating line increase plus collections on accounts receivable were used to fund the paydown to accounts payable.

The terms of the BMO credit facility were further changed upon execution of the Fourth Amending Agreement, as follows:

- The maturity date was extended to July 1, 2022, meaning all indebtedness is expected to be classified as long-term until June 30, 2021.
- The definitions of certain EBITDA adjustments were refined for the quarters ending September 30, 2020 and December 31, 2020.
- The minimum fixed charge coverage ratio was amended to 1.20|1.00 and 1.05|1.00 respectively for the quarters ending September 30, 2020 and December 31, 2020.
- Quarterly principal payments of $125,000 were deferred for the quarters ending September 30, 2020 and December 31, 2020.

As consideration for the lender entering into this agreement, the Company issued 750,000 warrants to BMO, with each such warrant being exercisable for one common share in the Company for a period of two years at an exercise price of $0.16 per common share, vesting immediately and expiring as of July 1, 2022.

The Company's debt to equity ratio increased slightly to 1.14:1 as at June 30, 2020 from 1.09:1 as at March 31, 2020, where debt is defined as total liabilities less accounts payable and accrued liabilities and other liabilities, and equity is defined as shareholders' equity.

CAPITALIZATION

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

	June 30, 2020	March 31, 2020	Change in period
Common shares	200,005,566	200,005,566	-
Deferred share units	2,011,522	1,815,037	196,485
Stock options	8,050,000	8,050,000	-
Total equity instruments	210,067,088	209,870,603	196,485

The only change to the Company's overall capitalization during Q1 2021 was the issuance of 196,485 DSUs on April 20, 2020 to non-executive directors in settlement of deferred directors' compensation. There were no share capital transactions or changes in issued stock options during the reporting period. There were further issuances of DSUs and stock option grants after the end of the reporting period (*see discussion under "Subsequent Events" section below*).

As consideration for the lender entering into the Fourth Amending Agreement, the Company issued 750,000 warrants to BMO on July 24, 2020 *(see discussion under "Liquidity and Capital Resources" section above).*

SUBSEQUENT EVENTS

On August 20, 2020, the Company issued an aggregate of 201,898 DSUs to non-executive directors under the DSU Plan in settlement of $28,266 of deferred directors' compensation.

On August 20, 2020, the Company issued a total of 1,250,000 stock options (effective as of August 3, 2020) to key members of management with an exercise price of $0.14. The options have a term of 5 years vesting 25% per year on each anniversary date over the next 4 years.

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, ready to drink beverages and spirits, while addressing their desire to explore the many exciting offerings that the Company has available. The Company has also added low alcohol and no-alcohol beer and wine suppliers to its portfolio, as consumer interest and demand in those categories is growing. 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. In addition to this, the Company's partnership with Lassonde Industries Inc. has provided additional capital to enable the Company to pursue its growth strategies, and access to a reputable national sales team that can build and expand the Company's market share in grocery stores across Canada.

The COVID-19 pandemic has had a material impact on the global economy, the scale and duration of which remains uncertain. To date, there has been significant volatility in foreign exchange rates, restrictions on the conduct of businesses, including travel restrictions and supply chain disruptions. Depending on the duration and extent of the impact of COVID-19, this could materially impact the Company's results of operations, cash flows, and financial position.

These changes in behaviour had direct impacts to the Company, reducing sales from winery retail (including fewer international visitors), on-premise licensee business, contracts and export channels, somewhat compensated for by volume generated from grocery retail, online, direct delivery and curbside pickups.

In order to adapt to this new reality, the Company's retail operations have changed with the introduction of physical distancing, reduced density and a modified shopping experience in Phase One/Two/Three with touchless retail, limited product tastings and greater use of external physical resources (patios, event canopies, outdoor venues). Restaurant protocols involving fewer seats and less density will result in increased retail costs associated with use of PPE and increased sanitizing.

The Company expects a rebound in revenue once physical distancing is relaxed, social bubbles are expanded, and restaurants and bars are fully reopened. Many provincial governments are also relaxing the rules governing restaurants to allow home delivery of beverage alcohol with take-out meals to the end of December 2020.

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 227 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. The current focus of the government on managing the issues related to COVID-19 pandemic and opposition from the incumbent Brewer's Retail organization has slowed the expansion of the government's plans.

The Company firmly believes that the export market for Canadian wines will return to more normal volumes and growth as the COVID-19 pandemic subsides worldwide. Interest in and appreciation of Canadian Icewine and table wines remains high. Recent sales to new export markets are encouraging, but remain tentative at this point in time.

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.

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.

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.

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.

The COVID-19 pandemic has multiple effects on the Company and its employees. We have recently instituted new retail protocols and procedures in all our retail facilities including the use of personal protective equipment (PPE), instituting mandatory physical distancing between employees and patrons and installing plexiglass dividers at all check-out counters and tasting bars. Additionally, the company has revamped its manufacturing procedures to insure physical distancing and the use of appropriate protective equipment with all manufacturing and delivery staff.

The Company is respecting and complying with all additional safety protocols and guidelines, and has enhanced operating protocols to ensure physical distancing, personal protection and proper sanitizing with additional support for in-house delivery for PPE and safety protocols.

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.

The COVID-19 outbreak is now affecting many countries. This pandemic is having significant impacts on global supply chains. The Company's supply of packaging could therefore be significantly affected by disruptions affecting certain suppliers. The Company will therefore likely encounter direct and indirect adverse effects on its supply capacity if the situation does not improve quickly enough.

.*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.

CYBERSECURITY

In the normal course of business, the Company relies on information technology systems to process, transmit and store information in all areas of its operations as well as for the reporting of its results. Additionally, a significant portion of that information concerns its business and/or clients and partners and is maintained either within its premises or at the sites of its technology partners.

These systems may be vulnerable to an increasing number of sophisticated cyber threats and other failures such as telecommunications interruptions, natural disasters, human error and other security issues. Such events could impede or interrupt the Company's operations or result in other negative consequences, including remediation costs, loss of revenue, litigation and reputational damage, or fines and criminal penalties. The Company's financial results, market value or ability to achieve its strategic business objectives could be significantly affected by such events.

The Company regularly monitors, manages, and enhances its ability to mitigate cyber risk through its enterprise-wide cyber security programs; disaster recovery investments; risk management practices; implementations of policies, procedures and control processes; and outsourcing contract management practices to address such risks. However, there is no absolute assurance that such measures can impede all such risks.]

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 loss and comprehensive loss as presented in the consolidated statements of net loss and comprehensive loss 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 loss and comprehensive loss 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 2021 **$**	**Q1 2020** **$**
Net loss for period	(362,320)	(812,439)
Interest on term loans	210,230	316,801
Depreciation of property, plant and equipment used in production	186,434	202,454
Depreciation of property, plant and equipment used in selling and administration	144,708	152,589
Amortization of intangible assets	84,844	84,431
Share-based compensation	18,841	154,643
Other income	-	-
Income tax recovery	-	-
EBITDA	282,737	98,479
Acquisition costs	-	70,617
Cost of goods sold adjustments for fair value of BYV inventories sold	-	108,218
Warehousing cost recovery	-	(49,506)
QST recovery	-	(49,299)
Severance and related costs included in employee compensation and benefits and professional fees	-	201,078
Financing costs	75,994	22,688
Inventory adjustment	147,984	-
Adjusted EBITDA	506,715	402,275

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:

COVID-19 ESTIMATION UNCERTAINTY

The COVID-19 pandemic has had a material impact on the global economy, the scale and duration of which remains uncertain. To date, there has been significant volatility in foreign exchange rates, restrictions on the conduct of businesses, including travel restrictions and supply chain disruptions. Depending on the duration and extent of the impact of COVID-19, this could materially impact the Company's results of operations, cash flows, and financial position and could result in changes to estimates used. Changes related to these could be material.

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 and ROU assets represent a significant proportion of the asset base of the Company as they amount to 43.5% of total assets as at June 30, 2020 (March 31, 2020 - 42.8%). 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.

RECENTLY ADOPTED AND ISSUED ACCOUNTING PRONOUNCEMENTS

IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"

These standards have been amended to use a consistent definition of materiality throughout all accounting standards, clarify the explanation of the definition of material and incorporate some of the guidance in IAS 1 about immaterial information. The amendments are effective for annual periods beginning on or after January 1, 2020. The adoption of these amendments did not have a significant impact on the consolidated financial statements.

IFRS 3 "Business Combinations"

This standard has been amended to improve the definition of a business. The amendments will help companies determine whether an acquisition made is of a business or a group of assets. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contributions to the ability to create outputs. The amendments are effective for annual periods beginning on or after January 1, 2020. The adoption of these amendments did not have a significant impact on the consolidated financial statements.

IFRS 16 "Leases"

This standard has been amended to provide lessees with an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. This amendment is effective for annual periods beginning on or after June 1, 2020. At this time, the Company has not received rent concessions related to COVID-19 and therefore, this amendment is not expected to have a significant impact on the consolidated financial statements.

IAS 16 "Property, Plant and Equipment"

This standard has been amended to prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use, clarify that an entity is "testing whether the asset is functioning properly" when it assesses the technical and physical performance of the asset and requires certain related disclosures. The amendments are effective for annual periods beginning on or after January 1, 2022. The Company has not yet assessed the impact of the amendments on the consolidated financial statements.

IAS 1 "Presentation of Financial Statements", and IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors"

These standards have been amended to clarify the classification of liabilities as current or non-current. The amendments are effective for annual periods beginning on or after January 1, 2022

The Company adopted the Interpretation in its financial statements for the period beginning on April 1, 2019. The adoption of the Interpretation did not have a material impact on the Company's financial statements.

IAS 37 "Provisions"

This standard has been amended to clarify that, before a separate provision for an onerous contract is established, an entity recognizes an impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract and to clarify the meaning of costs to fulfil a contract. The amendments are effective for annual periods beginning on or after January 1, 2022. The Company has not yet assessed the impact of the amendments on the consolidated financial statements.

IFRS 9 "Financial Instruments"

This standard has been amended to address which fees should be included in the 10% test for derecognition of financial liabilities. This amendment is effective for annual periods beginning on or after January 1, 2022. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.