DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

THREE AND NINE MONTHS ENDED DECEMBER 31, 2021 AND 2020

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The following management discussion and analysis ("MD&A") of Diamond Estates Wines & Spirits Inc. ("Diamond" or "the Company") provides a review of corporate developments, results of operations and financial position for the three and nine months ended December 31, 2021 ("Q3 2022 and "YTD 2022" respectively) compared with the corresponding period ended December 31, 2020 ("Q3 2021 and "YTD 2021" respectively). This discussion is prepared as of February 25, 2022 and should be read in conjunction with (i) the unaudited interim condensed consolidated financial statements and the accompanying notes for the three and nine months ended December 31, 2021 and 2020, and (ii) both the audited consolidated financial statements and accompanying MD&A for the fiscal years ended March 31, 2021 and March 31, 2020. 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 COVID-19 pandemic, conditions in the target market of the Company, consumer interest in the services and products of the Company, competition and anticipated and unanticipated costs. Such statements could also be materially affected by environmental regulation, liquor regulation, taxation policies, competition, the lack of available and qualified personnel or management, stock market volatility and the ability to access sufficient capital from internal or external sources. Actual results, performance or achievement could differ materially from those expressed herein. While the Company anticipates that subsequent events and developments may cause its views to change, the Company specifically disclaims any obligation to update these forward-looking statements, except as required by applicable law. These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to the date of this MD&A. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. Readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the Company.

Detailed information on risks and uncertainties is provided in the "Uncertainties and Principal Risk Factors" section of the annual MD&A for the year ended March 31, 2021.

DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

THREE AND NINE MONTHS ENDED DECEMBER 31, 2021 AND 2020

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 four wineries, three in Ontario and one in British Columbia, that produce predominantly VQA wines under such well-known brand names as 20 Bees, Creekside, EastDell, Lakeview Cellars, Queenston Mile, Dan Aykroyd, Shiny Apple Cider, Rood Apples Cider, Fresh, Proud Pour, Red Tractor, Seasons, Serenity, and Backyard Vineyards.

Through its commercial division, Trajectory Beverage Partners, the Company is the sales agent for many leading international brands in all regions of the country as well as being a distributor in the western provinces. These recognizable brands include 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 from Canada, Landshark Lager from the USA, Edinburgh Gin from Scotland, Tamdhu, Glengoyne and Smokehead single-malt Scotch whiskies, 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, and Fontana di Papa wines from Italy.

The Company's mission is to build lasting, mutually beneficial relationships with channel partners, growers, suppliers and employees. To meet this goal, the Company is undertaking significant investments in winemaking, brand marketing, sales programming, performance management and back-office infrastructure, including information systems which will support growth in an efficient, profitable manner. Based on its analysis of the market, the Company believes that the growth prospects for the domestic and import beverage alcohol markets in Canada are positive. The Company continues to be a participant in the export market and has been successfully 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, which is focused on the provincial liquor boards, licensed restaurants and bars, grocery chains, Diamond's four retail locations, direct-to-consumer and export channels. This distribution network is supported by enhanced sales, marketing and promotional programs.

RECENT EVENTS AND Q1 2022 HIGHLIGHTS

- Revenue for Q3 2022 of $8.4 million, an increase of $1.4 million from Q3 2021 revenue of $7.0 million. The winery division experienced an increase of $1.3 million due to the acquisition of the Equity Wine Group and stronger growth and distribution within the LCBO and Grocery channels. The agency business increased by $0.1 million; however, its growth was hampered by combination of flooding in Western Canada and global supply chain issues;
- Gross margin for Q3 2022 was $3.2 million, an increase of $0.3 million from $2.9 million in Q3 2021, while gross margin as a percentage of revenue was 38.1% for Q3 2022 compared to 41.8% in Q3 2021. The margin compression was seen in the agency division as a result of higher inventory costs and shift in sales mix from commission to buy/sell markets, and to higher volume, lower priced and lower margin brands. The winery experienced higher gross margins as a result of the Equity Wine Group acquisition and increased emphasis on margin direct-to-consumer sales;

- EBITDA was $(0.3) million in Q3 2022, a decrease of $(0.5) million from $0.2 million in Q3 2021, mostly a result of the increase in gross margin less an increase in employee compensation of $0.3 million (due in part to a reduction in the comparative subsidies received under the federal government's CEWS program), an increase in general and administrative costs of $0.2 million related to the acquisitions and in increase in advertising and promotion of $0.2 million as marketing campaigns previously deferred due to COVID-19 were started up again.;
- EBITDA was adjusted by $0.2 million for Q3 2022 to account for the incremental fair value of EWG inventories sold since October 6, 2021; adjusted EBITDA was $(0.1) million in Q3 2022.
- On October 6, 2021, the Company closed on (a) its acquisition of all of the issued and outstanding securities of Equity Wine Group Inc. for consideration totaling $11.2 million, (b) its acquisition of the Shiny Apple craft cider brand for consideration of $2.4 million, (c) the issuance of $1.9 million in equity upon the conversion of convertible debentures (issued in June, 2021) and accrued interest, and (d) the issuance of $6.8 million in equity through its previously announced private placement (see further discussion in "Purchase Agreements and Financings" section below);
- On November 30, 2021, the Company entered into a Second Amended and Restated Credit Agreement ("SARCA") with Bank of Montreal ("BMO"). The SARCA folds in the previous BMO facility of EWG with the Company's existing BMO credit facility;
- On November 10, 2021, the Company consolidated its share capital on a 10 for 1 basis;
- During the period from March 17, 2020 to December 31, 2021, the impact of the COVID-19 pandemic continued to shift consumer purchase behaviour from on-premise/out-of-home to in-home consumption. As the COVID-19 safety measures declined in this quarter, Diamond experienced a shift back towards traditional retail and on-premise channels and away from direct delivery and curbside retail (*see discussion under "Strategic Outlook and Direction" section below);*
- As the global impact of the COVID-19 begins to wane, Diamond has begun to see export shipments rebound as international distributors begin to re-open sales and distribution channels in current and new jurisdictions trending towards pre-pandemic sales volumes; and
- On July 27, 2020, it was announced that the Government of Canada has agreed to repeal the federal excise duty exemption (the "Exemption") of 100% Canadian wine by June 30, 2022. This agreement was reached following a World Trade Organization challenge put forward by Australia. The Federal Finance Minister announced a replacement program to support domestic producers in the Federal budget presented to Parliament on April 19, 2021. Budget 2021 provides a winery support program valued at $101 million for fiscal 2022-23 and 2023-24, to be developed and administered by Agriculture and Agri-Food Canada (AAFC). Details of the program have not been finalized, but it is anticipated that the program will provide sufficient support to fully replace the federal excise tax exemption.

PURCHASE AGREEMENTS AND FINANCINGS

On October 6, 2021, the Company closed on numerous purchase agreements and financings. The acquisitions are expected to be highly accretive to Diamond's current business, capture additional revenues, create brand expansion, further leverage the Company's infrastructure and deliver on cost saving synergies. The following details the purchase agreements and financings:

(a) **Equity Wine Acquisition**

The purchase consideration for the Equity Wines Acquisition totalled approximately $11.2 million, including the following: (i) $1.5 million in cash, (ii) $5.5 million in common shares of Diamond, being 3,055,556 common shares at a deemed issuance price of $1.80 per share, (iii) 2,291,667 share purchase warrants (valued at $0.5 million) each entitling the holder to acquire one common share at an exercise price of $2.20 for a period of 36 months; and (iv) assumption of the Equity Wine's term and operating debt of approximately $3.7 million with the Bank of Montreal. The common shares and share purchase warrants are subject to certain contractual restrictions on trading for a period of 12 months from the date of issuance with equal portions being released from escrow every quarter.

(b) **Shiny Apple Brand Acquisition**

The Company acquired all of the rights and title to the Shiny Apple Brand from Stonechurch for aggregate consideration of $2.4 million, which was satisfied by a (i) closing cash payment of $1.1 million; (ii) $1.1 million earn-out payment (deposited into escrow by the Company on closing) payable quarterly over the course of 12 months following closing depending on sales targets being met; and (iii) $0.2 million in cash for inventory, after settlement of an initial $0.3 million inventory holdback. Diamond and Stonechurch also entered into a production and co-packing agreement whereby Stonechurch will continue to produce the Shiny Apple Brand under Diamond's monitoring and oversight for a minimum period of 24 months.

(c) Purchase Price Allocation

The following table summarizes the amounts paid or payable at the purchase date and the preliminary allocation of the purchase price to the identifiable assets acquired and liabilities assumed based on management's estimate of the fair values at the date of acquisition:

	Equity Wine Group Inc. $	Shiny Apple brand $	Totals $
Assets acquired:			
Accounts receivable	**358**	-	358
Inventories	**4,227**	167	4,394
Prepaids and deposits	**69**	-	69
Land and building	**8,342**	-	8,342
Machinery and equipment	**451**	-	451
Intangible assets: brand name)	**1,300**	2,200	3,500
Intangible assets: customer list	**200**	-	200
	14,947	2,367	17,314
Liabilities assumed:			
Accounts payable and accrued liabilities	**476**	-	476
Net assets acquired	**14,471**	2,367	16,838
Total purchase consideration	**11,224**	2,367	13,591
Gain on acquisition	**3,247**	-	3,247

The gain on acquisition derived from the excess of net assets acquired over the purchase consideration, primarily by the fair value of the land and building and inventory acquired from EWG. The Company incurred approximately $0.2 million in acquisition costs related to the transactions.

(d) **Conversion of Debentures**

Holders of the Company's 10% unsecured convertible debentures issued on June 10, 2021 in the aggregate principal amount of $1.83 million, all of whom are considered insiders of the Company, have each elected to have the financing detailed below constitute an early maturity date pursuant to the terms of the debentures, which Diamond has elected to satisfy pursuant to a shares-for-debt transaction. Therefore, the obligations of the debentures were extinguished, and Diamond issued, in satisfaction of $1,889,162 representing the principal and interest owing under the debentures, 1,049,534 units at a price of $1.80 per unit to the debenture holders.

(e) **Financing**

The Company closed its previously announced brokered private placement, conducted by Paradigm Capital Inc. (the "Agent"). The financing consisted of the issuance of 3,770,331 units at a price of $1.80 per unit for gross proceeds of $$6.8 million with each unit consisting of one common share and three-quarters (¾) of one share purchase warrant. Each whole warrant is exercisable to acquire one common share at an exercise price of $2.20 per common share for 36 months.

(f) **Agency Agreement**

Pursuant to the terms of an agency agreement between the Agent and the Company, the Agent received a cash fee equal to 6.0% of the aggregate gross proceeds of the financing and broker warrants equal to 6.0% of the number of units issued pursuant to the financing. The Agent received a reduced fee of 3.0% cash and a reduced number of broker warrants equal to 3.0% of the aggregate number of units sold to purchasers on the President's List. Each broker warrant entitles the holder to acquire one broker unit at $1.80 per broker unit for a period for 24 months. Each broker unit consists of one common share and three-quarters (¾) of one share purchase warrant (each whole warrant, a "Broker Unit Warrant"). Each Broker Unit Warrant is exercisable to acquire one common share at an exercise price of $2.20 per common share for 36 months. The Company paid an aggregate of $294,805 in cash commissions and issued 163,681 broker units to the Agent.

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".

	Dec-2021 Q2 2022 $	Sep-2021 Q2 2022 $	Jun-2021 Q1 2022 $	Mar-2021 Q4 2021 $	Dec-2020 Q3 2021 $	Sep-2020 Q2 2021 $	Jun-2020 Q1 2021 $	Mar-2020 Q4 2020 $
Balance sheet								
Working capital surplus (deficiency)	23,401,723	(1,641,158)	20,410,991	20,401,475	20,351,192	17,601,504	18,365,074	(993,456)
Term debt, lease liabilities and debentures payable	28,683,046	27,121,527	26,943,179	26,897,902	25,606,250	22,482,868	22,851,385	22,284,817
Total equity	33,431,946	17,135,698	17,999,442	18,187,297	19,443,352	19,781,906	20,102,264	20,445,742
Income statement								
Revenue	8,394,161	7,144,174	7,372,807	5,363,358	6,964,106	7,192,922	6,030,128	5,386,592
Gross margin	3,195,982	2,719,618	3,085,178	1,732,970	2,909,327	3,090,358	2,794,607	2,039,190
EBITDA	(325,714)	(208,338)	407,304	(477,770)	211,415	754,903	358,731	(748,041)
Adjusted EBITDA	(126,611)	(208,338)	407,304	(575,963)	322,367	776,934	506,712	(422,375)
Net income (loss)	2,017,681	(1,035,479)	(354,092)	(1,411,045)	(482,832)	(379,016)	(362,320)	(1,583,226)
Basic and diluted income (loss) per share	0.08	(0.05)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.08)

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

RESULTS OF OPERATIONS

	Q3 2022	YTD 2022	Q3 2021	YTD 2021
Revenue	**$ 8,394,161**	**$ 22,911,142**	$ 6,964,106	$ 20,187,155
Cost of sales	**5,198,179**	**13,910,364**	4,054,779	11,388,982
Gross margin	**3,195,982**	**9,000,778**	2,909,327	8,798,173
Gross margin (% of revenue)	**38.1%**	**39.3%**	41.8%	43.6%
Selling, general and administration expenses	**3,521,696**	**9,127,533**	2,697,912	7,473,127
SG&A expenses (% of revenue)	**42.0%**	**39.8%**	38.7%	37.0%
EBITDA	**(325,714)**	**(126,755)**	211,415	1,325,046
Interest	**391,889**	**937,087**	244,786	686,598
Depreciation and amortization	**403,064**	**1,134,603**	353,589	987,150
Financing costs	**155,817**	**227,567**	27,756	264,838
Loss from operations	**(1,276,484)**	**(2,426,012)**	(414,716)	(613,540)
Gain on acquisition	**3,246,685**	**3,246,685**	-	-
Share based compensation	**(98,748)**	**(436,719)**	(144,281)	(175,445)
Restructuring charges	**-**	**-**	-	(533,380)
Realized gain on derivative liability	**31,899**	**103,084**	76,165	98,196
Gain on disposition of right-of-use assets	**114,329**	**141,068**	-	-
Net income (loss) and comprehensive income (loss)	**$ 2,017,681**	**$ 628,106**	$ (482,832)	$ (1,224,169)

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

Revenue for Q3 2022 was $8.4 million, an increase of $1.4 million from $7.0 million in Q3 2021. Winery revenue for Q3 2022 was $4.0 million, an increase of $1.2 million from $2.8 million in Q3 2021, specifically related to the acquisition of EWG and stronger growth and distribution within the LCBO and grocery channels. Agency revenue for Q3 2022 was $4.4 million, an increase of $0.2 million from $4.2 million in Q3 2021, but its growth was hampered by combination of flooding in Western Canada and global supply chain issues.

The Company defines gross margin as gross profit excluding depreciation. Gross margin for Q3 2022 was $3.2 million, an increase of $0.3 million from $2.9 million in Q3 2021, while gross margin as a percentage of revenue was 38.1% for Q3 2022 compared to 41.8% in Q3 2021. The gross margin of the winery business increased by $0.8 million year over year. The gross margin of the agency business decreased by $0.5 million due to higher product costs and sales mix based on available supply.

Total SG&A expenses for Q3 2022 were $3.5 million, an increase of $0.8 million from $2.7 million in Q3 2021. The change is mostly attributable to (i) an increase in employee compensation of $0.3 million, which partially resulted from a period-over-period reduction in the federal government's CEWS program benefit of $0.1 million and more employees working full-time hours in Q3 2022 relative to staffing levels maintained in Q3 2021 during the initial COVID-19 lockdowns, (ii) an increase in advertising and promotion of $0.2 million as marketing campaigns previously deferred due to COVID-19 were started up again, and (ii) estimated transaction costs re the EWG acquisition of $0.2 million.

Interest expense for Q3 2022 of $0.4 million was up compared to $0.2 million in Q3 2021 as a result of interest on the BCAP loan and the convertible debentures. Depreciation and amortization expense for Q3 2022 was $0.4 million, unchanged from $0.4 million in Q3 2021.

Based on preliminary allocation of the purchase price to the identifiable EWG assets acquired and liabilities assumed from management's initial estimate of the fair values at the date of acquisition, the Company has realized a gain on acquisition of $3.2 million. The Company acquired net EWG assets valued at $14.4M, including inventories of $4.2 million and land and building of $8.3 million, in exchange for total consideration of $11.2 million *(see discussion in "Purchase Price Allocation" section above)*

Loss from operations for Q3 2022 was $1.3 million compared to $0.4 million in Q3 2021, a decrease in profitability of $0.9 million attributable to the increase in gross margin of $0.3 million less the increase in SG&A expenses of $0.8 million and interest expense of $0.2 million noted above.

LIQUIDITY AND CAPITAL RESOURCES

	December 31, 2021	March 31, 2021
ASSETS		
Accounts receivable	**$ 3,918,550**	$ 2,684,546
Inventory	**28,337,763**	23,418,282
Prepaid expenses	**504,886**	254,101
Total current assets	**32,761,199**	26,356,929
Property, plant and equipment	**26,078,548**	17,697,058
Right of use assets	**2,960,074**	3,180,600
Intangible assets	**6,130,180**	2,585,404
Total assets	**$ 67,930,001**	$ 49,819,991
LIABILITIES		
Accounts payable and accrued liabilities and other	**$ 5,815,009**	$ 4,734,792
Current portion of term loans payable and lease liabilities	**3,544,467**	1,220,662
Total current liabilities	**9,359,476**	5,955,454
Term loans payable, net of current portion	**22,705,072**	22,990,244
Finance leases, net of current portion	**2,433,507**	2,686,996
Total liabilities	**34,498,055**	31,632,694
SHAREHOLDERS' EQUITY	**33,431,946**	18,187,297
	$ 67,930,001	$ 49,819,991

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

Working capital was $23.4 million as at December 31, 2021, an increase of $3.0 million from the $20.4 million balance as at March 31, 2021. The major sources of the increase are (i) net cash retained from the equity raise of $1.9 million, (ii) the fair value of inventory obtained from the EWG acquisition of $4.2 million, less (iii) the effect of the balance of the BCAP loan of $2.5 million now falling current *(see further discussion in "Purchase Agreements and Financings" section above).* By virtue of the gross proceeds of the equity raise of approximately $6.8 million that closed on October 6, 2021 being treated as EBITDA for the 12 month period ending December 31, 2022 (as allowed under the current banking agreement), the covenant breach as at September 30, 2021 has effectively been cured as of October 6, 2021.

Accounts receivable of $3.9 million as at December 31, 2021 increased by $1.2 million from $2.7 million as at March 31, 2021 due to the increase and timing of licensee and export sales and the acquisition of EWG receivables of $0.4 million.

The inventory balance was $28.3 million as at December 31, 2021, an increase of $4.9 million from $23.4 million as at March 31, 2021. The major source of the increase is the fair value of inventory obtained from the EWG acquisition of $4.2 million. With the forecasted increase in demand for the Company's winery brands coinciding with market expansion and retail modernization, the Company continues to hold higher inventories of bulk and finished goods in anticipation of increasing demand.

Property, plant and equipment of $26.1 million as at December 31, 2021 increased by $8.4 million from $17.7 million as at March 31, 2021. The increase resulted from additions from the EWG acquisition of $8.8 million.

Intangible assets of $6.1 million as at December 31, 2021 increased by $3.5 million from $2.6 million as at March 31, 2021. The increase resulted from additions from the EWG acquisition of $3.7 million offset by amortization of $0.3 million.

Accounts payable and accrued liabilities of $5.8 million as at December 31, 2021 increased by $1.1 million from $4.7 million as at March 31, 2021, largely due to (i) liabilities assumed under the EWG acquisition of $0.4 million, (ii) an escrow payable of $1.1 million related to the Shiny Apple brand acquisition, less (iii) reversal of a seasonal harvest accrual of $1.4 million as at March 31, 2021.

The BMO credit facilities are governed under the terms of the SARCA and include the BCAP term loan, an existing non-revolving term loan, a revolving operating line, the total of which was $25.8 million as at December 31, 2021, an increase of $2.0 million from $23.8 million as at March 31, 2021. The increase is due to the BMO term debt assumed under the EWG acquisition of $2.5 million less quarterly scheduled repayments of $0.5 million.

On November 30, 2021, the Company entered into a Second Amended and Restated Credit Agreement ("SARCA") with Bank of Montreal ("BMO"). The SARCA folds in the previous BMO facility of EWG with the Company's existing BMO credit facility. EWG was acquired by the Company on October 6, 2021, and a condition of the transaction was for the Company to consolidate all its facilities with BMO. The notable terms of the SARCA are as follows:

Credit limits: The revolving term loan of $14.4 million with an accordion feature to fund future growth and non-revolving term loan of $10.8 million.
Maturity dates: The revolving and non-revolving facilities have a two-year term expiring as at January 2, 2024. The Business Credit Availability Program ("BCAP") facility expires on October 1, 2022 unless extended by the lender in its sole and absolute discretion at the request of the borrower for a further period provided that such extension shall not in any case extend beyond October 26, 2025.
Interest rates: The interest rate on each of the facilities is as follows:

- prime plus 1.40% under the revolving term facility;
- prime plus 1.65% under the non-revolving term facility; and
- prime plus 1.65% under the BCAP Facility.

Repayment: The non-revolving term loan is repayable in 80 quarterly principal payments of 1.25% of the drawn amount, or $134,413. The BCAP loan is repayable in 48 monthly principal payments of $57,292.

On June 10, 2021, the Company completed a non-brokered private placement of $1.83 million of 10.0% unsecured convertible debentures of the Company with certain insiders of the Company, including Lassonde and Oakwest Corporation Limited. The interest accrues on the principal outstanding under the debentures until such principal is repaid or converted. On October 6, 2021, the debenture holders elected to convert their debentures into share capital *(see further discussion in "Purchase Agreements and Financings" section above).*

The Company's debt to equity ratio decreased significantly to 0.86:1 as at December 31, 2021 from 1.48:1 as at March 31, 2021, where debt is defined as total liabilities less accounts payable and accrued liabilities, and equity is defined as shareholders' equity. This decrease is due to the equity financing and debenture conversion discussed above.

CAPITALIZATION

On November 10, 2021, the Company announced implementation of the consolidation of its share capital on a 10 for 1 basis. All common share and equity instrument transactions and balances up to that date, including earnings per share, have been retroactively restated to give effect to that consolidation. Shareholder authorization to effect the share consolidation was approved pursuant to a special resolution passed by shareholders on September 28, 2021.

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

	December 31, 2021	March 31, 2021	Change in reporting period
Common shares	27,875,978	20,000,557	7,875,421
Stock options	1,710,000	1,510,000	200,000
Deferred share units	314,193	181,504	132,689
Warrants	5,630,906	75,000	5,555,906
Total equity instruments	35,531,077	21,767,061	13,764,016

The changes to the Company's overall capitalization during YTD 2022 include the following:

Common shares

As a result of the acquisitions and financings discussed above *(see discussion in "Purchase Agreements and Financings" section above)* and the 10 for 1 share consolidation, the Company's issued and outstanding common shares has changed since March 31, 2021, as follows:

Issued and outstanding as of March 31, 2021 (pre-consolidation)	200,005,566
Effect of 10 for 1 consolidation	(180,005,009)
Issued and outstanding as of September 30, 2021 (restated)	20,000,557
Issued as a result of the Financing	3,770,331
Issued with respect to the EWG acquisition	3,055,556
Issued on conversion of debentures	1,049,534
Issued and outstanding as of December 31, 2021	27,875,978

The other equity instruments were also consolidated on a 10 for 1 basis.

Stock options

During YTD 2022, the Board of Directors authorized the issuance of options to key members of management as follows, each having a term of 5 years and vesting as to 25% per year on each anniversary date over the next 4 years:

- 50,000 options exercisable at $2.00 each
- 100,000 options exercisable at $1.80 each
- 150,000 options exercisable at $1.80

During YTD 2022, a total of 100,000 options expired unexercised on the departure of members of management.

Deferred share units

During YTD 2022, the Company has issued DSUs in settlement of deferred directors' compensation as follows:

- May 17, 2021: 16,969 DSUs valued at $33,938
- June 26, 2021: 14,687 DSUs valued at $26,438
- October 20, 2021: 17,773 DSUs valued at $28,437

Warrants

As a result of the acquisitions and financings discussed above, the Company issued the following warrants in YTD 2022:

In connection with the private placement that closed on October 6, 2021, the Company issued 2,827,780 common share purchase warrants, exercisable at $2.20 per common share for 36 months.

The Company also issued 163,681 broker warrants to the agent for conducting the private placement. Each broker warrant entitles the holder to acquire one unit (a "Broker Unit") at $1.80 per Broker Unit for a period for 24 months. Each Broker Unit consists of one common share and three-quarters of one common share purchase warrant (each whole warrant, a "Broker Unit Warrant"). Each Broker Unit Warrant is exercisable to acquire one common share at an exercise price of $2.20 per common share for 36 months.

In connection with the EWG acquisition that closed on October 6, 2021, the Company issued 2,291,667 common share purchase warrants, exercisable under the same terms as under the financing.

As consideration for BMO entering into the SARCA *(see discussion under "Liquidity and Capital Resources" section above)*, the Company issued 150,000 warrants to its lender on December 31, 2021. Each warrant is exercisable into one common share of the Company at an excise price of $1.80 per common share. The warrants vested immediately and expire on December 31, 2021.

NON-IFRS FINANCIAL MEASURES

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

EBITDA and Adjusted EBITDA are supplemental financial measures to further assist readers in assessing the Company's ability to generate income from operations before considering the Company's financing decisions, depreciation of property, plant and equipment and amortization of intangible assets. EBITDA comprises gross margin less operating costs before financial expenses, depreciation and amortization, non-cash expenses such as share-based compensation, one-time and other unusual items, and income tax. Adjusted EBITDA comprises EBITDA before non-recurring expenses 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 gross margin as follows:

	Q3 2022	**YTD 2022**	Q3 2021	YTD 2021
	$	**$**	$	$
Revenue	**8,394,161**	**22,911,142**	6,964,106	20,187,155
Cost of sales				
Change in inventories of finished goods and raw materials consumed	**5,198,179**	**13,910,364**	4,054,779	11,388,982
Depreciation	**108,574**	**429,582**	71,076	300,868
Gross profit	**3,087,408**	**8,571,196**	2,838,251	8,497,305
Exclude depreciation	**108,574**	**429,582**	71,076	300,868
Gross margin	**3,195,982**	**9,000,778**	2,909,327	8,798,173
Gross margin (% of revenue)	**38.1%**	**39.3%**	41.8%	43.6%

The Company calculates EBITDA and Adjusted EBITDA as follows:

	Q2 2022	**YTD 2022**	Q2 2021	YTD 2021
	$	**$**	$	$
Net income (loss) for period	**2,017,681**	**628,106**	(482,832)	(1,224,169)
Interest	**391,889**	**937,087**	244,786	686,598
Depreciation and amortization	**403,064**	**1,134,603**	353,589	987,150
Share-based compensation	**98,748**	**436,719**	144,281	175,445
Restructuring charges	**-**	**-**	-	533,380
Financing costs	**155,817**	**227,567**	27,756	264,838
Gain on disposition of right-of-use assets	**(114,329)**	**(141,068)**	-	-
Gain on acquisition	**(3,246,685)**	**(3,246,685)**	-	-
Realized gain on derivative liability	**(31,899)**	**(103,084)**	(76,165)	(98,196)
EBITDA	**(325,714)**	**(126,755)**	211,415	1,325,046
Cost of goods sold adjustments for fair value of EWG inventories sold	**199,103**	**199,103**	-	-
Inventory adjustment	**-**	**-**	-	147,894
Adjusted EBITDA	**(126,611)**	**72,348**	211,415	1,472,940

SUBSEQUENT EVENT

On January 31, 2022, the Company issued 75,000 stock options to certain members of management. The options have an exercise price of $1.36 and a term of 5 years, vesting as to 25% per year on each anniversary date over the next 4 years. In addition, the Company issued an aggregate of 20,910 DSUs in settlement of $28,437 of deferred directors' compensation.

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 and ready-to-drink beverages and spirits, while addressing their desire to explore many of the Company's exciting offerings. The Company has also added a low alcohol brand Mindful, to its domestic portfolio in addition to low alcohol and no-alcohol beer and wine suppliers to its import portfolio, reflecting consumer interest and demand in those categories. Vertically integrated, Diamond combines modern and efficient production facilities for its Niagara and B.C wines with a national marketing agency for its broad portfolio of leading international wines and spirits. The Company is well positioned to add to its throughput of wine production and leverage its national sales force to drive growth from existing brands and support new brands secured by the agency without material change to its cost structure. In addition to this, the Company's partnership with Lassonde Industries Inc. has enabled 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.

Over the past 21 months, the COVID-19 pandemic continues to have a material impact on the global economy, the scale and duration of which continues to remain uncertain. To date, there has been significant volatility in foreign exchange rates, restrictions on the conduct of businesses, including travel restrictions and significant supply chain disruptions.

These changes have had direct impacts on the Company's business, including reducing sales from winery retail (including fewer international visitors), on-premise licensee business, contracts and export channels. The loss of business in those channels has been partially compensated for by increased sales from grocery retail, direct-to-consumers, direct delivery and curbside pickup services.

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 all retail locations. This includes touchless retail, limited product tastings and greater use of external physical resources (patios, event canopies and outdoor venues).

The Company is seeing a rebound in revenue from on-premise licensees and the export channels as the COVID-19 restrictions ease across the country, particularly in Ontario. As the proportion of the population fully vaccinated increases and as physical distancing is relaxed, social bubbles are expanded or eliminated, and restaurants and bars are fully reopened, sales through our direct delivery on-premise channels are rebounding. Depending on the duration and extent of future waves of the pandemic, the Company's results of operations, cash flows and financial position could continue to be materially impacted.

The retail modernization of the sale of beverage alcohol in Ontario continues to be a high priority for the provincial government. To date, the government has issued 450 beer licenses and 226 wine licenses to Ontario grocers and has reiterated its commitment to allowing the sale of beer and wine in grocery, big-box and convenience stores during their current mandate. 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 has seen improvement in the export market for Canadian wines as the COVID-19 pandemic begins to subside worldwide. We firmly believe a return to more normal volumes and growth can be anticipated in the near future. Interest in and appreciation of Canadian Icewine and table wines remains high. The company continues to successfully expand distribution into several new jurisdictions including Finland, USA, Thailand, Singapore, Vietnam and Taiwan.

RECENTLY ADOPTED AND ISSUED ACCOUNTING PRONOUNCEMENTS

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 unaudited interim condensed consolidated 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 l, 2022. The Company has not yet assessed the impact of the amendments on the unaudited interim condensed consolidated 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 l, 2022. The Company has not yet assessed the impact of the amendments on the unaudited interim condensed consolidated financial statements.

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

This standard has been amended to clarify that liabilities are classified as either current or non-current depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. This amendment also clarifies the meaning of settlement of a liability. This amendment is effective for annual periods beginning on or after January l, 2023. The Company has not yet assessed the impact of the amendment on the unaudited interim condensed consolidated financial statements.

IAS 12 "Income Taxes"

This standard has been amended to require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company has not yet assessed the impact of the amendment on the unaudited interim condensed consolidated financial statements.