DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

YEARS ENDED MARCH 31, 2022 AND 2021

DIAMOND ESTATES WINES & SPIRITS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
YEARS ENDED MARCH 31, 2022 AND 2021

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 twelve months ended March 31, 2022 ("Q4 2022" and "FY 2022" respectively) compared with the corresponding periods ended March 31, 2021 ("Q4 2021" and "FY 2021" respectively). This discussion is prepared as of July 28, 2022 and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the years ended March 31, 2022 and 2021. 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.

COMPANY OVERVIEW

Diamond Estates Wines and Spirits Inc. is a producer of high-quality wines and ciders as well as a sales agent for over 120 beverage alcohol brands across Canada. The Company operates 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, Mindful, Queenston Mile, Dan Aykroyd, Shiny Apple 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. To ensure the Company maintains an adequate level of liquidity, including compliance with future debt covenants, the Company continues to maintain a strategic review process that engages in actions designed to reduce the cost structure, improve productivity and enhance future cash flow. The Company is continuing to focus on initiatives to reduce costs, enhance its production efficiencies and achieve cost synergies from its recent acquisitions and through a continual review of its operations and cost structure.

RECENT EVENTS AND FY 2022 HIGHLIGHTS

- Revenue for FY 2022 of $30.0 million, an increase of $4.4 million from FY 2021 revenue of $25.6 million. The winery division experienced an increase of $4.2 million due to the acquisition of the Equity Wine Group ("EWG") and strong growth and expanded distribution within the LCBO and Grocery channels. The agency business increased by $0.2 million, as growth was hampered by a combination of flooding in Western Canada through November and December 2021, the loss of certain suppliers and global supply chain issues;

- Gross margin[1] for FY 2022 was $11.0 million, an increase of $0.5 million from $10.5 million in FY 2021, while gross margin as a percentage of revenue was 36.8% for FY 2022 compared to 41.2% in FY 2021. However, when factoring the adjustments to cost of goods sold for the fair value of EWG inventories sold, gross margin for FY 2022 was $11.7 million and 39.0% of revenue decreasing 2.2% year over year;
- EBITDA[1] was $(1.7) million in FY 2022, a decrease of $2.5 million from $0.8 million in FY 2021, mostly a result of the decrease in gross margin as a percentage of revenue from 41.2% in FY 2021 to 36.8% in FY 2022 and an increase in SG&A of $3.1 million (from 37.9% of revenue in FY 2021 to 42.6% in FY 2022);
- EBITDA was adjusted by $0.6 million for FY 2022 to account for the incremental fair value of EWG inventories sold since October, 2021, $0.1 million for transaction costs and $(0.1) million for government funding; adjusted EBITDA was $(1.1) million in FY 2022 compared to $0.1 million in FY 2021;
- In October, 2021, the Company closed on (a) its acquisition of all of the issued and outstanding securities of EWG for consideration totaling $10.9 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). The Shiny Apple purchase price was adjusted as at March 31, 2022;
- On November 10, 2021, the Company consolidated its share capital on a 10 for 1 basis;
- On November 30, 2021, the Company entered into a Second Amended and Restated Credit Agreement ("SARCA") with BMO. The SARCA folds in the previous BMO facility of EWG with the Company's existing BMO credit facility;
- For the rolling twelve-month period ended March 31, 2022, the Company was in breach of its fixed charged covenant ratio, for which Bank of Montreal ("BMO") has yet to issue a waiver *(see further discussion in "Liquidity and Capital Resources" section below)*;
- Throughout FY2022 we have continued to see a reduction in the pandemic restrictions implemented by the government to control the spread of the virus. As these restrictions have eased Diamond has experienced a return to more normal sales velocities within traditional retail sales channels including owned-retail, Provincial retailers and On-premise (*see discussion under "Strategic Outlook and Direction" section below*);
- As the global impact of the COVID-19 begins to wane in certain international jurisdictions, Diamond has begun to see export shipments rebound as distributors begin to re-open sales and distribution channels with sales volumes trending to pre-pandemic levels; and
- On June 29, 2022, the Canadian government announced the Winery Sector Support Program which will provide grants to the wine producers for the next two budget years (F2022 and F2023). The Government has budgeted up to $166M over the two-year period and will review further annual funding in the near future. This support equates to approximately $0.81 per litre for wine produced from domestic fruit and has been welcomed by the industry as much needed support for this vital industry.

[1] *See definition of selected terms under the heading "Non-IFRS Financial Measures"*

GOING CONCERN

The accompanying consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") (as issued by the International Accounting Standard Board ("IASB")) applicable to a going concern.

Net loss and comprehensive loss for the year ended March 31, 2022 was $2.5 million (2021 - $2.6 million). Additionally, the Company reported negative cash flow from operations (before changes in non-cash working capital) of $2.4 million for the year ended March 31, 2022 (2021 - $0.9 million). As at March 31, 2022, the Company had an accumulated deficit of $13.6 million (March 31, 2021 - $11.1 million). As at March 31, 2022, the Company had a working capital deficiency of $0.7 million (2021 - surplus of $20.4 million).

The operations and net loss for the year have resulted in the Company being in breach of its quarterly fixed charge covenant under the terms of its current credit agreement with Bank of Montreal ("BMO"), its primary lender, for the which the Company has yet to receive a waiver. The working capital deficiency as at March 31, 2022 resulted from this covenant breach, as the remaining portion of the otherwise non-current debt in the amount of $23.0 million has been reclassified as current. The Company has debt repayment requirements of $3.4 million by the end of fiscal 2023, including the remaining portion of the BCAP loan (due on October 1, 2022), current portion of the non-revolving term loan and current portion of finance leases, as well as annual seasonal grape purchase commitments in the fall of 2023. These circumstances lend significant doubt as to the ability of the company to continue as a going concern and, accordingly, the appropriateness ultimately of the use of accounting principles applicable to the going concern assumption.

In response to the recurring operating losses and negative cash flows from operating activities, the Company is taking a number of actions to enhance its financial flexibility, to fund its ongoing business operations and to meet its obligations. To ensure the Company maintains an adequate level of liquidity, including compliance with debt covenants, the Company continues to maintain a strategic review process that engages in actions designed to reduce the cost structure, improve productivity and enhance future cash flow.

The Company's ability to meet the covenant measurements under the terms of its credit agreements with its lenders is still dependent upon continued improvement in profitable commercial operations and continued funding support from BMO, shareholders and new equity placements. However, there can be no assurance that management will be successful in this regard. These consolidated financial statements do not include any adjustments to the carrying value of assets or liabilities, to the recoverable amounts or the reported expenses and consolidated balance sheet classifications that would be necessary if the going concern assumption were inappropriate, and these adjustments could be material.

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 Group Acquisition**

The purchase consideration for the Equity Wines Group Acquisition totalled approximately $10.9 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. This lockup period has resulted in a fair value adjustment of $0.3 million to the common shares and share purchase warrants issued to reflect a liquidity discount.

(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.

By the end of FY 2022, it is apparent that the sales targets upon which the earn-out was based would not be achieved. As a result, the intangible asset recognized on acquisition has been reduced by $1.1 million and a corresponding accounts receivable has been set up for the contingent consideration initially paid into escrow on acquisition.

(c) Purchase Price Allocation

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

Assets acquired:		
Accounts receivable	$	**248**
Inventories		**4,227**
Biological assets		**274**
Prepaids and deposits		**69**
Property, plant and equipment		**8,807**
Intangible assets: brand name)		**1,300**
Intangible assets: customer list		**200**
		15,125
Liabilities assumed:		
Accounts payable and accrued liabilities		**476**
Deferred income taxes arising on acquisition		**1,003**
Net assets acquired		**13,646**
Total purchase consideration		**10,925**
Gain on acquisition	**$**	**2,721**

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 $0.4 million in acquisition costs related to the transactions.

(d) Conversion of Debentures

Holders of the Company's 10% unsecured convertible debentures issued in June, 2021 in the aggregate principal amount of $1.83 million, all of whom are considered insiders of the Company, 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 $1.9 million representing the principal and interest owing under the debentures.

(e) Financing

The Company closed a 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.

SELECT FINANCIAL INFORMATION

	FY 2022	FY 2021	FY 2020
	$	$	$
Revenue	**29,985,857**	25,552,514	26,794,230
Gross margin	**11,047,664**	10,531,143	12,112,565
Net loss and comprehensive loss	**(2,472,982)**	(2,635,213)	(4,186,039)
Basic and diluted loss per share	**(0.11)**	(0.13)	(0.23)
Working capital surplus (deficiency)	**(696,908)**	20,401,475	(993,456)
Total assets	**68,165,199**	49,819,991	49,951,228
Term loans and lease liabilities payable	**28,707,858**	26,897,902	22,284,817
Shareholders' equity	**30,313,267**	18,187,297	20,445,742

See discussion of financial results under "Results of Operations" and "Liquidity and Capital Resources"

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".

	Mar-2022 Q4 2022	**Dec-2021 Q3 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**
	$	$	$	$	$	$	$	$
Balance sheet								
Working capital surplus (deficiency)	(696,908)	23,401,723	(1,641,158)	20,410,991	20,401,475	20,351,192	17,601,504	18,365,074
Term debt, lease liabilities and debentures payable	28,707,858	28,683,046	27,121,527	26,943,179	26,897,902	25,606,250	22,482,868	22,851,385
Total equity	30,313,267	33,431,936	17,135,698	17,999,442	18,187,297	19,443,352	19,781,906	20,102,264
Income statement								
Revenue	7,074,715	8,394,161	7,144,174	7,372,807	5,365,358	6,964,106	7,281,811	5,941,239
Gross margin	2,046,886	3,195,982	2,719,618	3,085,178	1,732,970	2,909,327	3,179,247	2,709,509
EBITDA	(1,601,212)	(325,714)	(208,338)	407,304	(477,770)	211,415	754,903	358,731
Adjusted EBITDA	(1,141,572)	(21,865)	(267,986)	331,737	(812,515)	208,401	465,615	236,416
Net income (loss)	(3,101,092)	2,017,681	(1,035,479)	(354,092)	(1,411,045)	(482,832)	(379,016)	(362,320)
Basic and diluted income (loss) per share	(0.12)	0.08	(0.05)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)

RESULTS OF OPERATIONS

	FY 2022	FY 2021
Revenue	**$ 29,985,857**	$ 25,552,514
Cost of sales	**18,938,193**	15,021,371
Gross margin	**11,047,664**	10,531,143
Gross margin (% of revenue)	**36.8%**	41.2%
Selling, general and administration expenses	**12,775,623**	9,683,864
SG&A expenses (% of revenue)	**42.6%**	37.9%
EBITDA	**(1,727,959)**	847,279
Interest	**1,191,003**	939,660
Depreciation and amortization	**1,652,539**	1,446,903
Financing costs	**276,598**	341,337
Loss from operations	**(4,848,099)**	(1,880,621)
Gain on acquisition	**2,721,483**	-
Realized gain on derivative liability	**141,068**	-
Gain on disposition of right-of-use assets	**136,223**	154,427
Share based compensation	**(546,480)**	(330,433)
Loss on debt modification	**(373,734)**	-
Restructuring charges	**(230,000)**	(578,586)
Loss before income taxes	**(2,999,539)**	(2,635,213)
Recovery of deferred income taxes	**526,557**	-
Net loss and comprehensive loss	**$ (2,472,982)**	$ (2,635,213)

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

Revenue for FY 2022 was $30.0 million, an increase of $4.4 million from $25.6 million in FY 2021. The winery division experienced an increase of $4.2 million due to the acquisition of the Equity Wine Group and a resurgence in our on-premise and export sales channels. The Equity Wine Group contributed to approximately 45% of the total increase while export and on-premise contributed respectively 26.2% and 16.7% to the total increase. Agency revenue for FY 2022 was $15.0 million, an increase of $0.2 million from $14.8 million in FY 2021, but its growth was hampered by combination of flooding in Western Canada, global supply chain issues and churn in suppliers. Total revenue for Q4 2022 was $7.1 million an increase of $1.7 million compared to Q4 2021, attributable to the EWG acquisition.

Gross margin for FY 2022 was $11.0 million, an increase of $0.5 million from $10.5 million in FY 2021, while gross margin as a percentage of revenue was 36.8% for FY 2022 compared to 41.2% in FY 2021. However, when factoring the adjustments to cost of goods sold for the fair value of EWG inventories sold, gross margin for FY 2022 was $11.7 million and 39.0% of revenue decreasing 2.2% year over year;

The Company defines gross margin as gross profit excluding depreciation. Gross margin for FY 2022 was $11.0 million, an increase of $0.5 million from $10.5 million in FY 2021, while gross margin as a percentage of revenue was 36.8% for FY 2022 compared to 41.2% in FY 2021. When factoring the adjustments to cost of goods sold for the fair value of EWG inventories sold, gross margin for FY 2022 was $11.7 million and gross margin as a percentage of revenue was 39.0% decreasing 2.2% year over year. The winery experienced slightly higher gross margins because of the contributions of the EWG acquisition. The gross margin of the winery business increased by $1.0 million compared to prior year but decreased by 3.8% as a percentage of sales due to increasing overhead and raw material costs and amortization of the fair value of EWG inventories sold. The adjusted gross margin for the winery excluding the fair value of the EWG inventories sold is 41.1%. The gross margin of the agency business decreased by $0.5 million to 36.9% due to higher product costs, limited supply based on sales mix and proportionally higher retailer purchases during limited discount periods. Gross margin for Q4 2022 was $2.0 million, an increase of $0.3 million from $1.7 million in Q4 2021, while gross margin as a percentage of revenue was 28.3% for Q4 2022 compared to 32.3% in Q4 2021.

Total SG&A expenses for FY 2022 were $12.8 million, an increase of $3.1 million from $9.7 million in FY 2021. The change is mostly attributable to (i) an increase in employee compensation of $1.6 million, resulting from a reduction in the comparative subsidies received under the federal government's CEWS program of $0.7 million, additional employee hours in FY 2022 relative to retail staffing levels maintained in FY 2021 during the COVID-19 lockdowns and the additional employees acquired in the EWG acquisition, and (ii) an increase in advertising and promotion of $0.7 million from marketing campaigns that were previously deferred due to COVID-19 were started up again and additional expenses related to the EWG acquisition.

Interest expense for FY 2022 of $1.2 million was up compared to $0.9 million in FY 2021as a result of the issuance of the convertible debenture, the BCAP loan and increasing interest rates. Depreciation and amortization expense for FY 2022 was $1.6 million, an increase of $0.2 million from $1.4 million in FY 2021, due to capital and intangible assets acquired from EWG.

Loss from operations for FY 2022 was $4.8 million compared to $1.9 million in FY 2021, a decrease in profitability of $2.9 million. The decrease is largely attributable to the net of (i) the increase in gross margin of $0.5 million, (ii) less the increase in SG&A expenses of $3.1 million.

Based on allocation of the purchase price to the identifiable EWG assets acquired and liabilities assumed from management's estimate of the fair values at the date of acquisition, the Company has realized a gain on the EWG acquisition of $2.7 million. The Company acquired net EWG assets valued at $13.7M, including inventories of $4.2 million and property, plant and equipment of $8.8 million, in exchange for total consideration of $10.9 million *(see discussion in "Purchase Price Allocation" section above)*

The Company provided for restructuring charges of $0.2 million in FY 2022 (FY 2021 - $0.6 million) to cover expected severance charges.

Impact of EWG acquisition on results of operations

For the year ended March 31, 2022, EWG contributed revenue of $1.8 million and net loss of $1.0 million to the Company's results. If the acquisition had occurred on April 1, 2021, management estimates that contributed revenue would have been $4.3 million and net loss for the year would have been $1.3 million. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same as if the acquisition had occurred on April 1, 2021. Excluding the fair value adjustments of $0.7 million that arose on the date of acquisition, EWG's actual loss for the period would have been $0.3 million. Assuming the acquisition had occurred on April 1, 2021, excluding the estimated annualized fair value adjustments of $1.6 million, EWG's net income would have been $0.3 million.

LIQUIDITY AND CAPITAL RESOURCES

	March 31, 2022	March 31, 2021
ASSETS		
Accounts receivable	**$ 5,204,837**	$ 2,684,546
Inventory	**28,913,977**	23,418,282
Prepaid expenses	**383,727**	254,101
Total current assets	**34,502,541**	26,356,929
Property, plant and equipment	**25,893,088**	17,697,058
Right of use assets	**2,878,226**	3,180,600
Intangible assets	**4,891,344**	2,585,404
Total assets	**$ 68,165,199**	$ 49,819,991
LIABILITIES		
Accounts payable and accrued liabilities	**$ 8,799,574**	$ 4,734,792
Current portion of term loans payable and lease liabilities	**26,399,875**	1,220,662
Total current liabilities	**35,199,449**	5,955,454
Term loans payable, net of current portion	**-**	22,990,244
Lease liabilities, net of current portion	**2,307,983**	2,686,996
Deferred income taxes	**344,500**	-
Total liabilities	**37,851,932**	31,632,694
SHAREHOLDERS' EQUITY	**30,313,267**	18,187,297
	$ 68,165,199	$ 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 *(see further discussion in "Going Concern" section above)*;

Working capital as at March 31, 2022 was a deficiency of $0.7 million, a decrease of $21.1 million from the $20.4 million balance as at March 31, 2021. The operations and net loss for the year have resulted in the Company being in breach of its quarterly fixed charge covenant under the terms of its current credit agreement with BMO, for which the Company has yet to receive a waiver. The working capital deficiency as at March 31, 2022 resulted from this covenant breach, as the remaining portion of the otherwise non-current debt in the amount of $23.0 million has been reclassified as current. On a pro-forma basis, assuming waiver of the covenant breach by BMO, working capital as at March 31, 2022 would have been $23.7 million.

Accounts receivable of $5.2 million as at March 31, 2022 increased by $2.5 million from $2.7 million as at March 31, 2021 due to the acquisition of EWG receivables, the increase and timing of licensee and export sales, and the $1.1 million recoverable out of escrow with respect to the contingent consideration initially paid out on the Shiny Apple acquisition.

The inventory balance was $28.9 million as at March 31, 2022, an increase of $5.5 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 $25.9 million as at March 31, 2022 increased by $8.2 million from $17.7 million as at March 31, 2021. The increase resulted from additions from the EWG acquisition of $8.8 million.

Right-of-use assets of $2.9 million as at March 31, 2022 decreased slightly from $3.2 million as at March 31, 2021, largely due to depreciation of $0.4 million.

Intangible assets of $4.9 million as at March 31, 2022 increased by $2.3 million from $2.6 million as at March 31, 2021. The increase resulted from additions from the EWG acquisition and Shiny Apple asset purchase of $3.7 million, less the subsequent reversal of Shiny Apple contingent consideration of $1.1 million and amortization of $0.3 million.

Accounts payable and accrued liabilities of $8.8 million as at March 31, 2022 increased by $4.1 million from $4.7 million as at March 31, 2021, largely due to (i) liabilities assumed under the EWG acquisition, and (ii) an increase in trade payables of $2.9 million.

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 $26.0 million as at March 31, 2022, an increase of $2.2 million from $23.8 million as at March 31, 2021. The increase is due to the BMO debt assumed under the EWG acquisition of $3.7 million less FY 2022 repayments on the revolving and non-revolving term loans of $2.0 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 in October, 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.

In June, 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)*.

Concurrent with the EWG and Shiny Apple acquisitions and the debenture conversions in October, 2021, the Company finalized a private placement for gross proceeds of $6.8 million *(see further discussion in "Purchase Agreements and Financings" section above)*.

The Company's debt to equity ratio decreased significantly to 0.96:1 as at March 31, 2022 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 issued in conjunction with the EWG acquisition and the equity financing and debenture conversion discussed above.

RELATED PARTY TRANSACTIONS

During FY 2022 and FY 2021, the Company had related party transactions, including (i) compensation of key management personnel and directors, and (ii) transactions with entities related to or controlled by directors, as follows:

	FY 2022	FY 2021
	$	$
Salary	**790,277**	964,654
Director fees	**77,750**	111,828
Share based compensation under stock option plan and DSU plan	**413,091**	195,726
Commissions	**367,268**	221,531

Accounts payable and accrued liabilities as at March 31, 2022 includes $85,876 (2021 - $82,188) with respect to balances owing to related parties for the transactions disclosed 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:

	March 31, 2022	March 31, 2021	Change in reporting period
Common shares	27,875,978	20,000,557	7,875,421
Stock options	1,785,000	1,510,000	275,000
Deferred share units	335,073	264,760	70,313
Warrants	5,630,905	75,000	5,555,905
Total equity instruments	35,626,956	21,850,317	13,776,639

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

Common shares

As a result of the acquisitions and financings discussed above *(see further 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 March 31, 2022	27,875,978

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

Stock options

During FY 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:

- May 17, 2021: 50,000 options exercisable at $2.00 each
- August 24, 2021: 100,000 options exercisable at $1.80 each
- October 26, 2021: 150,000 options exercisable at $1.80 each
- January 30, 2022: 75,000 options exercisable at $1.36 each

During FY 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
- January 30, 2022: 20,890 DSUs valued at $28,850

Warrants

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

In connection with the private placement that closed on October 6, 2021, the Company issued 2,827,798 common share purchase warrants, exercisable at $2.20 per common share for 36 months.

The Company also issued 163,680 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, 2024.

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 "gross margin", "EBITDA" and "Adjusted EBITDA" as a measure to assess performance of the Company. The Company defines "gross margin" as gross profit excluding depreciation. EBITDA and "Adjusted EBITDA" are other financial measures and are reconciled to net loss and comprehensive loss below under "Results of Operations".

EBITDA and Adjusted EBITDA are supplemental financial measures to further assist readers in assessing the Company's ability to generate income from operations before considering the Company's financing decisions, depreciation of property, plant and equipment and amortization of intangible assets. EBITDA comprises gross margin less operating costs before financial expenses, depreciation and amortization, non-cash expenses such as share-based compensation, one-time and other unusual items, and income tax. Adjusted EBITDA comprises EBITDA before non-recurring expenses including cost of sales adjustments related to inventory acquired in business combinations, EWG transaction costs expensed, government funding under CEWS and CERS programs, and other non-recurring adjustments included in the calculation of EBITDA. Gross margin is defined as gross profit excluding depreciation on property, plant and equipment used in production. Operating expenses exclude interest, depreciation on property, plant and equipment used in selling and administration, and amortization of intangible assets.

EBITDA does not represent the actual cash provided by the operating activities nor is it a recognized measure of financial performance under IFRS. Readers are cautioned that this measure should not be considered as a replacement for those as per the consolidated financial statements prepared under IFRS. The Company's definitions of this non-IFRS financial measure may differ from those used by other companies.

The Company calculates gross margin as follows:

	FY 2022 $	FY 2021 $
Revenue	**29,985,857**	**25,552,514**
Cost of sales		
Change in inventories of finished goods and raw materials consumed	**18,938,193**	**15,021,371**
Depreciation	**630,160**	**530,753**
Gross profit	**10,417,504**	**10,000,390**
Exclude depreciation	**630,160**	**530,753**
Gross margin	**11,047,664**	**10,531,143**
Gross margin (% of revenue)	36.8%	41.2%

The Company calculates EBITDA and Adjusted EBITDA as follows:

	FY 2022 $	FY 2021 $
Net loss for year	(2,472,982)	(2,635,213)
Interest	1,191,003	939,660
Depreciation and amortization	1,652,539	1,446,903
Share-based compensation	546,480	330,433
Loss on debt modification	373,734	-
Restructuring charges	230,000	578,586
Financing costs	276,598	341,337
Gain on disposition of right-of-use assets	(136,223)	(154,427)
Gain on acquisition	(2,721,483)	-
Realized gain on derivative liability	(141,068)	-
Recovery of deferred income taxes	(526,557)	-
EBITDA	(1,727,959)	847,279
Cost of goods sold adjustments for fair value of EWG inventories sold	658,743	-
Transaction costs expensed as part of EWG acquisition	105,000	-
Government funding under CEWS and CERS programs	(135,499)	(932,133)
Inventory adjustment	-	182,771
Adjusted EBITDA	(1,099,715)	97,917

SUBSEQUENT EVENT

On May 25, 2022, the Company issued an aggregate of 25,852 DSUs in settlement of $28,438 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, cider and ready-to-drink beverages and spirits, while addressing their desire to explore many of the Company's exciting offerings. The Company has also added a low alcohol brand Mindful, to its domestic portfolio in addition to low alcohol and no-alcohol beer and wine suppliers to its import portfolio, reflecting consumer interest and demand in those categories. Vertically integrated, Diamond combines modern and efficient production facilities for its Niagara and B.C wines with a national marketing agency for its broad portfolio of leading international wines and spirits. The Company is well positioned to add to its throughput of wine production and leverage its national sales force to drive growth from existing brands and support new brands secured by the agency without material change to its cost structure.

Over the past 24 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. 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, which began in June, 2022. 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 provided governments globally do not restrict travel or limit social gatherings in subsequent waves of the pandemic. 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.

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. Diamond has recently instituted new retail protocols and procedures in all its retail facilities including the use of 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, results and financial position 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 enabled 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, considering 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 directly and indirectly.

.*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. Under either scenario, 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 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 is not present, 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.

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 42.2% of total assets as at March 31, 2022 (March 31, 2021 - 41.9%). 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.

APPLYING THE ACQUISITION METHOD TO BUSINESS COMBINATIONS

Applying the acquisition method to business combinations requires each identifiable asset and liability to be measured at its acquisition date fair value. The excess, if any, of the fair value of consideration, both actual and contingent, over the fair value of the net identifiable assets acquired is recognized as goodwill. Non-cash consideration paid must also be measured at its acquisition date fair value. The determination of acquisition date fair values often requires management to make assumptions and estimates about future events. The assumptions with respect to the fair value of intangible assets require a high degree of judgement and include estimates for anticipated future cash flows and discount factors.

COMPOUND FINANCIAL INSTRUMENTS

The convertible debentures have been accounted for as a compound financial instrument under IAS 32 - Financial Instruments, and had both a liability and an embedded derivative component. The conversion feature of the convertible debentures was accounted for as a derivative liability and was required to be fair valued on inception and at each reporting period. The estimates, assumptions and judgments made in relation to the fair value of derivative liabilities are subject to measurement uncertainty. The valuation techniques used to determine fair value require inputs that involve assumptions and judgments such as estimating the future volatility of the stock price and expected life. Such judgments and assumptions are inherently uncertain.

LEASES

Critical accounting estimates were made in determining the lease term and incremental borrowing rate. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs, which affects this assessment and that is within the control of the lessee. In determining the carrying amount of right-of-use assets and lease liabilities, the Company is required to estimate the incremental borrowing rate specific to each leased asset or portfolio of leased assets if the interest rate implicit in the lease is not readily determined. Management determines the incremental borrowing rate of each leased asset or portfolio of leased assets by using the Company's specific risk portfolio, the security, term and value of the underlying leased asset and the economic environment in which the leased asset operates. The incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment.

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 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 amendment on the 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 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 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 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.