

DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

THREE MONTHS ENDED JUNE 30, 2026 AND 2025

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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 months ended June 30, 2026 and 2025 ("Q1 2027" and "Q1 2026" respectively). This discussion is prepared as of August 20, 2026 and should be read in conjunction with (i) the unaudited interim condensed consolidated financial statements and the accompanying notes for the three months ended June 30, 2026 and 2025, and (ii) both the audited consolidated financial statements and MD&A for the fiscal years ended March 31, 2026 ("FY 2026") and March 31, 2025 ("FY 2025"). Additional information regarding Diamond is available on Diamond's SEDAR+ profile at www.sedarplus.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, 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.

Detailed information on risks and uncertainties is provided in the "Uncertainties and Principal Risk Factors" section of the annual MD&A for the year ended March 31, 2026.

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COMPANY OVERVIEW

Diamond Estates 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 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 ("Trajectory"), the Company serves as the sales agent for a wide range of leading international beverage brands.

Wine Portfolio:

Trajectory represents renowned wine brands, including Fat Bastard and Gabriel Meffre from France; Kaiken from Argentina; Kings of Prohibition from Australia; Yealands, Kono, Tohu, and Joiy Sparkling Wine from New Zealand; Talamonti, Cielo and Valdo from Italy; Bodegas Muriel from Spain; Porta 6, Julia Florista, Boas Quintas, Catedral and Cabeza de Toiro from Portugal; Fowles Wines from Australia; Empress Wines from Croatia; as well as C.K. Mondavi & Family, Charles Krug, Line 39, Harken, FitVine and Rabble from California. Trajectory also represents a broad portfolio of wines sold exclusively to restaurants, bars and private consumers.

Spirits Portfolio:

The Company also represents distinguished spirit brands such as Cofradia Tequila, Siempre Tequila, Chisme Tequila, Hussong's Tequila, Solmano Mezcal and Chica Chida Agave Spirit from Mexico; Islay Mist and Waterproof blended Scotch whiskies from Scotland; Glen Breton Canadian whiskies from Nova Scotia; Five Farms Irish Cream Liqueur from the UK; Tequila Rose Strawberry Cream, 360 Vodka and Holladay Bourbon from the USA; Giffard Liqueurs from France; Zubrowka Vodka from Poland and Becherovka from the Czech Republic.

Beer, Cider, and RTD Portfolio:

In the beer, cider, and ready-to-drink (RTD) categories, Trajectory represents Darling Mimosa, Protini Beverages from Ontario; ESA Cocktails, Solmano Craft Cocktails, Stickler Shrub Cocktails, Sunday Session RTDs and Jasper Brewing Company from Alberta; and Warsteiner and Konig Ludwig from Germany.

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, where Canadian wines, and particularly Icewine, enjoy a premium product positioning with international consumers.

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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, convenience stores, Diamond's four retail locations, direct-to-consumer and export channels. This distribution network is supported by enhanced sales, marketing and promotional programs. After a period of restructuring, cost optimization, and significant growth, the Company is now advancing from a position of strength and executing against a three-year strategic plan designed to scale the business and enhance long-term profitability. Key priorities include productivity improvements, disciplined cost management, and sustainable cash flow expansion. The Company continues to actively manage liquidity and covenant compliance while maintaining funding support from BMO, shareholders, and the selective divestiture of non-strategic assets.

RECENT EVENTS AND FY 2026 HIGHLIGHTS

- Revenue for Q1 2027 was \$7.0 million, a decrease of \$1.2 million from \$8.2 million in Q1 2026. The Winery division experienced a decrease in revenue of \$1.0 million while the Agency division experienced a decrease of \$0.2 million.
- Gross margin¹ for Q1 2027 was \$4.3 million, a slight decrease of \$0.2 million, from \$4.5 million in Q1 2026. Gross margin as a percentage of revenue grew to 61.1% for Q1 2027 compared to 55.6% in Q1 2026. The change in gross margins came with each of the Winery division and Agency division experiencing a decrease of \$0.1 million.
- Adjusted EBITDA¹ decreased by \$0.4 million to \$0.9 million in Q1 2027 from \$1.3 million in Q1 2026. The Adjusted EBITDA decrease is attributed to decreasing margins as noted above and an overall increase in SG&A expenses of \$0.1 million.
- EBITDA¹ increased by \$0.2 million to \$1.6 million in Q1 2027 from \$1.4 million in Q1 2026.
- Effective July 31, 2026, the Company agreed to the ninth amendment to its Second Amended and Restated Credit Agreement (the "SARCA") with BMO, the only change of which was to extend the maturity date to October 30, 2026.
- 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. To date, the overall impact has been positive, driven in part by strengthening "Buy Canada" consumer sentiment that has supported incremental demand and growth, while there has been minimal impact on the Company's cost of goods sold. The Company will continue to work with its suppliers and customers to mitigate any future risks and capitalize on emerging opportunities.
- In May, 2024, the Ontario government updated 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 \$1.6 million in Q1 2027 (Q1 2026 - \$1.8 million).

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

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GOING CONCERN

The accompanying unaudited interim condensed consolidated financial statements have been prepared using IFRS applicable to a going concern.

Net income and comprehensive income for Q1 2027 was \$0.6 million (Q1 2026 - \$0.4 million). Additionally, the Company reported cash flow from operations (before changes in non-cash working capital) of \$0.6 million in Q1 2027 (Q1 2026 - \$1.0 million). As at June 30, 2026, the Company had an accumulated deficit of \$35.9 million (March 31, 2026 - \$36.5 million) and working capital of \$1.5 million (March 31, 2026 - \$0.8 million).

Effective July 31, 2026, the Company agreed to the ninth amendment to its SARCA with BMO that, among other provisions, extended the maturity date to October 30, 2026 (*see further discussion in Liquidity and Capital Resources section below*). Effective August 22, 2025, the Company had previously entered into the sixth amendment to its SARCA under which BMO waived all covenant breaches up to July 31, 2025. As at June 30, 2026, the Company is in compliance with all of its covenant obligations for the rolling 4 quarter period then ended. As of June 30, 2026, the Company has debt repayment requirements of \$13.0 million over the next twelve months, including all its term loans, the current portion of its lease liabilities and annual seasonal grape purchase commitments in the fall of 2026, but excluding any convertible debentures (*see further discussion in Liquidity and Capital Resources section below*). These circumstances cast 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 (prior) recurring operating losses and (prior) negative cash flows from operating activities, the Company has taken 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 in August, 2024 for total proceeds of \$2.3 million, the updated credit agreement with BMO in July, 2026, the additional temporary BMO funding of \$3.6 million (now repaid) 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 unaudited interim condensed 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.

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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".

	Jun-2026	Mar-2026	Dec-2025	Sep-2025	Jun-2025	Mar-2025	Dec-2024	Sep-2024
	Q1 2027	Q4 2026	Q3 2026 ²	Q2 2026 ²	Q1 2026 ²	Q4 2025	Q3 2025	Q2 2025
	\$	\$	\$	\$	\$	\$	\$	\$
<u>Balance sheet</u>								
Modified working capital surplus (deficiency) ³	618,795	835,136	1,898,652	1,384,892	657,601	6,039	588,405	(99,350)
Term debt, lease liabilities and debentures payable	16,261,747	16,508,830	17,656,629	16,831,109	16,953,476	21,121,996	20,152,226	18,284,616
Total equity	23,545,756	22,769,993	24,049,753	23,705,897	23,211,629	22,700,895	23,507,206	21,639,419
<u>Income statement</u>								
Revenue	6,958,616	5,685,044	7,779,429	8,253,072	8,165,222	4,207,745	6,411,295	7,715,463
Gross margin	4,250,212	3,240,997	4,470,552	5,703,195	4,539,900	2,306,666	3,686,460	4,157,914
EBITDA ¹	1,558,938	(622,064)	717,067	913,776	1,430,470	(192,528)	1,365,002	1,045,174
Adjusted EBITDA ¹	851,393	107,203	665,170	1,793,935	1,271,081	(19,080)	616,345	520,353
Net income (loss)	601,341	(1,507,717)	(135,076)	(16,513)	365,951	(1,118,256)	483,442	190,449
Basic income (loss) per share	0.01	(0.02)	0.00	0.00	0.01	(0.02)	0.01	0.00

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

² Previously reported amounts for revenue and gross margin have been reduced to reflect reclassification of certain customer costs from advertising and promotion to revenue, as follows: 2026 Q3 - \$455,631; 2026 Q2 - \$198,702; 2026 Q1 - \$175,279. There was no impact on EBITDA, Adjusted EBITDA or net income (loss) as a result of this reclassification.

³ See description of modified working capital in "Liquidity and Capital Resources" section below

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RESULTS OF OPERATIONS

	<u>Q1 2027</u>	<u>Q1 2026</u>
Revenue	\$ 6,958,616	\$ 8,165,222
Cost of sales	<u>2,708,404</u>	<u>3,625,322</u>
Gross margin	4,250,212	4,539,900
<i>Gross margin (% of revenue)</i>	61.1%	55.6%
Selling, general and administration expenses	<u>3,398,819</u>	<u>3,268,818</u>
<i>SG&A expenses (% of revenue)</i>	48.8%	40.0%
Income from operations	851,393	1,271,082
Change in fair value of derivative asset/liability	(881,967)	(304,172)
Share based compensation	<u>174,422</u>	<u>144,783</u>
EBITDA	1,558,938	1,430,471
Interest and accretion	477,786	566,326
Depreciation and amortization	<u>479,811</u>	<u>498,194</u>
Net income and comprehensive income	<u>\$ 601,341</u>	<u>\$ 365,951</u>

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

Revenue for Q1 2027 was \$7.0 million, a decrease of \$1.2 million from \$8.2 million in Q1 2026. The Winery division experienced a decrease in revenue of \$1.0 million while the Agency division experienced a decrease of \$0.2 million. The decrease in sales in the Winery division was driven by temporary industry-wide ordering interruptions as a large Canadian provincial liquor board transitioned to new inventory and ordering systems, combined with the prior-year quarter benefiting from a one-time load-in of volume as retailers replaced U.S. wines removed from store shelves. The decrease in the Agency division was primarily driven by the Company's decision to exit a non-strategic supplier relationship.

Gross margin¹ for Q1 2027 was \$4.3 million, a decrease of \$0.2 million, from \$4.5 million in Q1 2026. Gross margin as a percentage of revenue grew to 61.1% for Q1 2027 compared to 55.6% in Q1 2026. The change in gross margins came with each of the Winery division and Agency division experiencing a decrease of \$0.1 million. The gross margin percentage in the Winery division increased from 51.9% in Q1 2026 to 58.5% in Q1 2027, primarily reflecting a change in the timing of recognition of the Wine Sector Support Program ("WSSP") rebate, which is now accrued evenly throughout the year rather than absorbed in margin in full at the time of payment. The gross margin at the Agency increased from 96.7% in Q1 2026 to 99.7% in Q1 2027 as the revenue mix in Q1 2027 was comprised almost entirely of commission income.

Total SG&A expenses increased by \$0.1 million to \$3.4 million in Q1 2027 from \$3.3 million in Q1 2026. The increase was primarily driven by increases in employee-related costs of \$0.2 million and G&A of \$0.1 million, offset by decreases in advertising and promotion and commissions expense of \$0.1 million each.

Income from operations for Q1 2027 was \$0.9 million compared to \$1.3 million in Q1 2026, a decrease of \$0.4 million, reflecting declining margins of \$0.2 million and higher SG&A of \$0.1 million.

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EBITDA¹ increased by \$0.2 million to \$1.6 million in Q1 2027 from \$1.4 million in Q1 2026. The increase is attributable to the year-over-year change in the fair value of the derivative asset/liability of \$0.6 million, partially offset by the decrease in gross margin of \$0.2 million and the increase in SG&A of \$0.1 million. Adjusted EBITDA¹ decreased by \$0.4 million to \$0.9 million in Q1 2027 from \$1.3 million in Q1 2026, reflecting declining margins of \$0.2 million driven by lower sales volumes and higher SG&A of \$0.1 million.

Interest and accretion expense was \$0.5 million in Q1 2027, a decrease of \$0.1 million compared to Q1 2026. Depreciation and amortization expense remained flat at \$0.5 million in Q1 2027 when compared to Q1 2026.

Net income increased by \$0.2 million to \$0.6 million in Q1 2027 from \$0.4 in Q1 2026 million primarily due to the same non-operational and one-time items that impacted EBITDA¹.

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LIQUIDITY AND CAPITAL RESOURCES

	<u>June 30, 2026</u>			<u>March 31, 2026</u>		
ASSETS	<u>As reported</u>	<u>Assets held for sale</u>	<u>Adjusted</u>	<u>As reported</u>	<u>Assets held for sale</u>	<u>Adjusted</u>
Accounts receivable	\$ 3,809,002	\$ 14,753	\$ 3,823,755	\$ 3,486,907	\$ 23,849	\$ 3,510,756
Inventory	15,688,256	2,353,541	18,041,797	16,289,368	2,460,998	18,750,366
Biological assets	132,421	-	132,421	-	-	-
Prepaid expenses	755,344	38,312	793,656	1,089,754	39,252	1,129,006
Asset held for resale	3,879,452	(3,879,452)	-	3,997,145	(3,997,145)	-
Current portion of finance lease receivable	62,584	-	62,584	61,716	-	61,716
Derivative asset	1,356,097	-	1,356,097	474,130	-	474,130
	<u>25,683,156</u>	<u>(1,472,846)</u>	<u>24,210,310</u>	<u>25,399,020</u>	<u>(1,473,046)</u>	<u>23,925,974</u>
Finance lease receivable	100,683	-	100,683	116,658	-	116,658
Property, plant and equipment	16,808,352	756,674	17,565,026	16,726,360	756,874	17,483,234
Right of use assets	821,838	716,172	1,538,010	848,005	716,172	1,564,177
Intangible assets	4,585,062	-	4,585,062	4,600,918	-	4,600,918
	<u>\$ 47,999,091</u>	<u>\$ -</u>	<u>\$ 47,999,091</u>	<u>\$ 47,690,961</u>	<u>\$ -</u>	<u>\$ 47,690,961</u>
LIABILITIES						
Accounts payable and accrued liabilities	\$ 8,077,694	\$ 113,894	\$ 8,191,588	\$ 7,611,893	\$ 84,073	\$ 7,695,966
Current portion of term loans payable and lease liabilities	10,501,310	116,993	10,618,303	11,589,855	104,102	11,693,957
Debentures payable	4,781,624	-	4,781,624	4,561,891	-	4,561,891
Liabilities held for sale	802,231	(802,231)	-	800,245	(800,245)	-
	<u>24,162,859</u>	<u>(571,344)</u>	<u>23,591,515</u>	<u>24,563,884</u>	<u>(612,070)</u>	<u>23,951,814</u>
Lease liabilities, net of current portion	290,476	571,344	861,820	357,084	612,070	969,154
	<u>24,453,335</u>	<u>-</u>	<u>24,453,335</u>	<u>24,920,968</u>	<u>-</u>	<u>24,920,968</u>
SHAREHOLDERS' EQUITY	<u>23,545,756</u>	<u>-</u>	<u>23,545,756</u>	<u>22,769,993</u>	<u>-</u>	<u>22,769,993</u>
	<u>\$ 47,999,091</u>	<u>\$ -</u>	<u>\$ 47,999,091</u>	<u>\$ 47,690,961</u>	<u>\$ -</u>	<u>\$ 47,690,961</u>

The Company has modified the presentation of the statements of financial position as at June 30, 2026 and March 31, 2026 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 commentaries in the Liquidity and Capital Resources section are made with reference to these modified balances.

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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, modified as described above, increased by \$0.7 million to a surplus of \$0.6 million as at June 30, 2026 from a deficiency of \$0.1 million as at March 31, 2026, mostly from income from operations in Q1 2027.

As at June 30, 2026, 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, a further impairment provision of \$0.4 million was recognized during Q4 2026 in addition to a prior impairment provision of \$0.4 million recognized during Q1 2025.

	<u>June 30, 2026</u>	<u>March 31, 2026</u>
<u>Assets held for sale</u>		
Accounts receivable	\$ 14,753	\$ 23,849
Inventory	2,353,541	2,460,998
Prepaid expenses	38,312	39,252
Property, plant and equipment	756,674	756,874
Right-of-use assets	716,172	716,172
Intangible assets	-	-
	<u>3,879,452</u>	<u>3,997,145</u>
<u>Liabilities held for sale</u>		
Accounts payable and accrued liabilities	113,894	84,073
Lease liability	688,337	716,172
	<u>802,231</u>	<u>800,245</u>
<u>Net assets held for sale</u>	<u>\$ 3,077,221</u>	<u>3,196,900</u>

Accounts receivable of \$3.8 million as at June 30, 2026 increased by \$0.3 million from \$3.5 million as at March 31, 2026, driven by an increase in the comparative VQA rebates accrual.

The inventory balance was \$18.0 million as at June 30, 2026, a decrease of \$0.8 million from \$18.8 million as at March 31, 2026, impacted by normal seasonal changes in operating activities.

Accounts payable and accrued liabilities of \$8.2 million as at June 30, 2026 increased by \$0.5 million compared to \$7.7 million as at March 31, 2026. The increase is due to an advance of \$1,000,000 made in May, 2026 from Lassonde and continued optimization of existing working capital. The advance bears interest at the prime rate of the Bank of Montreal plus 2.25% per annum and matures on June 30, 2026. The advance was unsecured, subordinated to the Company's secured indebtedness and repaid in full in July, 2026.

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The BMO credit facilities are governed under the terms of its Second Amended and Restated Credit Agreement (the "SARCA") and include non-revolving term loans and a revolving operating line which totalled \$10.3 million as at June 30, 2026, an increase of \$1.1 million from \$11.4 million as at March 31, 2026. The decrease is comprised of (i) the normal paydown on the demand non-revolving term loan of \$0.1 million and (ii) a paydown of the non-revolving term loan of \$1.0 million, financed largely out of the proceeds of the short-term loan of \$1.0 million from Lassonde noted above.

Effective July 31, 2026, the Company agreed to the 9th amendment to its SARCA with BMO that extended the maturity date to October 30, 2026.

The Company had previously entered into further amendments to its SARCA, as follows:

- Effective March 31, 2026, the Company agreed to the 8th amendment to its SARCA with BMO that featured the maturity date extended to July 31, 2026 and the removal of a limited recourse guarantee granted by Lassonde Industries Inc. in favour of BMO after repayment of a temporary bulge (issued under the 7th amendment) in the line of credit of \$3,600,000
- On November 7, 2025, the Company agreed to the 7th amendment to its SARCA, the major terms of which included extension of the maturity date to March 27, 2026 and change in the interest rates to the prime rate plus 2.65% during the temporary bulge period and the prime rate plus 2.40% at all other times.
- Effective August 22, 2025, the Company entered into the 6th amendment under which BMO waived all covenant breaches up to July 31, 2025. (As at June 30, 2026, the Company is in compliance with all of its covenant obligations for the rolling 4 quarter period then ended).

On December 16, 2025, all of the remaining and outstanding 2024 Replacement Debentures with a face value of \$4.7 million were rolled over into new one-year convertible debentures (the "2025 Replacement Debentures") with similar terms and market interest rate, a conversion price of \$0.22 per common share, and a forced conversion on maturity. The 2025 Replacement Debentures were initially recognized with a fair value of \$4.2 million after recognizing a derivative asset of \$0.2 million. After recording accretion on the 2025 Replacement Debentures of \$0.3 million in Q1 2027, the carrying value of the 2025 Replacement Debentures as at June 30, 2026 was \$4.8 million. In January, 2026, Lassonde acquired a 10.0% unsecured convertible debenture of Diamond Estates with a stated maturity date of November 9, 2026 in the principal amount of \$1,304,000 (and related accrued coupon interest) from an arm's length third party through a privately negotiated transaction. Following the acquisition, Lassonde and parties related to it now hold 100% of the issued and outstanding convertible debentures that have a face value of \$4,654,000.

The carrying value of the derivative asset as at June 30, 2026 has increased to \$1.4 million from \$0.5 million as at March 31, 2026, an increase of \$0.9 million. The derivative asset, relating to the accounting treatment arising out of the forced conversion nature of the 2025 Replacement Debentures arises from the reduction in the share price, lower time to maturity, and lower observed volatility. All these factors have generally lent themselves to a better chance of the note maturing below the strike price, where the company will convert to shares at the strike being above the market.

The Company's debt to equity ratio decreased to 0.69:1 as at June 30, 2026 from 0.76:1 as at March 31, 2026, where debt is defined as total liabilities less accounts payable and accrued liabilities, and equity is defined as shareholders' equity.

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CAPITALIZATION

The calculation of fully diluted outstanding shares at each reporting date, including the estimated number of shares that could be issued on the convertible debentures and accrued coupon interest if they were ultimately settled in shares, is as follows:

	June 30, 2026	March 31, 2026	Change in reporting period
Common shares	67,818,328	67,818,328	-
Stock options	5,875,000	5,925,000	(50,000)
Deferred share units	2,686,380	2,458,515	227,865
Convertible debentures	21,154,545	21,154,545	-
Coupon interest on debentures payable	9,300,650	6,281,250	3,019,400
Total equity instruments	<u>106,834,903</u>	<u>103,637,638</u>	<u>3,197,265</u>

During Q1 2027, the changes to the Company's capitalization were as follows:

- The Company did not issue any common shares.
- There were no stock options grants, exercises or terminations, and a total of 50,000 options expired unexercised.
- The Company issued an aggregate of 227,875 DSUs in settlement of \$31,750 of previously accrued non-executive directors compensation.
- The number of shares that could be issued in settlement of accrued coupon interest on the debentures payable increased by 3,019,400, due to the net of (i) normal interest accrued over Q1 2027, and (ii) the decrease in the Company's stock price,

NON-IFRS FINANCIAL MEASURES

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

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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 unaudited interim condensed 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:

	<u>Q1 2027</u>	<u>Q1 2026</u>
Revenue	\$ 6,958,616	\$ 8,165,222
Cost of sales		
Change in inventories of finished goods and raw materials consumed	2,708,404	3,625,322
Depreciation	341,504	383,299
Gross profit	3,908,708	4,156,601
Exclude depreciation	341,504	383,299
Gross margin	\$ 4,250,212	\$ 4,539,900
<i>Gross margin (% of revenue)</i>	<u>61.1%</u>	<u>55.6%</u>

The Company calculates EBITDA and Adjusted EBITDA as follows:

	<u>Q1 2027</u>	<u>Q1 2026</u>
Net income and comprehensive income for period	\$ 601,341	\$ 365,951
Interest and accretion	477,786	566,326
Depreciation and amortization	479,811	498,194
EBITDA	1,558,938	1,430,471
Change in fair value of derivative asset	(881,967)	(304,172)
Restructuring charge	-	-
Loss on de-recognition of ROU asset	-	-
Impairment provision - assets held for sale	-	-
Share-based compensation	174,422	144,783
Cost of sales adjustments to fixed production overheads	-	-
Cost of goods sold adjustments for fair value of EWG inventories sold	-	-
Adjusted EBITDA	\$ 851,393	\$ 1,271,082

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SUBSEQUENT EVENTS

De Sousa Wines Toronto Inc. sale

In June 2026, the Company entered into a share purchase agreement to dispose of all of the issued and outstanding shares of De Sousa Wines Toronto Inc., whose principal asset is a non-operational pre-1993 winery licence, for total consideration of \$250,000. The transaction is subject to customary closing conditions, including regulatory approvals. As the carrying amount of the related assets had been reduced to their estimated recoverable amount at June 30, 2026, no adjustment to these unaudited interim condensed consolidated financial statements was required.

Lassonde advances

The unsecured advance from Lassonde of \$1,000,000, received in May, 2026, was repaid in July, 2026. In August, 2026, the Company received an additional advance of \$750,000 from Lassonde. The loan is unsecured, bears interest at BMO prime plus 2.25%, and is due the earlier of October 31, 2026 or receipt of the next WSSP payment, which was received in September last year.

BMO SARCA amendment

Effective July 31, 2026, the Company agreed to the ninth amendment to its SARCA with BMO, the only change of which was to extend the maturity date to October 30, 2026.

Perigon acquisition

In August, 2026, the third and final of the three instalments was paid when the Company issued a further 935,767 common shares valued at \$0.19 per share for a total of \$180,886 (see note 9).

Stock option cancellation

In August, 2026, 200,000 options exercisable at \$1.80 each that were going to mature in October 2026 were cancelled.

RECENT ACCOUNTING PRONOUNCEMENTS

Recently issued and adopted 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 unaudited interim condensed consolidated financial statements.

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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.

The Company has determined that these amendments had no impact on the unaudited interim condensed consolidated financial statements, except for additional disclosures under IFRS 7 re the convertible debentures whose contractual terms include provisions that could change the timing or amount of contractual cash flows upon the occurrence (or non-occurrence) of contingent events that do not relate directly to basic lending risks and costs.

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 continued to issue more licenses to wine in grocery, big-box and convenience stores throughout the 2025 and 2026 calendar years. Importantly, the Ontario government confirmed significant enhancements to the existing VQA support programs by providing a 50% uncapped rebate on all VQA wines, which now includes Icewine as of May 2025. 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 extended the program by two years to the 2029/2030 calendar year. This provides greater certainty and encourages investment to further grow the economic benefit of the wine industry in Ontario. A further commitment was made in May 2025 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 were reduced starting in August 2025 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.

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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.