DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

YEARS ENDED MARCH 31, 2025 AND 2024

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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 twelve months ended March 31, 2025 ("Q4 2024" and "FY 2025" respectively) compared with the corresponding periods ended March 31, 2024 ("Q4 2024" and "FY 2024" respectively). This discussion is prepared as of August 26, 2025 and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the years ended March 31, 2025 and 2024. Additional information regarding Diamond is available on Diamond's SEDAR+ profile at www.sedarplus.ca. 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, 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 production facilities, three in Ontario and one in British Columbia, that produce predominantly VQA wines under such well-known brand names as 20 Bees, Creekside, D'Ont Poke the Bear, EastDell, Lakeview Cellars, Mindful, Shiny Apple Cider, Fresh Wines, 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. These recognizable brands include Fat Bastard, and Gabriel Meffre wines from France, Brimoncourt Champagne from France, Kaiken wines from Argentina, Kings of Prohibition and McWilliams Wines from Australia, Yealands Family Wines and Joiy Sparkling wine from New Zealand, Cofradia Tequilas from Mexico, Maverick Distillery spirits (including Tag Vodka, Ginslinger Gin and Barnburner Whisky) from Ontario, Talamonti and Cielo wines from Italy, Porta 6, Julia Florista, Catedral and Cabeca de Toiro wines from Portugal, Edinburgh Gin, Tamdhu, Glengoyne and Smokehead single-malt Scotch whiskies from Scotland, Islay Mist and Waterproof blended Scotch whiskies from Scotland, Glen Breton Canadian whiskies, C.K Mondavi & Family, Line 39, Harken, FitVine and Rabble wines from California & Charles Krug wines from Napa Valley, Hounds Vodka from Canada, Bols Vodka from Amsterdam, Koyle Family Wines from Chile, Rodenbach beer from Belgium, La Trappe beer from the Netherlands, and Tequila Rose Strawberry Cream, Five Farms Irish Cream Liqueur, Broker's Gin, Hussong's Tequila, 360 Vodka and Holladay Bourbon from McCormick Distilling International.

The Company's mission is to build lasting, mutually beneficial relationships with channel partners, growers, suppliers and employees. To meet this goal, the Company is undertaking significant investments in winemaking, brand marketing, sales programming, performance management and back-office infrastructure, including information systems which will support growth in an efficient, profitable manner. Based on its analysis of the market, the Company believes that the growth prospects for the domestic and import beverage alcohol markets in Canada are positive. The Company continues to be a participant in the export market and has expanded its focus beyond China in the effort to be less reliant on that one marketplace. Canadian wines and particularly Icewine enjoy a premium product positioning with international consumers.

The Company is committed to achieving its sales objectives through its distribution network, which is focused on the provincial liquor boards, licensed restaurants and bars, grocery chains, Diamond's 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 strives to maintain an adequate level of liquidity, including compliance with future debt covenants, the Company continues to maintain a strategic review process that engages in actions designed to reduce the cost structure, improve productivity and enhance future cash flow. In addition, the Company is also focused on maintaining on-going funding support from BMO, shareholders and the sale of non-strategic assets to fund future operations.

RECENT EVENTS AND FY 2025 HIGHLIGHTS

- Revenue for FY 2025 was $24.5 million, a decrease of $4.0 million from $28.5 million in FY 2024. The Winery division experienced an increase in sales of $2.3 million while the Agency division experienced a decrease of $6.3 million.
- Gross margin[1] for FY 2025 was $12.9 million, an increase of $1.3 million, from $11.6 million in FY 2024 while gross margin as a percentage of revenue was 52.7% for FY 2025 compared to 40.7% in FY 2024. The increase in gross margins came from the Winery experiencing an increase of $2.6 million while the Agency division declined by $1.3 million. The increase at the Winery is a result of the VQA Wine support program and general margin increases across various SKUs. while the decline in the Agency is from the sale of the Western Canadian business.
- EBITDA[1] increased by $6.8 million to positive $1.1 million in FY 2025 from a negative $5.7 million in FY 2024. Adjusted EBITDA[1] increased by $2.6 million to positive $0.8 million in FY 2025 from a negative $1.8 million in FY 2024. Both EBITDA and Adjusted EBITDA increases are attributed to improving gross margins in the Winery division and an overall decrease in SG&A expenses of $1.6 million compared to the prior year.
- In May, 2024, the Company agreed to purchase D'Ont Poke the Bear ("DPTB") inventory from Generations Wine Company Limited and entered into a licensing agreement to sell DPTB products with 3346625 Canada Inc., a corporation controlled by Mr. Pierre-Paul Lassonde.
- In May, 2024, the Ontario government updated to its December 2023 announcement with respect to significant policies and changes to an existing program intended to provide economic support for the Ontario wine industry for a period of five years. Under the revised Ontario VQA Support Program, the Company recorded revenues of $2.1 million for the year ended March 31, 2025.
- In May, 2024, the Ontario government also announced its commitment to expand the province's alcohol beverage marketplace. As of October 2024, all eligible convenience, grocery and big-box stores in Ontario are able to sell beer, cider, wine and ready-to-drink alcoholic beverages
- In June, 2024, in accordance with the terms of an agreement with Renaissance Wine Merchants, TBP gave written notice to exercise a put option to sell its Western Canada operations. To date, the Company has received $1.4 million with respect to inventory and expects to receive an additional $0.8 million with respect to its intangible assets. The transaction has resulted in a gain on sale of $0.5 million.
- In July, 2024, the Company closed on a non-brokered private placement of 11,466,065 shares at $0.20 per share for total proceeds of $2.3 million, all of which were used for general working capital purposes.
- As of the end of FY 2025, the non-revolving term loan has been significantly paid down with the inventory proceeds of $1.4 million in August, 2024 from the Renaissance transaction and the VQA Wine Support Program of $2.1 million in July, 2024. As of April 2025, the Company has made a subsequent payment of $05 million on the non-revolving term loan with proceeds received from the mortgage receivable and as of June 2025 repaid the demand non-revolving term loan in the amount of $2.5 million from proceeds received through the VQA Wine Support Program.
- In October, 2024, the Company purchased the agency and supplier contracts of Perigon and its agency business. The purchase price of $1.5 million is based on Perigon's latest financial results and was settled through the issuance of 5,000,000 common shares valued at $1.5 million on the acquisition date.

- In November, 2024, the Company replaced the $4.8 million of 2023 Replacement Debentures with new debentures (the "2024 Replacement Debentures"). The material terms of the 2024 Replacement Debentures are the same as the 2023 Replacement Debentures, other than (i) the conversion price, which is now $0.24, and (ii) the maturity date, which is now November 9, 2025.
- In November, 2024, the Company entered into a further amendment to its Second Amended and Restated Credit Agreement (the "SARCA") with Bank of Montreal ("BMO"), the notable terms of which were (i) the establishment of an additional non-revolving credit facility in the amount of $2.5 million ("Demand NRT Facility"), (ii) the non-revolving term credit facility previously available in the amount of $8.7 million has been reduced to $3.0 million, and (iii) a limited recourse guarantee granted by Lassonde Industries Inc. in favour of BMO on the Demand NRT Facility.
- In February, 2025, the United States government announced new trade measures, including tariffs of 25% on goods imported from Canada which was subsequently increased to 35% on non-CUSMA goods. The Company is continuing to evaluate the potential impacts the tariffs may have on its supply of inputs and demand for its products. The overall impact of the tariffs has been positive at this time, and the Company will continue to evaluate and work with its suppliers and customers to minimize any future impacts or capitalize on any future opportunities that may arise.

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

REGULATORY COMPLIANCE REVIEW – CONSIGNMENT CHANNEL

During Q1 2026, the Company identified an internal practice of submitting purchase orders and corresponding invoices to its provincial wholesaler of record under customer names that had not initiated the orders. These findings were disclosed to its provincial wholesaler of record and were delivered in a formal notification letter. The Company is working through its next steps and/or penalties/sanctions with its provincial wholesaler of record.

In response to these matters, the Board of Directors formed a Compliance Committee which undertook a comprehensive internal investigation. This included interviews with senior management and operational staff across all business units, and a review of sales, tax, licensing, and export practices.

The Company has acknowledged weaknesses in consignment sales practices and internal controls and has taken the following corrective actions:

- Committed to regular compliance monitoring under Board oversight.
- Established new standard operating procedures for all consignment transactions.
- Assigned executive oversight to the VP, Business Development for the consignment channel.
- Engaged new external regulatory counsel with industry expertise.
- Initiated staff training and process documentation improvements.

Due to the inherent uncertainty in regulatory proceedings, the financial impact of the above irregularities is undeterminable, but management and external counsel believe it is not material. The Company remains committed to full transparency and regulatory compliance. Any future updates will be disclosed as appropriate.

GOING CONCERN

The accompanying consolidated financial statements have been prepared in accordance with IFRS® Accounting Standards issued by the International Accounting Standards Board (“IASB”) and the IFRIC® Interpretations of the IFRS Interpretations Committee” applicable to a going concern.

Net loss and comprehensive loss for FY 2025 was $2.5 million (FY 2024 - $10.7 million). Additionally, the Company reported negative cash flow from operations (before changes in non-cash working capital) of $1.1 million in FY 2025 (FY 2024 - $5.3 million). As at March 31, 2025, the Company had an accumulated deficit of $35.2 million (March 31, 2024 - $32.7 million) and working capital of $NIL million (March 31, 2024 - deficiency of $2.4 million).

As of November 14, 2023, the Company entered into a second amendment to its Second Amended and Restated Credit Agreement (the "SARCA") with Bank of Montreal ("BMO"), whereby the lender consented to waiving the requirements of the fixed charge coverage ratio ("FCCR") covenant to the end of the first quarter of fiscal 2025. Based on the results for the year ended March 31, 2025, the Company will be in breach of its quarterly fixed charge covenant under the terms of its current credit agreement for which the Company has yet to receive a waiver. On November 15, 2024, the Company entered into a third amendment to its SARCA, the main component of which was a new non-revolving credit facility of $2.5 million due no later than July 31, 2025. As of March 31, 2025, the Company has debt repayment requirements of $24.4 million over the next twelve months, including all its term loans, the current portion of its lease liabilities, the principal amount of the debentures payable plus accrued interest due by November 9, 2025, as well as annual seasonal grape purchase commitments in the fall of 2025. Management is currently working with BMO on a further extension to its banking agreement beyond the current maturity date of January 2, 2025. The Company is also working with the provincial wholesaler of record to finalize the matter as disclosed above under Regulatory Compliance Review - Consignment Channel. These circumstances lend significant doubt as to the ability of the Company to continue as a going concern and, accordingly, the appropriateness ultimately of the use of accounting principles applicable to the going concern assumption.

In response to the recurring operating losses, negative cash flows from operating activities, and loss of a significant supplier, the Company is taking a number of actions to enhance its financial flexibility, to meet its obligations and to fund its ongoing business operations. This has been evidenced by the November, 2023 private placement for net cash proceeds of $8.2 million, the July, 2024 private placement for net proceeds of $2.3 million, the debenture financing of $4.9 million arranged in November, 2022 and its subsequent rollovers, the sale of Queenston Mile Vineyard in February, 2024 for net proceeds of $3.3 million and the other assets held for sale, the agreement with Renaissance and execution of the put option for total proceeds of $2.3 million, the updated credit agreement with BMO and additional BMO funding of $2.5 million, and significant progress on its debt reduction initiatives. To ensure the Company maintains an adequate level of liquidity, including compliance with debt covenants, the Company continues to maintain a strategic review process that engages in actions designed to reduce the cost structure, improve productivity and enhance future cash flow.

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

SELECT FINANCIAL INFORMATION

	FY 2025	FY 2024	FY 2023
	$	$	$
Revenue	**24,506,284**	28,505,140	31,722,940
Gross margin	**12,913,327**	11,606,563	10,610,499
Net loss and comprehensive loss	**(2,462,144)**	(10,652,394)	(8,525,655)
Basic and diluted loss per share	**(0.04)**	(0.30)	(0.31)
Working capital surplus (deficiency)	**6,039**	(2,394,660)	(7,983,033)
Total assets	**51,216,370**	52,593,035	61,969,453
Term loans, lease liabilities and debentures payable	**21,121,996**	17,532,354	32,380,546
Shareholders' equity	**22,700,895**	20,896,431	22,289,793

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

QUARTERLY PERFORMANCE

The following table highlights certain key quarterly financial highlights. Commentary on the selected highlights is included under "Results of Operations" and "Liquidity and Capital Resources".

	Mar-2025 Q4 2025	**Dec-2024 FY 2025**	**Sep-2024 Q2 2025**	**Jun-2024 Q1 2025**	**Mar-2024 Q4 2024**	**Dec-2023 FY 2024**	**Sep-2023 Q2 2024**	**Jun-2023 Q1 2024**
	$	$	$	$	$	$	$	$
Balance sheet								
Working capital surplus (deficiency)	6,039	588,405	(99,350)	(3,285,654)	(2,394,660)	9,610,860	(5,612,407)	3,745,468
Term debt, lease liabilities and debentures payable	21,121,996	20,152,226	18,284,616	23,153,429	22,183,891	24,726,782	30,468,256	30,778,356
Total equity	22,700,895	23,507,206	21,639,419	18,952,346	20,896,431	21,511,786	17,674,174	19,909,461
Income statement								
Revenue	4,207,745	6,411,295	7,715,463	6,171,781	5,500,120	7,320,640	7,773,184	7,911,196
Gross margin	2,306,666	3,686,460	4,157,914	2,762,287	3,704,311	1,916,636	3,076,500	2,909,116
EBITDA[1]	(192,528)	1,365,002	1,045,174	(1,099,239)	424,222	(4,066,632)	(979,291)	(1,069,158)
Adjusted EBITDA[1]	(19,080)	616,345	520,353	(330,147)	1,651,599	(1,747,990)	(792,680)	(904,834)
Net income (loss)	(1,118,256)	483,442	190,449	(2,017,779)	(679,394)	(5,162,568)	(2,346,353)	(2,464,079)
Basic income (loss) per share	(0.02)	0.01	0.00	(0.04)	(0.01)	(0.14)	(0.08)	(0.09)

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

RESULTS OF OPERATIONS

	FY 2025	FY 2024
Revenue	**$ 24,506,284**	**$ 28,505,140**
Cost of sales	**11,592,957**	**16,898,577**
Gross margin	**12,913,327**	**11,606,563**
Gross margin (% of revenue)	***52.7%***	***40.7%***
Selling, general and administration expenses	**13,004,696**	**14,639,449**
SG&A expenses (% of revenue)	***53.1%***	***51.4%***
Loss from operations	**(91,369)**	**(3,032,886)**
Change in fair value of derivative and other liabilities	**(1,155,493)**	**1,290,900**
Gain on modification of debentures	**(530,831)**	**(326,319)**
Gain on disposition of intangible assets	**(501,137)**	**-**
Gain on disposition of ROU assets	**-**	**(209,164)**
Loss on disposition of QMV assets	**-**	**1,276,153**
Restructuring charge	**2,549**	**284,216**
Loss on de-recognition of ROU asset	**198,240**	**-**
Impairment provision - assets held for sale	**410,000**	**-**
Share based compensation	**366,894**	**342,187**
EBITDA	**1,118,409**	**(5,690,859)**
Interest and accretion	**2,224,338**	**3,414,520**
Depreciation and amortization	**1,356,215**	**1,547,015**
Net loss and comprehensive loss	**$ (2,462,144)**	**$ (10,652,394)**

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

Revenue for FY 2025 was $24.5 million, a decrease of $4.0 million, from $28.5 million in FY 2024. The Winery division experienced an increase in sales of $2.3 million while the Agency division experienced a decrease of $6.3 million. The increase in sales in the Winery division is largely attributable the DPTB transaction, the Ontario's government announcement to expand the marketplace to convenience, grocery and big-box stores and the changes to the VQA program. The decrease in the Agency division was primarily driven by the loss of a key supplier in the prior year in the amount of $2.1 million and the sale of Western Canada operations to Renaissance which has been partly offset by the acquisition of Perigon. Total revenue for Q4 2025 was $4.2 million, a decrease of $1.3 million compared to Q4 2024. The Winery division decreased $1.7 million, due to the VQA rebate revenue being fully accrued in last quarter in the prior year compared to quarterly recognition this fiscal year. However, excluding the VQA rebate, Winery sales increased by approximately $0.7 million compared to Q4 2024. The Agency division increased by $0.4 million in Q4 2025 compared to Q4 2024. When excluding one-time adjustments from the prior year, the Agency revenue increased by $0.4 million

Gross margin[1] as a percentage of revenue was 52.7% for FY 2025 compared to 40.7% in FY 2024 and gross margin increased by $1.3 million from $11.6 million in FY 2024 to $12.9 million for FY 2025. The Winery division experienced an increase of $2.6 million while the Agency declined by $1.3 million. The gross margin in the Winery division increased from 42.9% in FY 2024 to 50.4% in FY 2025 as a result of the VQA Wine support program and general margin increases across various SKUs. The gross margin at the Agency increased from 36.2% in FY 2024 to 69.6% in FY 2025 due to the sale of Western Canada operations and the relative increase in commissions sales compared to third party wines and spirits. Gross margin for Q4 2025 was $2.3 million, a decrease of $1.4 million from $3.7 million in Q4 2024 while gross margin as a percentage of revenue was 55.0% for Q4 2025 compared to 67.3% in Q4 2024. The decrease in gross margin is attributable to the VQA rebate revenue being fully accrued in last quarter in the prior year as outlined above.

Total SG&A expenses for FY 2025 were $13.0 million, a decrease of $1.6 million, from $14.6 million in FY 2024, and decreased slightly as a percentage of sales from 51.4% in FY 2024 to 53.`% in FY 2025. The decline in FY 2025 is related to declines in employee compensation of $1.1 million, general and administrative expenses of $0.1 million, $0.3 in advertising and promotion and $0.1 million in delivery and warehousing costs.

Loss from operations for FY 2025 was $0.1 million compared to $3.0 million in FY 2024, an increase in profitability of $2.9 million. The increase is mostly the result of improving gross margin in the Winery division and the decrease in SG&A expenses noted above.

On November 9, 2024, all of the remaining and outstanding 2023 Replacement Debentures with a face value of $4.7 million were rolled over into new one-year convertible debentures (the "2024 Replacement Debentures") with similar terms and market interest rate, and a conversion price based on the-then current trading price of $0.24 per common share. The 2024 Replacement Debentures were initially recognized with a fair value of $4.2 million less estimated transaction costs of $25,000. After recording interest accretion on the 2024 Replacement Debentures of $0.2 million, the carrying value of the 2024 Replacement Debentures as at March 31, 2025 was $4.4 million. The difference between the face value of the 2023 Replacement Debentures of $4.7 million and the fair value of the 2024 Replacement Debentures of $4.2 million of $0.5 million was recognized as income during FY 2025.

The derivative was separated as a FVTPL instrument and is re-measured at each reporting period with subsequent changes in fair value recorded in the consolidated statements of net loss and comprehensive loss. With the rollover of the 2023 Replacement Debentures on November 9, 2024 at their new terms, a new derivative liability was recognized with respect to the 2024 Rollover Debentures on that date with a fair value of $2.1 million representing an increase in fair value over fiscal 2024 of $0.3 million being recognized as an expense. The fair value of that embedded derivative as at March 31, 2025 was $0.7 million, a decrease of $1.4 million that was recognized as income during FY 2025.

In June, 2024, in accordance with the terms of the agreement, TBP gave written notice to exercise a put-option to sell the Western Canada operations of TBP to Renaissance. The agreement closed in August, 2024, resulting in the disposition of Inventory at cost and intangible assets for a total estimated proceeds of $2.3M. After deducting the remaining book value of the TBP distribution rights of $322,135, The Company has recorded an estimated gain on sale of $501,136 on this transaction.

On June 1, 2024, the Company entered into a sub-lease for its office premises in Oakville, Ontario. As a result, the Company has de-recognized the right-of-use asset relating to the head lease and recognized the net investment in the sub-lease. The difference between (i) the carrying value of the right-of-use asset at May 31, 2024 of $487,000 and (ii) the net investment in the sub-lease of $288,760 has been recognized as a loss of $198,240 on de-recognition of an ROU asset in profit and loss for the year ended March 31, 2025.

As at March 31, 2025, the Company has classified certain winery division properties and related operating assets and liabilities detailed below totaling $3.0 million as assets held for sale. Assets are carried at the lower of fair value less costs of disposal and carrying amount. Based on a management estimate, an impairment provision of $410,000 has been recognized as at March 31, 2025 relating to the property, plant and equipment.

EBITDA increased by $6.8 million to positive $1.1 million in FY 2025 from a negative $5.7 million in FY 2024. Adjusted EBITDA increased by $2.6 million to positive $0.8 million in FY 2025 from a negative $1.8 million in FY 2024. Both EBITDA and Adjusted EBITDA increases are attributed to improving gross margins in the Winery division and an overall decrease in SG&A expenses of $2.0 million compared to the prior year.

Interest and accretion expense for FY 2025 was $2.2 million, a decrease of $1.2 million, from $3.4 million in FY 2024. The decrease resulted from a reduction in the amounts borrowed under the BMO credit facility. Depreciation and amortization expense decreased by $0.2 million when compared to FY 2024.

Net loss decreased from $10.7 million in FY 2024 to $2.5 million in FY 2025 for the same reasons as mentioned for the change in EBITDA and a significant decrease in interest expense for the same period.

LIQUIDITY AND CAPITAL RESOURCES

	March 31, 2025			March 31, 2024		
ASSETS	As reported	Assets held for sale	Adjusted	As reported	Assets held for sale	Adjusted
Accounts receivable	**$ 7,572,109**	**$ 5,395**	**$ 7,577,504**	$ 4,814,940	$ 29,100	$ 4,844,040
Inventory	**15,164,887**	**2,097,047**	**17,261,934**	18,317,266	2,329,701	20,646,967
Prepaid expenses	**751,409**	**38,439**	**789,848**	904,557	40,240	944,797
Asset held for resale	**4,012,449**	**(4,012,449)**	**-**	4,663,957	(4,663,957)	-
Mortgage receivable	**500,000**	**-**	**500,000**	-	-	-
Current portion of finance lease receivable	**58,363**	**-**	**58,363**	-	-	-
	28,059,217	**(1,871,568)**	**26,187,649**	28,700,720	(2,264,916)	26,435,804
Mortgage receivable	**-**	**-**	**-**	500,000	-	500,000
Finance lease receivable	**178,375**	**-**	**178,375**	-	-	-
Property, plant and equipment	**17,318,072**	**743,324**	**18,061,396**	18,158,973	1,136,672	19,295,645
Right of use assets	**798,931**	**896,984**	**1,695,915**	1,360,981	896,984	2,257,965
Intangible assets	**4,861,775**	**231,260**	**5,093,035**	3,872,361	231,260	4,103,621
	$ 51,216,370	**$ -**	**$ 51,216,370**	$ 52,593,035	$ -	$ 52,593,035
LIABILITIES						
Accounts payable and accrued liabilities	**$ 5,786,910**	**$ 55,017**	**$ 5,841,927**	$ 6,507,814	$ 193,752	$ 6,701,566
Current portion of term loans payable and lease liabilities	**16,265,436**	**105,461**	**16,370,897**	16,931,130	104,102	17,035,232
Debentures payable	**4,394,263**	**-**	**4,394,263**	4,651,537	-	4,651,537
Derivative liability	**725,734**	**-**	**725,734**	1,881,227	-	1,881,227
Liabilities held for sale	**880,835**	**(880,835)**	**-**	1,123,672	(1,123,672)	-
	28,053,178	**(720,357)**	**27,332,821**	31,095,380	(825,818)	30,269,562
Lease liabilities, net of current portion	**462,297**	**720,357**	**1,182,654**	601,224	825,818	1,427,042
	28,515,475	**-**	**28,515,475**	31,696,604	-	31,696,604
SHAREHOLDERS' EQUITY	**22,700,895**	**-**	**22,700,895**	20,896,431	-	20,896,431
	$ 51,216,370	**$ -**	**$ 51,216,370**	$ 52,593,035	$ -	$ 52,593,035

The Company has modified the presentation of the consolidated statements of financial position as at March 31, 2025 and March 31, 2024 to include columns to allocate the assets (liabilities) held for sale back to their equivalent presentation as if the assets (liabilities) were not held for sale. This is presented as a supplementary non-IFRS financial measure to provide users with more meaningful comparative balances and to better illustrate the impact on working capital of the reclassification of assets held for sale. All commentary in the Liquidity and Capital Resources section are made with reference to these modified balances.

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 deficiency, modified as described above, decreased by $2.7 million to negative $1.1 million as at March 31, 2025 from negative $3.8 million as at March 31, 2024, mostly resulting from the private placement that closed in July, 2024 for net proceeds of $2.3 million and overall improving performance over the fiscal year.

As at March 31, 2025, the Company has classified certain operating assets (and associated liabilities) detailed below netting to $3.1 million as assets held for sale. Management is pursuing an active program to locate a buyer and intends to sell the remaining assets within one year of the reporting date, having already sold the previously similarly classified Queenston Mile Vineyard winery in February, 2024. Based on a management estimate, an impairment provision of $0.4 million was recognized as at June 30, 2024 relating to the property, plant and equipment.

	March 31, 2025	March 31, 2024
Assets held for sale		
Accounts receivable	**$ 5,395**	$ 29,100
Inventory	**2,097,047**	2,329,701
Prepaid expenses	**38,439**	40,240
Property, plant and equipment	**743,324**	1,136,672
Right-of-use assets	**896,984**	896,984
Intangible assets	**231,260**	231,260
	4,012,449	4,663,957
Liabilities held for sale		
Accounts payable and accrued liabilities	**55,017**	193,752
Lease liability	**825,818**	929,920
	880,835	1,123,672
Net assets held for sale	**$ 3,131,614**	3,540,285

Accounts receivable of $7.6 million as at March 31, 2025 increased by $2.8 million from $4.8 million as at March 31, 2024 resulting from an increase in accruals under the VQA program of $1.2 million, $0.8 million due from the Renaissance transaction and an increase in general sales and trade receivables of $0.7 million.

The inventory balance was $17.3 million as at March 31, 2025, a decrease of $3.3 million from $20.6 million as at March 31, 2024. The decrease in the inventory balance is largely attributable to the increase in sales experienced at the Winery Division from the Ontario's government announcement to expand the marketplace to convenience, grocery and big-box stores and $1.4 million is related to the Renaissance transaction.

Property, plant and equipment of $18.1 million as at March 31, 2025 decreased by $1.2 million from $19.3 million as at March 31, 2024, largely due to depreciation of $1.1 million taken in FY 2025 and an impairment provision of $0.4 million recognized on property, plant and equipment included in assets held for sale.

Right-of-use assets of $1.7 million as at March 31, 2025 decreased by $0.6 million compared to $2.3 million as at March 31, 2024. As a result of the sub-lease of office premises in Oakville, Ontario in June, 2024, the Company de-recognized the right-of-use asset relating to the head lease carried at $0.5 million and recognized the net investment in the sub-lease of $0.3 million, resulting in a loss on derecognition of $0.2 million.

Accounts payable and accrued liabilities of $5.8 million as at March 31, 2025 decreased by $0.9 million compared to $6.7 million as at March 31, 2024 due to a general decrease in inventory requirements as a result of the Renaissance transaction and general pay-down on trade payables due to improving working capital conditions.

As of the date of release of these consolidated financial statements, the Company is subject to an ongoing review by the Liquor Control Board of Ontario ("LCBO") in connection with historical practices in its Ontario consignment sales channel. The review relates to certain non-compliant procedures, including incorrect customer invoicing, failure to update final customer records with the LCBO, and unintended retention of licensee discounts on sales to private customers. The Company continues to finalize next steps and/or any penalty in collaboration with the LCBO. While the potential outcomes of this regulatory review remain uncertain, management believes that any financial impact would not be material to the Company's financial position or results of operations. Accordingly, no provision has been recorded in these consolidated financial statements. However, due to the inherent uncertainty in regulatory proceedings, it is possible that a future event could result in a material obligation. The Company will continue to monitor developments in this matter and assess the need to record a liability if and when an obligation becomes probable and reasonably estimable.*(see detailed discussion in "Regulatory Compliance Review – Ontario Consignment Channel" section above).*

The BMO credit facilities are governed under the terms of the SARCA and include non-revolving term loans and revolving operating line which totalled $16.0 million as at March 31, 2025, a decrease of $0.6 million from $16.6 million as at March 31, 2024. The decrease is comprised of a paydown on the non-revolver of $4.3 million during FY 2025 from the $2.3 million private placement and the inventory proceeds of $1.4 million from the Renaissance transaction., net of a new sub-facility of $2.5 million.

Effective November 15, 2024, the Company entered into a further amendment (the "Third Amendment") to its Second Amended and Restated Credit Agreement (the "SARCA") with Bank of Montreal ("BMO"). The notable terms of the Third Amendment are as follows:

(i) **Credit Facilities:** The establishment of a non-revolving credit facility (the "Demand NRT Facility") in the amount of $2.5 million which matures on the date that is the earlier of: (a) the date BMO demands repayment of all outstanding secured obligations under the Demand NRT Facility; (b) the date on which the Lender is satisfied that the VQA rebate for the 2025 fiscal year has been received by the Company; (c) the fully drawn amount under the Demand NRT Facility is prepaid by the Company; and (d) July 31, 2025.

(ii) **Credit Facilities:** The non-revolving term credit facility (the "NRT Facility") previously available in the amount of $8.7 million has been reduced to $3.0 million.

(iii) **Lassonde Limited Guarantee:** The addition of a limited recourse guarantee granted by Lassonde Industries Inc., in favour of BMO in an aggregate amount not exceeding the Demand NRT Facility secured obligations under the SARCA.

(iv) **Interest Rates.** The interest rates in respect of the following facilities has been amended to now be as follows: (a) the alternate base rate of Canada plus 2.40% in respect of each Base Rate Canada Loan under the RT Facility, (b) the alternate base rate of Canada plus 2.65% in respect of each Base Rate Canada Loan under the NRT Facility; and (c) the prime rate plus 3.15% in respect of each Prime Rate Loan under the Demand NRT Facility.

On November 14, 2023, the Company entered into the Second Amendment to its SARCA with BMO. The notable terms of the Second Amendment were as follows:

- **i.** **Maturity date**: extension of the maturity date to January 2, 2025. Management is currently working with BMO on a further extension.
- ii. **Credit limits:** as a result of the repayment of obligations with the use of proceeds from the financing, credit limits have decreased as follows:
  - on the revolving term loan from $14.4 million to $11.4 million, and
  - the non-revolving term loan from $10.8 million to $8.8 million, reducing to $Nil by May 31, 2024
- **iii.** **Proceeds from recent financing**: the entire net cash proceeds from the recent financing of approximately $8.25 million must be entirely applied to reduce (in certain amounts) each of the non-revolving term loan, the revolving term loan, and the BCAP term loan
- **iv.** **Revolving term loan**: any excess of the revolving term loan over the borrowing base has to be cured within 10 business days of such occurrence with a shareholder contribution of equity, including common shares, convertible debentures, or other equity-type funding
- v. **Non-revolving term loan:** the non-revolving term loan has been paid down from the inventory proceeds of $1.4 million in August, 2024 from the Renaissance transaction, the VQA Wine Support Program of $2.1 million in July, 2024, the net proceeds of the private placement of $2.2 million in July, 2024, and the net proceeds of $3.3 million from the Queenston Mile property sale that closed in February, 2024.
- **vi.** **Lassonde debt:** accounts payable to Lassonde, incurred through ordinary course business transactions, cannot exceed $1 million.
- **vii.** **Borrowing margins**: calculation of borrowing margins will use a new formula based on net orderly liquidation values, starting with a fixed margin of $2.5 million (subject to meeting certain appraisal conditions).
- **i.** **Covenant waiver:** The Amendment also provides a waiver of the Company's fixed charges ratios through to the end of its fiscal year 2024. Based on the results for the three months ended March 31, 2025, the Company is in breach of its quarterly fixed charge covenant under the terms of its current credit agreement for which the Company has yet to receive a waiver.

On November 9, 2024, all of the remaining and outstanding $4.8 million of 10.0% unsecured convertible debentures were rolled over into new one-year convertible debentures with similar terms and market interest rate, and a conversion price based on the then current trading price of $0.24 per common share. Certain insiders of the Company, including Lassonde and a related company controlled by its chairman, subscribed for $3.4 million of the total placement. The debentures mature one year from their date of issuance, being November 9, 2025, unless the holder requests to accelerate the maturity date in the event the Company completes an equity financing within the next 12 months. The debentures are convertible at the holder's option into common shares of the Company from the date of issuance until the maturity date at the new conversion price of $0.24. If repayment of the debentures on the maturity date would constitute non-compliance by the Company under its senior borrowing obligations, the holder has the option to convert at the conversion price, or to roll the obligations over into new one-year debentures, on similar terms to be negotiated, subject to TSXV approval.

The 2024 Replacement Debentures have been accounted for as a compound financial instrument under IAS 32 - Financial Instruments and have both a liability and an embedded derivative component. The convertible debentures were initially recognized on November 9, 2024 with a fair value of $4.2 million less estimated transaction costs of $- million. After redemption of convertible debentures with a face value of $0.1 million and recording accretion on the debenture payable of $0.2 million in Q2 2025, the carrying value of the debenture as at March 31, 2025 was $4.4 million. Interest payable on the convertible debentures in the amount of $0.4 million was accrued during FY 2025, such that a total of $1.1 million in interest payable has been accrued on both the original and renewed convertible debentures up to March 31, 2025, and is included in accounts payable and accrued liabilities.

The embedded derivative has been separated as a FVTPL instrument and is re-measured at each reporting period with subsequent changes in fair value recorded in the consolidated statements of net income (loss) and comprehensive income (loss). The fair value of the embedded derivative of the renewed convertible debentures as at March 31, 2025 of $0.7 million has decreased by $1.2 million compared to the fair value as at March 31, 2024 of $1.9 million, with the change being recognized as income in FY 2025.

The following table outlines the Company's contractual obligations as at March 31, 2025:

	<1 year	2-3 years	4-5 years $ (000's)	>5 years	Total
Accounts payable and accrued liabilities and liabilities held for sale	6,242	-	-	-	6,242
Term loans payable	16,022	-	-	-	16,022
Lease liabilities	275	373	125	-	773
Debentures payable	5,872	-	-	-	5,872
Purchase contracts for grapes, packaging and other raw materials	4,500	5,000	-	-	9,500
Total contractual obligations	32,911	5,373	125	-	38,409

The Company's debt to equity ratio decreased to 1.00:1 as at March 31, 2025 from 1.21:1 as at March 31, 2024, where debt is defined as total liabilities less accounts payable and accrued liabilities, and equity is defined as shareholders' equity. This decrease is due to the equity financing detailed above.

CAPITALIZATION

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

	March 31, 2025	March 31, 2024	Change in reporting period
Common shares	65,848,328	48,058,118	17,790,210
Stock options	6,430,000	1,200,000	5,230,000
Deferred share units	1,482,162	1,178,538	303,624
Warrants	-	5,269,465	(5,269,465)
Convertible debentures	19,758,333	16,280,000	3,478,333
Total equity instruments	93,518,823	71,986,121	21,532,702

During FY 2025, the Company had the following changes to its capitalization:

In July, 2024, the Company closed a fully subscribed non-brokered private placement through the issuance of 11,466,065 common shares, of which Lassonde and a company related to it subscribed for 9,000,000 common shares. In August, 2024, the Company issued 499,407 common after conversion of debentures with a face value of $125,000 and related accrued interest payable. In August, 2024, the Company issued 730,480 common shares at an issue price of $0.20 per common share for deemed proceeds of $145,519 after conversion of debentures payable with a face value of $125,000 and related accrued interest payable of $20,519. In October, 2024, 5,000,000 common shares valued at $1,300,000 were issued as partial consideration with respect to the Perigon agency acquisition. In December, 2024, 499,407 common shares valued at $99,800 were issued to a departing director in full settlement of 499,407 DSUs. In March, 2025, the Company issued a further 94,258 common shares after conversion of debentures payable with a face value of $17,000 and related accrued interest payable of $3,982.

On December 5, 2024, the Board of Directors authorized the issuance of 5,600,000 stock options to key members of management. The options each have an exercise price of $0.22 and a term of 5 years, vesting as to 25% per year on each anniversary date over the next 4 years. During FY 2025, a total of 330,000 options were forfeited upon the departure of key members of the management team. A further 40,000 options also expired unexercised during the year.

During FY 2025, the Company issued 803,031 DSUs valued at $177,125 to non-executive directors under the DSU Plan in settlement of deferred directors' compensation. In December, 2024, 499,407 common shares valued at $99,800 were issued to a departing director in full settlement of 499,407 DSUs.

In October, 2024, a total of 5,119,465 warrants issued in October, 2021 as part of the Equity Wine Group acquisition expired unexercised. A further 150,000 warrants expired unexercised in December, 2024 such that there are no outstanding warrants as of March 31, 2025

The aggregate common shares issuable on conversion of the debentures declined by 3,478,333 due to a partial conversion of debentures with a face value of $125,000 in July, 2024.

SUBSEQUENT EVENTS

Deferred share units

In April, 2025, the Company issued an aggregate of 221,250 DSUs in settlement of $44,250 of previously accrued deferred directors compensation. In July, 2025, the Company issued an aggregate of 221,875 DSUs in settlement of $44,375 of previously accrued deferred directors compensation.

Mortgage receivable

In April, 2025, the mortgage receivable of $500,000 related to the QMV sale from February, 2024 was received and the proceeds were utilized to decrease the non-revolving term loan by a corresponding amount.

VQA Wine Support Program

In June, 2025, the Company received $3.1 million from the VQA Wine Support program.

Demand non-revolving facility

In June, 2025, the demand non-revolving facility was $2.5 million was paid down utilizing the proceeds from the VQA Wine Support program mentioned above.

Contingent consideration - Perigon acquisition

In July, 2025, the Company issued an aggregate of 764,917 common shares valued at $0.21 per share for a total of $160,633 as 1/3 of the remaining contingent consideration payable associated with the acquisition of the Perigon Beverage Group based upon the achievement of gross margin targets.

Renaissance Wine Merchants

In August, 2025, the Company received $592,072 against the outstanding receivable from Renaissance Wine Merchants.

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".

Gross margin, EBITDA and Adjusted EBITDA are supplemental financial measures to further assist readers in assessing the Company's ability to generate income from operations before considering the Company's financing decisions, depreciation of property, plant and equipment and amortization of intangible assets. EBITDA comprises gross margin less operating costs before financial expenses, depreciation and amortization, non-cash expenses such as share-based compensation, one-time and other unusual items, and income tax. Adjusted EBITDA comprises EBITDA before non-recurring expenses including cost of sales adjustments related to inventory acquired in business combinations, cost of sales adjustments to fixed production overheads, 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 2025 **$**	FY 2024 $
Revenue	**24,506,284**	28,505,140
Cost of sales		
Change in inventories of finished goods and raw materials consumed	**11,592,957**	16,898,577
Depreciation	**801,685**	721,652
Gross profit	**12,111,642**	10,884,911
Exclude depreciation	**801,685**	721,652
Gross margin	**12,913,327**	11,606,563
Gross margin (% of revenue)	***52.7%***	*40.7%*

The Company calculates EBITDA and Adjusted EBITDA as follows:

	FY 2025	FY 2024
	$	$
Net loss for year	**(2,462,144)**	(10,652,394)
Interest and accretion	**2,224,338**	3,414,520
Depreciation and amortization	**1,356,215**	1,547,015
EBITDA	**1,118,409**	(5,690,859)
Change in fair value of derivative and other liabilities	**(1,155,493)**	1,290,900
Gain on disposition of intangible assets	**(530,831)**	(326,319)
Gain on modification of debentures	**(501,137)**	-
Restructuring charge	**2,549**	284,216
Loss on disposition of QMV assets	**-**	1,276,153
Impairment provision - property, plant and equipment	**410,000**	-
Loss on de-recognition of ROU asset	**198,240**	-
Gain on disposition of ROU assets	**-**	(209,164)
Share-based compensation	**366,894**	342,187
Cost of sales adjustment to fixed production overheads	**633,321**	1,051,456
Cost of goods sold adjustments for fair value of EWG inventories sold	**245,519**	187,525
Adjusted EBITDA	**787,471**	(1,793,905)

RECENT ACCOUNTING PRONOUNCEMENTS

Recently adopted accounting pronouncement

IAS 1 "Presentation of Financial Statements"

This standard has been amended to clarify the classification of liabilities as current or non- current depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. The amendment also clarifies the meaning of settlement of a liability. The standard has also been amended to specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Instead, the amendments require a company to disclose information about these covenants in the notes to the financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. The adoption of the amendment did not have a significant impact on the consolidated financial statements.

Recently issued accounting pronouncements

IFRS 18 "Presentation and Disclosure in Financial Statements"

In April 2024, IFRS 18 was issued to achieve comparability of the financial performance of similar entities. The standard, which replaces IAS 1, impacts the presentation of primary financial statements and notes, including the statement of earnings where companies will be required to present separate categories of income and expense for operating, investing, and financing activities with prescribed subtotals for each new category. The standard will also require management-defined performance measures to be explained and included in a separate note within the consolidated financial statements. The standard is effective for annual reporting periods beginning on or after January 1, 2027, including interim financial statements, and requires retrospective application. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

IFRS 9 and IFRS 7, Amendments to the Classification and Measurement of Financial Instruments

In May 2024, both IFRS 9 and IFRS 7 were amended to clarify that a financial liability is derecognized on the 'settlement date' and introduce an accounting policy choice to derecognize financial liabilities settled using an electronic payment system before the settlement date. Other clarifications include the classification of financial assets with environmental, social, and governance linked features via additional guidance on the assessment of contingent features. Clarifications have been made to non-recourse loans and contractually linked instruments. Additional disclosures are introduced for financial instruments with contingent features and equity instruments classified at fair value through other comprehensive income. The amendments are effective for annual periods starting on or after January 1, 2026. Early adoption is permitted, with an option to early adopt the amendments for contingent features only. The Company has not yet assessed the impact of the amendment on the unaudited interim condensed consolidated financial statements.

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. Consumer demand has been expressing interest in low and non-alcoholic products; in response the Company has been providing a low alcohol brand Mindful in its domestic portfolio and has been consistently adding low and non-alcoholic beer and wine suppliers to its import portfolio. Vertically integrated, Diamond combines modern and efficient production facilities for its Niagara and B.C. wines with a national oriented 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 relationships to drive growth from existing brands and support new brands without material change to its cost structure.

Retail modernization for the sale of beverage alcohol in Ontario continues to accelerate and these channels have a stronger position in domestically produced products vs other channels. We continue to put a high priority on this channel as the provincial government is continuing to issue more licenses to wine in grocery, big-box and convenience stores throughout the 2025 and 2026 calendar year. Importantly, the Ontario government confirmed significant enhancements to the existing VQA support programs by providing a 50% uncapped rebate on all VQA wines. This was introduced to provide economic support to the Ontario wine industry for years to come. The net impact is to reflect a reduction in the tax burden that was putting severe pressure on the beverage alcohol industry. The government recently extended the program for an additional two years in order to give a five year horizon that encourages investment to grow the economic benefit of the wine industry in Ontario. A further commitment was made in May 2026 enhancing the program with a 25% rebate on VQA wines sold at the winery retail stores. Additionally, LCBO mark ups on craft cider, craft beer and craft spirits will be reduced starting in August of 2026 with the intention to improve margins for craft suppliers so that further investment will be encouraged to grow these categories and contribute to the Ontario economy. A number of additional enhancements were made to the industry that do not directly support the Diamond business, but do provide assistance to the grape growing community and assist with the transition costs for the offsite retail store networks.

Lastly, in addition to the benefits of retail expansion and the lower tax burden, the Company has taken a number of actions to return to profitable commercial operations, enhance its financial flexibility, and reduce its debt via divestments of non-strategic assets and new equity and debt placements. The Company has made significant progress against its strategic plans by continuing to reduce its total debt and has made considerable improvements in EBITDA. The Company is seeing improvements in EBITDA from the revitalized VQA program, the completion of a licensing agreement for the D'Ont Poke The Bear brand, the purchase of Perigon Beverage Partners and other ongoing cost reduction initiatives including the disposition of its Western Canada agency business and new agency partnerships in Quebec and the Atlantic provinces. The total debt was reduced through the divestiture of QMV, the sale of the Western Canada agency and an equity raise, and will be further reduced from the remaining assets held for sale

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, judgement, 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.

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.

CONCENTRATION RISK

Concentration risk is the risk arising from a dependence on one customer or supplier for a significant portion of sales or purchases. The risk of a significant customer having financial difficulties would have a negative impact on the Company, as would losing a large supplier who represents a significant portion of the Company's purchases.

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.

.*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, judgements and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period.

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

FAIR VALUE OF GRAPES AT THE POINT OF HARVEST

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, intangible assets and right-of-use ROU assets represent a significant proportion of the asset base of the Company as they amount to 44.9% of total assets as at March 31, 2025 (March 31, 2025 - 44.5%). 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, intangible assets and right-of-use assets 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. Their lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their life.

SHARE BASED COMPENSATION

Stock option and warrant fair values utilize option pricing models that require the input of assumptions, including the expected life, volatility of the Company's stock price, forfeitures and the risk free rate. Changes in the assumptions can materially affect the fair value estimate and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the stock option or warrants issued.

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.

INVENTORY

Management is required to make a number of estimates in determining the costs allocated to manufactured inventory, including fixed production overheads based on normal production capacity. Management must also determine if the cost of any inventories exceed its net realizable value ("NRV"), such as cases where prices have decreased or inventories have spoiled or otherwise been damaged. Any obsolescence provision of inventories assessment requires a degree of estimation and judgement. The level of any provision is assessed by considering recent sales experience, the ageing of inventories, damaged, obsolete or slow moving inventories and other factors that affect inventory obsolescence.

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 judgements 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 judgements such as estimating the future volatility of the stock price and expected life. Such judgements 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.